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 September 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: 000-29654

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 October 31, 2001: 135,755,712 shares.

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

Assets	September 30, 2001	December 31, 2000
Cash and due from banks	$ 783,089	$ 697,513
Interest-bearing deposits in other banks	125,115	123
Short-term investments	84,740	85,510
Cash and cash equivalents	992,944	783,146
Securities available-for-sale, at fair value	118,405	641,205
Securities held-to-maturity	218,788	587,503
Mortgage-backed securities available-for-sale, at fair value	8,243,194	9,866,823
Mortgage-backed securities held-to-maturity	1,473,946	2,886,612
Loans held for sale, net	2,109,071	845,763
Loans receivable, net	40,843,118	39,592,814
Investment in FHLB System	1,427,557	1,361,066
Premises and equipment, net	310,179	327,329
Foreclosed real estate, net	19,963	19,080
Accrued interest receivable	328,042	364,414
Intangible assets (net of accumulated amortization of $290,971 at September 30, 2001 and $246,150 at December 31, 2000)	646,467	691,288
Mortgage servicing rights, net of valuation allowance	1,318,298	1,559,323
Derivative assets	326,296	--
Other assets	1,111,142	990,512
Total assets	$59,487,410	$60,516,878
Liabilities, Minority Interest and Stockholders' Equity		
Deposits	$24,439,350	$23,429,754
Securities sold under agreements to repurchase	3,394,162	4,511,309
Borrowings	27,048,633	28,800,557
Derivative liabilities	284,224	--
Other liabilities	1,388,786	1,124,524
Total liabilities	56,555,155	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, 152,158,165 and 150,703,716 shares issued at September 30, 2001 and December 31, 2000, respectively)	152,158	150,704
Issuable Shares	165,503	172,308
Additional paid-in capital	1,557,472	1,534,736
Accumulated other comprehensive loss	(85,426)	(89,874)
Retained earnings (substantially restricted)	959,034	698,597
Treasury stock (16,408,120 and 16,383,058 shares at September 30, 2001 and December 31, 2000, respectively)	(316,486)	(315,737)
Total stockholders' equity	2,432,255	2,150,734
Total liabilities, minority interest and stockholders' equity	$59,487,410	$60,516,878

See accompanying notes to unaudited consolidated financial statements.

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

	Nine Months Ended September 30, 2001	Nine Months Ended September 30, 2000
Interest income:		
Loans receivable	$2,286,425	$2,085,599
Mortgage-backed securities available-for-sale	486,859	625,205
Mortgage-backed securities held-to-maturity	99,401	149,265
Loans held for sale	99,241	46,405
Securities available-for-sale	16,902	44,426
Securities held-to-maturity	22,058	19,628
Interest-bearing deposits in other banks	808	4,582
Dividends on FHLB stock	63,451	70,305
Total interest income	3,075,145	3,045,415
Interest expense:		
Deposits	666,343	679,138
Securities sold under agreements to repurchase	166,858	267,622
Borrowings	1,238,722	1,235,589
Total interest expense	2,071,923	2,182,349
Net interest income	1,003,222	863,066
Provision for loan losses	–	–
Net interest income after provision for loan losses	1,003,222	863,066
Noninterest income:		
Loan servicing fees, net	(35,652)	131,344
Customer banking fees and service charges	160,991	147,284
Gain on sale, settlement and transfer of loans, net	69,050	37,608
Gain (loss) on sale of assets, net	17,560	(15,348)
Other income	42,441	22,927
Total noninterest income	254,390	323,815
Noninterest expense:		
Compensation and employee benefits	347,724	324,750
Occupancy and equipment	127,929	119,661
Professional fees	25,536	28,739
Loan expense	12,683	13,745
Foreclosed real estate operations, net	(1,239)	(4,047)
Amortization of intangible assets	44,821	47,312
Other expense	172,056	153,045
Total noninterest expense	729,510	683,205
Income before income taxes, minority interest, extraordinary items and cumulative effect of change in accounting principle	528,102	503,676
Income tax expense	202,833	62,221
Minority interest: provision in lieu of income tax expense	3,247	161,688
Minority interest: other	20,241	21,580
Income before extraordinary items and cumulative effect of change in accounting principle	301,781	258,187
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	$ 300,229	$ 261,201
Earnings per share:		
Basic		
Income before extraordinary items and cumulative effect of change in accounting principle	$ 2.12	$1.87
Extraordinary items	--	0.02
Cumulative effect of change in accounting principle	(0.01)	--
Net income	$ 2.11	$1.89
Diluted		
Income before extraordinary items and cumulative effect of change in accounting principle	$ 2.10	$1.81
Extraordinary items	--	0.02
Cumulative effect of change in accounting principle	(0.01)	--
Net income	$ 2.09	$1.83
Dividends declared per common share	$ 0.30	$0.10

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended September 30,	
	2001	2000
Interest income:		
Loans receivable	$745,411	$ 742,092
Mortgage-backed securities available-for-sale	141,882	189,661
Mortgage-backed securities held-to-maturity	28,418	58,428
Loans held for sale	46,565	17,719
Securities available-for-sale	2,327	11,450
Securities held-to-maturity	5,606	10,147
Interest-bearing deposits in other banks	269	1,198
Dividends on FHLB stock	18,079	25,195
Total interest income	988,557	1,055,890
Interest expense:		
Deposits	201,854	235,992
Securities sold under agreements to repurchase	45,466	94,888
Borrowings	384,753	439,364
Total interest expense	632,073	770,244
Net interest income	356,484	285,646
Provision for loan losses	--	--
Net interest income after provision for loan losses	356,484	285,646
Noninterest income:		
Loan servicing fees, net	(28,746)	45,521
Customer banking fees and service charges	55,171	48,560
Gain on sale, settlement and transfer of loans, net	47,165	10,546
Gain on sale of assets, net	5,437	688
Other income	6,922	6,651
Total noninterest income	85,949	111,966
Noninterest expense:		
Compensation and employee benefits	115,480	108,367
Occupancy and equipment	44,546	42,746
Professional fees	10,610	10,536
Loan expense	4,114	4,511
Foreclosed real estate operations, net	(386)	(669)
Amortization of intangible assets	14,941	15,405
Other expense	57,983	47,430
Total noninterest expense	247,288	228,326
Income before income taxes and minority interest	195,145	169,286
Income tax expense	85,138	73,976
Minority interest	6,747	6,797
Net income	$103,260	$ 88,513
Earnings per share:		
Basic	$0.73	$0.63
Diluted	$0.72	$0.62
Dividends declared per common share	$0.10	$0.10

See accompanying notes to unaudited consolidated financial statements.

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

	Nine Months Ended September 30, 2001	Nine Months Ended September 30, 2000
Net income	$ 300,229	$261,201
Other comprehensive income, net of tax:		
Unrealized holding gain on securities available-for-sale:		
Unrealized holding gain arising during the period	148,609	59,292
Less: reclassification adjustment for (gain) loss included in net income	(15,483)	10,859
	133,126	70,151
Amortization of market adjustment for securities transferred from available-for-sale to held-to-maturity	17,912	2,808
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 $70,402	(101,943)	--
Other comprehensive income	4,448	72,959
Comprehensive income	$ 304,677	$334,160

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended September 30, 2001	2000
Net income	$103,260	$ 88,513
Other comprehensive (loss) income, net of tax:		
Unrealized holding gain on securities available-for-sale:		
Unrealized holding gain arising during the period	50,483	79,028
Less: reclassification adjustment for gain included in net income	(5,911)	(231)
	44,572	78,797
Amortization of market adjustment for securities transferred from available-for-sale to held-to-maturity	14,446	2,138
Change in fair value of derivatives used for cash flow hedges, net of applicable taxes of $58,828	(85,183)	--
Other comprehensive (loss) income	(26,165)	80,935
Comprehensive income	$ 77,095	$169,448

See accompanying notes to unaudited consolidated financial statements.

GOLDEN STATE BANCORP INC. AND SUBSIDIARIES
Consolidated Statement of Stockholders' Equity
Nine Months Ended September 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	--	--	--	--	--	--	--	300,229	--	--	300,229
Change in net unrealized holding gain (loss) on securities available-for-sale	--	--	--	--	102,752	--	102,752	--	--	--	102,752
Amortization of unrealized holding loss on securities held-to-maturity	--	--	--	--	17,912	--	17,912	--	--	--	17,912
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	--	--	--	--	--	(101,943)	(101,943)	--	--	--	(101,943)
Adjustment to contribution receivable from GSB Investments and Hunter's Glen in respect of their proportionate ownership of the California Federal Goodwill Litigation Asset	--	--	--	--	--	--	--	769	--	--	769
Issuable Shares (pro-rata 2001 usage of pre-merger NOLs)	--	--	73,663	--	--	--	--	--	--	--	73,663
Pro-rata adjustment to pre-merger tax benefits recorded as goodwill	--	--	--	(17,809)	--	--	--	--	--	--	(17,809)
Issuable Shares adjustment for changes in tax benefits	--	--	14,532	--	--	--	--	--	--	--	14,532
Distribution of Issuable Shares	1,041,198	1,041	(20,000)	18,959	--	--	--	--	--	--	--
Adjustment to capitalized costs - 2000 extinguishment of Issuable Shares	--	--	--	998	--	--	--	--	--	--	998
Cash settlement resulting in the 2001 extinguishment of Issuable Shares	--	--	(75,000)	11,000	--	--	--	--	--	--	(64,000)
Capitalized costs related to the 2001 extinguishment of Issuable Shares	--	--	--	(700)	--	--	--	--	--	--	(700)
Impact of restricted common stock	99,108	99	--	2,956	--	--	--	--	--	--	3,055
Exercise of stock options	314,143	314	--	7,332	--	--	--	--	--	--	7,646
Purchase of treasury stock	--	--	--	--	--	--	--	--	(25,062)	(749)	(749)
Dividends on common stock	--	--	--	--	--	--	--	(40,561)	--	--	(40,561)
Balance at September 30, 2001	152,158,165	$152,158	$165,503	$1,557,472	$ 61,164	$(146,590)	$ (85,426)	$959,034	(16,408,120)	$(316,486)	$2,432,255

See accompanying notes to unaudited consolidated financial statements.

