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

FORM 10-Q

(Mark one)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2001

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from N/A to N/A

Commission File Number: 333-28037

Golden State Bancorp Inc.
(Exact name of registrant as specified in its charter)

Delaware	95-4642135
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
135 Main Street, San Francisco, CA	94105
(Address of principal executive offices)	(Zip Code)

415-904-1100
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. X Yes __ No

The number of shares outstanding of registrant's $1.00 par value common stock, as of the close of business on July 31, 2001: 135,666,624 shares.

GOLDEN STATE BANCORP INC.
SECOND QUARTER 2001 REPORT ON FORM 10-Q
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GOLDEN STATE BANCORP INC. AND SUBSIDIARIES
Consolidated Balance Sheets
June 30, 2001 and December 31, 2000
(Unaudited)
(dollars in thousands, except per share data)

Assets	June 30, 2001	December 31, 2000
Cash and due from banks	$ 779,795	$ 697,513
Interest-bearing deposits in other banks	30,105	123
Short-term investments	78,730	85,510
Cash and cash equivalents	888,630	783,146
Securities available-for-sale, at fair value	160,651	641,205
Securities held-to-maturity	445,008	587,503
Mortgage-backed securities available-for-sale, at fair value	9,610,187	9,866,823
Mortgage-backed securities held-to-maturity	1,589,039	2,886,612
Loans held for sale, net	2,304,092	845,763
Loans receivable, net	41,316,066	39,592,814
Investment in FHLB System	1,406,933	1,361,066
Premises and equipment, net	320,177	327,329
Foreclosed real estate, net	21,489	19,080
Accrued interest receivable	341,813	364,414
Intangible assets (net of accumulated amortization of $276,030 at June 30, 2001 and $246,150 at December 31, 2000)	661,408	691,288
Mortgage servicing rights, net of valuation allowance	1,513,557	1,559,323
Derivative assets	193,430	--
Other assets	529,182	990,512
Total assets	$61,301,662	$60,516,878
Liabilities, Minority Interest and Stockholders' Equity		
Deposits	$24,341,592	$23,429,754
Securities sold under agreements to repurchase	3,914,931	4,511,309
Borrowings	28,753,608	28,800,557
Derivative liabilities	126,624	--
Other liabilities	1,257,142	1,124,524
Total liabilities	58,393,897	57,866,144
Commitments and contingencies	--	--
Minority interest	500,000	500,000
Stockholders' equity:		
Common stock ($1.00 par value, 250,000,000 shares authorized, 151,454,822 and 150,703,716 shares issued at June 30, 2001 and December 31, 2000, respectively)	151,455	150,704
Issuable Shares	223,141	172,308
Additional paid-in capital	1,538,695	1,534,736
Accumulated other comprehensive loss	(59,261)	(89,874)
Retained earnings (substantially restricted)	869,887	698,597
Treasury stock (16,398,032 and 16,383,058 shares at June 30, 2001 and December 31, 2000, respectively)	(316,152)	(315,737)
Total stockholders' equity	2,407,765	2,150,734
Total liabilities, minority interest and stockholders' equity	$61,301,662	$60,516,878

See accompanying notes to unaudited consolidated financial statements.

GOLDEN STATE BANCORP INC. AND SUBSIDIARIES
Consolidated Statements of Income
Six Months Ended June 30, 2001 and 2000
(Unaudited)
(dollars in thousands, except per share data)

	Six Months Ended June 30,	
	2001	2000
Interest income:		
Loans receivable	$1,541,014	$1,343,507
Mortgage-backed securities available-for-sale	344,977	435,545
Mortgage-backed securities held-to-maturity	70,983	90,836
Loans held for sale	52,676	28,686
Securities available-for-sale	14,575	32,975
Securities held-to-maturity	16,452	9,482
Interest-bearing deposits in other banks	539	3,384
Dividends on FHLB stock	45,372	45,110
Total interest income	2,086,588	1,989,525
Interest expense:		
Deposits	464,489	443,146
Securities sold under agreements to repurchase	121,392	172,734
Borrowings	853,969	796,225
Total interest expense	1,439,850	1,412,105
Net interest income	646,738	577,420
Provision for loan losses	–	–
Net interest income after provision for loan losses	646,738	577,420
Noninterest income:		
Loan servicing fees, net	(6,906)	85,823
Customer banking fees and service charges	105,820	98,724
Gain on sale, settlement and transfer of loans, net	21,885	27,062
Gain (loss) on sale of assets, net	12,123	(16,036)
Other income	35,519	16,276
Total noninterest income	168,441	211,849
Noninterest expense:		
Compensation and employee benefits	232,244	216,383
Occupancy and equipment	83,383	76,915
Professional fees	14,926	18,203
Loan expense	8,569	9,234
Foreclosed real estate operations, net	(853)	(3,378)
Amortization of intangible assets	29,880	31,907
Other expense	114,073	105,615
Total noninterest expense	482,222	454,879
Income before income taxes, minority interest, extraordinary items and cumulative effect of change in accounting principle	332,957	334,390
Income tax expense (benefit)	117,695	(11,755)
Minority interest: provision in lieu of income tax expense	3,247	161,688
Minority interest: other	13,494	14,783
Income before extraordinary items and cumulative effect of change in accounting principle	198,521	169,674
Extraordinary items – gains on early extinguishment of debt, net of applicable taxes of $2,083 in 2000	--	3,014
Cumulative effect of change in accounting principle, net of applicable taxes of $1,072 in 2001	(1,552)	–
Net income	$ 196,969	$ 172,688
Earnings per share:		
Basic		
Income before extraordinary items and cumulative effect of change in accounting principle	$1.39	$1.24
Extraordinary items	–	0.02
Cumulative effect of change in accounting principle	(0.01)	–
Net income	$1.38	$1.26
Diluted		
Income before extraordinary items and cumulative effect of change in accounting principle	$1.38	$1.19
Extraordinary items	–	0.02
Cumulative effect of change in accounting principle	(0.01)	–
Net income	$1.37	$1.21
Dividends declared per common share	$0.20	$ --

See accompanying notes to unaudited consolidated financial statements.

GOLDEN STATE BANCORP INC. AND SUBSIDIARIES
Consolidated Statements of Income
Three Months Ended June 30, 2001 and 2000
(Unaudited)
(dollars in thousands, except per share data)

	Three Months Ended June 30, 2001	Three Months Ended June 30, 2000
Interest income:		
Loans receivable	$ 763,224	$ 697,314
Mortgage-backed securities available-for-sale	163,994	206,483
Mortgage-backed securities held-to-maturity	33,572	51,457
Loans held for sale	32,549	15,368
Securities available-for-sale	3,795	13,972
Securities held-to-maturity	7,951	7,331
Interest-bearing deposits in other banks	120	2,983
Dividends on FHLB stock	22,326	27,963
Total interest income	1,027,531	1,022,871
Interest expense:		
Deposits	223,652	224,354
Securities sold under agreements to repurchase	53,447	89,828
Borrowings	414,044	418,372
Total interest expense	691,143	732,554
Net interest income	336,388	290,317
Provision for loan losses	–	–
Net interest income after provision for loan losses	336,388	290,317
Noninterest income:		
Loan servicing fees, net	19,746	43,031
Customer banking fees and service charges	54,559	50,065
Gain on sale, settlement and transfer of loans, net	16,961	20,400
Gain (loss) on sale of assets, net	11,684	(16,455)
Other income	6,644	7,526
Total noninterest income	109,594	104,567
Noninterest expense:		
Compensation and employee benefits	113,953	107,976
Occupancy and equipment	43,212	37,661
Professional fees	9,951	9,382
Loan expense	4,367	5,274
Foreclosed real estate operations, net	(455)	(1,145)
Amortization of intangible assets	14,940	15,464
Other expense	60,898	53,105
Total noninterest expense	246,866	227,717
Income before income taxes, minority interest, extraordinary items and cumulative effect of change in accounting principle	199,116	167,167
Income tax expense	83,387	73,139
Minority interest: provision in lieu of income tax expense	3,247	--
Minority interest: other	6,747	8,184
Income before extraordinary items and cumulative effect of change in accounting principle	105,735	85,844
Extraordinary items – gains on early extinguishment of debt, net of applicable taxes of $1,204 in 2000	--	1,808
Cumulative effect of change in accounting principle, net of applicable taxes of $1,072 in 2001	(1,552)	–
Net income	$ 104,183	$ 87,652
Earnings per share:		
Basic		
Income before extraordinary items and cumulative effect of change in accounting principle	$0.74	$0.62
Extraordinary items	–	0.01
Cumulative effect of change in accounting principle	(0.01)	–
Net income	$0.73	$0.63
Diluted		
Income before extraordinary items and cumulative effect of change in accounting principle	$0.73	$0.60
Extraordinary items	–	0.01
Cumulative effect of change in accounting principle	(0.01)	–
Net income	$0.72	$0.61
Dividends declared per common share	$0.10	$ --

See accompanying notes to unaudited consolidated financial statements.

GOLDEN STATE BANCORP INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
Six Months Ended June 30, 2001 and 2000
(Unaudited)
(in thousands)

	Six Months Ended June 30, 2001	2000
Net income	$196,969	$172,688
Other comprehensive income (loss), net of tax:		
Unrealized holding gain (loss) on securities available-for-sale:		
Unrealized holding gain (loss) arising during the period	98,126	(19,492)
Less: reclassification adjustment for (gain) loss included in net income	(9,572)	10,846
	88,554	(8,646)
Amortization of market adjustment for securities transferred from available-for-sale to held-to-maturity	3,466	670
Transition adjustment upon adoption of SFAS No. 133	(44,647)	--
Change in fair value of derivatives used for cash flow hedges, net of applicable taxes of $11,574	(16,760)	--
Other comprehensive income (loss)	30,613	(7,976)
Comprehensive income	$227,582	$164,712

See accompanying notes to unaudited consolidated financial statements.

GOLDEN STATE BANCORP INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
Three Months Ended June 30, 2001 and 2000
(Unaudited)
(in thousands)

	Three Months Ended June 30,	
	2001	2000
Net income	$104,183	$ 87,652
Other comprehensive income, net of tax:		
Unrealized holding (loss) gain on securities available-for-sale:		
Unrealized holding (loss) gain arising during the period	(1,042)	1,245
Less: reclassification adjustment for (gain) loss included in net income	(9,490)	10,846
	(10,532)	12,091
Amortization of market adjustment for securities transferred from available-for-sale to held-to-maturity	1,989	670
Change in fair value of derivatives used for cash flow hedges, net of applicable taxes of $14,114	20,437	--
Other comprehensive income	11,894	12,761
Comprehensive income	$116,077	$100,413

See accompanying notes to unaudited consolidated financial statements.

GOLDEN STATE BANCORP INC. AND SUBSIDIARIES
Consolidated Statement of Stockholders' Equity
Six Months Ended June 30, 2001
(Unaudited)
(dollars in thousands)

	Common Stock		Issuable	Additional Paid-in	Accumulated Other Comprehensive (Loss) Income			Retained Earnings (Substantially	Common Stock in Treasury		Total Stockholders'
	Shares	Amount	Shares	Capital	Securities	Derivatives	Total	Restricted)	Shares	Amount	Equity
Balance at December 31, 2000	150,703,716	$150,704	$172,308	$1,534,736	$(89,874)	$ --	$(89,874)	$698,597	(16,383,058)	$(315,737)	$2,150,734
Net income	--	--	--	--	--	--	--	196,969	--	--	196,969
Change in net unrealized holding gain (loss) on securities available-for-sale	--	--	--	--	58,180	--	58,180	--	--	--	58,180
Amortization of unrealized holding loss on securities held-to-maturity	--	--	--	--	3,466	--	3,466	--	--	--	3,466
Unrealized loss on securities reclassified to available-for-sale, net of tax	--	--	--	--	30,374	--	30,374	--	--	--	30,374
Transition adjustment upon adoption of SFAS No. 133	--	--	--	--	--	(44,647)	(44,647)	--	--	--	(44,647)
Change in net unrealized holding loss on derivatives	--	--	--	--	--	(16,760)	(16,760)	--	--	--	(16,760)
Adjustment to contribution receivable from GSB Investments and Hunter's Glen in respect of their proportionate ownership of the California Federal Goodwill Litigation Asset	--	--	--	--	--	--	--	1,315	--	--	1,315
Issuable Shares (pro-rata 2001 usage of pre-merger NOLs)	--	--	49,109	--	--	--	--	--	--	--	49,109
Pro-rata adjustment to pre-merger tax benefits recorded as goodwill	--	--	--	(11,873)	--	--	--	--	--	--	(11,873)
Issuable Shares adjustment for changes in tax benefits	--	--	11,306	--	--	--	--	--	--	--	11,306
Distribution of Issuable Shares	497,381	497	(9,582)	9,085	--	--	--	--	--	--	--
Adjustment to capitalized costs - extinguishment of Issuable Shares	--	--	--	998	--	--	--	--	--	--	998
Impact of restricted common stock	99,108	99	--	2,432	--	--	--	--	--	--	2,531
Exercise of stock options	154,617	155	--	3,317							3,472
Purchase of treasury stock	--	--	--	--	--	--	--	--	(14,974)	(415)	(415)
Dividends on common stock	--	--	--	--	--	--	--	(26,994)	--	--	(26,994)
Balance at June 30, 2001	151,454,822	$151,455	$223,141	$1,538,695	$ 2,146	$(61,407)	$(59,261)	$869,887	(16,398,032)	$(316,152)	$2,407,765

See accompanying notes to unaudited consolidated financial statements.

GOLDEN STATE BANCORP INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
Six Months Ended June 30, 2001 and 2000
(Unaudited)
(in thousands)

	Six Months Ended June 30, 2001	Six Months Ended June 30, 2000
Cash flows from operating activities:		
Net income	$ 196,969	$ 172,688
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of intangible assets	29,880	31,907
Amortization (accretion) of purchase accounting premiums and discounts, net	4,308	(343)
Accretion of discount on borrowings	573	535
Amortization of mortgage servicing rights	147,013	97,236
(Gain) loss on sale of assets, net	(12,123)	16,036
Gain on sale of foreclosed real estate, net	(1,717)	(6,324)
Loss on sale, settlement and transfer of loans, net	109,487	27,416
Capitalization of originated mortgage servicing rights	(131,372)	(54,478)
Extraordinary items – gains on early extinguishment of debt, net	--	(3,014)
Depreciation and amortization of premises and equipment	28,318	25,401
Amortization of deferred debt issuance costs	3,676	3,674
FHLB stock dividends	(45,372)	(45,110)
Purchases and originations of loans held for sale	(7,060,801)	(2,289,613)
Net proceeds from the sale of loans held for sale	5,478,985	2,156,218
Change in fair value of MSRs/MSR derivatives	(8,957)	--
MSR valuation provision	77,000	--
Decrease (increase) in other assets	362,052	(54,069)
Decrease (increase) in accrued interest receivable	22,601	(22,913)
Increase in other liabilities	297,912	218,885
Amortization of deferred compensation expense– restricted common stock	992	1,103
Reduction in accrued liability for state income taxes	(25,805)	--
Minority interest: provision in lieu of income taxes	3,247	161,688
Minority interest: other	13,494	14,783
Other operating activity	35	--
Net cash (used) provided by operating activities	$ (509,605)	$ 451,706

(Continued)

See accompanying notes to unaudited consolidated financial statements.

GOLDEN STATE BANCORP INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows (continued)
Six Months Ended June 30, 2001 and 2000
(Unaudited)
(in thousands)

	Six Months Ended June 30, 2001	2000
Cash flows from investing activities:		
Downey Acquisition	$ --	$ (379,314)
Purchases of securities available-for-sale	(12,202)	(33,082)
Proceeds from maturities of securities available-for-sale	586,733	35,469
Purchases of securities held-to-maturity	(4,992)	(1,734)
Principal payments and proceeds from maturities of securities held-to-maturity	68,363	23,809
Purchases of mortgage-backed securities available-for-sale	(120,810)	(58,340)
Principal payments on mortgage-backed securities available-for-sale	1,290,937	953,057
Proceeds from sales of mortgage-backed securities available-for-sale	304,365	480,159
Principal payments on mortgage-backed securities held-to-maturity	229,638	188,014
Proceeds from sales of loans	51,358	32,820
Net decrease (increase) in loans receivable	557,082	(3,304,202)
Purchases of loans receivable	(2,349,144)	(811,740)
Purchases of FHLB stock, net	(23,193)	(107,570)
Purchases of premises and equipment	(22,195)	(20,208)
Proceeds from disposal of premises and equipment	6,639	719
Proceeds from sales of foreclosed real estate	17,131	48,641
Purchases of mortgage servicing rights	(128,085)	(173,109)
Hedge receipts	(14,533)	(6,025)
Purchases of derivatives	(272,589)	(24,739)
Proceeds from sales of derivatives	215,420	11,875
Proceeds from sales of mortgage servicing rights	--	689
Net cash provided (used) in investing activities	379,923	(3,144,811)
Cash flows from financing activities:		
Net increase in deposits	912,254	216,828
Proceeds from additional borrowings	59,921,714	20,055,022
Principal payments on borrowings	(59,964,993)	(17,531,143)
Net (decrease) increase in securities sold under agreements to repurchase	(596,378)	127,798
Dividends paid to minority stockholders, net of taxes	(13,494)	(13,394)
Exercise of stock options and warrants	3,472	142
Purchase of treasury stock	(415)	(63,536)
Sale of treasury stock	--	112
Dividends on common stock	(26,994)	--
Net cash provided by financing activities	235,166	2,791,829
Net change in cash and cash equivalents	105,484	98,724
Cash and cash equivalents at beginning of period	783,146	593,025
Cash and cash equivalents at end of period	$ 888,630	$ 691,749

See accompanying notes to unaudited consolidated financial statements.

(1) Basis of Presentation

The accompanying unaudited consolidated financial statements were prepared in accordance with generally accepted accounting principles for interim financial information and the requirements of Regulation S-X, Article 10 and therefore do not include all disclosures necessary for complete financial statements. In the opinion of management, all adjustments have been made that are necessary for a fair presentation of the financial position and results of operations and cash flows as of and for the periods presented. All such adjustments are of a normal recurring nature. The results of operations for the three and six months ended June 30, 2001 are not necessarily indicative of the results that may be expected for the entire fiscal year or any other interim period. Certain amounts for the three and six-month periods in the prior year have been reclassified to conform to the current period's presentation.

The accompanying unaudited consolidated financial statements include the accounts of the Company, which owns all of the common stock of GS Holdings, which owns all of the common and preferred stock of the Bank. Unless the context otherwise indicates, "Golden State" or "Company" refers to Golden State Bancorp Inc. as the surviving entity after the consummation of the Golden State Acquisition. On September 11, 1998, Glendale Federal merged with and into the Bank pursuant to the Glen Fed Merger. Unless the context otherwise indicates, "California Federal" or "Bank" refers to California Federal Bank as the surviving entity after the consummation of the Glen Fed Merger. The Company's principal business operations are conducted by the Bank and its subsidiaries.

Other minority interest represents amounts attributable to (a) the REIT Preferred Stock of California Federal Preferred Capital Corporation, a wholly owned subsidiary of the Bank, and (b) that portion of stockholders' equity of Auto One, a subsidiary of the Bank, attributable to 20% of its common stock.

All significant intercompany balances and transactions have been eliminated in consolidation. These financial statements should be read in conjunction with the consolidated financial statements of Golden State included in the Company's Annual Report on Form 10-K for the year ended December 31, 2000. A glossary of defined terms begins on page 60 of this document. All terms used but not defined elsewhere herein have meanings ascribed to them in the Company's Annual Report on Form 10-K.

