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

FORM 10-K

(Mark One)

☒ **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the fiscal year ended December 31, 2001

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from ____ to ____
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, California	**94105**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: 415-904-1100
Securities registered pursuant to Section 12(b) of the Act:
New York Stock and Pacific Exchanges: Common Stock, Par Value $1.00
Securities registered pursuant to Section 12(g) of the Act:
Litigation Tracking Warrants™

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

The aggregate market value of the voting stock held by non-affiliates of the registrant as of the close of business on February 28, 2002: $2,221,243,045

The number of shares outstanding of the registrant's $1.00 par value common stock, as of the close of business on February 28, 2002: 135,910,784 shares of common stock.

Documents Incorporated by Reference:
Portions of the Proxy Statement for the May 20, 2002 Annual Meeting of Stockholders Part III

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Forward-Looking Statements. This 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. See "Business--Factors That May Affect Future Results" for a discussion of these factors in greater detail. We assume no obligation to update any of our forward-looking statements.

A glossary of defined terms appears on page 84.

PART I

ITEM 1. Business

General

Golden State Bancorp Inc. is a holding company whose only significant asset is all of the common stock of GS Holdings, formerly FN Holdings, which owns all of the common and preferred stock of the Bank.

The Company, headquartered in San Francisco, California, provides diversified financial services to consumers and small businesses in California and Nevada, primarily:

(a) retail branches that provide deposit products such as demand, transaction and savings accounts, and investment products such as mutual funds, annuities and insurance; and

(b) mortgage banking activities, including originating and purchasing 1-4 unit residential loans for sale or retention, servicing loans for itself and others and, to a lesser extent, originating and/or purchasing commercial real estate, commercial and consumer loans for investment.

These activities are financed principally with customer deposits, secured short-term and long-term borrowings, including FHLB advances, collections on loans, asset sales and retained earnings. Refer to note 21 of the Company's Notes to Consolidated Financial Statements for additional information about the Company's business segments.

The Bank is chartered as a federal stock savings bank under the HOLA and is principally regulated by the OTS. The FDIC insures the deposit accounts of the Bank up to applicable limits through the SAIF. The Bank is also a member of the FHLB System. The Bank has three principal subsidiaries:

(a) FNMC, its mortgage banking subsidiary;

(b) Auto One, its indirect prime and sub-prime auto financing subsidiary; and

(c) CFI, its securities and insurance brokerage subsidiary.

CFI is subject to the guidelines established by the OTS for broker-dealer subsidiaries of savings associations, and is a member of the National Association of Securities Dealers. In addition, CFI is registered as a broker-dealer with the SEC and the Securities Investor Protection Corporation. CFI receives commission revenue for acting as a broker on behalf of its customers, but does not maintain customer accounts or take possession of customer securities.

The Company's revenues are derived from:

(a) interest earned on loans and securities;

(b) gains on sales of loans and other investments, fees received in connection with loan servicing and securities brokerage; and

(c) other customer service transactions.

Expenses primarily consist of interest on customer deposit accounts and borrowings, and general and administrative expenses including compensation and benefits, occupancy and equipment, professional fees and other general administrative expenses.

As of December 31, 2001, the Company had total assets of $56.5 billion, deposits of $25.1 billion and 356 retail branch offices in California and Nevada.

Ownership Structure

Prior to the Golden State Acquisition, Parent Holdings owned 80% of the common stock of FN Holdings and Hunter's Glen, a limited partnership controlled by Gerald J. Ford, Chairman of the Board, Chief Executive Officer and a Director of the Company, owned 20% of the common stock of FN Holdings. Parent Holdings was indirectly owned by Mafco Holdings, a corporation controlled by Ronald O. Perelman, a Director of the Company. In the Golden State Acquisition, Parent Holdings was merged into Golden State and FN Holdings was merged into GS Holdings. As consideration, Golden State issued 41,067,270 shares of common stock to a subsidiary of Mafco Holdings that directly owned Parent Holdings and 15,655,718 shares of common stock to Hunter's Glen which, in aggregate, constituted 47.9% of the common stock outstanding immediately after the Golden State Acquisition. Subsequent to the Golden State Acquisition, Mafco Holdings transferred the 41,067,270 shares to another of its indirectly owned subsidiaries, GSB Investments. In addition, the Golden State Merger agreement provided that Mafco Holdings and Hunter's Glen, or their successors, were entitled to receive additional shares of common stock under certain circumstances, which could cause the actual ownership percentages of Mafco Holdings and Hunter's Glen to change. See "— Capital Management – Issuable Shares."