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

	Nine Months Ended September 30, 2001	Nine Months Ended September 30, 2000
Cash flows from operating activities:		
Net income	$ 300,229	$ 261,201
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of intangible assets	44,821	47,312
Amortization (accretion) of purchase accounting premiums and discounts, net	8,125	(27)
Accretion of discount on borrowings	818	813
Amortization of mortgage servicing rights	219,793	149,037
(Gain) loss on sale of assets, net	(17,560)	15,348
Gain on sale of foreclosed real estate, net	(2,438)	(7,591)
Loss on sale, settlement and transfer of loans, net	184,371	52,213
Capitalization of originated mortgage servicing rights	(253,421)	(89,821)
Extraordinary items – gains on early extinguishment of debt, net	--	(3,014)
Depreciation and amortization of premises and equipment	43,165	41,351
Amortization of deferred debt issuance costs	5,283	5,511
FHLB stock dividends	(63,451)	(70,305)
Purchases and originations of loans held for sale	(12,205,482)	(3,789,358)
Net proceeds from the sale of loans held for sale	10,933,006	3,522,307
Net MSR hedge ineffectiveness	(29,491)	--
MSR valuation provision	158,000	--
Increase in other assets	(297,079)	(31,236)
Decrease (increase) in accrued interest receivable	36,372	(29,255)
Increase in other liabilities	502,923	271,540
Amortization of deferred compensation expense– restricted common stock	1,379	1,500
Gain on non-monetary exchange of Star Systems common stock	(20,671)	--
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	20,241	21,580
Dividends on restricted common stock	49	--
Net cash (used) provided by operating activities	$ (453,576)	$ 530,794

(Continued)

See accompanying notes to unaudited consolidated financial statements.

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

	Nine Months Ended September 30,	
	2001	2000
Cash flows from investing activities:		
Downey Acquisition	$ --	$ (379,314)
Purchases of securities available-for-sale	(45,616)	(33,388)
Proceeds from maturities of securities available-for-sale	654,157	35,469
Purchases of securities held-to-maturity	(7,541)	(2,849)
Principal payments and proceeds from maturities of securities held-to-maturity	321,555	41,747
Purchases of mortgage-backed securities available-for-sale	(120,809)	(58,340)
Principal payments on mortgage-backed securities available-for-sale	2,263,091	1,438,573
Proceeds from sales of mortgage-backed securities available-for-sale	777,265	666,924
Principal payments on mortgage-backed securities held-to-maturity	344,727	315,554
Proceeds from sales of loans	72,064	62,360
Net decrease (increase) in loans receivable	1,630,891	(3,671,238)
Purchases of loans receivable	(3,138,329)	(1,213,023)
Purchases of FHLB stock, net	(23,193)	(107,570)
Purchases of premises and equipment	(27,456)	(35,141)
Proceeds from disposal of premises and equipment	10,806	2,990
Proceeds from sales of foreclosed real estate	24,622	63,947
Proceeds from sale of Concord EFS common stock	29,948	--
Purchases of mortgage servicing rights	(233,332)	(277,248)
Hedge receipts	14,542	(2,800)
Purchases of derivatives	(354,017)	(42,072)
Proceeds from sales and settlements of derivatives	408,377	19,059
Proceeds from sales of mortgage servicing rights	--	765
Net cash provided (used) by investing activities	2,601,752	(3,175,595)
Cash flows from financing activities:		
Net increase in deposits	1,010,214	165,605
Proceeds from additional borrowings	87,843,153	29,518,911
Principal payments on borrowings	(89,205,993)	(26,779,900)
Net decrease in securities sold under agreements to repurchase	(1,117,147)	(143,692)
Principal payment on GS Holdings Notes	(350,000)	--
Dividends paid to minority stockholders, net of taxes	(20,241)	(20,191)
Exercise of stock options and warrants	7,646	129,699
Purchase of treasury stock	(749)	(63,724)
Sale of treasury stock	--	134
Dividends on common stock	(40,561)	(13,020)
Extinguishment of Issuable Shares	(64,700)	(85,000)
Net cash (used) provided by financing activities	(1,938,378)	2,708,822
Net change in cash and cash equivalents	209,798	64,021
Cash and cash equivalents at beginning of period	783,146	593,025
Cash and cash equivalents at end of period	$ 992,944	$ 657,046

See accompanying notes to unaudited consolidated financial statements.

(1) Basis of Presentation

The accompanying unaudited consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America 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 nine months ended September 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 nine-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 63 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 using the interest method. 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 each of the nine months ended September 30, 2001 and 2000 was $2.2 billion. Net cash paid (received) for income taxes during the nine months ended September 30, 2001 and 2000 was $109.2 million and $(5.0) million, respectively.

During the nine months ended September 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, the reclassification of $161.1 million from loans receivable to loans held-for-sale, transfers of $23.0 million from loans receivable to foreclosed real estate, transfers of $6.5 million from loans held-for-sale (at lower of cost or market) to loans receivable and $0.2 million of loans made to facilitate sales of real estate owned.

Noncash activity during the nine months ended September 30, 2001 also included the following: (a) increases of $3.0 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 $20.0 million in Issuable Shares; (c) $1.0 million of reversals of capitalized costs related to the 2000 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 $0.8 million; and (e) adjustments of $88.2 million and $17.8 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 nine months ended September 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 $113.2 million from loans receivable to mortgage-backed securities upon the securitization of certain of the Bank’s single-family loans, transfers of $54.7 million from loans held-for-sale (at lower of cost or market) to loans receivable, transfers of $41.1 million from loans receivable to foreclosed real estate and $5.4 million of loans made to facilitate sales of real estate owned.

Noncash activity during the nine months ended September 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 $2.5 million and $220 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 $3.8 million; (d) the distribution of $100 million in Issuable Shares; (e) adjustments of $126.3 million and $29.6 million to Issuable Shares and additional paid-in capital, respectively, related to pre-merger tax benefits retained by the previous owners of FN Holdings; (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 and (g) a reduction of $53.3 million in Issuable Shares, offset by increases of $38.9 million to other liabilities and $14.4 million to additional paid-in capital related to the extinguishment of Issuable Shares.

(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.

	Nine Months Ended September 30,			Three Months Ended September 30,		
	Community Banking	Mortgage Banking	Total	Community Banking	Mortgage Banking	Total
	(in thousands)					
Net interest income: (a)						
2001	$1,035,965	$ 73,592	$1,109,557	$357,105	$37,132	$394,237
2000	937,317	7,331	944,648	311,985	5,235	317,220
Noninterest income: (b)						
2001	$ 265,643	$ 18,572	$ 284,215	$103,813	$(3,571)	$100,242
2000	179,336	188,763	368,099	62,639	64,345	126,984
Noninterest expense: (c)						
2001	$ 616,814	$116,176	$ 732,990	$207,541	$40,907	$248,448
2000	573,402	120,683	694,085	192,221	39,896	232,117
Pre-tax contribution:						
2001	$ 684,794	$(24,012)	$ 660,782	$253,377	$(7,346)	$246,031
2000	543,251	75,411	618,662	182,403	29,684	212,087

(a) Includes $106.3 million and $81.6 million for the nine months ended September 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 $217.0 million and $192.8 million for the nine months ended September 30, 2001 and 2000, respectively, in interest income and expense on intercompany loans.

Includes $37.8 million and $31.6 million for the three months ended September 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 $82.9 million and $70.5 million for the three months ended September 30, 2001 and 2000, respectively, in interest income and expense on intercompany loans.

(b) Includes $29.8 million and $44.3 million for the nine months ended September 30, 2001 and 2000, respectively, in intercompany servicing fees. Includes $14.3 million and $15.0 million for the three months ended September 30, 2001 and 2000, respectively, in intercompany servicing fees.

(c) Includes $3.5 million and $10.9 million for the nine months ended September 30, 2001 and 2000, respectively, in intercompany noninterest expense. Includes $1.2 million and $3.8 million for the three months ended September 30, 2001 and 2000, respectively, in intercompany noninterest expense.

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

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2001	2000	2001	2000
Net interest income:				
Total net interest income for reportable segments	$1,109,557	$944,648	$394,237	$317,220
Elimination of intersegment net interest income	(106,335)	(81,582)	(37,753)	(31,574)
Total	$1,003,222	$863,066	$356,484	$285,646
Noninterest income:				
Total noninterest income for reportable segments	$ 284,215	$368,099	$100,242	$126,984
Elimination of intersegment servicing fees	(29,825)	(44,284)	(14,293)	(15,018)
Total	$ 254,390	$323,815	$ 85,949	$111,966
Noninterest expense:				
Total noninterest expense for reportable segments	$ 732,990	$694,085	$248,448	$232,117
Elimination of intersegment expense	(3,480)	(10,880)	(1,160)	(3,791)
Total	$ 729,510	$683,205	$247,288	$228,326
Pre-tax contribution:				
Total contributions for reportable segments	$ 660,782	$618,662	$246,031	$212,087
Elimination of intersegment contributions	(132,680)	(114,986)	(50,886)	(42,801)
Total	$ 528,102	$503,676	$195,145	$169,286

(5) Loans Receivable, Net

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

	September 30, 2001	December 31, 2000
Loan Portfolio:		
1-4 unit residential	$31,117,993	$30,828,368
Multi-family residential	4,058,460	3,569,228
Commercial real estate	2,417,708	2,487,093
Land	14,908	22,384
Construction	6,407	7,416
Total real estate loans	37,615,476	36,914,489
Equity-line	596,368	538,524
Other consumer loans	301,685	302,559
Auto loans, net (a)	1,918,270	1,567,257
Commercial loans	665,273	557,796
Total loans receivable	41,097,072	39,880,625
Deferred loan fees, costs, discounts and premiums, net	248,583	229,962
Allowance for loan losses	(510,885)	(526,308)
Purchase accounting adjustments, net	8,348	8,535
Loans receivable, net	$40,843,118	$39,592,814

(a) $772.8 million, or 40% and $632.4 million, or 40% of this portfolio, represents prime product as of September 30, 2001 and December 31, 2000, respectively.

(6) Deposits

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

	September 30, 2001	December 31, 2000
Transaction Accounts:		
Non-interest checking	$ 1,865,914	$ 1,716,741
Interest-bearing checking	2,052,288	2,063,185
Subtotal checking	3,918,202	3,779,926
Money market	4,338,713	2,948,853
Passbook savings	3,012,186	3,086,851
Total transaction accounts	11,269,101	9,815,630
Certificates of deposit	11,203,258	12,241,809
Subtotal retail deposits	22,472,359	22,057,439
Custodial accounts	1,730,561	825,438
Accrued interest payable	58,331	80,225
Purchase accounting	482	1,009
Total retail deposits	24,261,733	22,964,111
Brokered deposits	177,617	465,643
Total deposits	$24,439,350	$23,429,754
Demand deposits as a % of retail deposits (including custodials)	23.3%	20.1%
Transaction accounts as a % of retail deposits (including custodials)	53.7%	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 and (b) employee severance and termination benefits due to a planned reduction in force. 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	Total
Balance at December 31, 2000	$16,044	$12,529	$28,573
Additional liabilities recorded	--	--	--
Charges to liability account	(2,195)	(29)	(2,224)
Balance at September 30, 2001	$13,849	$12,500	$26,349

(8) Income Taxes

During the nine months ended September 30, 2001, Golden State recorded net income tax expense of $202.8 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 of $3.2 million was recorded 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 nine months ended September 30, 2000, Golden State recorded net income tax expense of $62.2 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 nine-month period ended September 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 September 30, 2001 and December 31, 2000, there were 135,750,045 and 134,320,658 shares, respectively, of Golden State common stock issued and outstanding, (net of treasury stock). Common stock outstanding included 202,365 and 246,756 restricted shares at September 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. An additional 543,817 shares of Golden State common stock, valued at $10.4 million, were issued to Hunter's Glen on July 17, 2001. See "—Issuable Shares."