(2) Reclassification of Securities

On January 1, 2001, the Company reclassified $1.1 billion and $85.0 million carrying value of mortgage-backed securities and U.S. government and agency securities, respectively, from securities held-to-maturity to their respective available-for-sale portfolios, as permitted upon the adoption of SFAS No. 133. The net unrealized loss related to these securities of $30.4 million, which was recorded in OCI upon their initial transfer to the held-to-maturity portfolio in April 2000, was reclassified from accumulated other comprehensive loss, and the securities were subsequently marked to market, in accordance with SFAS No. 115.

On April 30, 2000, the Company reclassified $1.1 billion and $445.0 million carrying value of mortgage-backed securities and U.S. government and agency securities, respectively, from securities available-for-sale to their respective held-to-maturity portfolios. These assets primarily comprised securities required as part of the Bank's regulatory liquidity portfolio. The net unrealized loss related to these securities of $64.0 million, included as a component of equity (accumulated other comprehensive loss), is being amortized to interest income over the remaining life of the securities as an adjustment of yield. The effect of this amortization on interest income is fully offset by the effect of amortization of the related discount recorded against the respective assets at the time of transfer.

(3) Cash, Cash Equivalents, and Statements of Cash Flows

Cash paid (including interest credited) for interest on deposits and other interest-bearing liabilities during the six months ended June 30, 2001 and 2000 was $1.5 billion and $1.4 billion, respectively. Net cash paid for income taxes during the six months ended June 30, 2001 and 2000 was $99.9 million and $41.8 thousand, respectively.

During the six months ended June 30, 2001, noncash activity consisted of the reclassification of $1.1 billion and $85.0 million of mortgage-backed securities and U. S. government and agency securities, respectively, from securities held-to-maturity to their respective available-for-sale portfolios, as permitted upon the adoption of SFAS No. 133, the reclassification of $164.8 million from mortgage servicing rights to derivative assets ($173.6 million) and derivative liabilities ($8.8 million) related to the adoption of SFAS No. 133, transfers of $5.2 million from loans held for sale (at lower of cost or market) to loans receivable, transfers of $17.8 million from loans receivable to foreclosed real estate and $0.2 million of loans made to facilitate sales of real estate owned.

Noncash activity during the six months ended June 30, 2001 also included the following: (a) increases of $2.4 million and $0.1 million in additional paid-in capital and common stock, respectively, for restricted common stock outstanding under an employee incentive plan; (b) the distribution of $9.6 million in Issuable Shares; (c) $1.0 million of reversals of capitalized costs – extinguishment of Issuable Shares; (d) an adjustment to the contribution receivable from GSB Investments and Hunter’s Glen in respect of their proportionate ownership of the California Federal Goodwill Litigation Asset of $1.3 million; and (e) adjustments of $60.4 million and $11.9 million to Issuable Shares and additional paid-in capital, respectively, related to pre-merger tax benefits retained by the previous owners of FN Holdings.

During the six months ended June 30, 2000, noncash activity consisted of the reclassification of $1.1 billion and $445.0 million of mortgage-backed securities and U.S. government and agency securities, respectively, from securities available-for-sale to their respective held-to-maturity portfolios, transfers of $31.9 million from loans receivable to foreclosed real estate, transfers of $24.2 million from loans held for sale (at lower of cost or market) to loans receivable and $5.4 million of loans made to facilitate sales of real estate owned.

Noncash activity during the six months ended June 30, 2000 also included the following: (a) a $211.7 million reduction of the valuation allowance of the Company’s deferred tax asset representing pre-merger tax benefits, of which $161.7 million was retained by the previous owners of FN Holdings; (b) increases of $2.2 million and $218 thousand in additional paid-in capital and common stock, respectively, for restricted common stock outstanding under an employee incentive plan; (c) an adjustment to the contribution receivable from GSB Investments and Hunter’s Glen in respect of their proportionate ownership of the California Federal Goodwill Litigation Asset of $2.7 million; (d) the distribution of $100 million in Issuable Shares; (e) adjustments of $85.1 million and $20.6 million to Issuable Shares and additional paid-in capital, respectively, related to pre-merger tax benefits retained by the previous owners of FN Holdings; and (f) an adjustment of $1.4 million to Issuable Shares, after taxes, for interest income on a tax refund related to Old California Federal for periods prior to the Golden State Acquisition.

(4) Segment Reporting

Since the Company derives a significant portion of its revenues from interest income, and interest expense is the most significant expense, the segments are reported below using net interest income. Because the Company also evaluates performance based on noninterest income and noninterest expense goals, these measures of segment profit and loss are also presented. The Company does not allocate income taxes to the segments.

	Six Months Ended June 30,			Three Months Ended June 30,		
	Community Banking	Mortgage Banking	Total	Community Banking	Mortgage Banking	Total
			(in thousands)			
Net interest income: (a)						
2001	$673,532	$41,788	$715,320	$341,625	$ 33,760	$375,385
2000	625,332	2,096	627,428	316,261	1,716	317,977
Noninterest income: (b)						
2001	$161,849	$ 22,125	$183,974	$78,974	$ 37,665	$116,639
2000	116,697	119,649	236,346	57,237	59,671	116,908
Noninterest expense: (c)						
2001	$407,525	$ 77,017	$484,542	$208,913	$ 39,113	$248,026
2000	381,181	76,018	457,199	191,586	37,291	228,877
Pre-tax contribution:						
2001	$427,856	$(13,104)	$414,752	$211,686	$32,312	$243,998
2000	360,848	45,727	406,575	181,912	24,096	206,008

(a) Includes $68.6 million and $50.0 million for the six months ended June 30, 2001 and 2000, respectively, in earnings credit provided to FNMC by the Bank, primarily for custodial bank account balances generated by FNMC. Also includes $134.1 million and $122.3 million for the six months ended June 30, 2001 and 2000, respectively, in interest income and expense on intercompany loans.

Includes $39.0 million and $27.7 million for the three months ended June 30, 2001 and 2000, respectively, in earnings credit provided to FNMC by the Bank, primarily for custodial bank account balances generated by FNMC. Also includes $75.9 million and $69.0 million for the three months ended June 30, 2001 and 2000, respectively, in interest income and expense on intercompany loans.

(b) Includes $15.5 million and $24.5 million for the six months ended June 30, 2001 and 2000, respectively, in intercompany servicing fees. Includes $7.0 million and $12.3 million for the three months ended June 30, 2001 and 2000, respectively, in intercompany servicing fees.

(c) Includes $2.3 million for each of the six months ended June 30, 2001 and 2000, in intercompany noninterest expense. Includes $1.2 million for each of the three months ended June 30, 2001 and 2000, in intercompany noninterest expense.

The following reconciles the above table to the amounts shown on the consolidated financial statements for the six and three months ended June 30, 2001 and 2000 (in thousands):

	Six Months Ended June 30, 2001	Six Months Ended June 30, 2000	Three Months Ended June 30, 2001	Three Months Ended June 30, 2000
Net interest income:				
Total net interest income for reportable segments	$715,320	$627,428	$375,385	$317,977
Elimination of intersegment net interest income	(68,582)	(50,008)	(38,997)	(27,660)
Total	$646,738	$577,420	$336,388	$290,317
Noninterest income:				
Total noninterest income for reportable segments	$183,974	$236,346	$116,639	$116,908
Elimination of intersegment servicing fees	(15,533)	(24,497)	(7,045)	(12,341)
Total	$168,441	$211,849	$109,594	$104,567
Noninterest expense:				
Total noninterest expense for reportable segments	$484,542	$457,199	$248,026	$228,877
Elimination of intersegment expense	(2,320)	(2,320)	(1,160)	(1,160)
Total	$482,222	$454,879	$246,866	$227,717
Pre-tax contribution:				
Total contribution for reportable segments	$414,752	$406,575	$243,998	$206,008
Elimination of intersegment contribution	(81,795)	(72,185)	(44,882)	(38,841)
Total	$332,957	$334,390	$199,116	$167,167

(5) Loans Receivable, Net

The following details the components of loans receivable, net, at June 30, 2001 and December 31, 2000 (in thousands):

	June 30, 2001	December 31, 2000
Loan Portfolio:		
1-4 unit residential	$31,778,010	$30,828,368
Multi-family residential	3,963,298	3,569,228
Commercial real estate	2,470,338	2,487,093
Land	19,410	22,384
Construction	6,984	7,416
Total real estate loans	38,238,040	36,914,489
Equity-line	566,411	538,524
Other consumer loans	311,101	302,559
Auto loans, net	1,808,634	1,567,257
Commercial loans	654,750	557,796
Total loans receivable	41,578,936	39,880,625
Deferred loan fees, costs, discounts and premiums, net	246,216	229,962
Allowance for loan losses	(515,979)	(526,308)
Purchase accounting adjustments, net	6,893	8,535
Loans receivable, net	$41,316,066	$39,592,814

(6) Deposits

Deposits at June 30, 2001 and December 31, 2000 are comprised of the following (dollars in thousands):

	June 30, 2001	December 31, 2000
Transaction Accounts:		
Non-interest checking	$ 1,845,679	$ 1,716,741
Interest-bearing checking	2,032,122	2,063,185
Subtotal checking	3,877,801	3,779,926
Money market	4,100,378	2,948,853
Passbook savings	2,998,400	3,086,851
Total transaction accounts	10,976,579	9,815,630
Certificates of deposit	11,232,122	12,241,809
Subtotal retail deposits	22,208,701	22,057,439
Custodial accounts	1,885,850	825,438
Accrued interest payable	64,225	80,225
Purchase accounting	654	1,009
Total retail deposits	24,159,430	22,964,111
Brokered deposits	182,162	465,643
Total deposits	$24,341,592	$23,429,754
Demand deposits as a % of retail deposits (including custodials)	23.9%	20.1%
Transaction accounts as a % of retail deposits (including custodials)	53.4%	46.5%

(7) Accrued Termination and Facilities Costs

In connection with the Golden State Acquisition, the Company recorded liabilities resulting from (a) branch consolidations due to duplicate facilities; (b) employee severance and termination benefits due to a planned reduction in force; and (c) expenses incurred under a contractual obligation to terminate services provided by outside service providers (principally relating to DP systems expenses). The merger and integration plan relative to the Golden State Acquisition was in place on September 11, 1998. Certain of these costs were included in the allocation of purchase price and others were recognized in net income. The table below reflects a summary of the activity in the liability for the costs related to such plan since December 31, 2000 (in thousands):

	Branch Consolidations	Severance and Termination Benefits	Contract Terminations	Total
Balance at December 31, 2000	$16,044	$12,529	$--	$28,573
Additional liabilities recorded	--	--	--	--
Charges to liability account	(2,144)	(29)	--	(2,173)
Balance at June 30, 2001	$13,900	$12,500	$--	$26,400

(8) Income Taxes

During the six months ended June 30, 2001, Golden State recorded net income tax expense of $117.7 million, which included net tax benefits of $29.0 million. In prior years, an accrued liability was established for the purpose of satisfying assessments that may result from issues arising during audits with various state taxing authorities. As a result of the completion and settlement of audits in various state taxing jurisdictions, additional guidance on the deductibility of covered asset losses, and the current assessment of exposure for tax strategies employed for prior years, management reduced its accrued state tax liability by $39.7 million. The Company also recorded additional Federal tax expense of $13.9 million due to the reduction of the state tax expense.

In addition, a provision in lieu of income taxes was recorded for $3.2 million due to the utilization of net operating losses of a subsidiary made available as a result of the subsidiary's liquidation into California Federal Bank. These net operating losses are tax benefits retained by the previous owners of FN Holdings pursuant to the Golden State Merger Agreement.

During the six months ended June 30, 2000, Golden State recorded a net income tax benefit of $11.8 million, which included a tax benefit of $161.7 million. Based on favorable resolutions of federal income tax audits of Old California Federal and Glendale Federal, and based on the status of Mafco Holdings', including the Company's, audits for the years 1991 through 1995, management changed its judgment about the realizability of the Company's deferred tax asset and reduced its valuation allowance by $211.7 million during the six-month period ended June 30, 2000. As a result of reducing the valuation allowance, income tax expense was reduced by $161.7 million and goodwill was reduced by $50.0 million. Because these tax benefits accrue to the owners of the former FN Holdings under the Golden State Merger agreement, minority interest: provision in lieu of income tax expense was increased by $161.7 million, an amount equal to the reduction in income tax expense. These adjustments had no impact on net income available to common shareholders and no impact on the expected level of Issuable Shares.

(9) Stockholders' Equity

Common Stock

At June 30, 2001 and December 31, 2000, there were 135,056,790 and 134,320,658 shares, respectively, of Golden State common stock issued and outstanding, (net of treasury stock). Common stock outstanding included 230,819 and 246,756 restricted shares at June 30, 2001 and December 31, 2000, respectively.

Pursuant to the Golden State Merger agreement, 497,381 shares of Golden State common stock, valued at $9.6 million, were issued to Hunter's Glen on January 23, 2001. See "—Issuable Shares."

During the six months ended June 30, 2001, stock options for 154,617 shares were exercised. See note 10.

Issuable Shares

Based upon the Company's 2000 taxable income as filed in its federal income tax return, shares valued at $204.7 million (10,683,148 shares) were contractually issuable during the year ended December 31, 2000 to GSB Investments and Hunter's Glen. The number of shares was based on the use of pre-merger net operating losses and other net deferred tax assets, based upon actual taxable earnings and the average share price during the year.

During the six months ended June 30, 2001 and 2000, the Company recorded $49.1 million and $85.1 million of Issuable Shares related to the Company's pro-rata usage in 2001 and 2000 of pre-merger tax benefits retained by the previous owners of FN Holdings. Consistent with the Golden State Merger agreement, these amounts are payable to GSB Investments and Hunter's Glen as Issuable Shares.

During the second quarter of 2001, the Company recorded $11.3 million in Issuable Shares related to additional pre-merger tax benefits retained by the previous owners of FN Holdings, GSB Investments and Hunter's Glen. These additional benefits resulted from imputed interest deductions on benefits payable to the former owners and additional operating losses made available as a result of a corporate dissolution.

During the second quarter of 2000, the Company recorded $1.4 million in Issuable Shares related to interest receivable on a federal tax refund related to Old California Federal for periods prior to the Golden State Acquisition.

Issuable Shares are included, as appropriate, in the calculation of basic and diluted earnings per share. See note 13.

Additional Paid-in Capital

During the six months ended June 30, 2001 and 2000, respectively, the Company recorded reductions to additional paid-in capital of $11.9 million and $20.6 million representing pro-rata adjustments to pre-merger tax benefits retained by the previous owners of FN Holdings. The tax benefits were originally recorded as an adjustment to goodwill related to the Cal Fed Acquisition. See note 8.

Retained Earnings

At September 11, 1998, in connection with the Golden State Acquisition, certain assets were recorded representing the fair value of each of the Goodwill Litigation Assets that each of the former shareholder groups (pre-merger Golden State and GSB Investments and Hunter's Glen) were contributing to the merged entity. The Golden State Merger agreement contained a mechanism for proportionately allocating these values between the two groups. At September 11, 1998, the fair value of the Glendale Federal Goodwill Litigation Asset contributed by the former Golden State shareholders was $56.9 million, and the fair value of the California Federal Goodwill Litigation Asset equalization adjustment due from GSB Investments and Hunter's Glen was $41.2 million. The $41.2 million, recorded as a contribution receivable, increased retained earnings during the year ended December 31, 1998 and fluctuates based upon the market value of the LTW™s. At December 31, 2000, the equalization adjustment was written down to its fair value of $20.6 million. Since the market value of the LTW™s, which the Company uses to estimate the fair value of the ultimate goodwill litigation award, increased to $1.31 per share at June 30, 2001 from $1.1875 per share at December 31, 2000, the inherent value of the amount to be contributed by GSB Investments and Hunter's Glen also increased, to $21.9 million, resulting in an increase in retained earnings and the contribution receivable of $1.3 million during the six months ended June 30, 2001.

Treasury Stock

At June 30, 2001, the Company had 16,398,032 shares of its common stock in treasury at an aggregate cost of $19.28 per share.

During the six months ended June 30, 2001, the Company repurchased 14,974 shares of common stock, at an aggregate purchase price of $415 thousand, or an average of $27.72 per share. There were no shares of treasury stock issued during the six months ended June 30, 2001.

During the six months ended June 30, 2000, the Company repurchased 3,906,323 shares of common stock, at an aggregate purchase price of $63.5 million, or an average of $16.27 per share. Also during the six months ended June 30, 2000, 9,557 shares were issued out of treasury in connection with options exercised by holders related to an acquisition by the former Golden State prior to the Golden State Acquisition.

Dividends

On June 1, 2001 and March 1, 2001, Golden State paid a dividend of $0.10 per common share totalling $13.5 million on each date, to stockholders of record as of May 7, 2001 and February 2, 2001, respectively. There were no dividends on common stock during the six months ended June 30, 2000.

(10) Executive and Stock Compensation

In the first quarter of 2001, the Company granted to its employees non-qualified stock options equivalent to 851,000 shares of common stock at a weighted average price of $25.67 per share under the Golden State Bancorp Inc. Omnibus Stock Plan. In the second quarter of 2001, the Company granted an additional 560,100 non-qualified stock options at a weighted average price of $30.75 per share. These shares generally vest over three years in one-third increments on the anniversary of the grant date. The options generally expire 10 years from the date of grant. No compensation cost was recognized by the Company for these stock options during the six months ended June 30, 2001, in accordance with the intrinsic value accounting methodology prescribed in APB Opinion No. 25, whereby compensation expense to employees is determined based upon the excess, if any, of the market price of the Company's common stock at the measurement date over the exercise price of the award.

During the three months ended June 30, 2001, 91,101 options were exercised and 4,432 options were cancelled or expired under all plans. During the six months ended June 30, 2001, 154,617 options were exercised and 21,677 options were cancelled or expired under all plans. During the three and six months ended June 30, 2000, 14,307 options were exercised and 45,116 and 64,366 options, respectively, were cancelled or expired under all plans.

At June 30, 2001 and 2000, options to acquire an equivalent of 4,906,205 and 3,828,259 shares and 966,166 and 1,177,775 LTW™s, respectively, remained outstanding under all plans.

On January 22, 2001, the Company awarded to certain of its employees 99,108 shares of restricted stock under the Golden State Bancorp Inc. Executive Compensation Plan. The market value on the date of the awards was $26.38 per share. These shares generally vest over two years in one-half increments on the anniversary of the grant date, based upon the continued service of the employee. During the three and six months ended June 30, 2001, 5,911 and 115,045 restricted shares were vested. No restricted stock vested during the three and six months ended June 30, 2000. At June 30, 2001, a total of 230,819 restricted shares was outstanding. The compensation expense based on the stock price on the date of these awards was recognized on a straight-line basis over the vesting period for each tranche of the award with a corresponding increase to additional paid-in capital. During the three and six months ended June 30, 2001, $0.5 million and $1.0 million, respectively, in compensation expense was recognized related to such awards. During the three and six months ended June 30, 2000, $0.5 million and $1.1 million, respectively, in compensation expense was recognized related to such awards. These restricted shares have full voting and dividend rights and are included in common shares outstanding and in the calculation of diluted earnings per share. See note 13.

(11) Extraordinary Items

During the first quarter of 2000, the FHLB called and the Bank prepaid $200 million in FHLB advances, resulting in an extraordinary gain of $1.2 million, net of income taxes of $0.8 million, on the early extinguishment of such borrowings.