Through its ownership of all of the Bank's common and preferred stock, GS Holdings has 97% of the voting power of all outstanding Bank securities. Two classes of publicly traded Bank securities, the CALGZs and the CALGLs, have in the aggregate the remaining 3% of the voting power. All outstanding Bank securities vote together as a single class.

Business Strategy

Merger, acquisition, and divestiture activities have played a major role in the Company's business strategy in prior years. (Refer to note 3 of the Company's Notes to Consolidated Financial Statements for specific information about these mergers, acquisitions, and divestitures.) More recently, the Company has focused on:

- Increased profitability;
- Revenue diversity; and
- Growth while preserving credit quality.

As a result of this strategic plan, during 2001 the Bank has grown earnings by 17%, grown retail checking deposits by 10% and increased non-single family residential loans to 25% of the portfolio, while improving the Bank's overall credit quality.

The Company’s current strategic plan aims at continued focus on profitability, revenue diversity and maintenance of credit quality. Key elements of the business plan include:

- California Federal intends to maintain its core competencies, including strong risk management, firm expense control and operating efficiency and effective capital management.

- California Federal plans to continue to improve profitability as it becomes a more “bank- like” institution. This plan contemplates a further increase in demand deposit and transaction accounts, as well as growth of various retail and commercial products. In addition, the Bank will continue to focus on increasing its percentage of non-single family residential loans.

- The Company expects to continue to build franchise value by focusing on customer service and cross-selling opportunities, further development of its sales force, enhanced product offerings and improved channel delivery. The Company intends to seek to maintain its mortgage banking efficiency while reducing the costs to service each account. In addition, the Bank intends to continue its strong and prudent growth of its core banking businesses including the sale of mutual funds and insurance annuity products, commercial banking, and auto, home equity and commercial real estate lending.

- California Federal may make opportunistic acquisitions of other companies or business lines which complement the Bank and where efficiencies and economies of scale could be realized to produce higher returns on investment.

Factors That May Affect Future Results

A number of factors could cause the Company’s actual results to differ materially from those in the forward-looking statements made in this Form 10-K, in other documents filed by the Company with the SEC or by the Company’s senior management verbally to analysts, investors, the media and others. Some of these factors are described below.

Concentration of Business in California; Effect on Asset Quality

The Bank’s loan portfolio is concentrated in California. As a result, the financial condition of the Bank will be subject to general economic conditions in California and, in particular, to conditions in the California real estate market. As of December 31, 2001, the Bank had 80.3% of its loan portfolio secured by real estate located in California. The Bank may find it difficult to originate a sufficient volume of high-quality real estate loans or maintain its asset quality, either of which could negatively impact future performance. In addition, any downturn in the economy generally, and in California in particular, could further reduce real estate values and the volume of loans originated. Real estate values in California could also be affected by earthquakes or other catastrophic events.

Sub-prime Lending

Through Auto One, the Bank is engaged indirectly in sub-prime and prime auto financing activities. At December 31, 2001, the Bank's sub-prime auto loan portfolio totalled $1.2 billion, or 2.9% of the Bank's total loan portfolio. A loan may be considered sub-prime primarily for one, or both, of two reasons: borrower credit and collateral considerations. Sub-prime borrowers are likely to be relatively weak credits. A borrower may be considered sub-prime due to limited income, tarnished credit history (for example, prior bankruptcy or history of delinquent payments on other types of installment credit) or lack of credit history (for example, a relatively young individual who has not yet developed a credit history profile). Sub-prime loans may also have less valuable collateral. Collateral considerations in the sub-prime market primarily result from the financing, in many cases, of used vehicles. Although depreciation also affects new automobiles, the market value of an automobile which is several years old may be more difficult to ascertain than for a new vehicle, since such value will depend on mileage and general condition, which may vary substantially for different vehicles of a similar model year. As a result of these factors, the performance of a sub-prime portfolio may be more susceptible to performance deterioration than a prime portfolio, since sub-prime borrowers are likely to be disproportionately affected by economic downturns and the collateral may be more difficult to value correctly.