During the nine months ended September 30, 2001, stock options for 314,143 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 nine months ended September 30, 2001 and 2000, the Company recorded $73.7 million and $126.3 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 third and second quarters of 2001, the Company recorded $3.2 million and $11.3 million, respectively, 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.

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. These Issuable Shares related to tax benefits retained by GSB Investments for pre-merger net operating losses to be utilized in respect of 2001 by the Company. Expenses totalling $0.7 million were capitalized during the third quarter of 2001 in connection with this transaction.

On August 22, 2000, the Company paid GSB Investments $85.0 million resulting in the extinguishment of GSB Investments' right to receive $100.0 million of Issuable Shares calculated in accordance with the Golden State Merger agreement. These Issuable Shares related to tax benefits retained by GSB Investments for pre-merger net operating losses to be utilized in respect of 2000 by the Company. In addition, the Company agreed to pay $36.0 million to GSB Investments in January 2001 in exchange for the extinguishment of GSB Investments' right to receive $38.3 million of Issuable Shares calculated in accordance with the Golden State Merger agreement. These Issuable Shares relate to 1999 carryover benefits and the federal tax refund and interest received by the Company in April 2000. A discount of $1.1 million was recorded on this liability and is being recognized in interest income ratably through January 16, 2001, using the interest method. Expenses totalling $4.0 million were capitalized during the third quarter of 2000 in connection with this transaction.

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 nine months ended September 30, 2001, the Company recorded reductions to additional paid-in capital of $17.8 million representing pro-rata adjustments to pre-merger tax benefits retained by the previous owners of FN Holdings. In addition, during the nine months ended September 30, 2001, the Company recorded $19.0 million related to the distribution of Issuable Shares and $11.3 million related to the extinguishment of Issuable Shares. Activity during the nine months ended September 30, 2001 also included increases of $7.3 million recorded in connection with the exercise of 314,143 stock options and $3.0 million recorded to reflect the impact of restricted stock.

During the nine months ended September 30, 2000, the Company recorded reductions to additional paid-in capital of $38.1 million representing Issuable Shares for interest on a tax refund and $29.6 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. In addition, during the nine months ended September 30, 2000, the Company recorded $95.1 million related to the distribution of Issuable Shares and $14.4 million related to the extinguishment of Issuable Shares. Activity during the nine months ended September 30, 2000 also included increases of $118.9 million recorded in connection with the exercise of 10.8 million warrants and stock options and $2.5 million recorded to reflect the impact of restricted stock.

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 $1.26 per share at September 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 $21.4 million, resulting in an increase in retained earnings and the contribution receivable of $0.8 million during the nine months ended September 30, 2001.

Treasury Stock

At September 30, 2001, the Company had 16,408,120 shares of its common stock in treasury at an aggregate cost of $19.29 per share.

During the nine months ended September 30, 2001, the Company repurchased 25,062 shares of common stock, at an aggregate purchase price of $749 thousand, or an average of $29.89 per share in connection with an executive compensation plan. There were no shares of treasury stock issued during the nine months ended September 30, 2001.

During the nine months ended September 30, 2000, the Company repurchased 3,916,411 shares of common stock, at an aggregate purchase price of $63.7 million, or an average of $16.27 per share. Also during the nine months ended September 30, 2000, 11,450 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 September 4, 2001, June 1, 2001 and March 1, 2001, Golden State paid a dividend of $0.10 per common share totalling $13.6 million, $13.5 million and $13.5 million on each date, to stockholders of record as of August 6, 2001, May 7, 2001 and February 2, 2001, respectively.

On September 1, 2000, Golden State paid a dividend of $0.10 per common share totalling $13.0 million, to stockholders of record as of July 31, 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. The Company did not grant any non-qualified stock options in the third quarter of 2001. 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 nine months ended September 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 September 30, 2001, 159,526 options were exercised and 28,247 options were cancelled or expired under all plans. During the nine months ended September 30, 2001, 314,143 options were exercised and 49,924 options were cancelled or expired under all plans. During the three and nine months ended September 30, 2000, a total of 36,893 and 51,200 options, respectively, were exercised and 18,584 and 82,950 options, respectively, were cancelled or expired under all plans.

At September 30, 2001 and 2000, options to acquire an equivalent of 4,718,433 and 3,777,782 shares and 861,916 and 1,129,382 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 nine months ended September 30, 2001, 28,454 and 143,499 restricted shares were vested. During both the three and nine months ended September 30, 2000, 28,454 restricted shares were vested. At September 30, 2001, a total of 202,365 restricted shares were 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 nine months ended September 30, 2001, $0.4 million and $1.4 million, respectively, in compensation expense was recognized related to such awards. During the three and nine months ended September 30, 2000, $0.4 million and $1.5 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 change in accounting principle during the quarter ended June 30, 2001. During the quarter ended September 30, 2001, the Company recorded a pre-tax loss of $3.6 million in order to record the decline in fair value of these securities.

(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):

	Nine Months Ended September 30,				Three Months Ended September 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 change in accounting principle	$301,781	$301,781	$258,187	$258,187	$103,260	$103,260	$ 88,513	$ 88,513
Extraordinary items	--	--	3,014	3,014	--	--	–	–
Cumulative effect of change in accounting principle	(1,552)	(1,552)	–	–	–	–	–	–
Net income	$300,229	$300,229	$261,201	$261,201	$103,260	$103,260	$ 88,513	$ 88,513
Weighted average common shares outstanding (a)	134,909	134,909	124,869	124,869	135,388	135,388	129,709	129,709
Issuable Shares (b)	7,581	7,581	13,147	13,147	6,912	6,912	10,947	10,947
Total weighted average basic common shares outstanding	142,490	142,490	138,016	138,016	142,300	142,300	140,656	140,656
Effect of dilutive securities:								
Options and warrants (c)	--	807	--	2,755	--	909	--	2,251
Issuable Shares (b)	--	--	--	1,489	--	--	--	--
Restricted stock (a)	–	143	–	97	–	160	–	120
Total weighted average diluted common shares outstanding (b)	142,490	143,440	138,016	142,357	142,300	143,369	140,656	143,027
Income before extraordinary items and cumulative effect of change in accounting principle	$ 2.12	$ 2.10	$ 1.87	$ 1.81	$ 0.73	$ 0.72	$ 0.63	$ 0.62
Extraordinary items	--	--	0.02	0.02	--	--	–	--
Cumulative effect of change in accounting principle	(0.01)	(0.01)	–	–	–	–	–	–
Earnings per common share	$ 2.11	$ 2.09	$ 1.89	$ 1.83	$ 0.73	$ 0.72	$ 0.63	$ 0.62

(Continued)

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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.

(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: (i) 2,193,984 shares based on the use of pre-merger tax benefits during 2001; (ii) 3,930,827 shares based on the use of pre-merger tax benefits during 2000 and 1999; (iii) 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, (iv) 692,811 shares related to the extinguishment of Issuable Shares in July 2001 and (v) the effect of 543,817 shares issued to Hunter's Glen on July 17, 2001 for net tax benefits realized during 2000.

2000 total basic and diluted weighted average common shares outstanding include the effect, as appropriate, of: (i) 4,735,227 shares issued on May 22, 2000 to GSB Investments and Hunter's Glen, (ii) 1,218,544 shares issuable to Hunter's Glen, and (iii) 2,754,968 shares related to the extinguishment of Issuable Shares in August 2000; all based on the use of pre-merger tax benefits during 1999. See note 9; "—Issuable Shares" for a discussion on extinguishment of Issuable Shares.

2000 total basic and diluted weighted average common shares outstanding 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 the effect, as appropriate, of 517,180 shares estimated to be issuable to Hunter's Glen and 1,169,276 shares related to the extinguishment of Issuable Shares in August 2000; all related to a Federal tax refund and related interest received in 1999 and 2000 associated with Old California Federal for periods prior to the Golden State Acquisition.

2000 total basic and diluted weighted average common shares outstanding include, as appropriate, the effect of 5,287,029 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 September 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 nine months ended September 30, 2001 was $22.8 million and $43.0 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 September 30, 2001, approximately $82.0 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 September 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 for fair value hedging, in accordance with SFAS No. 133. The carrying value of mortgage servicing rights in a designated fair value 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 are summarized below and are included in the caption entitled "Loan servicing fees, net" in the accompanying consolidated statements of income (in thousands):

	Nine Months	Three Months
	Ended September 30, 2001	
Gain on designated derivative contracts	$ 214,708	$ 289,309
Decrease in value of designated mortgage servicing rights	(185,217)	(268,775)
Net hedge ineffectiveness	$ 29,491	$ 20,534

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 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):

	Nine Months	Three Months
	Ended September 30, 2001	
Loss on designated forward loan sale commitments	$(18,141)	$(28,541)
Increase in value of warehouse loans	19,203	28,241
Net hedge ineffectiveness	$ 1,062	$ (300)

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. 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 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):

	Nine Months	Three Months
	Ended September 30,2001	
Loss on undesignated forward loan sale commitments recognized to income	$(10,394)	$(20,514)
Gain on undesignated interest rate loan commitments recognized to income	10,648	19,628
Net gain (loss) on derivatives	$ 254	$ (886)

(15) Recent Accounting Pronouncements

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.

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 acquiror versus the acquiree in an acquisition. 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, and as such, the implementation of SFAS No. 141 is not expected to materially impact the Company's current 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 has reviewed the records from the Company's various acquisitions. At September 30, 2001, $645.4 million of the Company's $646.5 million 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 $14.8 million per quarter in 2002.

Accounting for the Impairment or Disposal of Long-Lived Assets

On October 3, 2001, the FASB issued SFAS No. 144. SFAS No. 144 establishes a single accounting model for the financial accounting and reporting for impairment or disposal of long-lived assets. The reason for issuing the Statement stemmed from the failure of SFAS No. 121 to address the accounting for the disposal of a segment of a business accounted for as a discontinued operation under APB Opinion No. 30. Thus, two accounting models existed for the disposal of long-lived assets. SFAS No. 144 is based on the framework established in SFAS No. 121.

The accounting, disclosure and financial statement provisions of SFAS No. 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001. The provisions of the Statement generally are to be applied prospectively.

The implementation of SFAS No. 144 is not expected to materially impact the Company's financial condition or operating results.