Also during the first quarter of 2000, the Bank repurchased $2.5 million outstanding principal amount of the Convertible Subordinated Debentures due 2001, resulting in an extraordinary gain of $41 thousand, net of income taxes of $30 thousand, on the early extinguishment of debt.

During the second quarter of 2000, the FHLB called and the Bank prepaid $200 million in FHLB advances, resulting in an extraordinary gain of $1.8 million, net of income taxes of $1.2 million, on the early extinguishment of such borrowings.

(12) Cumulative Effect of Change in Accounting Principle

On September 21, 2000, the EITF issued EITF No. 99-20. This document, which was effective on April 1, 2001, establishes guidance for (1) recognizing interest income (including amortization of premiums or discounts) on (a) all credit-sensitive mortgage and asset-backed securities and (b) certain prepayment-sensitive securities including agency interest-only strips and (2) determining when these securities must be written down to fair value because of impairment. Existing GAAP did not provide interest recognition and impairment guidance for securities on which cash flows change as a result of both prepayments and credit losses and, in some cases, interest rate adjustments.

On April 1, 2001, the Company identified a portfolio of securities with a total book value of $80.7 million which are subject to the impairment provisions of EITF No. 99-20. All of these securities had previously been reported as available-for-sale securities, with changes in fair value reflected in OCI. As a result of its implementation of EITF No. 99-20, the Company recorded a loss of $1.6 million, net of income tax credits of $1.1 million, representing the cumulative effect of a change in accounting principle.

(13) Earnings per Share Information

Earnings per share of common stock is based on the weighted average number of common and common equivalent shares outstanding, excluding common shares in treasury, during the periods presented. Information used to calculate basic and diluted earnings per share is as follows (in thousands, except per share data):

	Six Months Ended June 30,				Three Months Ended June 30,			
	2001		2000		2001		2000	
	Basic EPS	Diluted EPS	Basic EPS	Diluted EPS	Basic EPS	Diluted EPS	Basic EPS	Diluted EPS
Income before extraordinary items and cumulative effect of a change in accounting principle	$198,521	$198,521	$169,674	$169,674	$105,735	$105,735	$ 85,844	$ 85,844
Extraordinary items	--	--	3,014	3,014	--	--	1,808	1,808
Cumulative effect of a change in accounting principle	(1,552)	(1,552)	–	–	(1,552)	(1,552)	–	–
Net income	$196,969	$196,969	$172,688	$172,688	$104,183	$104,183	$ 87,652	$ 87,652
Weighted average common shares outstanding (a)	134,670	134,670	122,448	122,448	134,783	134,783	122,710	122,710
Issuable Shares (b)	7,915	7,915	14,247	14,247	8,456	8,456	16,505	16,505
Total weighted average basic common shares outstanding	142,585	142,585	136,695	136,695	143,239	143,239	139,215	139,215
Effect of dilutive securities:								
Options and warrants (c)	--	756	--	3,008	--	818	--	3,711
Issuable Shares (b)	--	--	--	2,233	--	--	--	--
Restricted stock (a)	–	134	–	86	–	168	–	111
Total weighted average diluted common shares outstanding (b)	142,585	143,475	136,695	142,022	143,239	144,225	139,215	143,037
Income before extraordinary items and cumulative effect of a change in accounting principle	$ 1.39	$ 1.38	$ 1.24	$ 1.19	$ 0.74	$ 0.73	$ 0.62	$ 0.60
Extraordinary items	--	--	0.02	0.02	--	--	0.01	0.01
Cumulative effect of a change in accounting principle	(0.01)	(0.01)	--	--	(0.01)	(0.01)	--	--
Earnings per common share	$ 1.38	$ 1.37	$ 1.26	$ 1.21	$ 0.73	$ 0.72	$ 0.63	$ 0.61

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(a) 2001 and 2000 basic weighted average common shares outstanding exclude the effect of unvested restricted common stock awarded to employees of the Company.

(Footnotes continued on next page)

(b) 2001 total basic and diluted weighted average common shares outstanding include, as appropriate, the effect of the following shares estimated to be issuable to GSB Investments and Hunter's Glen: 1,296,635 shares based on the use of pre-merger tax benefits during 2001; 7,159,055 shares based on the use of pre-merger tax benefits during 2000 and 1999; the effect of 497,381 shares issued to Hunter's Glen on January 23, 2001 for net tax benefits realized during 1999 and for a Federal tax refund and related interest associated with Old California Federal for periods prior to the Golden State Acquisition.

2000 total basic and diluted weighted average common shares outstanding include the effect, as appropriate, of 4,735,227 shares issued on May 22, 2000 and 6,711,065 shares issuable to GSB Investments and Hunter's Glen based on the use of pre-merger tax benefits during 1999.

2000 total basic and diluted weighted average common shares outstanding shares include the effect, as appropriate, of 147,677 shares issued on May 22, 2000 to GSB Investments and Hunter's Glen for net tax benefits realized by the Bank during 1998.

2000 total basic and diluted weighted average common shares outstanding include, as appropriate, the effect of 2,856,956 shares estimated to be issuable to GSB Investments and Hunter's Glen related to a Federal tax refund and related interest received in 2000 associated with Old California Federal for periods prior to the Golden State Acquisition.

2000 total basic and diluted weighted average shares outstanding include the effect of 4,199,868 shares, estimated to be issuable to GSB Investments and Hunter's Glen based on the anticipated use of pre-merger tax benefits. See note 9.

(c) Golden State's diluted shares outstanding are not affected by the LTW™s until they become exercisable because the amount of the proceeds from the Glendale Goodwill Litigation and the number of shares of common stock to be issued cannot be determined until the LTW™s become exercisable.

(14) Derivative Instruments and Hedging Activities

Interest Rate Risk Management – Risk Management Policies – Cash Flow Hedging Instruments and Fair Value Hedging Instruments

The primary focus of the Company's asset/liability management program is to monitor the sensitivity of the Company's net portfolio value and net income under varying interest rate scenarios in order to take steps to control its risks. On a quarterly basis, the Company simulates the net portfolio value and net income expected to be earned over a twelve-month period following the date of simulation. The simulation is based on a projection of market interest rates at varying levels and estimates the impact of such market rates on the levels of interest-earning assets and interest-bearing liabilities and on mortgage prepayment speeds (which affect the mortgage servicing rights asset) during the measurement period. Based upon the outcome of the simulation analysis, the Company considers the use of derivatives as a means of reducing the volatility of net portfolio value and projected net income within certain ranges of projected changes in interest rates. The Company evaluates the effectiveness of entering into any derivative instrument agreement by measuring the cost of such an agreement in relation to the reduction in net portfolio value and net income volatility within an assumed range of interest rates.

Interest Rate Risk Management – Cash Flow Hedging Instruments – Balance Sheet Hedges

Objectives and Context

The Company uses variable rate debt as a source of funds for use in the Company's lending and investment activities and other general business purposes. It has received short-term variable-rate FHLB advances and Repos. These debt obligations expose the Company to variability in interest payments due to changes in interest rates. If interest rates increase, interest expense increases. Conversely, if interest rates decrease, interest expense decreases.

Management believes it is prudent to limit the variability of a portion of its interest payments, and therefore, generally hedges a significant portion of its variable-rate interest payments.

Strategies

To meet this objective, management enters into derivative instrument agreements to manage fluctuations in cash flows resulting from interest rate risk. These instruments include interest rate swaps.

The interest rate swaps change the variable-rate cash flow exposure on the short-term FHLB advances and Repos to fixed rate cash flows by entering into receive-variable, pay-fixed interest rate swaps. Under the interest rate swaps, the Company receives variable interest rate payments and makes fixed interest rate payments, thereby creating fixed rate FHLB advances and Repos.

Results

Risk management results for the quarter ended June 30, 2001 related to the balance sheet hedging of FHLB advances and Repos indicate that the hedges were 100% effective and that there was no component of the derivative instruments' gain or loss which was excluded from the assessment of hedge effectiveness.

Changes in the fair value of interest rate swaps designated as hedging instruments of the variability of cash flows associated with FHLB advances and Repos are reported in OCI. These amounts subsequently are reclassified into interest expense as a yield adjustment in the same period in which the related interest on the FHLB advances and Repos affects earnings. The net amount of OCI reclassified into interest expense during the three and six months ended June 30, 2001 was $14.7 million and $20.1 million, respectively.

As of the date of the initial application of SFAS No. 133, January 1, 2001, approximately $18.1 million of losses reported in OCI and associated with the transition adjustment related to the interest rate swaps were expected to be reclassified into interest expense as a yield adjustment of the hedged FHLB advances and Repos during the twelve month period ending December 31, 2001.

As of June 30, 2001, approximately $30.4 million of losses reported in OCI related to the interest rate swaps were expected to be reclassified into interest expense as a yield adjustment of the hedged FHLB advances and Repos during the twelve month period ending June 30, 2002.

Interest Rate Risk Management – Fair Value Hedging Instruments – Mortgage Servicing Rights Hedges

Objectives and Context

The Company either purchases or originates mortgage servicing rights as a source of fee income. These mortgage-servicing rights expose the Company to variability in their fair value due to changes in the level of prepayments. Mortgage servicing rights are generally recorded in the financial statements at the lesser of their amortized cost or their fair value, unless they are designated as a fair value hedge, in accordance with SFAS No. 133. The carrying value of mortgage servicing rights in a designated hedging relationship will be adjusted upwards or downwards depending upon the effectiveness of the hedge.

Management believes that it is prudent to limit the variability in the fair value of a portion of its MSR asset. It is the Company's objective to hedge the servicing rights asset associated with fixed rate, non-prepayment penalty loans for which it has recorded mortgage servicing rights, at coverage levels that are appropriate, given anticipated or existing interest rate levels and other market considerations, as well as the relationship of change in this asset to other assets of the Company.

Strategies

To meet this objective, the Company utilizes interest rate swaps, principal only swaps, interest rate floors, and swaptions as an asset/liability management strategy to hedge against prepayment risk in its mortgage servicing portfolio caused by declining interest rates. Although the Company hedges the change in value of its MSRs, its hedge coverage ratio does not equate to 100%.

Interest rate swap agreements are contracts to make a series of floating rate payments in exchange for receiving a series of fixed rate payments. Payments related to swap contracts are made either quarterly or semi-annually by one of the parties depending on the specific terms of the related contract. The notional amount of the contracts, on which the payments are based, are not exchanged.

PO swap agreements simulate the ownership of a PO strip, the value of which is affected directly by prepayment rates themselves in an inverse manner to the servicing rights. Under the terms of the PO swap agreements, the counterparty to the transaction purchases a PO strip and places the PO strip in a trust. A decrease in the market value of the PO swap requires the Company to increase the amount paid to the counterparty and an increase in the market value requires the counterparty to increase their payment to the Company. The amounts to be paid and to be received are then netted together each month. The structure of this instrument results in increased cash flows and positive changes in the value of the swap during a declining interest rate environment. This positive change in the value of the swap is highly correlated to prepayment activity.

Interest rate floors are interest rate protection instruments that involve payment from the seller to the buyer of an interest differential. This differential represents the difference between a long-term rate (*e.g.,* 10-year Constant Maturity Swap), and an agreed-upon rate, the strike rate, applied to a notional principal amount. By purchasing a floor, the Company will be paid the differential by the counterparty, should the current long-term rate fall below the strike level of the agreement. The Company generally receives cash monthly on purchased floors (when the current interest rate falls below the strike rate).

A swaption is an over-the-counter option that provides the right, but not the obligation, to enter into an interest rate swap agreement at predetermined terms at a specified time in the future. The nature and strategies associated with swaptions are similar to the other derivative instruments described above.

Results

Risk management results related to the hedging of mortgage servicing rights for the quarter ended June 30, 2001 are summarized below and are included in the caption entitled “Loan servicing fees, net” in the accompanying consolidated statements of income (in thousands):

Loss on designated derivative contracts	$(108,198)
Increase in value of designated mortgage servicing rights	114,750
Net hedge ineffectiveness	$ 6,552

Interest Rate Risk Management – Fair Value Hedging Instruments – Warehouse Loans

Objectives and Context

The Company, as part of its traditional real estate lending activities, originates fixed-rate 1-4 unit residential loans for sale in the secondary market. At the time of origination, management identifies loans that are expected to be sold in the near future. These warehoused loans have been classified as loans held for sale, net, in the consolidated balance sheet and are recorded at the lower of aggregate amortized cost or market value. These loans expose the Company to variability in their fair value due to changes in interest rates. If interest rates increase, the value of the loans decreases. Conversely, if interest rates decrease, the value of the loans increases.

Management believes it is prudent to limit the variability of a major portion of the change in fair value of its loans held for sale. It is the Company's objective to hedge primarily all of its warehoused loans held for sale to third parties.

Strategies

To meet this objective, management employs forward loan sale hedging techniques to minimize the interest rate and pricing risks associated with the origination and sale of such warehoused loans.

The forward loan sales lock in the price for the sale of either the specific loans classified as held for sale or for a generic group of loans similar to the specific loans classified as held for sale.

Results

Risk management results related to the hedging of warehouse loans for the quarter ended June 30, 2001 are summarized below and are included in the caption entitled "Gain on sale, settlement and transfer of loans, net" in the accompanying consolidated statements of income (in thousands):

Gain on designated forward loan sale commitments	$ 12,080
Decrease in value of warehouse loans	(10,443)
Net hedge ineffectiveness	$ 1,637

Derivative Instruments Not Designated as Hedging Instruments

Purpose - Interest Rate Lock Commitments and Forward Loan Sale Commitments

The Company enters into rate lock commitments to extend credit to borrowers for generally a 30-day period. Some of these rate lock commitments will ultimately expire without being completed. During discussions leading to the implementation of SFAS No. 133, the DIG, a committee organized by FASB to advise it on initial implementation issues, concluded that rate lock commitments for mortgages that would be held for sale should be accounted for as derivative instruments and valued, therefore, at fair market value. In determining the fair market value of the rate lock commitments, the Bank excludes the fair market value of any future servicing rights.

To the extent that a loan is ultimately granted and the borrower ultimately accepts the terms of the loan, these rate lock commitments expose the Company to variability in their fair value due to changes in interest rates. If interest rates increase, the value of these rate lock commitments decreases. Conversely, if interest rates decrease, the value of these rate lock commitments increases.

To mitigate the effect of this interest rate risk, the Company enters into offsetting derivative contracts, primarily forward loan sale commitments. The forward loan sale commitments lock in an interest rate and price for the sale of loans similar to the specific rate lock loan commitments classified as derivatives. Both the rate lock commitments and the forward loan sale commitments are undesignated derivatives, and accordingly are marked to market through earnings.

Risk management results related to the undesignated hedging of interest rate lock commitments with undesignated forward loan sale commitments for the quarter ended June 30, 2001 are summarized below and are included in the caption entitled "Gain on sale, settlement and transfer of loans, net" in the consolidated statements of income (in thousands):

Gain on undesignated forward loan sale commitments recognized to income	$11,096
Loss on undesignated interest rate loan commitments recognized to income	(9,093)
Net gain on derivatives	$ 2,003

(15) Recent Accounting Pronouncements

Business Combinations

On July 20, 2001, the FASB issued SFAS No. 141 which defines a business combination as a transaction through which an enterprise acquires all or a portion of the net assets that constitute a business or equity interests of one or more enterprises and obtains control over those enterprises. This definition is not substantively different from the APB Opinion No. 16 definition.

SFAS No. 141 requires that all business combinations be accounted for using the purchase method. Use of the pooling-of-interests method to account for business combinations, which APB Opinion No. 16 required to be used when certain criteria were met, is prohibited. SFAS No. 141 provides guidance for determining the acquired enterprise. In addition, SFAS No. 141 requires that additional information be disclosed about business combination transactions.

The accounting, disclosure and financial statement provisions of SFAS No. 141 are effective for business combinations initiated after June 30, 2001.

The imp lementation of SFAS No. 141 is not expected to materially impact the Company's financial condition or operating results.

Goodwill and Other Intangible Assets

On July 20, 2001, the FASB also issued SFAS No. 142. SFAS No. 142 supersedes APB Opinion No. 17 and establishes new accounting standards for both identifiable and unidentifiable intangible assets acquired in a business combination, including goodwill, but does not address internally developed intangible assets. It would continue to require recognition of goodwill as an asset but would not permit amortization of goodwill as currently required by APB Opinion No. 17. Instead, goodwill would be tested for impairment at a level referred to as a reporting unit. A reporting unit is the same level as, or one level below, an operating segment (as that term is used in SFAS No. 131).

Goodwill would be tested for impairment annually and on an interim basis if an event or circumstance occurs between annual tests that might reduce the fair value of a reporting unit below its carrying value. An example of such an event or circumstance may include an adverse change in the business climate or market, a legal factor, an action by regulators, an introduction of competition, or a loss of key personnel. Goodwill would also be tested for impairment on an interim basis when (a) a more-likely-than-not expectation exists that a reporting unit or a significant portion of a reporting unit will be sold or otherwise disposed of, (b) a significant asset group within a reporting unit is tested for recoverability under SFAS No. 121, or (c) a subsidiary of that reporting unit has recognized a goodwill impairment loss. The fair value of each reporting unit would not have to be recomputed every year if the components of the reporting unit had not changed since the previous fair value computation, the previous fair value amount exceeded the carrying amount of the reporting unit by a substantial margin, and no evidence exists indicating that the current fair value of the reporting unit may be less than its current carrying amount.

Goodwill would be tested for impairment using a two-step approach. The first step is a comparison of the fair value of a reporting unit to its carrying amount, including goodwill. If the fair value of the reporting unit is greater than its carrying amount, goodwill is not considered impaired and no further work is required. If the fair value of the reporting unit is less than its carrying amount, the second step of the impairment test must be performed. The second step of the impairment test is a comparison of the implied fair value of goodwill to its carrying amount. If the implied fair value of goodwill is less than its carrying amount, goodwill is considered impaired and an impairment loss recognized. The impairment loss would be measured as the amount by which the carrying amount of goodwill exceeds its implied fair value.

An acquired intangible asset other than goodwill would be amortized over its useful economic life and reviewed for impairment in accordance with SFAS No. 121.

The aggregate amount of goodwill would be presented as a separate line item in the balance sheet. The aggregate amount of goodwill impairment losses would be presented as a separate line item in the operating section of the income statement unless a goodwill impairment loss is associated with a discontinued operation. At a minimum, intangible assets would be aggregated and presented as a separate line item in the statement of financial position. Amortization expense and impairment losses for intangible assets other than goodwill would be presented in income statement line items as deemed appropriate for each entity.

SFAS No. 142 is effective for the Company on January 1, 2002.

Management is in the process of reviewing the records from the Company's various acquisitions. At present, it appears that at least 90% of the Company's intangible asset represents goodwill and will cease to be amortized as of January 1, 2002 pursuant to SFAS No. 142. As a result, management expects GAAP earnings to increase by $13.8 million per quarter in 2002.

Accounting for Transfers and Servicing Financial Assets and Extinguishments of Liabilities

On September 29, 2000, the FASB issued SFAS No. 140. SFAS No. 140 replaces SFAS No. 125, which was issued in June of 1996. It revises the standards for accounting for securitizations and other transfers of financial assets and collateral and requires certain disclosures, but it carries over most of the provisions of SFAS No. 125 without reconsideration. In general, SFAS No. 140 was effective for transfers of financial assets occurring after March 31, 2001 and for disclosures relating to securitization transactions and collateral for fiscal years ending after December 15, 2000.

The implementation of SFAS No. 140 on April 1, 2001 (incremental provisions that were not previously part of SFAS No. 125) did not materially impact the Company's financial condition or operating results.