Interest Rate Risk

It is expected that the Bank will continue to realize income primarily from the differential or "spread" between the interest earned on loans, securities and other interest-earning assets, and interest paid on deposits, borrowings and other interest-bearing liabilities. Net interest spreads are affected by the difference between the maturities and repricing characteristics of interest-earning assets and interest-bearing liabilities. Loan volume and yields are affected by market interest rates on loans, and rising interest rates generally are associated with a lower volume of loan originations, whereas declining interest rates generally are associated with a higher volume of loan originations. Declining rates are also associated with increased mortgage loan prepayments. There can be no assurances that management will be able to reinvest the cash from mortgage loan prepayments in assets earning yields comparable to the yields on the prepaid mortgages. It is expected that a substantial majority of the Bank's assets will continue to be indexed to changes in market interest rates and a substantial majority of its liabilities will continue to be short term. Although the Bank's management believes that this fact should mitigate the negative effect of a decline in yield on its assets, there can be no assurance that the Bank's interest rate risk will be minimized or eliminated. Golden State Bancorp also maintains a significant portfolio of mortgage-backed securities which tend to fluctuate in value in rapidly changing interest rate environments. At December 31, 2001, the Bank had $35.3 billion in assets indexed to changes in market rates and $40.0 billion in liabilities maturing or repricing within one year. The lag in implementing repricing terms on the Bank's adjustable rate assets may result in a decline in net interest income in a rising rate environment. In addition, an increase in the general level of interest rates may adversely affect the ability of certain borrowers to pay the interest on and principal of their obligations. Accordingly, changes in levels of market interest rates could materially adversely affect the Bank's net interest spread, asset quality, loan origination volume and overall results of operations.

Mortgage Servicing Rights

At December 31, 2001, the Bank held MSRs on a 1-4 unit residential loan portfolio with outstanding loan balances totalling approximately $85.2 billion, excluding loans owned by the Bank that are serviced by FNMC. The Bank's MSRs and related derivative assets had a carrying value of $1.9 billion at December 31, 2001. A decline in long-term mortgage interest rates generally results in an acceleration in mortgage loan repayments, and higher than anticipated levels of repayments generally cause the accelerated amortization of MSRs and generally will result in reductions in the market value of the MSRs. In order to mitigate some of the potential loss in value of the MSRs, the Bank has purchased, or entered into contracts for, financial derivatives that could hedge some of the potential loss in the MSRs and should generally increase in value as mortgage interest rates decline. There can be no assurances that the rate of mortgage loan prepayments will not exceed management's estimates, resulting in reductions in net income from accelerated amortization of MSRs and possible additional impairment of the carrying value of the MSRs due to reductions in the market value of the MSRs. Furthermore, there can be no assurances that the financial derivatives purchased as hedges to the MSRs will perform as anticipated and that, if mortgage interest rates decline, the derivatives will increase in value in an amount sufficient to offset the decline in the value of the MSRs or, if long-term mortgage interest rates rise, that the derivatives will lose value equal to or less than the increase in the value of the MSRs. A large percentage of the instruments used to hedge the MSRs change in value based on changes in LIBOR-based rates. While long-term mortgage interest rates and LIBOR-based rates are highly correlated, a change in one may be different from a change in the other for any given period. Therefore, it is possible that there may be impairment in the value of the MSRs even if long-term mortgage interest rates remain the same or increase from period to period.

The valuation of MSRs involves a number of assumptions, in addition to changes in prepayment rates, which may change from period to period. These assumptions include discount rates, custodial balance earnings rates, funding costs, late charges, other ancillary income, foreclosure costs, cost to service, escrow balances, remittance balances, remittance types and foreclosure rates, among others. In analyzing future prepayments, consideration is given to rates currently offered to borrowers versus rates required by the secondary market, the average note rate of the portfolio and the Mortgage Bankers Association Mortgage Refinance Index as well as other available information. Changes in these assumptions and changes in their relationship to each other will cause volatility in the value of MSRs from period to period. Further, the market for MSRs is generally less liquid than markets for other fixed income instruments, and there is limited public information available describing characteristics of traded portfolios for use in comparing values. Since there may well be periods of time during which no purchases or sales of MSRs with characteristics similar to those to be valued have occurred, alternative valuation methods need to be employed. These methods may involve surveying firms engaged in buying and selling mortgage-related assets, engaging independent firms to conduct appraisals, or using any number of mathematical models which have been developed. In the process of determining the valuation at any future period end, the Company may determine that alternate methods of valuation are more appropriate as valuation techniques evolve. These methods may yield results different from those obtained using prior measurement techniques, and hence may have the effect of lowering the carrying value of MSRs.