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 October 2001, 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 $301.8 million, or $2.10 per diluted share for the nine months ended September 30, 2001. Income before extraordinary items was $258.2 million, or $1.81 per diluted share for the nine months ended September 30, 2000. Net income for the nine months ended September 30, 2001 was $300.2 million, or $2.09 per diluted share, compared with net income of $261.2 million, or $1.83 per diluted share, for the corresponding period in 2000. Net income for the nine months ended September 30, 2001 includes a loss of $1.6 million, net of tax, from the cumulative effect of change in accounting principle. Net income for the nine months ended September 30, 2000 includes gains on the early extinguishment of debt, net of tax, of $3.0 million. The Bank's efficiency ratio was 48.73% for the nine months ended September 30, 2001, compared to 47.91% for the comparable period in 2000.

Golden State reported net income for the three months ended September 30, 2001 of $103.3 million, or $0.72 per diluted share, compared with net income of $88.5 million, or $0.62 per diluted share, for the corresponding period in 2000. The Bank's efficiency ratio was 47.66% for the third quarter of 2001, compared to 48.03% for the comparable period in 2000.

Financial Condition

During the nine months ended September 30, 2001, consolidated total assets decreased $1.0 billion from December 31, 2000, to $59.5 billion, and total liabilities decreased from $57.9 billion to $56.6 billion. Loans held-for-sale and loans receivable increased $1.26 billion and $1.25 billion, respectively, during the nine month period, while mortgage-backed securities and securities declined $3.0 billion and $0.9 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 $1.0 billion during the nine months ended September 30, 2001, including increases of $1.5 billion in transaction accounts and $0.9 billion in custodial accounts, offset by a $1.0 billion decline in certificates of deposit and a $0.3 billion decline in brokered deposits – part of management's goal to become more "bank-like" and to lower its cost of funds. Custodial accounts increased $905.1 million, or 110%, 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 $2.9 billion during the nine months ended September 30, 2001.

During the nine months ended September 30, 2001, stockholders' equity increased $281.5 million to $2.4 billion. The increase in stockholders' equity is principally the net result of $300.2 million in net income for the period, a $102.8 million improvement in net unrealized gain/loss, after tax, on securities available-for-sale, $88.2 million in adjustments to Issuable Shares related to pre-merger tax benefits retained by the previous owners of FN Holdings, a $30.4 million improvement in unrealized loss on securities upon reclassification from the held-to-maturity to the available-for-sale portfolio and $17.9 million of amortization on the unrealized holding loss on securities held-to-maturity. These amounts are offset, in part, by $101.9 million in net unrealized losses, after tax, on derivatives, $63.7 million in extinguishment of Issuable Shares, a $44.6 million transition adjustment recorded upon the adoption of SFAS No. 133, $40.6 million of common stock dividends and $17.8 million in adjustments to additional paid-in capital related to pre-merger tax benefits recorded as goodwill.

Book value per diluted share increased $2.03 at September 30, 2001 to $16.99, from $14.96 at December 31, 2000. Tangible book value per share increased $2.33, or 23%, over the same period, from $10.15 at December 31, 2000 to $12.48 at September 30, 2001. Common shares outstanding totalled 135.8 million and 134.3 million at September 30, 2001 and December 31, 2000, respectively. Diluted shares outstanding totalled 143.1 million at September 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 $130.8 million at September 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 0.22% at September 30, 2001 from 0.23% at December 31, 2000.

Results of Operations

Nine months ended September 30, 2001 versus nine months ended September 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.

	Nine Months Ended September 30, 2001		
	Average Balance	Interest	Average Rate
	(dollars in millions)		
ASSETS			
Interest-earning assets (1):			
Securities and interest-bearing deposits in banks (2)	$ 890	$ 40	5.96%
Mortgage-backed securities available-for-sale	9,887	487	6.57
Mortgage-backed securities held-to-maturity	1,626	99	8.15
Loans held for sale, net	1,989	99	6.65
Loans receivable, net:			
Residential	31,657	1,655	6.97
Commercial real estate	6,221	384	8.23
Commercial banking	596	37	8.22
Consumer	886	59	8.86
Auto	1,758	152	11.58
Total loans receivable, net	41,118	2,287	7.42
FHLB stock	1,402	63	6.05
Total interest-earning assets	56,912	3,075	7.21%
Noninterest-earning assets	3,717		
Total assets	$60,629		
LIABILITIES, MINORITY INTEREST AND STOCKHOLDERS' EQUITY			
Interest-bearing liabilities:			
Deposits	$24,162	667	3.69%
Securities sold under agreements to repurchase (3)	3,872	167	5.69
Borrowings (3)	28,513	1,238	5.79
Total interest-bearing liabilities	56,547	2,072	4.89%
Noninterest-bearing liabilities	1,332		
Minority interest	496		
Stockholders' equity	2,254		
Total liabilities, minority interest and stockholders' equity	$60,629		
Net interest income		$1,003	
Interest rate spread			2.32%
Net interest margin			2.35%
Return on average assets			0.66%
Return on average equity			17.76%
Return on tangible common equity			29.03%
Average equity to average assets			3.72%
Dividend payout ratio			14.22%

	Nine Months Ended September 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	$ 69	6.39%
Mortgage-backed securities available-for-sale	12,514	625	6.66
Mortgage-backed securities held-to-maturity	2,640	149	7.54
Loans held for sale, net	832	46	7.44
Loans receivable, net:			
Residential	29,310	1,544	7.03
Commercial real estate	5,623	340	8.06
Commercial banking	514	38	9.93
Consumer	737	57	10.27
Auto	1,213	107	11.73
Total loans receivable, net	37,397	2,086	7.44
FHLB stock	1,278	70	7.35
Total interest-earning assets	56,090	3,045	7.24%
Noninterest-earning assets	2,965		
Total assets	$59,055		
LIABILITIES, MINORITY INTEREST AND STOCKHOLDERS' EQUITY			
Interest-bearing liabilities:			
Deposits	$23,044	679	3.94%
Securities sold under agreements to repurchase (3)	5,551	268	6.34
Borrowings (3)	27,148	1,235	6.05
Total interest-bearing liabilities	55,743	2,182	5.21%
Noninterest-bearing liabilities	1,175		
Minority interest	496		
Stockholders' equity	1,641		
Total liabilities, minority interest and stockholders' equity	$59,055		
Net interest income		$ 863	
Interest rate spread			2.03%
Net interest margin			2.07%
Return on average assets			0.59%
Return on average equity			21.23%
Return on tangible common equity			46.83%
Average equity to average assets			2.78%
Dividend payout ratio			5.29%

(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.

	Nine Months Ended September 30, 2001 vs. 2000 Increase (Decrease) Due to		
	Volume	Rate (in millions)	Net
INTEREST INCOME:			
Securities and interest-bearing deposits in banks	$ (24)	$ (5)	$ (29)
Mortgage-backed securities available-for-sale	(129)	(9)	(138)
Mortgage-backed securities held-to-maturity	(63)	13	(50)
Loans held for sale, net	57	(4)	53
Loans receivable, net	206	(5)	201
FHLB stock	8	(15)	(7)
Total	55	(25)	30
INTEREST EXPENSE:			
Deposits	42	(54)	(12)
Securities sold under agreements to repurchase	(75)	(26)	(101)
Borrowings	26	(23)	3
Total	(7)	(103)	(110)
Change in net interest income	$ 62	$ 78	$ 140

Interest Income. Total interest income was $3.1 billion for the nine months ended September 30, 2001, an increase of $29.7 million from the nine months ended September 30, 2000. Total interest-earning assets for the nine months ended September 30, 2001 averaged $56.9 billion, compared to $56.1 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 nine months ended September 30, 2001 decreased to 7.21% from 7.24% for the nine months ended September 30, 2000, primarily due to the repricing of loans and securities at lower rates, partially offset by a higher percentage of loans to total earning assets during the nine months ended September 30, 2001. At September 30, 2001, 13% of the Company's portfolio loans were tied to COFI indices, 12% to Treasury-based indices and 45% were "hybrid" ARMS - fixed for three to ten years and then adjusting annually. Twenty-five percent of the portfolio is fixed. The remaining 5% of the portfolio is in other adjustable-rate products.

Golden State earned $2.3 billion of interest income on loans receivable for the nine months ended September 30, 2001, an increase of $200.8 million from the nine months ended September 30, 2000. The average balance of loans receivable was $41.1 billion for the nine months ended September 30, 2001, compared to $37.4 billion for the same period in 2000. The weighted average yield on loans receivable decreased to 7.42% for the nine months ended September 30, 2001 from 7.44% for the nine months ended September 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. On July 1, 2001, the Company began accounting for interest income on newly originated automobile loans on a gross coupon basis rather than based on credit-adjusted yield. The impact on the nine months ended September 30, 2001 was immaterial, but in future periods, interest income is expected to increase.

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

	Nine Months Ended September 30, 2001	2000
Loans funded:		
Residential real estate loans:		
Adjustable-rate	$ 5,476,707	$ 6,200,698
Fixed-rate	12,838,798	4,102,757
Total residential real estate loans	18,315,505	10,303,455
Commercial real estate loans	1,302,697	961,551
Commercial loans	764,795	500,142
Consumer nonmortgage loans	613,218	553,592
Other	--	124
Total loans funded	$20,996,215	$12,318,864
Loans purchased:		
Residential real estate loans	$ 2,198,742	$ 434,820
Auto loans (a)	939,587	778,203
Total loans purchased	$ 3,138,329	$ 1,213,023

(a) Approximately 41% and 42% of this volume was in prime product; 59% and 58% in sub-prime product for the nine months ended September 30, 2001 and 2000, respectively.

The decrease in the weighted average yield is primarily due to the repricing of variable-rate loans and the origination of loans at lower rates and new purchases of auto loans at lower rates during 2001.

Golden State earned $99.2 million of interest income on loans held for sale for the nine months ended September 30, 2001, an increase of $52.8 million from the nine months ended September 30, 2000. The average balance of loans held for sale was $2.0 billion for the nine months ended September 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 $12.8 billion during the nine months ended September 30, 2001, an increase of more than 213% over the $4.1 billion originated during the comparable period in 2000. The weighted average yield on loans held for sale decreased to 6.65% for the nine months ended September 30, 2001 from 7.44% for the nine months ended September 30, 2000, primarily due to declining market interest rates.

Interest income on mortgage-backed securities available-for-sale was $486.9 million for the nine months ended September 30, 2001, a decrease of $138.3 million from the nine months ended September 30, 2000. The average portfolio balance decreased $2.6 billion, to $9.9 billion, for the nine months ended September 30, 2001 compared to the same period in 2000. The weighted average yield on these assets decreased from 6.66% for the nine months ended September 30, 2000 to 6.57% for the nine months ended September 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 primarily reflects the repricing of variable-rate securities at lower rates.