(16) Subsequent Event

On July 27, 2001, the Company paid GSB Investments $64.0 million resulting in the extinguishment of GSB Investments' right to receive $75.0 million of Issuable Shares calculated in accordance with the Golden State Merger agreement.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements. This quarterly report contains forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, that pertain to our future operating results. Words such as "anticipate," "believe," "expect," "intend" and other similar expressions are intended to identify these statements. Forward-looking statements are not historical facts and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. Our actual results could differ materially from those in the forward-looking statements due to such factors as (i) portfolio concentrations; (ii) interest rate changes, including changes in short-term interest rates, the shape of the yield curve and the Treasury-Eurodollar spread; (iii) changes in asset prepayment speeds; (iv) changes in our competitive and regulatory environments; and (v) changes in the availability of net operating loss carryovers and deferred tax liabilities. In November 2000, we filed an S-3 Registration Statement with the SEC that discusses these factors in greater detail. We assume no obligation to update any of our forward-looking statements.

Overview

Golden State, through California Federal, operates retail branches that provide deposit products such as demand, transaction and savings accounts, and sells investment products such as mutual funds, annuities and insurance. In addition, it engages in mortgage banking activities, including originating and purchasing 1-4 unit residential loans for sale to various investors in the secondary market or for retention in its own portfolio, and servicing loans for itself and others. To a lesser extent, the Company originates and/or purchases commercial real estate, commercial and consumer loans for investment. Revenues are derived primarily from interest earned on loans, interest received on government and agency securities and mortgage-backed securities, gains on sales of loans and other investments and fees received in connection with loan servicing, securities brokerage and other customer service transactions. Expenses primarily consist of interest on customer deposit accounts, interest on short-term and long-term borrowings, general and administrative expenses consisting of compensation and benefits, data processing, occupancy and equipment, communications, deposit insurance assessments, advertising and marketing, professional fees and other general and administrative expenses.

Net Income

Golden State reported income before the cumulative effect of change in accounting principle of $198.5 million, or $1.38 per diluted share for the six months ended June 30, 2001. Income before extraordinary items was $169.7 million, or $1.19 per diluted share for the six months ended June 30, 2000. Net income for the six months ended June 30, 2001 was $197.0 million, or $1.37 per diluted share, compared with net income of $172.7 million, or $1.21 per diluted share, for the corresponding period in 2000. Net income for the six months ended June 30, 2001 includes a loss of $1.6 million, net of tax, from the cumulative effect of a change in accounting principle. Net income for the six months ended June 30, 2000 includes gains on the early extinguishment of debt, net of tax, of $3.0 million.

Golden State reported income before the cumulative effect of change in accounting principle of $105.7 million, or $0.73 per diluted share for the three months ended June 30, 2001. Income before extraordinary items was $85.8 million, or $0.60 per diluted share for the three months ended June 30, 2000. Net income for the three months ended June 30, 2001 was $104.2 million, or $0.72 per diluted share, compared with net income of $87.7 million, or $0.61 per diluted share, for the corresponding period in 2000. Net income for the three months ended June 30, 2001 includes a loss of $1.6 million, net of tax, from the cumulative effect of a change in accounting principle. Net income for the three months ended June 30, 2000 includes gains on the early extinguishment of debt, net of tax, of $1.8 million.

Financial Condition

During the six months ended June 30, 2001, consolidated total assets increased $784.8 million from December 31, 2000, to $61.3 billion, and total liabilities increased from $57.9 billion to $58.4 billion. Loans receivable and loans held for sale increased $1.7 billion and $1.5 billion, respectively, during the six month period, while securities and mortgage-backed securities declined $623 million and $1.6 billion, respectively, during the same period. This shift represents strong loan production by the Company coupled with high repayment rates for both loans and securities in light of the current declining interest rate environment. Deposits increased $912 million during the six months ended June 30, 2001, reflecting an increase of $1.2 billion in transaction accounts, offset by a $1.1 billion decline in certificates of deposit – part of management's goal to become more "bank-like" and to lower its cost of funds. Custodial accounts increased $1.1 billion, or 128%, over December 31, 2000 balances, a direct result of the increase in repayments in the loan servicing portfolio. Total borrowings, including securities sold under agreements to repurchase, FHLB advances and other borrowings, declined $643 million during the six months ended June 30, 2001.

During the six months ended June 30, 2001, stockholders' equity increased $257.0 million to $2.4 billion. The increase in stockholders' equity is principally the net result of $197.0 million in net income for the period, a $58.2 million improvement in net unrealized gain/loss, after tax, on securities available-for-sale, $30.4 million in unrealized loss on securities reclassified from held-to-maturity to available-for-sale and $50.8 million in net additions to Issuable Shares, primarily related to pre-merger tax benefits retained by the previous owners of FN Holdings. These amounts are offset, in part, by a $44.6 million transition adjustment recorded upon the adoption of SFAS No. 133, $16.8 million in net unrealized losses, after tax, on derivatives, $27.0 million of common stock dividends and $11.9 million in adjustments to additional paid-in capital related to pre-merger tax benefits recorded to goodwill. Book value per diluted share increased $1.68 at June 30, 2001 to $16.64, from $14.96 at December 31, 2000. Tangible book value per share increased $1.92, or 19%, over the same period, from $10.15 at December 31, 2000 to $12.07 at June 30, 2001. Common shares outstanding totalled 135.1 million and 134.3 million at June 30, 2001 and December 31, 2000, respectively. Diluted shares outstanding totalled 144.7 million at June 30, 2001 and 143.8 million at December 31, 2000.

Golden State's non-performing assets, consisting of non-performing loans, net of purchase accounting adjustments, foreclosed real estate, net, and repossessed assets, decreased to $127.2 million at June 30, 2001 compared with $140.9 million at December 31, 2000. Total non-performing assets as a percentage of the Bank's total assets decreased to 0.21% at June 30, 2001 from 0.23% at December 31, 2000.

Results of Operations

Six months ended June 30, 2001 versus six months ended June 30, 2000

The following table shows the Company's consolidated average balance sheets, with the related interest income, interest expense and the average interest rates for the periods presented. Average balances are calculated on a daily basis.

	Six Months Ended June 30, 2001		
	Average Balance	Interest	Average Rate
	(dollars in millions)		
ASSETS			
Interest-earning assets (1):			
Securities and interest-bearing deposits in banks (2)	$ 1,051	$ 32	6.01%
Mortgage-backed securities available-for-sale	10,385	345	6.64
Mortgage-backed securities held-to-maturity	1,685	71	8.43
Loans held for sale, net	1,565	53	6.73
Loans receivable, net:			
Residential	31,761	1,124	7.08
Commercial real estate	6,130	256	8.36
Commercial banking	570	25	8.69
Consumer	875	40	9.31
Auto	1,700	96	11.38
Total loans receivable, net	41,036	1,541	7.52
FHLB stock	1,391	45	6.58
Total interest-earning assets	57,113	2,087	7.31%
Noninterest-earning assets	3,595		
Total assets	$60,708		
LIABILITIES, MINORITY INTEREST AND STOCKHOLDERS' EQUITY			
Interest-bearing liabilities:			
Deposits	$23,962	465	3.91%
Securities sold under agreements to repurchase (3)	3,992	121	6.05
Borrowings (3)	28,784	854	5.96
Total interest-bearing liabilities	56,738	1,440	5.09%
Noninterest-bearing liabilities	1,270		
Minority interest	497		
Stockholders' equity	2,203		
Total liabilities, minority interest and stockholders' equity	$60,708		
Net interest income		$ 647	
Interest rate spread			2.22%
Net interest margin			2.25%
Return on average assets			0.65%
Return on average equity			17.88%
Average equity to average assets			3.63%
Dividend payout ratio			14.49%

	Six Months Ended June 30, 2000		
	Average Balance	Interest	Average Rate
	(dollars in millions)		
ASSETS			
Interest-earning assets (1):			
Securities and interest-bearing deposits in banks (2)	$ 1,429	$ 46	6.42%
Mortgage-backed securities available-for-sale	13,158	435	6.62
Mortgage-backed securities held-to-maturity	2,390	91	7.60
Loans held for sale, net	764	29	7.51
Loans receivable, net:			
Residential	28,667	992	6.92
Commercial real estate	5,553	227	8.20
Commercial banking	506	24	9.68
Consumer	716	36	9.99
Auto	1,073	64	11.96
Total loans receivable, net	36,515	1,343	7.36
FHLB stock	1,250	45	7.26
Total interest-earning assets	55,506	1,989	7.17%
Noninterest-earning assets	2,867		
Total assets	$58,373		
LIABILITIES, MINORITY INTEREST AND STOCKHOLDERS' EQUITY			
Interest-bearing liabilities:			
Deposits	$22,910	443	3.89%
Securities sold under agreements to repurchase (3)	5,606	173	6.09
Borrowings (3)	26,729	796	5.97
Total interest-bearing liabilities	55,245	1,412	5.12%
Noninterest-bearing liabilities	1,072		
Minority interest	497		
Stockholders' equity	1,559		
Total liabilities, minority interest and stockholders' equity	$58,373		
Net interest income		$ 577	
Interest rate spread			2.05%
Net interest margin			2.07%
Return on average assets			0.59%
Return on average equity			22.15%
Average equity to average assets			2.67%
Dividend payout ratio			N/A

(1) Non-performing assets are included in the average balances for the periods indicated.

(2) Includes securities held-to-maturity, securities available-for-sale and interest-bearing deposits in other banks.

(3) Interest and average rate include the impact of interest rate swaps.

The following table shows what portion of the changes in interest income and interest expense were due to changes in rate and volume. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to volume (change in average outstanding balance multiplied by the prior period's rate) and rate (change in average interest rate multiplied by the prior period's volume). Changes attributable to both volume and rate have been allocated proportionately.

	Six Months Ended June 30, 2001 vs. 2000 Increase (Decrease) Due to		
	Volume	Rate	Net
INTEREST INCOME:		(in millions)	
Securities and interest-bearing deposits in banks	$ (11)	$(3)	$ (14)
Mortgage-backed securities available-for-sale	(92)	1	(91)
Mortgage-backed securities held-to-maturity	(31)	11	(20)
Loans held for sale, net	27	(3)	24
Loans receivable, net	169	29	198
Total	62	35	97
INTEREST EXPENSE:			
Deposits	19	2	21
Securities sold under agreements to repurchase	(50)	(1)	(51)
Borrowings	60	(2)	58
Total	29	(1)	28
Change in net interest income	$ 33	$36	$ 69

Interest Income. Total interest income was $2.1 billion for the six months ended June 30, 2001, an increase of $97.1 million from the six months ended June 30, 2000. Total interest-earning assets for the six months ended June 30, 2001 averaged $57.1 billion, compared to $55.5 billion for the corresponding period in 2000, primarily as a result of increased loan volume, partially offset by a decline in mortgage-backed securities. The yield on total interest-earning assets during the six months ended June 30, 2001 increased to 7.31% from 7.17% for the six months ended June 30, 2000, primarily due to a higher percentage of loans to total earning assets and the lagging effect of the repricing of higher rate variable-rate loans and securities. At June 30, 2001, 14% of the Company's portfolio loans were tied to COFI indices, 14% to Treasury-based indices and 44% were "hybrid" ARMS - fixed for three to ten years and then adjusting annually. Twenty-four percent of the portfolio is fixed. The remaining 4% of the portfolio is in other adjustable-rate products.

Golden State earned $1.5 billion of interest income on loans receivable for the six months ended June 30, 2001, an increase of $197.5 million from the six months ended June 30, 2000. The average balance of loans receivable was $41.0 billion for the six months ended June 30, 2001, compared to $36.5 billion for the same period in 2000. The weighted average yield on loans receivable increased to 7.52% for the six months ended June 30, 2001 from 7.36% for the six months ended June 30, 2000. The increase in the average balance reflects a net increase in residential and commercial real estate loan origination activities and new auto loan production from the Downey Acquisition.

Loan production during the six months ended June 30, 2001 and 2000 is detailed in the table below (in thousands):

	Six Months Ended June30, 2001	2000
Loans funded:		
Residential real estate loans	$11,313,830	$7,387,065
Commercial real estate loans	886,836	623,956
Commercial loans	523,254	343,056
Consumer nonmortgage loans	403,546	354,117
Other	--	124
Total loans funded	$13,127,466	$8,708,318
Loans purchased:		
Residential real estate loans	$ 1,723,576	$ 335,845
Auto loans	625,568	475,895
Total loans purchased	$ 2,349,144	$ 811,740

The increase in the weighted average yield is primarily due to the lagging effect of the repricing of variable-rate loans at higher rates, partially offset by lower rates on new purchases of prime auto loans.

Golden State earned $52.7 million of interest income on loans held for sale for the six months ended June 30, 2001, an increase of $24.0 million from the six months ended June 30, 2000. The average balance of loans held for sale was $1.6 billion for the six months ended June 30, 2001, an increase of $801.0 million from the comparable period in 2000, primarily attributed to increased originations of residential, fixed-rate loans as a result of heightened borrower refinancing activity in the current declining interest rate environment. Fixed-rate production for sale totalled $7.5 billion during the six months ended June 30, 2001, an increase of more than 200% over the $2.4 billion originated during the comparable period in 2000. The weighted average yield on loans held for sale decreased to 6.73% for the six months ended June 30, 2001 from 7.51% for the six months ended June 30, 2000, primarily due to declining market interest rates.

Interest income on mortgage-backed securities available-for-sale was $345.0 million for the six months ended June 30, 2001, a decrease of $90.6 million from the six months ended June 30, 2000. The average portfolio balance decreased $2.8 billion, to $10.4 billion, for the six months ended June 30, 2001 compared to the same period in 2000. The weighted average yield on these assets increased from 6.62% for the six months ended June 30, 2000 to 6.64% for the six months ended June 30, 2001. The decrease in the volume is primarily attributed to payments and sales of mortgage-backed securities, partially offset by the reclassification of $1.1 billion in mortgage-backed securities from the held-to-maturity portfolio, as permitted upon the adoption of SFAS No. 133 on January 1, 2001. The increase in the weighted average yield is primarily due to a lagging effect of the repricing of variable-rate securities at higher rates.

Interest income on mortgage-backed securities held-to-maturity was $71.0 million for the six months ended June 30, 2001, a decrease of $19.9 million from the six months ended June 30, 2000. The average portfolio balance decreased $0.7 billion, to $1.7 billion, for the six months ended June 30, 2001 compared to the same period in 2000, primarily due to the $1.1 billion reclassification in mortgage-backed securities to the available-for-sale portfolio, as permitted upon the adoption of SFAS No. 133 on January 1, 2001. The weighted average yields for the six months ended June 30, 2001 and 2000 were 8.43% and 7.60%, respectively. The increase in the weighted average yield is primarily the result of a lagging effect of the repricing of variable-rate securities at higher rates and the $1.1 billion reclassification of securities with a weighted average rate of 6.84%.

Interest income on securities and interest-bearing deposits in other banks was $31.6 million for the six months ended June 30, 2001, a decrease of $14.3 million from the six months ended June 30, 2000. The average portfolio balance was $1.1 billion and $1.4 billion for the six months ended June 30, 2001 and 2000, respectively. The lower weighted average yield of 6.01% for the six months ended June 30, 2001 compared to 6.42% for the six months ended June 30, 2000 is primarily due to the $2.4 million in interest income on a federal income tax refund related to Old California Federal, received in the first half of 2000 (for which there is no corresponding earning asset), and the repricing of securities at lower rates during the first half of 2001.

Dividends on FHLB stock were $45.4 million for the six months ended June 30, 2001, an increase of $0.3 million from the six months ended June 30, 2000. The average balance outstanding during the six months ended June 30, 2001 and 2000 was $1.4 billion and $1.3 billion, respectively. The weighted average dividend on FHLB stock declined to 6.58% for the six months ended June 30, 2001 from 7.26% for the six months ended June 30, 2000. The increase in the average balance is due to an increase in borrowings from the FHLB, while the decrease in the weighted average yield is the result of a reduction in the dividend rate on FHLB stock.

Interest Expense. Total interest expense was $1.4 billion for the six months ended June 30, 2001, an increase of $27.7 million from the six months ended June 30, 2000. The increase is primarily the result of additional FHLB borrowings and deposits used to fund the increase in total assets.

Interest expense on deposits, including Brokered Deposits, was $464.5 million for the six months ended June 30, 2001, an increase of $21.3 million from the six months ended June 30, 2000. The average balance of deposits outstanding increased from $22.9 billion for the six months ended June 30, 2000 to $24.0 billion for the six months ended June 30, 2001. The increase in the average balance is primarily attributed to increases in the average balances of custodial accounts, money market accounts, retail customer checking and certificates of deposit, partially offset by a decline in savings account balances. The overall weighted average cost of deposits increased to 3.91% for the six months ended June 30, 2001 from 3.89% for the six months ended June 30, 2000, primarily due to a higher average balance of higher rate certificates of deposit in the first half of 2001, as a result of a major CD campaign undertaken during the fourth quarter of 2000.

Interest expense on securities sold under agreements to repurchase totalled $121.4 million for the six months ended June 30, 2001, a decrease of $51.3 million from the six months ended June 30, 2000. The average balance of such borrowings for the six months ended June 30, 2001 and 2000 was $4.0 billion and $5.6 billion, respectively. The decrease in the average balance is primarily the result of maturities during the first half of 2001. The weighted average interest rate on these instruments decreased to 6.05% for the six months ended June 30, 2001 from 6.09% for the six months ended June 30, 2000, primarily due to maturities of higher rate fixed-rate borrowings and repricing of variable-rate borrowings at lower rates during the first half of 2001.

Interest expense on borrowings totalled $854.0 million for the six months ended June 30, 2001, an increase of $57.7 million from the six months ended June 30, 2000. The average balance outstanding for the six months ended June 30, 2001 and 2000 was $28.8 billion and $26.7 billion, respectively. The weighted average interest rate on these instruments decreased to 5.96% for the six months ended June 30, 2001 from 5.97% for the six months ended June 30, 2000. The change in the average volume is the result of additional FHLB borrowings used to fund the increase in total assets.

Net Interest Income. Net interest income was $646.7 million for the six months ended June 30, 2001, an increase of $69.3 million from the six months ended June 30, 2000. The interest rate spread increased to 2.22% for the six months ended June 30, 2001 from 2.05% for the six months ended June 30, 2000, primarily as a result of the higher percentage of loans to total earning assets and the lagging effect of the repricing of higher-rate variable-rate loans and securities, coupled with the replacement of maturities and the repricing of higher rate interest-bearing liabilities with lower costing instruments. The net interest margin increased to 2.25% for the six months ended June 30, 2001, up 18 basis points from the 2.07% reported during the first half of 2000.

Noninterest Income. Total noninterest income, consisting primarily of loan servicing fees, customer banking fees, gain on sale, settlement and transfer of loans, net, gain on sale of assets, net and other income was $168.4 million for the six months ended June 30, 2001, representing a decrease of $43.4 million from the six months ended June 30, 2000.