Competition

Golden State faces substantial competition for loans and deposits throughout its market areas. It competes on a daily basis with commercial banks, other savings institutions, thrift and loans, credit unions, finance companies, retail investment brokerage houses, mortgage banks, money market and mutual funds and other investment alternatives and other financial intermediaries. Golden State faces competition throughout its market area from local institutions, which have a large presence in its market areas, as well as from out-of-state financial institutions which have offices in its market areas. Many of these other institutions offer services which Golden State does not offer, including trust services. Furthermore, banks with a larger capital base and financial firms not subject to the restrictions imposed by banking regulations have larger lending limits and can therefore serve the needs of larger customers.

Regulation

The financial institutions industry is subject to extensive regulation, which materially affects the business of Golden State and the Bank. Statutes and regulations to which the Bank and its parent companies are subject may be changed at any time, and the interpretation of these regulations is also subject to change. There can be no assurance that future changes in such regulations or in their interpretation will not adversely affect the business of Golden State and the Bank.

Proposed Legislation

From time to time, Congress considers legislative proposals that could substantially alter the regulation of Golden State and the Bank. These proposals have included the merger of the two FDIC deposit insurance funds and the merger of the OTS with the Office of the Comptroller of the Currency. We can not determine whether, or in what form, such legislation may eventually be enacted and the possible impact of such changes.

Tax Sharing Agreement; Availability of Net Operating Loss Carryovers

For federal income tax purposes, the Bank, GS Holdings and Golden State Bancorp are parties to a Tax Sharing Agreement, pursuant to which:

(a) the Bank pays to GS Holdings amounts equal to the income taxes that the Bank would be required to pay if it were to file a return separately from the Golden State Bancorp consolidated group,

(b) GS Holdings pays to the Company amounts equal to the income taxes that GS Holdings would be required to pay if it were to file a consolidated return on behalf of itself and the Bank separately from the Golden State Bancorp consolidated group, and

(c) in connection with the Golden State Acquisition, Mafco Holdings continues to be bound for all obligations accruing for taxable periods on or prior to September 11, 1998.

As a result of the deconsolidation of the Bank and GS Holdings from the Mafco Group due to the Golden State Acquisition, only the amount of net operating losses of the Bank and GS Holdings not utilized by the Mafco Group on or before December 31, 1998 are available to offset taxable income of the Golden State Group. Similarly, if for any reason the Bank and GS Holdings were to deconsolidate from the Golden State Group, only the amount of the net operating loss carryovers of the Bank and GS Holdings not utilized by the Golden State Group up to the end of the taxable year in which the deconsolidation took place would be available to offset the taxable income of the Bank and GS Holdings subsequent to the date of deconsolidation. It cannot be predicted to what extent the Golden

State Group will utilize the net operating loss carryovers of GS Holdings and/or the Bank in the future or the amount, if any, of net operating loss carryforwards that GS Holdings or the Bank may have upon deconsolidation. The net operating loss carryovers are subject to review and potential disallowance, in whole or in part, by the IRS. Any disallowance of the Bank's net operating loss carryovers may increase the amounts that the Bank would be required to pay to GS Holdings under the Tax Sharing Agreement and that GS Holdings would be required to pay to the Golden State Group, and would therefore decrease the earnings of the Bank available for distribution.

Under federal tax law, the parties subject to the tax sharing agreement in effect prior to the Golden State Acquisition are subject to several liability with respect to the consolidated federal income tax liabilities of the Mafco Group for any taxable period during which Parent Holdings, FN Holdings or the Bank is, as the case may be, a member of such group. Therefore, Parent Holdings, FN Holdings or the Bank may be required to pay Mafco Holdings' consolidated federal tax liability notwithstanding prior payments made under the Tax Sharing Agreement by FN Holdings or the Bank to Mafco Holdings. Mafco Holdings has agreed, however, under the Tax Sharing Agreement, to indemnify FN Holdings and the Bank for any such federal income tax liability (and certain state and local tax liabilities) of Mafco Holdings or any of its subsidiaries (other than FN Holdings and the Bank) that FN Holdings or the Bank is actually required to pay.