Interest income on mortgage-backed securities held-to-maturity was $99.4 million for the nine months ended September 30, 2001, a decrease of $49.9 million from the nine months ended September 30, 2000. The average portfolio balance decreased $1.0 billion, to $1.6 billion, for the nine months ended September 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 nine months ended September 30, 2001 and 2000 were 8.15% and 7.54%, respectively. The increase in the weighted average yield is primarily the result of the aforementioned $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 $39.8 million for the nine months ended September 30, 2001, a decrease of $28.9 million from the nine months ended September 30, 2000. The average portfolio balance was $0.9 billion and $1.4 billion for the nine months ended September 30, 2001 and 2000, respectively. The decrease in the volume is primarily attributed to payments and maturities of securities. The lower weighted average yield of 5.96% for the nine months ended September 30, 2001 compared to 6.39% for the nine months ended September 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 nine months of 2001.

Dividends on FHLB stock were $63.5 million for the nine months ended September 30, 2001, a decrease of $6.9 million from the nine months ended September 30, 2000. The average balance outstanding during the nine months ended September 30, 2001 and 2000 was $1.4 billion and $1.3 billion, respectively. The weighted average dividend on FHLB stock declined to 6.05% for the nine months ended September 30, 2001 from 7.35% for the nine months ended September 30, 2000. The increase in the average balance is due to an overall increase in average 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 $2.1 billion for the nine months ended September 30, 2001, a decrease of $110.4 million from the nine months ended September 30, 2000. The decrease is primarily due to declining market interest rates and a reduction in higher rate securities sold under agreements to repurchase, partially offset by additional borrowings under lower rate FHLB advances and deposits used to fund total assets.

Interest expense on deposits, including Brokered Deposits, was $666.3 million for the nine months ended September 30, 2001, a decrease of $12.8 million from the nine months ended September 30, 2000. The average balance of deposits outstanding increased from $23.0 billion for the nine months ended September 30, 2000 to $24.2 billion for the nine months ended September 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 declines in savings account balances and certificates of deposit. The overall weighted average cost of deposits decreased to 3.69% for the nine months ended September 30, 2001 from 3.94% for the nine months ended September 30, 2000, primarily due to a lower average balance of higher rate certificates of deposit and a higher average balance of lower rate checking, money market and custodial accounts in 2001.

Interest expense on securities sold under agreements to repurchase totalled $166.9 million for the nine months ended September 30, 2001, a decrease of $100.8 million from the nine months ended September 30, 2000. The average balance of such borrowings for the nine months ended September 30, 2001 and 2000 was $3.9 billion and $5.6 billion, respectively. The decrease in the average balance is primarily the result of maturities during the nine months of 2001. The weighted average interest rate on these instruments decreased to 5.69% for the nine months ended September 30, 2001 from 6.34% for the nine months ended September 30, 2000, primarily due to maturities of higher rate fixed-rate borrowings and the repricing of variable-rate borrowings at lower rates during the nine months of 2001.

Interest expense on borrowings totalled $1.2 billion for the nine months ended September 30, 2001, an increase of $3.1 million from the nine months ended September 30, 2000. The average balance outstanding for the nine months ended September 30, 2001 and 2000 was $28.5 billion and $27.1 billion, respectively. The weighted average interest rate on these instruments decreased to 5.79% for the nine months ended September 30, 2001 from 6.05% for the nine months ended September 30, 2000. The increase in the average volume is the result of additional FHLB borrowings used to fund total assets, while the decrease in the weighted average rate is primarily due to declining market interest rates.

Net Interest Income. Net interest income was $1.0 billion for the nine months ended September 30, 2001, an increase of $140.2 million from the nine months ended September 30, 2000. The interest rate spread increased to 2.32% for the nine months ended September 30, 2001 from 2.03% for the nine months ended September 30, 2000, primarily as a result of declining market interest rates reducing cost of liabilities at a faster rate than the decline in the yield on assets. Lower-costing liabilities were the result of the replacement of higher-rate borrowings and deposits with lower-rate borrowings and deposits as these instruments came due or were repaid. The net interest margin increased to 2.35% for the nine months ended September 30, 2001, up 28 basis points from the 2.07% reported during the first nine months 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 $254.4 million for the nine months ended September 30, 2001, representing a decrease of $69.4 million from the nine months ended September 30, 2000.

Loan servicing fees for the Company, were $(35.7) million for the nine months ended September 30, 2001, compared to $131.3 million for the nine months ended September 30, 2000. The following table details the components of loan servicing fees, net (in thousands):

	Nine Months Ended September 30,	
	2001	2000
Components of loan servicing fees, net:		
Loan servicing fees	$ 337,026	$287,781
Amortization of mortgage servicing rights	(219,793)	(149,037)
Pass-through interest expense	(24,376)	(7,400)
Net gain on MSRs/MSR derivatives	29,491	--
MSR valuation provision	(158,000)	--
Total loan servicing fees, net	$ (35,652)	$131,344

As the table reflects, loan servicing fees increased $49.2 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 $83.0 billion at September 30, 2000 to $86.3 billion at September 30, 2001. The annualized runoff rate on the Company's portfolio of mortgages serviced for others was 26.1% for the nine months ended September 30, 2001 compared to 12.2% for the nine months ended September 30, 2000. This runoff rate also influences MSR amortization, which increased $70.8 million in the first nine months of 2001 over the same period in 2000; the MSR amortization rate averaged 19.9% for the nine months ended September 30, 2001 compared to 13.7% during the same period in 2000. MSR amortization was also affected by a higher average MSR balance for the nine months ended September 30, 2001 compared to the same period in 2000. Pass-through interest expense increased $17.0 million (229%) year over year, also influenced by higher runoff rates. Servicing fee income includes a $29.5 million pre-tax gain from the impact of SFAS No. 133 pertaining to the MSR fair value hedges. A $158.0 million pre-tax valuation provision on the MSRs was recorded during the nine months ended September 30, 2001. See "—Mortgage Banking Risk Management" for further discussion.

Customer banking fees were $161.0 million for the nine months ended September 30, 2001 compared to $147.3 million for the nine months ended September 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 53.7% at September 30, 2001, from 48.4% at September 30, 2000. The following table details the components of customer banking fees (in thousands):

	Nine Months Ended September 30,	
	2001	2000
Components of customer banking fees and service charges:		
Customer and electronic banking fees	$104,876	$ 88,717
Other customer fees	1,903	2,440
Investment sales income	46,424	43,387
Insurance commissions	7,788	12,740
Total customer banking fees and service charges	$160,991	$147,284

Gain on sale, settlement and transfer of loans, net totalled $69.1 million for the nine months ended September 30, 2001, an increase of $31.4 million from the nine months ended September 30, 2000. During the nine months ended September 30, 2001 and 2000, the Company recorded reductions in its recourse liability of $24.5 million and $14.5 million, respectively. This liability is a life-of-loan accrual which has experienced favorable performance over the past several years. The Company's revised loss estimate is lower than previously expected, primarily for three reasons:

(a) The historical performance of these loans since they were acquired has been better than initial estimates and expectations, with only minimal losses experienced over the past four years.

(b) These loans are generally over 10 years old. This seasoning has contributed to lower LTVs, and hence, lower loss exposure.

(c) Interest rates have been relatively low over the past few years, and have continued to decline. Because substantially all of these loans are adjustable-rate loans, borrowers have enjoyed lower payments. The lag associated with adjustable-rate indices assures that borrowers' payments will continue to decline.

During the nine months ended September 30, 2001, California Federal sold $11.2 billion in single-family mortgage loans originated for sale with servicing rights retained as part of its ongoing mortgage banking operations at gains of $33.8 million compared to $3.7 billion of such sales for the corresponding period in 2000 at gains of $13.8 million. The results in 2001 include $4.2 million related to the gain on sale of $136.2 million in government-insured loans that were previously seriously delinquent and had become performing (GNMA reperformers). The overall increase in the volume of loans sold and the related gain is the 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 $2.4 million unrealized gain on forward loan sale commitments related to SFAS No. 133.

Gain on sale of assets, net totalled $17.6 million for the nine months ended September 30, 2001, compared to a net loss of $15.3 million for the nine months ended September 30, 2000. The gain during the nine months of 2001 includes a $16.6 million gain on the sale of $761.8 million in mortgage-backed securities and a gain of $9.3 million on the sale of the Company's Concord EFS stock. This was partially offset by a $4.1 million write-down in the Company's equity securities portfolio and a $4.1 million loss on the mark-to-market of the Company's portfolio of IO strip securities. The loss during 2000 is 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 and a $0.9 million loss from the sale of $187.6 million of mortgage-backed securities with an average yield of 6.59% during the third quarter, partially offset by a $1.3 million gain from the sale of interest rate swaps with a notional amount of $284.0 million in August 2000.

Other income totalled $42.4 million for the nine months ended September 30, 2001, an increase of $19.5 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 $729.5 million for the nine months ended September 30, 2001, an increase of $46.3 million compared to the nine months ended September 30, 2000. Noninterest expense for the nine months ended September 30, 2001 included increases of $23.0 million in compensation and employee benefit expense, $19.0 million in other noninterest expense and $8.3 million in occupancy and equipment expense. These changes were partially offset by decreases of $3.2 million in professional fees and $2.5 million in amortization of intangible assets.

Compensation and employee benefits expense was $347.7 million for the nine months ended September 30, 2001, an increase of $23.0 million from the nine months ended September 30, 2000. The increase is primarily attributed to an increase in staff (from 7,824 FTE at September 30, 2000 to 8,109 at September 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 $127.9 million for the nine months ended September 30, 2001, an increase of $8.3 million from the nine months ended September 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 $25.5 million for the nine months ended September 30, 2001, a decrease of $3.2 million from the nine months ended September 30, 2000, primarily due to a decrease in consulting fees related to various data processing systems projects.

Amortization of intangible assets was $44.8 million for the nine months ended September 30, 2001, a decrease of $2.5 million from the nine months ended September 30, 2000, primarily attributed to a December 2000 reduction in the goodwill balance due to the reversal of Old California Federal state deferred taxes.

Other noninterest expense was $172.1 million for the nine months ended September 30, 2001 compared to $153.0 million during the comparable period in 2000. The increase in expenses relates to increases in a number of operating expense categories, including retail back office operations, telephone, courier service, postage and marketing.

Provision for Income Tax. During the nine months ended September 30, 2001, Golden State recorded net income tax expense of $202.8 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 of $3.2 million was recorded due to the utilization of net operating losses of a subsidiary made available as a result of the subsidiary's liquidation into California Federal. These net operating losses are tax benefits retained by the previous owners of FN Holdings pursuant to the Golden State Merger Agreement.