Loan servicing fees for the Company, net of amortization of MSRs, pass-through interest expense, net unrealized gains on MSRs/MSR derivatives and valuation provision were $(6.9) million for the six months ended June 30, 2001, compared to $85.8 million for the six months ended June 30, 2000. The following table details the components of loan servicing fees, net (in thousands):

	For the Six Months Ended June 30,	
	2001	2000
Components of loan servicing fees, net:		
Loan servicing fees	$224,292	$187,828
Amortization of mortgage servicing rights	(147,013)	(97,236)
Pass-through interest expense	(16,142)	(4,769)
Net gain on MSRs/MSR derivatives	8,957	--
MSR valuation provision	(77,000)	--
Total loan servicing fees, net	$ (6,906)	$ 85,823

As the table reflects, loan servicing fees increased $36.5 million from year-ago levels, which is primarily attributable to the growth of the Company's servicing portfolio and higher ancillary fees. The single-family residential loan servicing portfolio, excluding loans serviced for the Bank, increased from $78.6 billion at June 30, 2000 to $83.3 billion at June 30, 2001. The annualized runoff rate on the Company's portfolio of mortgages serviced for others was 25.6% for the six months ended June 30, 2001 compared to 11.8% for the six months ended June 30, 2000. This runoff rate also influences MSR amortization, which increased $49.8 million in the first six months of 2001 over the same period in 2000; the MSR amortization rate averaged 20.3% for the six months ended June 30, 2001 compared to 14.0% during the same period in 2000. MSR amortization was also affected by a higher average MSR balance for the six months ended June 30, 2001 compared to the same period in 2000. Pass-through interest expense increased $11.4 million (238%) year over year, also influenced by higher runoff rates. Servicing fee income includes a $9.0 million pre-tax gain from the impact of SFAS No. 133 pertaining to the MSR fair value hedges. A $77.0 million pre-tax valuation allowance was recorded during the six months ended June 30, 2001. On an aggregate basis, in all ten tranches, at June 30, 2001, the estimated fair value of the MSRs was $47.5 million higher than book value (net of valuation allowance). See "—Mortgage Banking Risk Management."

Customer banking fees were $105.8 million for the six months ended June 30, 2001 compared to $98.7 million for the six months ended June 30, 2000. The increase is primarily attributed to increased emphasis by management on transaction account growth. Transaction accounts (including custodial accounts) as a percentage of retail deposits increased to 53.4% at June 30, 2001, from 48.3% at June 30, 2000.

Gain on sale, settlement and transfer of loans, net totalled $21.9 million for the six months ended June 30, 2001, a decrease of $5.2 million from the six months ended June 30, 2000. During the second quarter of 2000, the Company recorded a $14.5 million reduction in its recourse liability. This liability is a life-of-asset accrual. Given the paydowns which have occurred on the underlying loans and the improving credit and real estate market conditions, the Company determined that the liability balance exceeded its estimate of the required accrual for the remaining life of the recourse assets by $14.5 million. During the six months ended June 30, 2001, California Federal sold $5.6 billion in single-family mortgage loans originated for sale with servicing rights retained as part of its ongoing mortgage banking operations at gains of $14.1 million compared to $2.2 billion of such sales for the corresponding period in 2000 at gains of $9.1 million. The overall reduction in the rate of gain on sale relates to channel and product mix differences during the two periods, while the increase in volume of loans sold relates to a significant increase in fixed-rate loan originations as a result of the overall decline in market interest rates and increased mortgage refinancing. Gain on sale also includes a $3.6 million unrealized gain on forward loan sale commitments related to SFAS No. 133.

Gain on sale of assets, net totalled $12.1 million for the six months ended June 30, 2001, compared to a net loss of $16.0 million for the six months ended June 30, 2000, primarily attributed to an $18.7 million loss from the sale of approximately $500 million of mortgage-backed securities with an average yield of 6.64% during the second quarter of 2000. The gain during the first half of 2001 includes an additional gain of $9.3 million on the sale of the Company's Concord EFS stock and a $6.6 million gain on the sale of $298 million in mortgage-backed securities, partially offset by a write-down in the Company's equity securities portfolio.

Other income totalled $35.5 million for the six months ended June 30, 2001, an increase of $19.2 million over the same period in 2000. The increase relates to a gain of $20.7 million on the non-monetary exchange of Star Systems common stock for 634,520 shares of Concord EFS common stock which occurred in the first quarter of 2001 as a result of Concord's acquisition of Star.

Noninterest Expense. Total noninterest expense was $482.2 million for the six months ended June 30, 2001, an increase of $27.3 million compared to the six months ended June 30, 2000. Noninterest expense for the six months ended June 30, 2001 included increases of $15.9 million in compensation and employee benefit expense, $8.5 million in other noninterest expense and $6.5 million in occupancy and equipment expense. These changes were partially offset by decreases of $3.3 million in professional fees and $2.0 million in amortization of intangible assets.

Compensation and employee benefits expense was $232.2 million for the six months ended June 30, 2001, an increase of $15.9 million from the six months ended June 30, 2000. The increase is primarily attributed to an increase in staff (from 7,856 FTE at June 30, 2000 to 8,030 at June 30, 2001), primarily in volume-related operating groups, as well as normal salary adjustments. In addition, the Company has experienced an increase in group insurance and other benefit costs that it has elected not to pass on to its employees.

Occupancy and equipment expense was $83.4 million for the six months ended June 30, 2001, an increase of $6.5 million from the six months ended June 30, 2000, primarily due to an increase in depreciation expense, as well as increased utility costs and higher contract maintenance and repair fees.

Professional fees were $14.9 million for the six months ended June 30, 2001, a decrease of $3.3 million from the six months ended June 30, 2000, primarily due to a decrease in consulting fees related to various data processing systems projects.

Amortization of intangible assets was $29.9 million for the six months ended June 30, 2001, a decrease of $2.0 million from the six months ended June 30, 2000, primarily attributed to a December 2000 reduction in the goodwill balance due to the reversal of Old California Federal Bank state deferred taxes.

Other noninterest expense was $114.1 million for the six months ended June 30, 2001 compared to $105.6 million during the comparable period in 2000. The increase in expenses relates to increases in a number of operating expense categories, including postage, telephone, judgments and settlements, office supplies and marketing.

Provision for Income Tax. During the six months ended June 30, 2001, Golden State recorded net income tax expense of $117.7 million, which included net tax benefits of $29.0 million. In prior years, an accrued liability was established for the purpose of satisfying assessments that may result from issues arising during audits with various state taxing authorities. As a result of the completion and settlement of audits in various state taxing jurisdictions, additional guidance on the deductibility of covered asset losses, and the current assessment of exposure for tax strategies employed for prior years, management reduced its accrued state tax liability by $39.7 million. The Company also recorded additional Federal tax expense of $13.9 million due to the reduction of the state tax expense.

In addition, a provision in lieu of income taxes was recorded for $3.2 million due to the utilization of net operating losses of a subsidiary made available as a result of the subsidiary's liquidation into California Federal Bank. These net operating losses are tax benefits retained by the previous owners of FN Holdings pursuant to the Golden State Merger Agreement.

During the six months ended June 30, 2000, Golden State recorded gross income tax expense of $149.9 million, which was more than offset by a tax benefit of $161.7 million, for a net income tax benefit of $11.8 million. Based on favorable resolutions of federal income tax audits of Old California Federal and Glendale Federal, and the current status of Mafco Holdings', including the Company's, audits for the years 1991 through 1995, management changed its judgment about the realizability of the Company's deferred tax asset and reduced its valuation allowance by $211.7 million during the six-month period ended June 30, 2000. As a result of reducing the valuation allowance, income tax expense was reduced by $161.7 million and goodwill was reduced by $50.0 million. Because these tax benefits accrue to the previous owners of FN Holdings under the Golden State Merger agreement, minority interest: provision in lieu of income tax expense was increased by $161.7 million, an amount equal to the reduction in income tax expense. These adjustments had no impact on net income available to common shareholders.

Golden State's effective gross federal tax rate was 42% during the six months ended June 30, 2001 and 38% during the six months ended June 30, 2000, while its federal statutory tax rate was 35% during both periods. In 2001, the difference between the effective and statutory rate was primarily the result of additional federal tax liability recorded in conjunction with a reduction in the accrued state tax liability and non-deductible goodwill amortization. In 2000, the difference between the effective and statutory rates was primarily the result of nondeductible goodwill amortization. Golden State's effective state tax rate was (6)% and 6% during the six months ended June 30, 2001 and 2000, respectively. The effective state tax rate declined during 2001 as a result of a reduction in the accrued state tax liability previously discussed.

Minority Interest. Dividends on the REIT Preferred Stock totalling $22.8 million were recorded during each of the six months ended June 30, 2001 and 2000, and were recorded as minority interest on an after-tax basis for the respective periods.

Minority interest for the six months ended June 30, 2001 includes a $3.2 million provision in lieu of income taxes, representing pre-merger tax benefits retained by the previous owners of FN Holdings related to net operating losses made available as a result of a subsidiary's liquidation into California Federal Bank.

Minority interest for the six months ended June 30, 2000 also includes a $161.7 million provision in lieu of income taxes, representing pre-merger tax benefits retained by the previous owners of FN Holdings related to the reduction of the valuation allowance on the Bank's deferred tax asset (see note 8 of the Company's Notes to Unaudited Consolidated Financial Statements). Minority interest for the six months ended June 30, 2000 also includes $1.4 million due to the previous owners of FN Holdings, representing after-tax interest income on a tax refund related to Old California Federal for periods prior to the Golden State Acquisition.

Extraordinary Items. During 2000, the FHLB called and the Bank prepaid $400 million in FHLB advances, resulting in an extraordinary gain of $3.0 million, net of income taxes of $2.1 million, on the early extinguishment of such borrowings. Also during 2000, the Bank repurchased $2.5 million outstanding principal amount of the Convertible Subordinated Debentures due 2001, resulting in an extraordinary gain of $41 thousand, net of income taxes of $30 thousand, on the early extinguishment of debt.

Cumulative Effect of Change in Accounting Principle. Cumulative effect of change in accounting principle for the six months ended June 30, 2001 includes a write-down of $1.6 million, net of income taxes of $1.1 million, on certain securities as a result of the Company's implementation of EITF No. 99-20 on April 1, 2001. See note 12 of the Company's Notes to Unaudited Consolidated Financial Statements.

Impact of SFAS No. 133. On January 1, 2001, the Company adopted SFAS No. 133. In connection with the adoption of this pronouncement, the Company reclassified $1.2 billion in securities from held-to-maturity to available-for-sale, which had the effect of improving the OCI component of stockholders' equity by $30.4 million. The pronouncement impacted several other areas of the financial statements on a year-to-date basis, as summarized below (debit/(credit); in thousands):

	Assets			Liabilities and Equity			Pre-tax Earnings	
	Loans Held for Sale	Residential MSRs	Derivative Assets	Derivative Liabilities	Taxes– Other Liabilities	OCI	Loan Servicing Fees, net	(Gain)/Loss on Sale of Loans
Transfer hedge component of MSR balance	$ --	$ (95,013)	$ 95,013	$ --	$ --	$ --	$ --	$ --
Transition adjustment – (record initial fair values):								
MSRs and MSR hedges	--	(69,754)	78,610	(8,856)	--	--	--	--
Warehouse loans	3,834	--	--	--	--	--	--	(3,834)
Interest rate locks	--	--	2,911	--	--	--	--	(2,911)
FLSC hedges	--	--	--	(5,696)	--	--	--	5,696
Cash flow hedges - swaps	--	--	--	(75,482)	30,835	44,647	--	--
Subtotal – January 1, 2001 Transition Entries	**3,834**	**(164,767)**	**176,534**	**(90,034)**	**30,835**	**44,647**	**--**	**(1,049)**
Fair value adjustments:								
MSRs and MSR hedges	--	83,558	(74,203)	(398)	--	--	(8,957)	--
Warehouse loans	(9,038)	--	--	--	--	--	--	9,038
Interest rate locks	--	--	(2,911)	(6,069)	--	--	--	8,980
FLSC hedges	--	--	14,823	5,697	--	--	--	(20,520)
Cash flow hedges - swaps	--	--	--	(28,334)	11,574	16,760	--	--
Fair Value Adjustments – Six Months Ended June 30, 2001	**(9,038)**	**83,558**	**(62,291)**	**(29,104)**	**11,574**	**16,760**	**(8,957)**	**(2,502)**
Other Activity – Six Months Ended June 30, 2001:								
MSR hedge additions	--	--	272,588	--	--	--	--	--
MSR hedge sales and maturities	--	--	(215,420)	--	--	--	--	--
Hedge receipts and payments	--	(121)	22,019	(7,486)	--	--	--	--
Total Other Activity – Six Months Ended June 30, 2001	**--**	**(121)**	**79,187**	**(7,486)**	**--**	**--**	**--**	**--**
Total Impact from SFAS No. 133 – Six Months Ended June 30, 2001	**$(5,204)**	**$(81,330)**	**$193,430**	**$(126,624)**	**$42,409**	**$61,407**	**$(8,957)**	**$(3,551)**

During the six months ended June 30, 2001, the impact of SFAS No. 133 added $0.05 to diluted earnings per share.

Results of Operations

Three months ended June 30, 2001 versus three months ended June 30, 2000

The following table shows the Company's consolidated average balance sheets, with the related interest income, interest expense and the average interest rates for the periods presented. Average balances are calculated on a daily basis.

	Three Months Ended June 30, 2001		
	Average Balance	Interest	Average Rate
	(dollars in millions)		
ASSETS			
Interest-earning assets (1):			
Securities and interest-bearing deposits in banks (2)	$ 811	$ 12	5.85%
Mortgage-backed securities available-for-sale	10,005	164	6.56
Mortgage-backed securities held-to-maturity	1,631	34	8.24
Loans held for sale, net	1,989	33	6.54
Loans receivable, net:			
Residential	31,877	554	6.95
Commercial real estate	6,225	128	8.22
Commercial banking	590	13	8.24
Consumer	890	18	8.70
Auto	1,762	50	11.36
Total loans receivable, net	41,344	763	7.39
FHLB stock	1,402	22	6.39
Total interest-earning assets	57,182	1,028	7.19%
Noninterest-earning assets	3,724		
Total assets	$60,906		
LIABILITIES, MINORITY INTEREST AND STOCKHOLDERS' EQUITY			
Interest-bearing liabilities:			
Deposits	$24,296	224	3.69%
Securities sold under agreements to repurchase (3)	3,819	53	5.55
Borrowings (3)	28,755	415	5.75
Total interest-bearing liabilities	56,870	692	4.86%
Noninterest-bearing liabilities	1,285		
Minority interest	499		
Stockholders' equity	2,252		
Total liabilities, minority interest and stockholders' equity	$60,906		
Net interest income		$ 336	
Interest rate spread			2.33%
Net interest margin			2.36%
Return on average assets			0.68%
Return on average equity			18.50%
Average equity to average assets			3.70%
Dividend payout ratio			13.70%

	Three Months Ended June 30, 2000		
	Average Balance	Interest	Average Rate
	(dollars in millions)		
ASSETS			
Interest-earning assets (1):			
Securities and interest-bearing deposits in banks (2)	$ 1,431	$ 24	6.79%
Mortgage-backed securities available-for-sale	12,447	207	6.64
Mortgage-backed securities held-to-maturity	2,700	51	7.62
Loans held for sale, net	814	15	7.56
Loans receivable, net:			
Residential	29,580	513	6.94
Commercial real estate	5,617	117	8.33
Commercial banking	521	13	9.85
Consumer	738	19	10.17
Auto	1,260	36	11.52
Total loans receivable, net	37,716	698	7.40
FHLB stock	1,306	28	8.61
Total interest-earning assets	56,414	1,023	7.26%
Noninterest-earning assets	2,994		
Total assets	$59,408		
LIABILITIES, MINORITY INTEREST AND STOCKHOLDERS' EQUITY			
Interest-bearing liabilities:			
Deposits	$22,934	224	3.93%
Securities sold under agreements to repurchase (3)	5,503	90	6.46
Borrowings (3)	27,684	419	6.06
Total interest-bearing liabilities	56,121	733	5.22%
Noninterest-bearing liabilities	1,229		
Minority interest	498		
Stockholders' equity	1,560		
Total liabilities, minority interest and stockholders' equity	$59,408		
Net interest income		$ 290	
Interest rate spread			2.04%
Net interest margin			2.06%
Return on average assets			0.59%
Return on average equity			22.47%
Average equity to average assets			2.63%
Dividend payout ratio			N/A

(1) Non-performing assets are included in the average balances for the periods indicated.

(2) Includes securities held-to-maturity, securities available-for-sale and interest-bearing deposits in other banks.

(3) Interest and average rate include the impact of interest rate swaps.

The following table shows what portion of the changes in interest income and interest expense were due to changes in rate and volume. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to volume (change in average outstanding balance multiplied by the prior period's rate) and rate (change in average interest rate multiplied by the prior period's volume). Changes attributable to both volume and rate have been allocated proportionately.

	Three Months Ended June 30, 2001 vs. 2000 Increase (Decrease) Due to		
	Volume	Rate	Net
INTEREST INCOME:		(in millions)	
Securities and interest-bearing deposits in banks	$ (9)	$ (3)	$(12)
Mortgage-backed securities available-for-sale	(40)	(3)	(43)
Mortgage-backed securities held-to-maturity	(22)	5	(17)
Loans held for sale, net	20	(2)	18
Loans receivable, net	66	(1)	65
FHLB stock	2	(8)	(6)
Total	17	(12)	5
INTEREST EXPENSE:			
Deposits	7	(8)	(1)
Securities sold under agreements to repurchase	(24)	(12)	(36)
Borrowings	19	(23)	(4)
Total	2	(43)	(41)
Change in net interest income	$ 15	$ 31	$ 46

Interest Income. Total interest income was $1.0 billion for the three months ended June 30, 2001, an increase of $4.7 million from the three months ended June 30, 2000. Total interest-earning assets for the three months ended June 30, 2001 averaged $57.2 billion, compared to $56.4 billion for the corresponding period in 2000, primarily as a result of increased loan volume, partially offset by a decline in mortgage-backed securities. The yield on total interest-earning assets during the three months ended June 30, 2001 decreased to 7.19% from 7.26% for the three months ended June 30, 2000, primarily due to the repricing of variable-rate securities at lower rates, partially offset by a higher percentage of loans to total earning assets during 2001.

Golden State earned $763.2 million of interest income on loans receivable for the three months ended June 30, 2001, an increase of $65.9 million from the three months ended June 30, 2000. The average balance of loans receivable was $41.3 billion for the three months ended June 30, 2001, compared to $37.7 billion for the same period in 2000. The weighted average yield on loans receivable decreased to 7.39% for the three months ended June 30, 2001 from 7.40% for the three months ended June 30, 2000. The increase in the average balance reflects a net increase in residential and commercial real estate loan origination activities and new auto loan production from the Downey Acquisition.

Loan production during the three months ended June 30, 2001 and 2000 is detailed in the table below (in thousands):

	Three Months Ended June 30, 2001	2000
Loans funded:		
Residential real estate loans	$7,222,122	$4,260,442
Commercial real estate loans	555,456	325,285
Commercial loans	297,011	158,730
Consumer nonmortgage loans	220,802	201,538
Total loans funded	$8,295,391	$4,945,995
Loans purchased:		
Residential real estate loans	$ 558,081	$ 66,316
Auto loans	304,610	287,938
Total loans purchased	$ 862,691	$ 354,254

The decrease in the weighted average yield primarily reflects the repricing of variable-rate loans at lower rates during 2001.

Golden State earned $32.5 million of interest income on loans held for sale for the three months ended June 30, 2001, an increase of $17.2 million from the three months ended June 30, 2000. The average balance of loans held for sale was $2.0 billion for the three months ended June 30, 2001, an increase of $1.2 billion from the comparable period in 2000, primarily attributed to increased originations of residential, fixed-rate loans as a result of heightened borrower refinancing activity in the current declining interest rate environment. Fixed-rate production for sale totalled $5.0 billion during the quarter ended June 30, 2001 compared to $1.4 billion originated during the comparable period in 2000. The weighted average yield on loans held for sale decreased to 6.54% for the three months ended June 30, 2001 from 7.56% for the three months ended June 30, 2000, primarily due to declining market interest rates.