Taxation of the Bank

The Small Business Job Protection Act of 1996 provided that base year bad debt reserves are not recaptured into income unless certain events occur. Circumstances that may require recognition of the base year reserves of the Bank are (i) dividend payments in excess of the greater of current or accumulated earnings and profits, or (ii) other distributions, dissolution, liquidation or redemption of stock excluding preferred stock meeting certain conditions. The base year reserves are generally the balance of tax bad debt reserves as of December 31, 1987, reduced proportionately for reductions in the Bank's loan portfolio since that date. In accordance with SFAS No. 109, a deferred tax liability has not been recognized for the base year reserves of the Bank. At December 31, 2001, the amount of the base year reserves was approximately $305 million. The amount of unrecognized deferred tax liability at December 31, 2001 was approximately $107 million.

Tax Effects of Dividend Payments by the Bank

Certain dividend distributions discussed above made to GS Holdings, as the sole owner of the Bank's common stock and its preferred stock, may cause the Bank to recognize a portion of its base year reserves as income. Accordingly, the Bank may be required to make payments to GS Holdings under the Tax Sharing Agreement. Likewise, GS Holdings may be required to make payments to Golden State under the Tax Sharing Agreement if GS Holdings has insufficient expenses and losses to offset such income.

Restrictions on Ability of Subsidiaries to Pay Dividends

Golden State is a holding company with no significant business operations of its own. The Company's only significant asset is its indirect ownership of the common stock of the Bank. The Company's only sources of cash to pay dividends and make debt payments are dividends and other distributions from the Bank and in turn from GS Holdings.

The federal banking laws and OTS regulations limit the Bank's ability to pay dividends. The Bank generally may not declare dividends or make any other capital distribution if, after the payment of such dividend or other distribution, it would fall within any of the three undercapitalized categories under the prompt corrective action regulation of the FDICIA of 1991. Other limitations apply to California Federal's ability to pay dividends, the magnitude of which depends upon current earnings and the extent to which California Federal meets its regulatory capital requirements. In addition, the HOLA requires every savings association subsidiary of an SLHC to give the OTS at least 30 days' advance notice of any proposed dividends to be made on its stock. Further, the OTS may prohibit any Bank capital distribution that it determines would constitute an unsafe or unsound practice.

The terms of the debt instruments under which certain of our subsidiaries have issued debt also impose restrictions that may inhibit the ability of those subsidiaries to declare dividends.

Significant Stockholders

As of December 31, 2001, Ronald O. Perelman, through GSB Investments, had beneficial ownership of 42,949,525 shares or 31.64% of Golden State, and Gerald J. Ford, the Chairman of the Board, Chief Executive Officer and a Director of Golden State, individually and through Hunter's Glen/Ford, Ltd., a limited partnership controlled by Mr. Ford, beneficially owned 19,961,408 shares or 14.68% of Golden State. As a result, GSB Investments, through the election of directors or otherwise, may be able to direct and control the policies of Golden State and its subsidiaries, including mergers, sales of assets and similar transactions. See “Market for the Registrant’s Common Equity and Related Stockholder Matters.”

Employees

At December 31, 2001, Golden State and its subsidiaries employed 8,219 FTE, compared with 7,834 at December 31, 2000. The Company’s employees are not represented by any collective bargaining group and management considers its relations with its employees to be good. The Company provides a comprehensive employee benefits program including health and welfare benefits, long and short-term disability insurance, and life insurance. The Company also offers employees a defined contribution investment plan which is a qualified plan under Section 401(a) of the Internal Revenue Code.

Competition

The Company experiences significant competition in both attracting and retaining deposits and in originating real estate and consumer loans. The Company, through the Bank, competes with other savings associations, commercial banks, mortgage banking companies, finance companies, insurance companies, credit unions, money market mutual funds and brokerage firms in attracting and retaining deposits. Competition for deposits from large commercial banks and savings associations is particularly strong. Commercial banks and other savings associations have a significant number of branch offices in the areas in which the Company operates.