During the nine months ended September 30, 2000, Golden State recorded gross income tax expense of $223.9 million, which was offset by a tax benefit of $161.7 million, for net income tax expense of $62.2 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 nine-month period ended September 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 40% during the nine months ended September 30, 2001 and 38% during the nine months ended September 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 a reduction in the accrued state tax liability and nondeductible 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 (1)% and 6% during the nine months ended September 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 $34.2 million were recorded during each of the nine months ended September 30, 2001 and 2000, and were recorded as minority interest on an after-tax basis for the respective periods.

Minority interest for the nine months ended September 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 nine months ended September 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 nine months ended September 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 nine months ended September 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	--	(185,217)	195,025	19,683	--	--	(29,491)	--
Warehouse loans	19,203	--	--	--	--	--	--	(19,203)
Interest rate locks	--	--	10,648	--	--	--	--	(10,648)
FLSC hedges	--	--	--	(28,535)	--	--	--	28,535
Cash flow hedges - swaps	--	--	--	(172,345)	70,402	101,943	--	--
Fair Value Adjustments – Nine Months ended September 30, 2001	**19,203**	**(185,217)**	**205,673**	**(181,197)**	**70,402**	**101,943**	**(29,491)**	**(1,316)**
Other Activity – Nine Months ended September 30, 2001:								
MSR hedge additions	--	--	354,016	--	--	--	--	--
MSR hedge sales and maturities	--	--	(408,378)	--	--	--	--	--
Hedge receipts and payments	--	(121)	(1,549)	(12,993)	--	--	--	--
Total Other Activity – Nine Months ended September 30, 2001	**--**	**(121)**	**(55,911)**	**(12,993)**	**--**	**--**	**--**	**--**
Total Impact from SFAS No. 133 – Nine Months ended September 30, 2001	**$23,037**	**$(350,105)**	**$ 326,296**	**$(284,224)**	**$101,237**	**$146,590**	**$(29,491)**	**$ (2,365)**

During the nine months ended September 30, 2001, the impact of SFAS No. 133 added $0.13 to diluted earnings per share.

Results of Operations

Three months ended September 30, 2001 versus three months ended September 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 September 30, 2001		
	Average Balance	Interest	Average Rate
	(dollars in millions)		
ASSETS			
Interest-earning assets (1):			
Securities and interest-bearing deposits in banks (2)	$ 571	$ 8	5.73%
Mortgage-backed securities available-for-sale	8,909	142	6.37
Mortgage-backed securities held-to-maturity	1,510	28	7.53
Loans held for sale, net	2,825	46	6.59
Loans receivable, net:			
Residential	31,453	531	6.75
Commercial real estate	6,399	128	7.98
Commercial banking	647	12	7.41
Consumer	908	19	7.99
Auto	1,871	56	11.95
Total loans receivable, net	41,278	746	7.22
FHLB stock	1,423	18	5.04
Total interest-earning assets	56,516	988	6.99%
Noninterest-earning assets	3,957		
Total assets	$60,473		
LIABILITIES, MINORITY INTEREST AND STOCKHOLDERS' EQUITY			
Interest-bearing liabilities:			
Deposits	$24,556	202	3.26%
Securities sold under agreements to repurchase (3)	3,635	46	4.91
Borrowings (3)	27,980	384	5.45
Total interest-bearing liabilities	56,171	632	4.46%
Noninterest-bearing liabilities	1,454		
Minority interest	495		
Stockholders' equity	2,353		
Total liabilities, minority interest and stockholders' equity	$60,473		
Net interest income		$356	
Interest rate spread			2.53%
Net interest margin			2.56%
Return on average assets			0.68%
Return on average equity			17.55%
Return on tangible common equity			27.82%
Average equity to average assets			3.89%
Dividend payout ratio			13.70%

	Three Months Ended September 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	$ 23	6.36%
Mortgage-backed securities available-for-sale	11,278	190	6.73
Mortgage-backed securities held-to-maturity	3,096	58	7.55
Loans held for sale, net	926	18	7.65
Loans receivable, net:			
Residential	30,601	545	7.13
Commercial real estate	5,784	119	8.25
Commercial banking	531	14	10.50
Consumer	782	21	10.49
Auto	1,386	43	12.24
Total loans receivable, net	39,084	742	7.59
FHLB stock	1,334	25	7.51
Total interest-earning assets	57,147	1,056	7.39%
Noninterest-earning assets	3,258		
Total assets	$60,405		
LIABILITIES, MINORITY INTEREST AND STOCKHOLDERS' EQUITY			
Interest-bearing liabilities:			
Deposits	$23,307	236	4.03%
Securities sold under agreements to repurchase (3)	5,444	95	6.83
Borrowings (3)	27,976	439	6.23
Total interest-bearing liabilities	56,727	770	5.39%
Noninterest-bearing liabilities	1,381		
Minority interest	495		
Stockholders' equity	1,802		
Total liabilities, minority interest and stockholders' equity	$60,405		
Net interest income		$ 286	
Interest rate spread			2.00%
Net interest margin			2.04%
Return on average assets			0.59%
Return on average equity			19.65%
Return on tangible common equity			38.94%
Average equity to average assets			2.98%
Dividend payout ratio			15.87%

(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 September 30, 2001 vs. 2000 Increase (Decrease) Due to		
	Volume	Rate	Net
		(in millions)	
INTEREST INCOME:			
Securities and interest-bearing deposits in banks	$(13)	$ (2)	$ (15)
Mortgage-backed securities available-for-sale	(38)	(10)	(48)
Mortgage-backed securities held-to-maturity	(30)	--	(30)
Loans held for sale, net	30	(2)	28
Loans receivable, net	29	(25)	4
FHLB stock	2	(9)	(7)
Total	(20)	(48)	(68)
INTEREST EXPENSE:			
Deposits	14	(48)	(34)
Securities sold under agreements to repurchase	(26)	(23)	(49)
Borrowings	--	(55)	(55)
Total	(12)	(126)	(138)
Change in net interest income	$ (8)	$ 78	$ 70

Interest Income. Total interest income was $988.6 million for the three months ended September 30, 2001, a decrease of $67.3 million from the three months ended September 30, 2000. Total interest-earning assets for the three months ended September 30, 2001 averaged $56.5 billion, compared to $57.1 billion for the corresponding period in 2000, primarily as a result of a decline in mortgage-backed securities, partially offset by an increase in loan volume. The yield on total interest-earning assets during the three months ended September 30, 2001 decreased to 6.99% from 7.39% for the three months ended September 30, 2000, primarily due to the repricing of loans and securities at lower rates, partially offset by a higher percentage of loans to total earning assets during 2001.

Golden State earned $745.4 million of interest income on loans receivable for the three months ended September 30, 2001, an increase of $3.3 million from the three months ended September 30, 2000. The average balance of loans receivable was $41.3 billion for the three months ended September 30, 2001, compared to $39.1 billion for the same period in 2000. The weighted average yield on loans receivable decreased to 7.22% for the three months ended September 30, 2001 from 7.59% for the three months ended September 30, 2000. The increase in the average balance reflects a net increase in residential and commercial real estate loan origination activities. On July 1, 2001, the Company began accounting for interest income on newly originated automobile loans on a gross coupon basis rather than based on credit-adjusted yield. The impact on the current quarter was immaterial, but in future periods, interest income is expected to increase.

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

	Three Months Ended September 30,	
	2001	2000
Loans funded:		
Residential real estate loans:		
Adjustable-rate	$ 1,622,486	$1,261,312
Fixed-rate	5,379,189	1,655,078
Total residential real estate loans	7,001,675	2,916,390
Commercial real estate loans	415,861	337,595
Commercial loans	241,541	157,086
Consumer nonmortgage loans	209,672	199,475
Total loans funded	$ 7,868,749	$3,610,546
Loans purchased:		
Residential real estate loans	$ 475,166	$ 98,975
Auto loans (a)	314,019	302,308
Total loans purchased	$ 789,185	$ 401,283

(a) Approximately 41% and 47% of this volume was in prime product; 59% and 53% in sub-prime product for the three months ended September 30, 2001 and 2000, respectively.

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

Golden State earned $46.6 million of interest income on loans held for sale for the three months ended September 30, 2001, an increase of $28.8 million from the three months ended September 30, 2000. The average balance of loans held for sale was $2.8 billion for the three months ended September 30, 2001, an increase of $1.9 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 $5.4 billion during the quarter ended September 30, 2001 compared to $1.7 billion originated during the comparable period in 2000. The weighted average yield on loans held for sale decreased to 6.59% for the three months ended September 30, 2001 from 7.65% for the three months ended September 30, 2000, primarily due to declining market interest rates.

Interest income on mortgage-backed securities available-for-sale was $141.9 million for the three months ended September 30, 2001, a decrease of $47.8 million from the three months ended September 30, 2000. The average portfolio balance decreased $2.4 billion, to $8.9 billion, for the three months ended September 30, 2001 compared to the same period in 2000. The weighted average yield on these assets decreased from 6.73% for the three months ended September 30, 2000 to 6.37% for the three months ended September 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 primarily reflects the repricing of variable-rate securities at lower rates.

Interest income on mortgage-backed securities held-to-maturity was $28.4 million for the three months ended September 30, 2001, a decrease of $30.0 million from the three months ended September 30, 2000. The average portfolio balance decreased $1.6 billion, to $1.5 billion, for the three months ended September 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 September 30, 2001 and 2000 were 7.53% and 7.55%, respectively. The decrease in the weighted average yield is primarily due to the repricing of variable-rate securities at lower rates, partially offset by the aforementioned $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 $8.2 million for the three months ended September 30, 2001, a decrease of $14.6 million from the three months ended September 30, 2000. The average portfolio balance was $0.6 billion and $1.4 billion for the three months ended September 30, 2001 and 2000, respectively. The decrease in the volume is primarily attributed to payments and maturities of securities. The lower weighted average yield of 5.73% for the three months ended September 30, 2001 compared to 6.36% for the three months ended September 30, 2000 reflects the repricing of securities at lower rates during 2001.

Dividends on FHLB stock were $18.1 million for the three months ended September 30, 2001, a decrease of $7.1 million from the three months ended September 30, 2000. The average balance outstanding during the three months ended September 30, 2001 and 2000 was $1.4 billion and $1.3 billion, respectively. The weighted average dividend on FHLB stock decreased to 5.04% for the three months ended September 30, 2001 from 7.51% for the three months ended September 30, 2000. The increase in the average balance is due to an increase in average 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 $632.1 million for the three months ended September 30, 2001, a decrease of $138.2 million from the three months ended September 30, 2000. The decrease is primarily due to declining market interest rates and a reduction in higher rate securities sold under agreements to repurchase, partially offset by additional borrowings under lower rate FHLB advances and deposits used to fund total assets.