Interest income on mortgage-backed securities available-for-sale was $164.0 million for the three months ended June 30, 2001, a decrease of $42.5 million from the three months ended June 30, 2000. The average portfolio balance decreased $2.4 billion, to $10.0 billion, for the three months ended June 30, 2001 compared to the same period in 2000. The weighted average yield on these assets decreased from 6.64% for the three months ended June 30, 2000 to 6.56% for the three months ended June 30, 2001. The decrease in the volume is primarily attributed to payments and sales of mortgage-backed securities, partially offset by the reclassification of $1.1 billion in mortgage-backed securities from the held-to-maturity portfolio, as permitted upon the adoption of SFAS No. 133 on January 1, 2001. The decrease in the weighted average yield reflects the repricing of variable-rate securities at lower rates.

Interest income on mortgage-backed securities held-to-maturity was $33.6 million for the three months ended June 30, 2001, a decrease of $17.9 million from the three months ended June 30, 2000. The average portfolio balance decreased $1.1 billion, to $1.6 billion, for the three months ended June 30, 2001 compared to the same period in 2000, primarily attributed to the $1.1 billion reclassification in mortgage-backed securities to the available-for-sale portfolio, as permitted upon the adoption of SFAS No. 133 on January 1, 2001. The weighted average yields for the three months ended June 30, 2001 and 2000 were 8.24% and 7.62%, respectively. The increase in the weighted average yield is primarily the result of a lagging effect of the repricing of variable-rate securities at higher rates during the second quarter of 2000 and the $1.1 billion reclassification of securities with a weighted average rate of 6.84%.

Interest income on securities and interest-bearing deposits in other banks was $11.9 million for the three months ended June 30, 2001, a decrease of $12.4 million from the three months ended June 30, 2000. The average portfolio balance was $0.8 billion and $1.4 billion for the three months ended June 30, 2001 and 2000, respectively. The lower weighted average yield of 5.85% for the three months ended June 30, 2001 compared to 6.79% for the three months ended June 30, 2000 reflects the $2.4 million in interest income on a federal income tax refund related to Old California Federal (for which there is no corresponding earning asset), received in the second quarter of 2000, and the repricing of securities at lower market interest rates during the second quarter of 2001.

Dividends on FHLB stock were $22.3 million for the three months ended June 30, 2001, a decrease of $5.6 million from the three months ended June 30, 2000. The average balance outstanding during the three months ended June 30, 2001 and 2000 was $1.4 billion and $1.3 billion, respectively. The weighted average dividend on FHLB stock decreased to 6.39% for the three months ended June 30, 2001 from 8.61% for the three months ended June 30, 2000. The increase in the average balance is due to an increase in borrowings from the FHLB, while the decrease in the weighted average yield is the result of a reduction in the dividend rate on FHLB stock.

Interest Expense. Total interest expense was $691.1 million for the three months ended June 30, 2001, a decrease of $41.4 million from the three months ended June 30, 2000. The decrease is primarily due to declining market interest rates. In addition, the decrease is the result of a reduction in higher rate securities sold under agreements to repurchase, offset by additional borrowings under lower rate FHLB advances and deposits used to fund loans.

Interest expense on deposits, including Brokered Deposits, was $223.7 million for the three months ended June 30, 2001, a decrease of $0.7 million from the three months ended June 30, 2000. The average balance of deposits outstanding increased from $22.9 billion for the three months ended June 30, 2000 to $24.3 billion for the three months ended June 30, 2001. The increase in the average balance is primarily attributed to increases in the average balances of custodial accounts, money market accounts and retail customer checking accounts, partially offset by a decline in savings account balances and certificates of deposit. The overall weighted average cost of deposits decreased to 3.69% for the three months ended June 30, 2001 from 3.93% for the three months ended June 30, 2000, primarily due to a lower average balance of higher rate certificates of deposit and a higher average balance of lower rate checking and custodial accounts during the second quarter of 2001.

Interest expense on securities sold under agreements to repurchase totalled $53.4 million for the three months ended June 30, 2001, a decrease of $36.4 million from the three months ended June 30, 2000. The average balance of such borrowings for the three months ended June 30, 2001 and 2000 was $3.8 billion and $5.5 billion, respectively. The decrease in the average balances is primarily the result of maturities during the second quarter of 2001. The weighted average interest rate on these instruments decreased to 5.55% for the three months ended June 30, 2001 from 6.46% for the three months ended June 30, 2000, primarily due to maturities of higher rate fixed-rate borrowings and repricing of borrowings at lower rates during the second quarter of 2001.

Interest expense on borrowings totalled $414.0 million for the three months ended June 30, 2001, a decrease of $4.3 million from the three months ended June 30, 2000. The average balance outstanding for the three months ended June 30, 2001 and 2000 was $28.8 billion and $27.7 billion, respectively. The weighted average interest rate on these instruments decreased to 5.75% for the three months ended June 30, 2001 from 6.06% for the three months ended June 30, 2000. The changes in the average volume and weighted average rate reflect the increase in the volume of FHLB advances at market interest rates used to fund loans.

Net Interest Income. Net interest income was $336.4 million for the three months ended June 30, 2001, an increase of $46.1 million from the three months ended June 30, 2000. The interest rate spread increased to 2.33% for the three months ended June 30, 2001 from 2.04% for the three months ended June 30, 2000, primarily as a result of the replacement of maturities and the repricing of higher rate interest-bearing liabilities with lower costing liabilities. The effect of lower rates on liabilities was partially offset by lower yielding assets replenishing asset run-off in a declining rate environment and the downward repricing of variable-rate assets. The net interest margin increased to 2.36% for the three months ended June 30, 2001, up 30 basis points from the 2.06% reported during the second quarter of 2000.

Noninterest Income. Total noninterest income, consisting primarily of loan servicing fees, customer banking fees, gain on sale, settlement and transfer of loans, net, and gain on sale of assets, net was $109.6 million for the three months ended June 30, 2001, representing an increase of $5.0 million from the three months ended June 30, 2000.

Loan servicing fees for the Company, net of amortization of MSRs, pass-through interest expense and net unrealized gains on MSRs/MSR derivatives were $19.7 million for the three months ended June 30, 2001, compared to $43.0 million for the three months ended June 30, 2000. The following table details the components of loan servicing fees, net (in thousands):

	For the Three Months Ended June 30,	
	2001	2000
Components of loan servicing fees, net:		
Loan servicing fees	$111,050	$96,286
Amortization of mortgage servicing rights	(88,598)	(50,569)
Pass-through interest expense	(9,258)	(2,686)
Net gain on MSRs/MSR derivatives	6,552	--
Total loan servicing fees, net	$ 19,746	$43,031

As the table reflects, loan servicing fees increased $14.8 million from year-ago levels, which is primarily attributable to the growth of the Company's servicing portfolio and higher ancillary fees. The single-family residential loan servicing portfolio, excluding loans serviced for the Bank, declined slightly from $83.4 billion at March 31, 2001 to $83.3 billion at June 30, 2001. The annualized runoff rate on the Company's portfolio of mortgages serviced for others was 30.5% in the second quarter of 2001 compared to 12.9% during the same period in 2000. This runoff rate also influences MSR amortization, which increased $38.0 million in the second quarter of 2001 over the same period in 2000; the MSR amortization rate averaged 23.5% during the quarter ended June 30, 2001 compared to 14.1% during the same period in 2000. MSR amortization was also affected by a higher average MSR balance during the quarter ended June 30, 2001 compared to the same period in 2000. Pass-through interest expense increased $6.6 million (245%) compared to the year-ago quarter, also influenced by higher runoff rates. Servicing fee income includes a $6.6 million pre-tax gain for the three months ended June 30, 2001 from the impact of SFAS No. 133 pertaining to the MSR fair value hedges. On an aggregate basis, in all ten tranches, at June 30, 2001, the estimated fair value of the MSRs was $47.5 million higher than book value (net of valuation allowance). See "—Mortgage Banking Risk Management."

Customer banking fees were $54.6 million for the three months ended June 30, 2001 compared to $50.1 million for the three months ended June 30, 2000. The increase is primarily attributed to increased emphasis by management on transaction account growth and higher fee income on mutual fund and annuity products.

Gain on sale, settlement and transfer of loans, net totalled $17.0 million for the three months ended June 30, 2001, a decrease of $3.4 million from the three months ended June 30, 2000. During the second quarter of 2000, the Company recorded a $14.5 million reduction in its recourse liability. See "– Six Months Ended June 30, 2001 versus Six Months Ended June 30, 2000 – Noninterest Income." During the three months ended June 30, 2001, California Federal sold $4.2 billion in single-family mortgage loans originated for sale with servicing rights retained as part of its ongoing mortgage banking operations at gains of $10.5 million compared to $1.1 billion of such sales for the corresponding period in 2000 at gains of $4.5 million. The overall reduction in the rate of gain on sale relates to channel and product mix differences during the two periods, while the increase in volume of loans sold relates to a significant increase in fixed-rate loan originations as a result of the overall decline in market interest rates and increased mortgage refinancing. Gain on sale also includes a $3.6 million unrealized gain on forward loan sale commitments related to SFAS No. 133.

Gain on sale of assets, net totalled $11.7 million for the three months ended June 30, 2001, compared to a net loss of $16.5 million for the three months ended June 30, 2000, primarily attributed to an $18.7 million loss from the sale of approximately $500 million of mortgage-backed securities with the average yield of 6.64% during the second quarter of 2000. The Company sold its 634,520 shares of Concord EFS common stock during the second quarter of 2001, realizing a gain of $9.3 million. In addition, the Company recognized a $6.6 million gain on the sale of $298 million in mortgage-backed securities, partially offset by a write-down in the Company’s equity securities portfolio.

Noninterest Expense. Total noninterest expense was $246.9 million for the three months ended June 30, 2001, an increase of $19.1 million compared to the three months ended June 30, 2000. Noninterest expense for the three months ended June 30, 2001 included increases of $7.8 million in other noninterest expense, $6.0 million in compensation and employee benefits and $5.6 million in occupancy and equipment expense.

Compensation and employee benefits expense was $114.0 million for the three months ended June 30, 2001, an increase of $6.0 million from the three months ended June 30, 2000. The increase is primarily attributed to an increase in staff (from 7,856 FTE at June 30, 2000 to 8,030 at June 30, 2001), primarily in volume-related operating groups, and normal salary adjustments. In addition, the Company has experienced an increase in group insurance and other benefit costs that it has elected not to pass on to its employee.

Occupancy and equipment expense was $43.2 million for the three months ended June 30, 2001, an increase of $5.6 million from the three months ended June 30, 2000, primarily due to an increase in depreciation expense, as well as increased utility costs and higher contract maintenance and rental fees.

Other noninterest expense was $60.9 million for the three months ended June 30, 2001, an increase of $7.8 million from the three months ended June 30, 2000. The increase in expenses is primarily related to increases in a number of operating expense categories, including marketing, judgments and settlements, travel, office supplies, postage and telephone expense.

Provision for Income Tax. During the three months ended June 30, 2001, Golden State recorded net income tax expense of $83.4 million, which included a net tax benefit of $3.2 million, compared to $73.1 million for the three months ended June 30, 2000. A provision in lieu of income taxes was recorded for $3.2 million due to the utilization of net operating losses of a subsidiary made available as a result of the subsidiary’s liquidation into California Federal Bank. These net operating losses are tax benefits retained by the previous owners of FN Holdings pursuant to the Golden State Merger Agreement.

Golden State’s effective gross federal tax rate was 37% and 38% during the three months ended June 30, 2001 and 2000, respectively, while its federal statutory tax rate was 35% during both periods. The difference between the effective and statutory rates was primarily the result of nondeductible amortization. Golden State’s effective state tax rate was 6% and 6% during each of the three months ended June 30, 2001 and 2000, respectively.

Minority Interest. Dividends on the REIT Preferred Stock totalling $11.4 million were recorded during each of the three months ended June 30, 2001 and 2000, and were recorded as minority interest on an after-tax basis for the respective periods.

Minority interest expense for the three months ended June 30, 2001 also includes $3.2 million due to the previous owners of FN Holdings, representing after-tax benefits as a result of net operating losses made available as a result of a subsidiary’s liquidation into California Federal Bank. These net operating losses are tax benefits retained by the previous owners of FN Holdings pursuant to the Golden State Merger Agreement.

Minority interest expense for the three months ended June 30, 2000 includes $1.4 million due to the previous owners of FN Holdings, representing after-tax interest income on a federal tax refund related to Old California Federal for periods prior to the Golden State Acquisition.

Extraordinary Items. During the second quarter of 2000, the FHLB called and the Bank prepaid $200 million in FHLB advances, resulting in an extraordinary gain of $1.8 million, net of income taxes of $1.2 million, on the early extinguishment of such borrowings.

Cumulative Effect of Change in Accounting Principle. Cumulative effect of change in accounting principle for the three months ended June 30, 2001 includes a write-down of $1.6 million, net of income taxes of $1.1 million, on certain securities as a result of the Company's implementation of EITF No. 99-20 on April 1, 2001. See note 12 of the Company's Notes to Unaudited Consolidated Financial Statements.

Impact of SFAS No. 133. On January 1, 2001, the Company adopted SFAS No. 133. The pronouncement impacted several other areas of the financial statements for the three months ended June 30, 2001, as summarized below (debit/(credit); in thousands):

	Assets			Liabilities and Equity			Pre-tax Earnings	
	Loans Held for Sale	Residential MSRs	Derivative Assets	Derivative Liabilities	Taxes– Other Liabilities	OCI	Loan Servicing Fees, net	(Gain)/Loss on Sale of Loans
Fair value adjustments:								
MSRs and MSR hedges	$ --	$114,750	$(99,527)	$(8,671)	$ --	$ --	$(6,552)	$ --
Warehouse loans	(10,443)	--	--	--	--	--	--	10,443
Interest rate locks	--	--	(3,024)	(6,069)	--	--	--	9,093
FLSC hedges	--	--	14,823	8,353	--	--	--	(23,176)
Cash flow hedges - swaps	--	--	--	34,551	(14,114)	(20,437)	--	--
Fair Value Adjustments – Three Months Ended June 30, 2001	**(10,443)**	**114,750**	**(87,728)**	**28,164**	**(14,114)**	**(20,437)**	**(6,552)**	**(3,640)**
Other Activity – Three Months Ended June 30, 2001:								
MSR hedge additions	--	--	150,621	--	--	--	--	--
MSR hedge sales and maturities	--	--	(81,708)	--	--	--	--	--
Hedge receipts and payments	--	--	7,582	(3,055)	--	--	--	--
Total Other Activity – Three Months Ended June 30, 2001	**--**	**--**	**76,495**	**(3,055)**	**--**	**--**	**--**	**--**
Total Impact from SFAS No. 133 – Three Months Ended June 30, 2001	**$(10,443)**	**$114,750**	**$(11,233)**	**$25,109**	**$(14,114)**	**$(20,437)**	**$(6,552)**	**$(3,640)**

During the three months ended June 30, 2001, the impact of SFAS No. 133 added $0.04 to diluted earnings per share.

Problem and Potential Problem Assets

The Company considers a loan impaired when, based upon current information and events, it is "probable" that it will be unable to collect all amounts due (*i.e.*, both principal and interest) according to the contractual terms of the loan agreement. In determining impairment, the Company considers large non-homogeneous loans including nonaccrual loans, troubled debt restructurings, and performing loans that exhibit, among other characteristics, high LTV ratios, low debt-coverage ratios or other indications that the borrowers are experiencing increased levels of financial difficulty. Loans collectively reviewed for impairment by the Company include all single-family loans, business banking loans under $100,000 and performing multi-family and commercial real estate loans under $500,000, excluding loans which have entered the work-out process.

The measurement of impairment may be based on (a) the present value of the expected future cash flows of the impaired loan discounted at the loan's original effective interest rate, (b) the observable market price of the impaired loan, or (c) the fair value of the collateral of a collateral-dependent loan. The Company bases the measurement of collateral-dependent impaired loans on the fair value of the loan's collateral, less disposal costs. The amount, if any, by which the recorded investment of the loan exceeds the measure of the impaired loan's value is recognized by recording a valuation allowance.

Cash receipts on impaired loans not performing according to contractual terms are generally used to reduce the carrying value of the loan, unless the Company believes it will recover the remaining principal balance of the loan. Impairment losses are included in the allowance for loan losses. Upon disposition of an impaired loan, loss of principal, if any, is recorded through a charge-off to the allowance for loan losses.

At June 30, 2001, loans that were considered to be impaired totalled $79.0 million (of which $22.4 million were on nonaccrual status). The average recorded investment in impaired loans during the six and three-month periods ended June 30, 2001 was approximately $80.7 million and $80.4 million, respectively. For the six and three-month periods ended June 30, 2001, Golden State recognized interest income on those impaired loans of $3.4 million and $1.7 million, respectively, which included $0.1 million and $0.1 million, respectively, of interest income recognized using the cash basis method of income recognition.

The following table presents the Company's non-performing and impaired loans, foreclosed real estate and repossessed assets as of the dates indicated. These categories are not mutually exclusive; certain loans are included in more than one classification. Purchased auto loans are reflected in the table below using each individual loan's contractual unpaid principal balance.

	June 30, 2001			
	Non-performing		Impaired	
	(in millions)			
Real Estate:				
1-4 unit residential	$ 72		$ 1	
Multi-family residential	2		19	
Commercial and other	2		32	
Total real estate	76		52	
Non-real estate	25		27	
Total loans	101	(a)	$79	(b)
Foreclosed real estate, net	22			
Repossessed assets	4			
Total non-performing assets	$127			

(Continued)

	December 31, 2000	
	Non-performing	Impaired
	(in millions)	
Real Estate:		
1-4 unit residential	$ 89	$ 1
Multi-family residential	3	24
Commercial and other	2	40
Total real estate	94	65
Non-real estate	21	32
Total loans, net	115 (a)	$97 (b)
Foreclosed real estate, net	19	
Repossessed assets	7	
Total non-performing assets	$141	

(a) There were no loans securitized with recourse on non-performing status at June 30, 2001 or December 31, 2000.

(b) Includes $22.4 million and $19.5 million of non-performing loans at June 30, 2001 and December 31, 2000, respectively.

There were no accruing loans contractually past due 90 days or more at June 30, 2001 or December 31, 2000.

The Company's and the Bank's non-performing assets, consisting of nonaccrual loans, repossessed assets and foreclosed real estate, net, decreased to $127 million at June 30, 2001, from $141 million at December 31, 2000. Non-performing assets as a percentage of the Bank's total assets decreased to 0.21% at June 30, 2001, from 0.23% at December 31, 2000.

The Company places a high degree of emphasis on the management of its asset portfolio. The Company has three distinct asset management functions: performing loan asset management, problem loan asset management and credit review. Each of these three functions is charged with the responsibility of reducing the risk profile within the commercial, multi-family and other asset portfolios by applying asset management and risk evaluation techniques that are consistent with the Company's portfolio management strategy and regulatory requirements. In addition to these asset management functions, the Company has a specialized credit risk management group that is charged with the development of credit policies and performing credit risk analyses for all asset portfolios.