In addition, there is strong competition in originating and purchasing real estate and consumer loans, principally from other savings associations, commercial banks, mortgage banking companies, insurance companies, consumer finance companies, pension funds and commercial finance companies. The primary factors in competing for loans are the quality and extent of service to borrowers and brokers, economic factors such as interest rates, interest rate caps, rate adjustment provisions, loan maturities, LTV ratios, loan fees and the length of time for loan processing and funding. The Company’s future performance depends on its ability to originate a sufficient volume of mortgage loans and to purchase a sufficient quantity of high-quality mortgage-backed securities or loans with adequate yields. There can be no assurance that the Company will be able to effect such actions on satisfactory terms.

Regulation and Supervision

General

The OTS, an office of the U.S. Department of the Treasury, regulates the activities of California Federal, as a federal association, and Golden State and GS Holdings as SLHCs. The FDIC, which insures the Bank’s deposit accounts, also oversees the Bank in a backup role. Golden State and the Bank are required to comply with comprehensive federal banking laws and regulations intended to protect the Bank’s depositors, the institution, and the banking system as a whole. The following summarizes some of the more important ways in which Golden State and the Bank are governed by these laws and regulations. As a summary, it describes only a few of the rules that affect Golden State and the Bank.

Regulation of Golden State

Golden State is registered with the OTS as an SLHC. As an SLHC, Golden State must file periodic reports with the OTS and is subject to annual examinations. Golden State is a “unitary” SLHC because it controls only one savings institution. As a unitary SLHC that existed prior to May 4, 1999, Golden State may generally engage in any financial or non-financial business activity. However, an SLHC must obtain OTS approval before acquiring ownership or control of any other savings association or savings and loan holding company, or substantially all of the assets or more than 5% of its voting shares. An SLHC must also obtain OTS approval before any party that owns or controls more than 25% of its voting shares acquires control of any savings association that is not a subsidiary of that SLHC.

Regulation of the Bank

Regulatory System

California Federal must comply with many federal banking laws and regulations governing its activities. The OTS oversees the Bank's operations and regularly examines the Bank to insure its safe and sound operation and compliance with applicable laws and regulations, including consumer protections and the CRA. The Bank files periodic reports with the OTS concerning its activities and financial condition. Certain actions, like the payment of a dividend, require prior OTS notice or approval. While the OTS is the Bank's primary regulator, the FDIC has "backup enforcement authority" over the Bank as the insurer (through the SAIF) of the Bank's deposit accounts.

Liquid Assets

The OTS requires that California Federal maintain sufficient liquidity to ensure its safe and sound operation. The Bank has maintained liquid assets in compliance with the regulations in effect throughout 2001, 2000 and 1999.

Regulatory Capital Requirements

The OTS requires savings associations to meet each of the following minimum capital standards: 8% risk-based capital, 4% leverage capital and 1.5% tangible capital. In addition, the OTS may require a savings association to maintain capital above the minimum levels. The OTS may deem failing any these tests to be an unsafe and unsound practice and may subject the failing institution to enforcement or other supervisory actions. The Bank currently satisfies all applicable regulatory capital requirements and has not been directed by the OTS to maintain capital above the minimum levels. For further information, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Capital Management."

Prompt Corrective Action

Under the prompt corrective action regulations mandated by the FDICIA, the OTS must take certain actions against savings associations that fall within certain undercapitalized capital categories.

The regulation establishes five categories of capital classification: "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," and "critically undercapitalized." Under the regulation, three ratios determine an association's capital classification:

- the ratio of total capital to risk-weighted assets,
- the ratio of core capital to risk-weighted assets and
- the leverage capital ratio.

A "well capitalized" institution must maintain a ratio of total capital to risk-based assets of 10%, a ratio of core capital to risk-weighted assets of 6%, a leverage capital ratio of 5%, and must not be subject to an OTS order or directive to meet a specific higher capital level.

In general, the regulation prohibits an insured depository institution from declaring any dividends, making any other capital distribution, or paying a management fee to a controlling person if, after the distribution or payment, the institution would be within any of the three undercapitalized categories. In addition, adequately capitalized institutions must obtain an FDIC waiver before accepting Brokered Deposits and are subject to restrictions on the interest rates that may be paid on those deposits. Institutions that are considered "undercapitalized," "severely undercapitalized," or "critically undercapitalized" become subject to increasingly serious supervisory actions (as capital levels deteriorate) including increased monitoring, mandatory capital restoration plans, limitations on business activities, and ultimately, the placement of a "critically undercapitalized" association into conservatorship or receivership.