Interest expense on deposits, including Brokered Deposits, was $201.9 million for the three months ended September 30, 2001, a decrease of $34.1 million from the three months ended September 30, 2000. The average balance of deposits outstanding increased from $23.3 billion for the three months ended September 30, 2000 to $24.6 billion for the three months ended September 30, 2001. The increase in the average balance is primarily attributed to increases in the average balances of money market accounts, custodial accounts and retail customer checking accounts, partially offset by declines in certificates of deposit and savings account balances. The overall weighted average cost of deposits decreased to 3.26% for the three months ended September 30, 2001 from 4.03% for the three months ended September 30, 2000, primarily due to a lower average balance of higher rate certificates of deposit and a higher average balance of lower-rate checking, money market and custodial accounts during 2001.

Interest expense on securities sold under agreements to repurchase totalled $45.5 million for the three months ended September 30, 2001, a decrease of $49.4 million from the three months ended September 30, 2000. The average balance of such borrowings for the three months ended September 30, 2001 and 2000 was $3.6 billion and $5.4 billion, respectively. The decrease in the average balance is primarily the result of maturities during the third quarter of 2001. The weighted average interest rate on these instruments decreased to 4.91% for the three months ended September 30, 2001 from 6.83% for the three months ended September 30, 2000, primarily due to maturities of higher rate fixed-rate borrowings and the repricing of variable-rate borrowings at lower rates in 2001.

Interest expense on borrowings totalled $384.8 million for the three months ended September 30, 2001, a decrease of $54.6 million from the three months ended September 30, 2000. The average balance outstanding for both the three months ended September 30, 2001 and 2000 was $28.0 billion. The weighted average interest rate on these instruments decreased to 5.45% for the three months ended September 30, 2001 from 6.23% for the three months ended September 30, 2000. The decrease in the weighted average rate primarily reflects declining market interest rates.

Net Interest Income. Net interest income was $356.5 million for the three months ended September 30, 2001, an increase of $70.8 million from the three months ended September 30, 2000. The interest rate spread increased to 2.53% for the three months ended September 30, 2001 from 2.00% for the three months ended September 30, 2000, primarily as a result of declining market interest rates reducing the cost of liabilities at a faster rate than the decline in the yield on assets. Lower-costing liabilities were the result of the replacement of higher-rate borrowings and deposits with lower-rate borrowings and deposits as these instruments came due or were repaid. The net interest margin increased to 2.56% for the three months ended September 30, 2001, up 52 basis points from the 2.04% reported during the third 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 $85.9 million for the three months ended September 30, 2001, representing a decrease of $26.0 million from the three months ended September 30, 2000.

Loan servicing fees for the Company, were $(28.7) million for the three months ended September 30, 2001, compared to $45.5 million for the three months ended September 30, 2000. The following table details the components of loan servicing fees, net (in thousands):

	Three Months Ended September 30,	
	2001	2000
Components of loan servicing fees, net:		
Loan servicing fees	$112,734	$99,953
Amortization of mortgage servicing rights	(72,780)	(51,801)
Pass-through interest expense	(8,234)	(2,631)
Net gain on MSRs/MSR derivatives	20,534	--
MSR valuation provision	(81,000)	--
Total loan servicing fees, net	$(28,746)	$45,521

As the table reflects, loan servicing fees increased $12.8 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, increased from $83.3 billion at June 30, 2001 to $86.3 billion at September 30, 2001. The annualized runoff rate on the Company's portfolio of mortgages serviced for others was 27.2% in the third quarter of 2001 compared to 12.8% during the same period in 2000. This runoff rate also influences MSR amortization, which increased $21.0 million in the third quarter of 2001 over the same period in 2000; the MSR amortization rate averaged 19.1% during the quarter ended September 30, 2001 compared to 13.3% during the same period in 2000. MSR amortization was also affected by a higher average MSR balance during the quarter ended September 30, 2001 compared to the same period in 2000. Pass-through interest expense increased $5.6 million (213%) compared to the year-ago quarter, also influenced by higher run-off rates. Servicing fee income includes a $20.5 million pre-tax gain for the three months ended September 30, 2001 from the impact of SFAS No. 133 pertaining to the MSR fair value hedges. An $81.0 million pre-tax valuation provision on the MSRs was recorded during the three months ended September 30, 2001. See "—Mortgage Banking Risk Management" for further discussion.

Customer banking fees were $55.2 million for the three months ended September 30, 2001 compared to $48.6 million for the three months ended September 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. The following table details the components of customer banking fees (in thousands):

	Three Months Ended September 30,	
	2001	2000
Components of customer banking fees and service charges:		
Customer and electronic banking fees	$36,375	$30,325
Other customer fees	605	848
Investment sales income	15,694	13,516
Insurance commissions	2,497	3,871
Total customer banking fees and service charges	$55,171	$48,560

Gain on sale, settlement and transfer of loans, net totalled $47.2 million for the three months ended September 30, 2001, an increase of $36.6 million from the three months ended September 30, 2000. During the three months ended September 30, 2001, the Company recorded a $24.5 million reduction in its recourse liability. See "—Results of Operations—Nine Months Ended September 30, 2001 versus Nine Months Ended September 30, 2000—Noninterest Income." During the three months ended September 30, 2001, California Federal sold $5.5 billion in single-family mortgage loans originated for sale with servicing rights retained as part of its ongoing mortgage banking operations at gains of $19.7 million compared to $1.4 billion of such sales for the corresponding period in 2000 at gains of $4.7 million. The results in 2001 include $4.2 million related to the gain on sale of $136.2 million in government-insured loans that were previously seriously delinquent and had become performing (GNMA reperformers). The overall increase in the volume of loans sold and related gain is the 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 $1.2 million unrealized loss on forward loan sale commitments related to SFAS No. 133.

Gain on sale of assets, net totalled $5.4 million for the three months ended September 30, 2001, compared to $0.7 million for the three months ended September 30, 2000. The gain during the third quarter of 2001 includes a $10.0 million gain on the sale of $464.0 million in mortgage-backed securities, partially offset by a $4.1 million loss on the mark-to-market of the Company's portfolio of IO strip securities. The gain during 2000 is primarily attributed to a $1.3 million gain from the sale of interest rate swaps with a notional amount of $284.0 million, partially offset by a $0.9 million loss from the sale of $187.6 million of mortgage-backed securities with an average yield of 6.59%.

Noninterest Expense. Total noninterest expense was $247.3 million for the three months ended September 30, 2001, an increase of $19.0 million compared to the three months ended September 30, 2000. Noninterest expense for the three months ended September 30, 2001 included increases of $10.6 million in other noninterest expense, $7.1 million in compensation and employee benefits and $1.8 million in occupancy and equipment expense.

Compensation and employee benefits expense was $115.5 million for the three months ended September 30, 2001, an increase of $7.1 million from the three months ended September 30, 2000. The increase is primarily attributed to an increase in staff (from 7,824 FTE at September 30, 2000 to 8,109 at September 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 employees.

Occupancy and equipment expense was $44.5 million for the three months ended September 30, 2001, an increase of $1.8 million from the three months ended September 30, 2000, primarily due to increased rent expense as well as an increase in operating equipment expense.

Other noninterest expense was $58.0 million for the three months ended September 30, 2001, an increase of $10.6 million from the three months ended September 30, 2000. The increase in expenses relates to increases in a number of operating expense categories including retail back office operations, telephone, marketing, courier service and charitable contributions.

Provision for Income Tax. During the three months ended September 30, 2001 and 2000, Golden State recorded income tax expense of $85.1 million and $74.0 million, respectively.

Golden State's effective gross federal tax rate was 37% and 38% during the three months ended September 30, 2001 and 2000, respectively, while its federal statutory tax rate was 35% during both periods. In 2001 and 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% during each of the three months ended September 30, 2001 and 2000.

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

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 September 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	$ --	$(268,775)	$ 269,228	$ 20,081	$ --	$ --	$(20,534)	$ --
Warehouse loans	28,241	--	--	--	--	--	--	(28,241)
Interest rate locks	--	--	13,559	6,069	--	--	--	(19,628)
FLSC hedges	--	--	(14,823)	(34,232)	--	--	--	49,055
Cash flow hedges - swaps	--	--	--	(144,011)	58,828	85,183	--	--
Fair Value Adjustments – Three Months ended September 30, 2001	**28,241**	**(268,775)**	**267,964**	**(152,093)**	**58,828**	**85,183**	**(20,534)**	**1,186**
Other Activity – Three Months ended September 30, 2001:								
MSR hedge additions	--	--	81,428	--	--	--	--	--
MSR hedge sales and maturities	--	--	(192,958)	--	--	--	--	--
Hedge receipts and payments	--	--	(23,568)	(5,507)	--	--	--	--
Total Other Activity – Three Months ended September 30, 2001	**--**	**--**	**(135,098)**	**(5,507)**	**--**	**--**	**--**	**--**
Total Impact from SFAS No. 133 – Three Months ended September 30, 2001	**$28,241**	**$(268,775)**	**$ 132,866**	**$(157,600)**	**$58,828**	**$85,183**	**$(20,534)**	**$ 1,186**

During the three months ended September 30, 2001, the impact of SFAS No. 133 added $0.08 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, all auto 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 September 30, 2001, loans that were considered to be impaired totalled $75.6 million (of which $20.7 million were on nonaccrual status). The average recorded investment in impaired loans during the nine and three-month periods ended September 30, 2001 was approximately $76.7 million and $76.5 million, respectively. For the nine and three-month periods ended September 30, 2001, Golden State recognized interest income on those impaired loans of $4.8 million and $1.8 million, respectively, which included $0.4 million and $0.3 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. There were no accruing loans contractually past due 90 days or more at September 30, 2001 or December 31, 2000. Purchased auto loans are reflected in the table below using each individual loan's contractual unpaid principal balance.

	September 30, 2001	
	Non-performing	Impaired
	(in millions)	
Real Estate:		
1-4 unit residential	$ 77	$ 1
Multi-family residential	1	13
Commercial and other	3	36
Total real estate	81	50
Non-real estate	25	26
Total loans	106 (a)	$76 (b)
Foreclosed real estate, net	20	
Repossessed assets	5	
Total non-performing assets	$131	

	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 September 30, 2001 or December 31, 2000.

(b) Includes $20.7 million and $19.5 million of non-performing loans at September 30, 2001 and December 31, 2000, respectively.

The Company's and the Bank's non-performing assets, consisting of nonaccrual loans, repossessed assets and foreclosed real estate, net, decreased to $131 million at September 30, 2001, from $141 million at December 31, 2000. Non-performing assets as a percentage of the Bank's total assets decreased to 0.22% at September 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 September 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	$45	$11	$ 56	55%
Northeast (1)	12	1	13	13
Other regions	24	8	32	32
Total	$81	$20	$101	100%

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

(2) Net of purchase accounting adjustments.

At September 30, 2001, the Company had 2 non-performing assets over $2 million in size with balances averaging $2.6 million and 3,433 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. The Company recorded no provisions for loan losses during the nine and three months ended September 30, 2001 and 2000, respectively.