The following table presents non-performing real estate assets by geographic region of the country as of June 30, 2001:

	Non-performing Real Estate Loans, Net (2)	Foreclosed Real Estate, Net (2)	Total Non-performing Real Estate Assets	Geographic Concentration
	(dollars in millions)			
Region:				
California	$44	$13	$57	58.16%
Northeast (1)	8	1	9	9.19
Other regions	24	8	32	32.65
Total	$76	$22	$98	100.00%

(1) Consists of Connecticut, Delaware, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island and Vermont.

(2) Net of purchase accounting adjustments.

At June 30, 2001, the Company had two non-performing assets over $2 million in size with balances averaging $2.4 million and 3,318 non-performing assets below $2 million in size.

Allowance for Loan Losses

An allowance is maintained to absorb losses in the loan portfolio. The adequacy of the allowance is periodically evaluated by management to maintain the allowance at a level that is sufficient to absorb expected loan losses. The allowance for loan losses is increased by provisions for loan losses as well as by balances acquired through acquisitions and is decreased by charge-offs (net of recoveries). If appropriate, the Company charges current earnings with a provision for loan losses to maintain the allowance for loan losses at a level sufficient to absorb expected credit losses. The provision considers both specifically identified problem loans as well as credit risks not specifically identified in the loan portfolio. See "— Problem and Potential Problem Assets" for a discussion of the methodology used in determining the adequacy of the allowance for loan losses. The Company recorded no provisions for loan losses during the six and three months ended June 30, 2001 and 2000, respectively.

Activity in the allowance for loan losses is as follows (in thousands):

	Six Months Ended June 30,		Three Months Ended June 30,	
	2001	2000	2001	2000
Balance – beginning of period	$526,308	$554,893	$521,687	$543,188
Provision for loan losses	--	--	--	--
Charge-offs	(12,139)	(20,297)	(6,422)	(7,827)
Recoveries	1,810	1,518	714	753
Balance – end of period	$515,979	$536,114	$515,979	$536,114

The adequacy of the allowance is based on past loan loss experience, known and inherent risks in the loan portfolio, adverse situations that have occurred but are not yet known that may affect the borrower's ability to repay, the estimated value of underlying collateral and economic conditions. Management's methodology for assessing the adequacy of the allowance includes the evaluation of the following three key elements: the formula allowance, specific allowances for identified problem loans, and the unallocated allowance.

Although management believes that the allowance for loan losses is adequate, it will continue to review its loan portfolio to determine the extent to which any changes in economic conditions or loss experience may require further provisions in the future.

The formula allowance element gives consideration to loss that is imbedded within loan portfolios, but has not yet been realized. Losses are recognized when (a) available information indicates that it is probable that a loss has been incurred and (b) the amount of the loss can be reasonably estimated. Generally, the Company believes that borrowers are impacted by events that result in loan default and eventual loss which occur well in advance of a lender's knowledge of those events, and that the time-frame between the occurrence of such events and the resulting default and loss realization is between one and 2.5 years, depending upon the loan type. Examples of such loss-causing events for single family mortgage and other consumer loans would be borrower job loss, divorce, and medical crisis. An example for commercial real estate loans would be the loss of a major tenant.

The specific allowances are established against individual loans, including impaired loans, in accordance with SFAS No. 114. Specific allowances are established against individual residential 1-4 mortgage loans, commercial loans and commercial and multi-family real estate loans for which management has performed analyses and concluded that, based on current information and events, it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement. Generally, management believes that collectibility is improbable if a loan is severely delinquent or if it has been determined that borrower cash flow is inadequate for debt repayment. The amount of specific allowance is determined by an estimation of collateral deficiency, including consideration of costs that will likely be incurred through the disposal of any repossessed collateral. In other words, management estimates the fair value of collateral, net of the cost of disposition of the collateral, and the fair value is compared to the net book value of the loan. If the net book value exceeds the fair value, a specific allowance is established in an amount equal to the excess. Loans evaluated for specific allowance are excluded from the formula allowance analysis so as not to double-count loss exposure.

The unallocated allowance is established for inherent losses which may not have been identified through the more objective processes used to derive the formula and specific portions of the allowance. The unallocated portion is necessarily more subjective and requires a high degree of management judgment and experience. Management has identified several factors that impact the potential for credit losses that are not considered in either the formula or the specific allowance segments. These factors consist of industry and geographic loan concentrations, changes in the composition of loan portfolios through acquisitions and new business strategies, changes in underwriting processes, and trends in problem loan and loss recovery rates. Geographic concentration is a particularly key component as there is evidence of deterioration in some real estate markets, especially in northern California. Statistics regarding California concentration of the Company's real estate-secured portfolios are summarized below:

	% of Total Portfolio Concentration in		
	California	Northern CA	Southern CA
Residential	79%	39%	40%
Commercial Real Estate	89	28	61
Consumer (primarily home equity)	90	44	46

Each factor is analyzed and assigned a range of values. At this time, management has chosen an unallocated allowance amount at the mid-point of the range for each factor.

At June 30, 2001, the allowance for loan losses was $516 million, consisting of a $375 million formula allowance, a $23 million specific allowance and a $118 million unallocated allowance.

Although the loan loss allowance has been allocated by type of loan for internal valuation purposes, $493 million of the allowance is general in nature and is available to support any losses which may occur, regardless of type, in the Company's loan portfolio. A summary of the activity in the total allowance for loan losses by loan type is as follows:

	1 – 4 Unit Residential	Multi-family Residential and Commercial Real Estate	Consumer and Other	Total
	(in millions)			
Balance – December 31, 2000	$228	$184	$114	$526
Provision for loan losses	--	(2)	2	--
Charge-offs	(1)	--	(5)	(6)
Recoveries	1	--	1	2
Balance – March 31, 2001	228	182	112	522
Provision for loan losses	--	(3)	3	--
Charge-offs	(2)	--	(5)	(7)
Recoveries	--	--	1	1
Balance – June 30, 2001	$226	$179	$111	$516

Asset and Liability Management

Banks are subject to interest rate risk to the degree that their interest-bearing liabilities mature or reprice more or less frequently, or on a different basis, than their interest-earning assets. A key element of the banking business is the monitoring and management of liquidity risk and interest rate risk. The process of planning and controlling asset and liability mixes, volumes and maturities to influence the net interest spread is referred to as asset and liability management. The objective of the Company's asset and liability management is to maximize the net interest income over changing interest rate cycles within the constraints imposed by prudent lending and investing practices, liquidity needs and capital planning

Golden State actively pursues investment and funding strategies intended to minimize the sensitivity of its earnings to interest rate fluctuations. The Company measures the interest rate sensitivity of its balance sheet through gap and duration analysis, as well as net interest income and market value simulation. After taking into consideration both the variability of rates and the maturities of various instruments, it evaluates strategies which are designed to reduce the sensitivity of its earnings to interest rate and market value fluctuations. In order to reduce interest rate risk by increasing the percentage of interest sensitive assets, the Company has continued its emphasis on the origination of ARM products for its portfolio. Where possible, the Company seeks to originate real estate and other loans that reprice frequently and that on the whole, adjust in accordance with the repricing of its liabilities. At June 30, 2001, approximately 75.7% of the Company's loan portfolio consisted of ARMs.

ARMs have, from time to time, been offered with low initial interest rates as marketing inducements. In addition, most ARMs are subject to periodic interest rate adjustment caps or floors. In a period of rising interest rates, ARMs could reach a periodic adjustment cap while still at a rate significantly below their contractual margin over existing market rates. Since repricing liabilities are typically not subject to such interest rate adjustment constraints, the Company's net interest margin would most likely be negatively impacted in this situation. Certain ARMs now offered by the Company have a fixed monthly payment for a given period, with any changes as a result of market interest rates reflected in the unpaid principal balance through negative amortization.

A traditional measure of interest rate risk within the savings industry is the interest rate sensitivity gap, which is the sum of all interest-earning assets minus the sum of all interest-bearing liabilities to be repriced within the same period. A gap is considered positive when the amount of interest rate sensitive assets exceeds interest rate sensitive liabilities, while the opposite results in a negative gap. During a period of rising interest rates, a negative gap would tend to adversely affect net interest income, and a positive gap would tend to result in an increase in net interest income. During a period of falling rates, the opposite would tend to occur.

The following table sets forth the projected maturities based upon contractual maturities as adjusted for projected prepayments and "repricing mechanisms" (provisions for changes in the interest rates of assets and liabilities). Prepayment rates are assumed in each period on substantially all of the Company's loan portfolio based upon expected loan prepayments. Repricing mechanisms on the Company's assets are subject to limitations, such as caps on the amount that interest rates and payments on its loans may adjust. Accordingly, such assets may not respond in the same manner or to the same extent to changes in interest rates as the Company's liabilities. In addition, the interest rate sensitivity of the assets and liabilities illustrated in the table would vary substantially if different assumptions were used or if actual experience differed from the assumptions set forth. The Company's estimated interest rate sensitivity gap at June 30, 2001 was as follows:

	Maturity/Rate Sensitivity				
	Within 1 Year	1 – 5 Years	Over 5 Years	Noninterest Bearing	Total
	(dollars in millions)				
INTEREST-EARNING ASSETS:					
Interest-bearing deposits in other banks and short-term investment securities (1) (2)	$ 109	$ --	$ --	$ --	$ 109
Securities held-to-maturity (1)	63	--	382	--	445
Securities available-for-sale (3)	161	--	--	--	161
Mortgage-backed securities available-for-sale (3)	9,610	--	--	--	9,610
Mortgage-backed securities held-to-maturity (1) (4)	1,554	18	16	--	1,588
Loans held for sale, net (3)	2,304	--	--	--	2,304
Loans receivable, net (1) (5)	21,294	15,299	5,138	--	41,731
Investment in FHLB	1,407	--	--	--	1,407
Total interest-earning assets	36,502	15,317	5,536	--	57,355
Noninterest-earning assets	--	--	--	3,947	3,947
	$36,502	$15,317	$5,536	$3,947	$61,302
INTEREST-BEARING LIABILITIES:					
Deposits (6)	$22,787	$ 1,552	$ 2	$ --	$24,341
Securities sold under agreements to repurchase (1)	3,842	73	--	--	3,915
FHLB advances (1)	15,705	10,765	--	--	26,470
Other borrowings (1)	540	1,652	92	--	2,284
Total interest-bearing liabilities	42,874	14,042	94	--	57,010
Noninterest-bearing liabilities	--	--	--	1,384	1,384
Minority interest	--	--	--	500	500
Stockholders' equity	--	--	--	2,408	2,408
	$42,874	$14,042	$ 94	$4,292	$61,302
Gap before interest rate swap agreements	$(6,372)	$ 1,275	$5,442		$ 345
Interest rate swap agreements	3,220	(2,470)	(750)		--
Gap	$(3,152)	$(1,195)	$4,692		$ 345
Cumulative gap	$(3,152)	$(4,347)	$ 345		$ 345
Gap as a percentage of total assets	(5.14)%	(1.95)%	7.65%		0.56%
Cumulative gap as a percentage of total assets	(5.14)%	(7.09)%	0.56%		0.56%

(Continued)

(1) Based upon (a) contractual maturity, (b) instrument repricing date, if applicable, and (c) projected repayments and prepayments of principal, if applicable. Prepayments were estimated generally by using the prepayment rates forecast by various large brokerage firms as of June 30, 2001. The actual maturity and rate sensitivity of these assets could vary substantially if future prepayments differ from prepayment estimates.

(2) Consists of $79 million of short-term investment securities and $30 million of interest-bearing deposits in other banks.

(3) As securities and mortgage-backed securities available-for-sale and loans held for sale may be sold within one year, they are considered to be maturing within one year.

(4) Excludes underlying non-performing loans of $0.4 million.

(5) Excludes allowance for loan losses of $516 million and non-performing loans of $101 million.

(6) Fixed rate deposits and deposits with fixed pricing intervals are reflected as maturing in the year of contractual maturity or first repricing date. Money market deposit accounts, demand deposit accounts and passbook savings accounts are reflected as maturing within one year.

At June 30, 2001 and December 31, 2000, Golden State's cumulative gap totalled $345 million and $(462) million, respectively.

The Company utilizes computer modeling, under various interest rate scenarios, to provide a dynamic view of the effects of the changes in rates, spreads, and yield curve shifts on net interest income. However, the maturity/rate sensitivity analysis is a static view of the balance sheet with assets and liabilities grouped into certain defined time periods, and only partially depicts the dynamics of the Company's sensitivity to interest rate changes. Therefore, this analysis may not fully describe the complexity of relationships between product features and pricing, market rates and future management of the balance sheet mix.

The Company's risk management policies are established by the ALCO of the Bank. ALCO meets monthly to formulate the Bank's investment and risk management strategies. The basic responsibilities of ALCO include management of net interest income and market value of portfolio equity to measure the stability of earnings, management of liquidity to provide adequate funding, and the establishment of asset product priorities by formulating performance evaluation criteria, risk evaluation techniques and a system to standardize the analysis and reporting of originations, competitive trends, profitability and risk. On a quarterly basis, the Board of Directors of the Bank is apprised of ALCO strategies adopted and their impact on operations, and, at least annually, the Board of Directors of the Bank reviews the Bank's interest rate risk management policy statements.

Mortgage Banking Risk Management

During the six months ended June 30, 2001 and 2000, the Company, through the Bank's wholly owned mortgage banking subsidiary, FNMC, acquired mortgage-servicing rights on loan portfolios of $4.8 billion and $8.1 billion, respectively. The 1-4 unit residential loans serviced for others (excluding loans serviced for the Bank) totalled $83.3 billion at June 30, 2001, a decrease of $785.8 million and an increase of $4.7 billion from December 31, 2000 and June 30, 2000, respectively. In absolute loan count, FNMC serviced 853,032 loans for others at June 30, 2001, compared to 879,180 loans at December 31, 2000 and 827,211 loans at June 30, 2000. The residential loans serviced for others at June 30, 2001 have an average principal balance of $98,000, a weighted average note rate of 7.53% and earn a weighted average contractual servicing fee of 41 basis points. During the six months ended June 30, 2001 and 2000, FNMC originated $11.3 billion and $7.4 billion, respectively, and sold (generally with servicing retained) $5.6 billion and $2.2 billion, respectively, of 1-4 unit residential loans. Gross revenues from mortgage loan servicing activities at FNMC for the six months ended June 30, 2001 totalled $207.5 million, an increase of $33.8 million from the six months ended June 30, 2000. Gross loan servicing fees for the six months ended June 30, 2001 were reduced by $145.6 million of amortization of servicing rights, $16.1 million in pass-through interest expense and a $77.0 million MSR valuation provision, partially offset by $9.0 million in unrealized gains relating to SFAS No. 133, resulting in net loan servicing expense of $22.2 million for the residential loan servicing portfolio.

During the six months ended June 30, 2001, the Company recorded a $77.0 million pre-tax valuation allowance for MSRs. On an aggregate basis, at June 30, 2001, the estimated fair value of the MSRs were $47.5 million higher than book value (net of valuation allowance).

The recent decline in long-term interest rates has resulted in the acceleration of mortgage loan prepayments. Higher levels of prepayments generally increase the run-off of servicing rights, reducing the value of those rights, and resulting in higher amortization and lower servicing fee income. To reduce the sensitivity of its earnings to interest rate and market value fluctuations, the Company hedges the change in value of its MSRs based on changes in interest rates. Although the Company hedges the change in value of its MSRs, its hedge coverage ratio does not equate to 100%. The Company does not hedge certain components of its portfolio, notably ARMs and loans with prepayment penalties. In addition, the Company hedges only certain components of risk, which have not generally included the mortgage rate spread to other market interest rates.

The Company owned several derivative instruments at June 30, 2001, which were used to hedge against prepayment risk in its mortgage servicing portfolio. These derivative instruments included interest rate swap agreements, Constant Maturity Swap interest rate floor contracts, swaptions and principal only swaps. The estimated fair value of all MSR derivatives used to hedge prepayment risk was $161.9 million at June 30, 2001. The interest rate swap agreements had a notional amount of $1.0 billion, weighted average pay rate of 3.89%, receive rates between 5.74% and 6.39%, mature in the years 2010 through 2011 and had an estimated fair value of $(6.9) million at June 30, 2001. The interest rate floor contracts had a notional amount of $2.8 billion, strike rates between 5.90% and 6.60%, mature in the years 2005 through 2006, and had an estimated fair value of $44.3 million at June 30, 2001. Premiums paid to counterparties in exchange for the right to receive cash payments when the 10-year Constant Maturity Swap rate falls below the strike rate are recorded as part of the MSR derivative asset on the balance sheet. The swaption contracts had a notional amount of $3.9 billion, strike rates between 5.90% and 6.60%, expire in the years 2003 through 2004, and had an estimated fair value of $125.5 million at June 30, 2001. Premiums paid to counterparties in exchange for the right to enter into an interest rate swap are recorded as part of the derivative asset on the balance sheet. Principal only swap agreements had notional amounts of $127.7 million and an estimated fair value of $(1.0) million at June 30, 2001. The derivative instruments are carried at fair value in accordance with SFAS No. 133.

The following is a summary of activity in MSRs (including non-residential MSRs) for the six and three months ended June 30, 2001 (in millions):

	Six Months	Three Months
	Ended June 30, 2001	
Balance – beginning of period	$1,559	$1,328
Transfer to derivative assets upon adoption of SFAS No. 133	(95)	--
SFAS No. 133 transition adjustment	(70)	--
Additions – purchases	126	64
Originated servicing	131	94
SFAS No. 133 fair market valuation adjustment	84	115
SFAS No. 140 valuation allowance	(77)	--
Amortization	(147)	(89)
Other	3	2
Balance – end of period	$1,514	$1,514

Capitalized MSRs are amortized over the period of, estimated net servicing income. SFAS No. 140 requires enterprises to measure the impairment of MSRs based on the difference between the carrying amount of the MSRs and their current estimated fair value. At June 30, 2001, the valuation allowance recorded against the MSRs totalled $77.0 million. To the extent there is recovery of fair values of the impaired tranches in future quarters, the valuation allowance will be reduced. At December 31, 2000, no allowance for impairment of the MSRs was necessary.

Liquidity

The standard measure of liquidity in the savings industry is the ratio of cash and short-term U.S. Government securities and other specified securities to deposits and borrowings due within one year. The OTS requires that California Federal maintain sufficient liquidity to ensure its safe and sound operation. Effective March 15, 2001, the OTS eliminated a previously imposed minimum liquidity requirement of 4%. California Federal had been in compliance with the previously imposed liquidity regulations during the six months ended June 30, 2000 and the year ended December 31, 2000.

The major source of funding for Golden State on an unconsolidated basis is distributions from its subsidiary, GS Holdings, which receives substantially all of its funding from distributions of the Bank's earnings and tax sharing payments. Net income generated by the Bank is used to meet its cash flow needs, including paying dividends on its preferred stock owned by GS Holdings, and may be distributed, subject to certain restrictions, to GS Holdings. In turn GS Holdings uses distributions received from the Bank primarily to meet debt service requirements, pay any expenses it may incur, and make distributions to Golden State, subject to certain restrictions. For more information on dividend restrictions for the Bank and GS Holdings, refer to "Business – Regulation and Supervision" and note 27 of the "Notes to Consolidated Financial Statements" in the Company's 2000 Form 10-K.

On a consolidated basis, a major source of the Company's funding is expected to be the Bank's retail deposit branch network, which management believes will be sufficient to meet its long-term liquidity needs. The ability of the Company to retain and attract new deposits is dependent upon the variety and effectiveness of its customer account products, customer service and convenience, and rates paid to customers. The Company also obtains funds from the repayment and maturities of loans and mortgage-backed securities, while additional funds can be obtained from a variety of other sources, including customer and brokered deposits, loan sales, securities sold under agreements to repurchase, FHLB advances, and other secured and unsecured borrowings. It is anticipated that FHLB advances and securities sold under agreements to repurchase will continue to be important sources of funding, and management expects there to be adequate collateral for such funding requirements.

The consolidated Company's primary uses of funds are the origination or purchase of loans, the purchase of mortgage-backed securities, the funding of maturing certificates of deposit, demand deposit withdrawals, the repayment of borrowings and dividends to common shareholders. Certificates of deposit scheduled to mature during the twelve months ending June 30, 2002 aggregate $9.8 billion. The Company may renew these certificates, attract new replacement deposits, replace such funds with other borrowings, or it may elect to reduce the size of the balance sheet. In addition, at June 30, 2001, Golden State had FHLB advances, securities sold under agreements to repurchase and other borrowings aggregating $13.3 billion and $20.1 billion maturing or repricing within the next three and twelve months, respectively. The Company may elect to pay off such debt or to replace such borrowings with additional FHLB advances, securities sold under agreements to repurchase or other borrowings at prevailing rates.

Interest on the GS Holdings Notes approximated $138.4 million per year prior to August 1, 2001. On August 1, 2001, $350 million principal amount of the GS Holdings 6.75% fixed-rate notes matured and were paid in full. Subsequent to August 1, 2001, interest on the remaining $1.65 billion balance of GS Holdings Notes will approximate $114.8 million per year. Although GS Holdings expects that distributions and tax sharing payments from the Bank will be sufficient to make required interest and principal payments, there can be no assurance that earnings from the Bank will be sufficient to make such distributions to GS Holdings. In addition, there can be no assurance that such distributions will be permitted by the terms of any debt instruments of GS Holdings' subsidiaries then in effect, by the terms of any class of preferred stock issued by the Bank or its subsidiaries, including the REIT Preferred Stock, or under applicable federal thrift laws.

The Company anticipates that cash and cash equivalents on hand, the cash flows from assets as well as other sources of funds will provide adequate liquidity for its operating, investing and financing needs and the Bank's regulatory liquidity requirements for the foreseeable future. In addition to cash and cash equivalents of $888.6 million at June 30, 2001, the Company has substantial additional borrowing capacity with the FHLB and other sources.

As presented in the accompanying unaudited consolidated statements of cash flows, the sources of liquidity vary between periods. The primary sources of funds during the six months ended June 30, 2001 were $59.9 billion in proceeds from additional borrowings, $5.5 billion in proceeds from sales of loans held for sale, $1.5 billion in principal payments on mortgage-backed securities, available-for-sale and held-to-maturity, $0.7 billion in proceeds from maturities of securities available-for-sale and held-to-maturity and $0.6 billion from a net decrease in loans receivable. The primary uses of funds were $60.0 billion in principal payments on borrowings, $7.1 billion in purchases and originations of loans held for sale, $2.3 billion in purchases of loans receivable and $0.6 billion from a net decrease in securities sold under agreements to repurchase.

Capital Management

OTS capital regulations require savings associations to satisfy three minimum capital requirements: tangible capital, core (leverage) capital, and risk-based capital.

Tangible capital. Tangible capital is the sum of common stockholders' equity (including retained earnings), noncumulative perpetual preferred stock and minority interest in equity accounts of fully consolidated subsidiaries, less disallowed intangibles. Tangible capital must be at least 1.5% of adjusted total assets.

Core capital. Core capital generally is the sum of tangible capital plus certain other qualifying intangibles. Under the leverage requirement, a savings association is required to maintain core capital equal to a minimum of 4% of adjusted total assets.

Risk-based capital. Risk-based capital equals the sum of core capital plus supplementary capital. Risk-based capital must be at least 8% of risk-weighted assets.

Risk-weighted assets. Risk-weighted assets equal assets plus the credit risk equivalent of certain off-balance sheet items, multiplied by the appropriate risk weight.

Supplementary capital. Supplementary capital includes certain permanent capital instruments, such as qualifying cumulative perpetual preferred stock, as well as some forms of term capital instruments, such as qualifying subordinated debt. Supplementary capital may not exceed 100% of core capital for purposes of the risk-based requirement.

Minimum requirements. These capital requirements discussed above are viewed as minimum standards by the OTS. In addition, the OTS regulations provide that minimum capital levels higher than those provided in the regulations may be established by the OTS for individual savings associations, depending upon their circumstances. The Bank is not subject to any such individual regulatory capital requirement. These capital requirements are currently applicable to the Bank but not to Golden State.

At June 30, 2001, the Bank's tangible, core and risk-based capital ratios of 5.88%, 5.88% and 12.16%, respectively, exceeded the minimum regulatory capital requirements. The following is a reconciliation of the Bank's stockholder's equity to regulatory capital as of June 30, 2001:

	Tangible Capital	Core Capital	Risk-based Capital
		(dollars in millions)	
Stockholder's equity of the Bank	$3,976	$3,976	$3,976
Minority interest – REIT Preferred Stock	500	500	500
Unrealized holding gain on securities, net	(2)	(2)	(2)
Unrealized holding loss on derivative instruments, net	61	61	61
Non-allowable capital:			
Non-qualifying loan servicing rights	(109)	(109)	(109)
Intangible assets	(661)	(661)	(661)
Goodwill Litigation Assets	(159)	(159)	(159)
Investment in non-includable subsidiaries	(63)	(63)	(63)
Supplemental capital:			
Qualifying subordinated debentures	--	--	92
General loan loss allowance	--	--	415
Qualifying portion of unrealized gain on equity securities available-for-sale	--	--	--
Assets required to be deducted:			
Land loans with more than 80% LTV ratio	--	--	(3)
Equity in subsidiaries	--	--	(8)
Low-level recourse deduction	--	--	(9)
Regulatory capital of the Bank	3,543	3,543	4,030
Minimum regulatory capital requirement	904	2,411	2,652
Excess above minimum capital requirement	$2,639	$1,132	$1,378
Regulatory capital of the Bank	5.88%	5.88%	12.16%
Minimum regulatory capital requirement	1.50	4.00	8.00
Excess above minimum capital requirement	4.38%	1.88%	4.16%

The amount of adjusted total assets used for the tangible and leverage capital ratios is $60.3 billion. Risk-weighted assets used for the risk-based capital ratio amounted to $33.1 billion.

The Bank is also subject to the "prompt corrective action" standards prescribed in FDICIA and related OTS regulations, which, among other things, define specific capital categories based on an association's capital ratios. The capital categories, in declining order, are "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," and "critically undercapitalized." Under the regulation, the ratio of total capital to risk-weighted assets, core capital to risk-weighted assets and the leverage capital ratio are used to determine an association's capital classification. The Bank met the capital requirements of a "well capitalized" institution under the FDICIA prompt corrective action standards as of June 30, 2001. The Bank is not presently subject to any enforcement action or other regulatory proceeding with respect to the prompt corrective action regulation. Management believes there have been no conditions or events since June 30, 2001 which would change the Bank's capital classification.

At June 30, 2001, the Bank's capital levels were sufficient for it to be considered "well capitalized," as presented below.

	Leverage	Risk-based	
	Capital	Tier 1	Total Capital
Regulatory capital ratio of the Bank	5.88%	10.66%	12.16%
"Well capitalized" ratio	5.00	6.00	10.00
Excess above "well capitalized" ratio	0.88%	4.66%	2.16%

OTS capital regulations allow a savings association to include a net deferred tax asset in regulatory capital, subject to certain limitations. To the extent that the realization of a deferred tax asset depends on a savings association's future taxable income, such deferred tax asset is limited for regulatory capital purposes to the lesser of the amount that can be realized within one year or 10 percent of core capital. At June 30, 2001, none of the net tax benefit was determined to be attributable to the amount of taxable income that may be realized in periods beyond one year. Accordingly, no amount has been excluded from the Bank's regulatory capital at June 30, 2001.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in reported market risks faced by Golden State since the Company's report in Item 7A of its Form 10-K for the year ended December 31, 2000.

PART II - OTHER INFORMATION

ITEM 1. Legal Proceedings.

California Federal Goodwill Litigation

The Bank is the plaintiff in a lawsuit against the Government, the California Federal Goodwill Litigation. In the California Federal Goodwill Litigation, the Bank alleged, among other things, that the Government breached certain contractual commitments regarding the computation of its regulatory capital for which the Bank sought damages and restitution. The Bank's claims arose from changes, mandated by FIRREA, with respect to the rules for computing Old California Federal's regulatory capital.

In late 1997, a Claims Court Judge ruled in favor of the Bank's motion for partial summary judgment as to the Government's liability to the Bank for breach of contract, and a formal order in that regard was subsequently issued. In late 1998, a second Claims Court Judge ruled that California Federal could not meet its burden for proving lost profits damages and ordered that the case proceed to trial on the damage issue of restitution and reliance.

On April 16, 1999, the Claims Court issued its decision on the damages claim against the Government in the California Federal Goodwill Litigation, ruling that the Government must compensate the Bank in the sum of $23.4 million. The summary judgment liability decision by the first Claims Court Judge was appealed by the Government, and the damage award by the second Claims Court Judge was appealed by the Bank.

On April 3, 2001, the Court of Appeals for the Federal Circuit upheld the summary judgment liability decision and ruled that California Federal be allowed to present evidence regarding damages incurred under the lost profits theory. The case has been remanded back to the Claims Court for a damages trial under the lost profits theory. The Bank intends to vigorously pursue its claim against the Government.

Glendale Goodwill Litigation

By virtue of the Glen Fed Merger, the Bank is also a plaintiff in a claim against the United States in a second lawsuit, the Glendale Goodwill Litigation. In the Glendale Goodwill Litigation, Glendale Federal sued the Government contending that FIRREA's treatment of supervisory goodwill constituted a breach by the Government of its 1981 contract with the Bank, under which the Bank had merged with a Florida thrift and was permitted to include the goodwill resulting from the merger in its regulatory capital. In 1992, the Claims Court found in favor of Glendale Federal's position, ruling that the Government breached its express contractual commitment to permit Glendale Federal to include supervisory goodwill in its regulatory capital and that Glendale Federal is entitled to seek financial compensation.

The trial began in February 1997 and concluded in September 1998. On April 9, 1999, the Claims Court issued its decision in the Glendale Goodwill Litigation, ruling that the Government must compensate the Bank in the sum of $908.9 million. This decision was appealed by the Government and the Bank.

On February 16, 2001 the Court of Appeals for the Federal Circuit vacated the trial court's award of damages and remanded the case back to the trial court for determination of total reliance damages to which the Bank might be entitled. Oral argument before the trial court on that issue took place on June 26, 2001 and the Bank is awaiting the Claims Court's decision. The Bank continues to vigorously pursue its case for damages against the Government.

Bartold v. Glendale Federal Bank et al

On September 18, 1995, four plaintiffs commenced an action in Superior Court of California, County of Orange, alleging that the defendants Glendale Federal, to which the Bank is a successor by merger, and Verdugo, a wholly owned subsidiary of the Bank, failed timely to record their release of the mortgage interest following payoffs of residential mortgage loans and, in at least some instances, improperly required borrowers to pay fees for these releases. The plaintiffs' complaint seeks relief for the named plaintiffs, as well as purportedly for all others similarly situated in California and throughout the United States and the general public, on causes of action for violation of California Civil Code Section 2941 and California Business and Professions Code Section 17200, breach of contract, fraud and unjust enrichment. The plaintiffs seek statutory damages of $300 for each supposed, separate violation of Section 2941 by Glendale Federal and Verdugo, restitution, punitive damages, injunctive relief and attorney's fees, among other things.

In October 1997, the trial court granted summary judgment for the defendants. In June 2000, the California Court of Appeals reversed this decision and remanded for further proceedings, including further development of class certification issues. On March 2, 2001, the trial court held that a California class had been certified. On June 7, 2001, the trial court dismissed two of the four causes of action against the Bank, holding that the OTS pre-empted the California courts from regulating the Bank's procedures for reconveying deeds. The Bank believes that it has additional meritorious defenses to plaintiffs' claims and intends to continue to contest the remaining claims in the lawsuit vigorously.

Other Litigation

In addition to the matters described above, Golden State and its subsidiaries are involved in other legal proceedings and claims incidental to the normal conduct of their business. Although it is impossible to predict the outcome of any outstanding legal proceedings, management believes that such legal proceedings and claims, individually or in the aggregate, will not have a material effect on Golden State, GS Holdings or the Bank.

ITEM 2. Changes in Securities.

None.

ITEM 3. Defaults Upon Senior Securities.

None.

ITEM 4. Submission of Matters to a Vote of Security Holders.

At the Annual Meeting of Stockholders held on May 21, 2001, the following matters were submitted to a vote of security holders with the indicated number of votes being cast for, against or withheld, and with the indicated number of abstentions and broker non-votes:

1. To elect five members of the Board of Directors to hold office until the 2004 annual meeting of stockholders or until their successors are duly elected and qualified.

	Number of Votes	
	For	Withheld
Brian P. Dempsey	127,806,268	476,411
Gerald J. Ford	113,566,655	14,716,024
Howard Gittis	127,798,472	484,207
Ronald O. Perelman	126,754,800	1,527,879
Cora M. Tellez	127,605,138	677,541

2. To ratify the appointment of KPMG LLP to serve as the Company's independent auditors for the year ending December 31, 2001.

For	127,997,765
Against	251,026
Abstain	33,888
Broker Non-Vote	0

ITEM 5. Other Information.

None.

ITEM 6. Exhibits and Reports on Form 8-K.

(a) Exhibits:

3.1 Certificate of Incorporation of the Registrant, as amended. (Incorporated by reference to Exhibits 3.1 and 3.2 to the Registrant's Annual Report on Form 10-K for the year ended June 30, 1998.)

3.2 By-laws of the Registrant, as amended. (Incorporated by reference to Exhibit 3.2 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1999.)

(b) Reports on Form 8-K:

None.

GLOSSARY OF DEFINED TERMS

ALCO – Asset/Liability Management Committee
APB – Accounting Principles Board
APB Opinion No. 16 – Business Combinations
APB Opinion No. 17 – Intangible Assets
APB Opinion No. 18 – The Equity Method of Accounting for Investments in Common Stock
APB Opinion No. 25 – Accounting for Stock Issued to Employees
ARM – Adjustable rate mortgage
Auto One – Auto One Acceptance Corporation
Bank – California Federal Bank
Brokered Deposits – Issued certificates of deposit through direct placement programs and national investment banking firms.
Cal Fed Acquisition – Agreement and Plan of Merger among FN Holdings, Cal Fed Bancorp Inc. and California Federal Bank, A Federal Savings Bank. FN Holdings acquired 100% of the outstanding stock of Cal Fed and Old California Federal, and First Nationwide merged with and into Old California Federal in January 1997.
California Federal – California Federal Bank
California Federal Goodwill Litigation – California Federal Bank v. United Sates, Civil Action 92-138
California Federal Goodwill Litigation Asset – an asset, related to California Federal Goodwill Litigation, arising out of the purchase of the Old California Federal.
CD – Certificate of deposit
Claims Court – United States Court of Federal Claims
COFI – Cost of Funds Index (tied to the FHLB's 11th District cost of funds)
Company – Golden State Bancorp Inc.
Convertible Subordinated Debentures due 2001 – In 1986, Cal Fed Inc., Old California Federal's former parent company, issued $125 million of 6.5% convertible subordinated debentures due February 20, 2001.
DIG – Derivatives Implementation Group
Downey Acquisition – Auto One's acquisition of the Downey Auto Finance Corporation in February, 2000.
EITF – Emerging Issues Task Force
EITF No. 99-20 – Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets
FASB – Financial Accounting Standards Board
FDICIA – Federal Deposit Insurance Corporation Improvement Act
FHLB – Federal Home Loan Bank
FHLB System – Federal Home Loan Bank System
FIRREA – Financial Institutions Reform, Recovery and Enforcement Act of 1989 and its implementing regulations.
FLSC – forward loan sale commitments
FN Holdings – First Nationwide Holdings Inc.
FN Holdings Asset Transfer – FN Holdings contributed all of its assets (including all of the common stock of the Bank) to GS Holdings in September 1998.
FNMC – First Nationwide Mortgage Corporation
FTE – Full-time equivalent staff
GAAP – generally accepted accounting principles
Glendale Federal – Glendale Federal Bank, Federal Savings Bank
Glendale Goodwill Litigation – Glendale Federal Bank v. United States, No. 90-772C
Glendale Goodwill Litigation Asset – an asset, related to the Glendale Goodwill Litigation, arising out of the purchase of Glendale Federal.
Glen Fed Merger – Glendale Federal Bank merged with and into the Bank.
Golden State – Golden State Bancorp Inc.
Golden State Acquisition – FN Holdings Asset Transfer, Holding Company Mergers and Glen Fed Merger, collectively

Golden State Merger – the merger, completed on September 11, 1998, between Golden State, the publicly traded parent company of Glendale Federal, and First Nationwide Holdings Inc. and Hunter's Glen/Ford Ltd.

Goodwill Litigation Assets – the California Federal Goodwill Litigation Asset and the Glendale Goodwill Litigation Asset, collectively

Government – United States Government

GS Holdings – Golden State Holdings Inc.

GSB Investments – GSB Investments Corp.

Holding Company Mergers – FN Holdings merged with and into Golden State Financial Corporation, which owned all of the common stock of Glendale Federal.

Hunter's Glen – Hunter's Glen/Ford Ltd.

IO – Interest only

Issuable Shares – The Golden State Merger agreement provides that GSB Investments as successor to First Gibraltar and Hunter's Glen will be entitled to receive contingent consideration, through the issuance by Golden State of additional shares of Golden State Common Stock ("Issuable Shares") to GSB Investments and Hunter's Glen.

LIBOR – London Interbank Offered Rate

LTV – Loan-to-value

LTW – Litigation Tracking Warrant

Mafco Holdings – Mafco Holdings Inc.

MSR – Mortgage servicing rights

NOL – Net operating loss

OCI – Other comprehensive income

Old California Federal – California Federal Bank, A Federal Savings Bank prior to the Cal Fed Acquisition.

OTS – Office of Thrift Supervision

PO – Principal only

REIT – Real Estate Investment Trust

REIT Preferred Stock – $9\frac{1}{8}$% Noncumulative Exchangeable Preferred Stock, Series A, issued by California Federal Preferred Capital Corporation in January 1996.

Repos – short-term securities sold under agreements to repurchase

SEC – Securities and Exchange Commission

SFAS – Statement of Financial Accounting Standards

SFAS No. 114 – Accounting by Creditors for Impairment of a Loan

SFAS No. 115 – Accounting for Certain Investments in Debt and Equity Securities

SFAS No. 121 – Accounting for the Impairment of Long-lived Assets and for Long-lived Assets to be Disposed of

SFAS No. 125 – Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities

SFAS No. 131 – Disclosures about Segments of an Enterprise and Related Information

SFAS No. 133 – Accounting for Derivative Instruments and Hedging Activities

SFAS No. 140 – Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, a replacement of FASB Statement No. 125

SFAS No. 141 – Accounting for Business Combinations

SFAS No. 142 – Accounting for Goodwill and Intangible Assets

Stock Plan – Golden State Bancorp Inc. Omnibus Stock Plan

Verdugo – Verdugo Trustee Service Corporation

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Golden State Bancorp Inc.

/s/ Richard H. Terzian

By: Richard H. Terzian
Executive Vice President
and Chief Financial Officer
(Principal Financial Officer)

/s/ Renee Nichols Tucei

By: Renee Nichols Tucei
Executive Vice President and Controller
(Principal Accounting Officer)

August 8, 2001