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

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2001	2000	2001	2000
Balance – beginning of period	$526,308	$554,893	$515,979	$536,114
Provision for loan losses	--	--	--	--
Charge-offs	(17,642)	(27,251)	(5,503)	(6,954)
Recoveries	2,349	2,432	539	914
Reclassification	(130)	--	(130)	--
Balance – end of period	$510,885	$530,074	$510,885	$530,074

The current period reclassification relates to loans transferred to the held-for-sale portfolio. On July 1, 2001, the Company began accounting for interest income on newly originated automobile loans on a gross coupon basis rather than based on credit-adjusted yield. Credit losses on loans originated after July 1, 2001 will no longer be amortized through the net interest margin, but will be charged to the loan loss allowance. The impact on the current quarter was immaterial, but in future quarters, loan charge-offs are expected to increase.

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%	40%	39%
Commercial Real Estate	89	28	61
Consumer (primarily Home Equity)	93	45	48

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 September 30, 2001, the allowance for loan losses was $511 million, consisting of a $371 million formula allowance, a $24 million specific allowance and a $116 million unallocated allowance.

Although the loan loss allowance has been allocated by type of loan for internal valuation purposes, $487 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
Provision for loan losses	--	(7)	7	--
Charge-offs	(1)	--	(5)	(6)
Recoveries	--	--	1	1
Balance – September 30, 2001	$225	$172	$114	$511

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 September 30, 2001, approximately 75% 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 September 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)	$ 210	$ --	$ --	$ --	$ 210
Securities held-to-maturity (1)	114	89	16	--	219
Securities available-for-sale (3)	118	--	--	--	118
Mortgage-backed securities available-for-sale (3)	8,243	--	--	--	8,243
Mortgage-backed securities held-to-maturity (1) (4)	1,440	18	15	--	1,473
Loans held for sale, net (3)	2,109	--	--	--	2,109
Loans receivable, net (1) (5)	20,620	16,435	4,193	--	41,248
Investment in FHLB	1,428	--	--	--	1,428
Total interest-earning assets	34,282	16,542	4,224	--	55,048
Noninterest-earning assets	--	--	--	4,439	4,439
	$34,282	$16,542	$4,224	$4,439	$59,487
INTEREST-BEARING LIABILITIES:					
Deposits (6)	$22,945	$ 1,493	$ 1	$ --	$24,439
Securities sold under agreements to repurchase (1)	3,321	73	--	--	3,394
FHLB advances (1)	15,542	9,740	--	--	25,282
Other borrowings (1)	272	1,402	93	--	1,767
Total interest-bearing liabilities	42,080	12,708	94	--	54,882
Noninterest-bearing liabilities	--	--	--	1,673	1,673
Minority interest	--	--	--	500	500
Stockholders' equity	--	--	--	2,432	2,432
	$42,080	$12,708	$ 94	$4,605	$59,487
Gap before interest rate swap agreements	$(7,798)	$ 3,834	$4,130		$ 166
Interest rate swap agreements	3,570	(3,570)	--		--
Gap	$(4,228)	$ 264	$4,130		$ 166
Cumulative gap	$(4,228)	$(3,964)	$ 166		$ 166
Gap as a percentage of total assets	(7.11)%	0.44%	6.94%		0.28%
Cumulative gap as a percentage of total assets	(7.11)%	(6.66)%	0.28%		0.28%

(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 September 30, 2001. The actual maturity and rate sensitivity of these assets could vary substantially if future prepayments differ from prepayment estimates.

(2) Consists of $85 million of short-term investment securities and $125 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 $0.6 million.

(5) Excludes allowance for loan losses of $511 million and non-performing loans of $106 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 September 30, 2001 and December 31, 2000, Golden State's cumulative gap totalled $166 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 nine months ended September 30, 2001 and 2000, the Company, through the Bank's wholly owned mortgage banking subsidiary, FNMC, acquired mortgage-servicing rights on loan portfolios of $8.7 billion and $13.5 billion, respectively. The 1-4 unit residential loans serviced for others (excluding loans serviced for the Bank) totalled $86.3 billion at September 30, 2001, an increase of $2.3 billion and $3.4 billion from December 31, 2000 and September 30, 2000, respectively. In absolute loan count, FNMC serviced 859,736 loans for others at September 30, 2001, compared to 879,180 loans at December 31, 2000 and 874,707 loans at September 30, 2000. The residential loans serviced for others at September 30, 2001 have an average principal balance of $100.4 thousand, a weighted average note rate of 7.45% and earn a weighted average contractual servicing fee of 41 basis points; 45.28% are secured by properties located in California. Average loan servicing cost is $47 per loan. During the nine months ended September 30, 2001 and 2000, the Bank, through FNMC, originated $18.3 billion and $10.3 billion, respectively, and sold (generally with servicing retained) $11.2 billion and $3.7 billion, respectively, of 1-4 unit residential loans. Gross revenues from mortgage loan servicing activities at FNMC for the nine months ended September 30, 2001 totalled $310.3 million, an increase of $43.3 million from the nine months ended September 30, 2000. Gross loan servicing fees for the nine months ended September 30, 2001 were reduced by $217.6 million of amortization of servicing rights, $24.4 million in pass-through interest expense and a $158.0 million MSR valuation provision, partially offset by $29.5 million in unrealized gains relating to SFAS No. 133, resulting in net loan servicing expense of $60.2 million for the residential loan servicing portfolio.

The recent decline in long-term interest rates has resulted in the acceleration of mortgage loan prepayments. Higher levels of prepayments generally accelerate amortization of MSRs and generally will result in a reduction in the market value of MSRs and 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 September 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 $310.6 million at September 30, 2001. The interest rate swap agreements had a notional amount of $2.5 billion, weighted average pay rate of 2.99%, receive rates between 5.23% and 6.24%, mature in the years 2010 through 2011 and had an estimated fair value of $103.8 million at September 30, 2001. The interest rate floor contracts had a notional amount of $1.9 billion, strike rates between 6.10% and 6.55%, mature in the year 2006, and had an estimated fair value of $66.8 million at September 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 $2.3 billion, strike rates between 5.75% and 6.55%, expire in the years 2003 through 2004, and had an estimated fair value of $128.6 million at September 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 $279.7 million and an estimated fair value of $11.4 million at September 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 nine and three months ended September 30, 2001 (in millions):

	Nine Months	Three Months
	Ended September 30, 2001	
Balance – beginning of period	$1,559	$1,514
Transfer to derivative assets upon adoption of SFAS No. 133	(95)	--
SFAS No. 133 transition adjustment	(70)	--
Additions – purchases	232	105
Originated servicing	253	122
SFAS No. 133 fair market valuation adjustment	(185)	(269)
SFAS No. 140 valuation allowance	(158)	(81)
Amortization	(220)	(73)
Other	2	--
Balance – end of period	$1,318	$1,318

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 December 31, 2000, no allowance for impairment of the MSRs was necessary. During the three and nine months ended September 30, 2001, the Company recorded pre-tax valuation provisions on its MSRs of $81 million and $158 million, respectively. The provision in the third quarter of 2001 is due in large part to the significant decline in interest rates since September 11, 2001. Hedging activities covered approximately 70% of the total decline in value of the servicing portfolio, as hedge ratios were maintained at high levels throughout the quarter. On an aggregate basis, at September 30, 2001, the estimated fair value of the MSRs was $18.8 million higher than book value (net of a valuation allowance of $158 million). To the extent there is recovery of fair values of the impaired tranches in future quarters, the valuation allowance will be reduced.

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 has been in compliance with the liquidity regulations during the nine months ended September 30, 2001 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 September 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 September 30, 2001, Golden State had FHLB advances, securities sold under agreements to repurchase and other borrowings aggregating $13.7 billion and $19.1 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.

On August 1, 2001, $350 million of the GS Holdings Notes matured and was paid in full. Interest expense on the remaining $1.65 billion in GS Holdings Notes approximates $127.9 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 $992.9 million at September 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 nine months ended September 30, 2001 were $87.8 billion in proceeds from additional borrowings, $10.9 billion in proceeds from sales of loans held for sale, $2.6 billion in principal payments on mortgage-backed securities available-for-sale and held-to-maturity, $1.6 billion from a net decrease in loans receivable and $1.0 billion in proceeds from maturities of securities available-for-sale and held-to-maturity. The primary uses of funds were $89.2 billion in principal payments on borrowings, $12.2 billion in purchases and originations of loans held for sale, $3.1 billion in purchases of loans receivable and $1.1 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 September 30, 2001, the Bank's tangible, core and risk-based capital ratios of 6.13%, 6.13% and 12.26%, respectively, exceeded the minimum regulatory capital requirements. The following is a reconciliation of the Bank's stockholder's equity to regulatory capital as of September 30, 2001:

	Tangible Capital	Core Capital	Risk-based Capital
		(dollars in millions)	
Stockholder's equity of the Bank	$3,984	$3,984	$3,984
Minority interest – REIT Preferred Stock	500	500	500
Unrealized holding gain on securities, net	(61)	(61)	(61)
Unrealized holding loss on derivative instruments, net	146	146	146
Non-allowable capital:			
Non-qualifying loan servicing rights	(116)	(116)	(116)
Intangible assets	(646)	(646)	(646)
Goodwill Litigation Assets	(159)	(159)	(159)
Investment in non-includable subsidiaries	(69)	(69)	(69)
Supplemental capital:			
Qualifying subordinated debentures	--	--	74
General loan loss allowance	--	--	414
Qualifying portion of unrealized gain on equity securities available-for-sale	--	--	--
Assets required to be deducted:			
Land loans with more than 80% LTV ratio	--	--	(4)
Equity in subsidiaries	--	--	(9)
Low-level recourse deduction	--	--	(9)
Regulatory capital of the Bank	3,579	3,579	4,045
Minimum regulatory capital requirement	875	2,334	2,639
Excess above minimum capital requirement	$2,704	$1,245	$1,406
Regulatory capital of the Bank	6.13%	6.13%	12.26%
Minimum regulatory capital requirement	1.50	4.00	8.00
Excess above minimum capital requirement	4.63%	2.13%	4.26%

The amount of adjusted total assets used for the tangible and leverage capital ratios is $58.4 billion. Risk-weighted assets used for the risk-based capital ratio amounted to $33.0 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 September 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 September 30, 2001 which would change the Bank's capital classification.

At September 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	6.13%	10.82%	12.26%
"Well capitalized" ratio	5.00	6.00	10.00
Excess above "well capitalized" ratio	1.13%	4.82%	2.26%

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 September 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 September 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 September 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.

None.

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
APB Opinion No. 30 – Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions
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 States, 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.

GS Holdings Notes – On August 6, 1998, GS Escrow, which subsequently merged into GS Holdings, issued $2 billion of fixed and floating rate notes.

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 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

SFAS No. 144 – Accounting for the Impairment or Disposal of Long-Lived 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)

November 7, 2001