The Bank met the capital requirements of a "well capitalized" institution under the regulation as of December 31, 2001 and is not subject to any capital related enforcement action or other regulatory proceeding. Management believes there have been no conditions or events since December 31, 2001 that would change the Bank's capital classification. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Capital Management."

Enforcement Powers

The OTS and the FDIC are authorized to bring various enforcement actions against the institution and affiliated persons. The Bank and Golden State are not subject to any OTS or FDIC enforcement proceedings.

Capital Distribution Regulation

In addition to the prompt corrective action restrictions, OTS regulations limit "capital distributions" by savings associations. Capital distributions include dividends and payments for stock repurchases and cash-out mergers.

A savings institution that is a subsidiary of an SLHC must notify the OTS of a capital distribution at least 30 days prior to the declaration of a capital distribution, provided the total of all capital distributions made during that calendar year (including the proposed distribution) does not exceed the sum of the institution's year-to-date net income and its retained income for the preceding two years. A capital distribution in a greater amount requires an application to the OTS and its prior approval. The OTS may disapprove a capital distribution notice or application if the institution is undercapitalized or if the distribution would raise other safety and soundness concerns. The Bank's capital distributions have complied with the capital distribution rule.

Dividend Policy

The dividend policy of the Bank complies with applicable legal and regulatory restrictions. Before declaring any dividend, the directors of the Bank consider the following factors:

(a) the quality and stability of the Bank's net income,

(b) the availability of liquid assets to make dividend payments,

(c) the impact of the level of earnings retention on the Bank's capital needs, projected growth and internal and external funding levels, and

(d) the adequacy of capital after the payment of a dividend.

Under the Bank's dividend policy, a dividend will not be declared or paid which would:

(a) cause the capital level of the Bank to be reduced below "adequately capitalized" levels, or

(b) exceed 100% of the net income to date for that calendar year plus retained net income for the preceding two years, when combined with any other dividends declared during the same calendar year (except as may be permitted by regulation in extraordinary circumstances).

For further information regarding dividend payments, refer to note 24 of the Company's Notes to Consolidated Financial Statements.

Tax Effects of Dividend Payments by the Bank

Refer to "Tax Effects of Dividend Payments by the Bank" of "Factors that May Affect Future Results" for more information.

Qualified Thrift Lender Test

Unless a savings association is a QTL, both it and its holding company are subject to certain restrictions on their activities. In order to be a QTL, either (a) at least 65% of the savings association's portfolio assets must be qualified thrift investments or (b) the savings association must meet the asset composition test under the Internal Revenue Code for a "domestic building and loan association." Non-QTL savings associations are subject to restrictions on obtaining advances from the FHLB, establishing branches and paying dividends. A holding company whose savings association is not a QTL must register as a bank holding company and be subject to all of the restrictions of the Bank Holding Company Act of 1956.

The Bank's qualified thrift investments primarily consist of residential mortgage loans and mortgage securities, home equity loans, small business loans, FHLB stock and accrued dividends. At December 31, 2001, approximately 94.17% of the Bank's portfolio assets were qualified thrift investments. At that date, the Bank also met the asset composition test under the Internal Revenue Code for a domestic building and loan association.

FDIC Assessments

The SAIF of the FDIC insures the deposits of the Bank up to applicable limits, and assesses deposit premiums. Under the FDIC's risk-based insurance system, SAIF-assessed deposits are currently subject to insurance premiums of between 0 and 27 basis points, depending upon the institution's capital position and other supervisory factors. The rate applicable to the Bank at December 31, 2001 was 0 basis points.

Institutions with BIF deposits are required to share the cost of funding debt obligations issued by the FICO, a corporation established by the federal government in 1987 to finance the recapitalization of the FSLIC. The annual FICO assessments added to deposit insurance premiums were 5.0 basis points for SAIF deposits during 1999. Effective January 1, 2000, the FICO assessment rate is equal for SAIF and BIF deposits. The Bank's SAIF plus FICO assessment during 2001 and 2000 was approximately 1.90 and 2.04 basis points, respectively (annualized).

Affiliate Restrictions

Sections 23A and 23B of the Federal Reserve Act restrict transactions between a savings association and its "affiliates." Affiliates of a savings association include the savings association's holding companies and companies under common control with the savings association, but generally exclude the institution's subsidiaries.

Sections 23A and 23B generally require that all transactions between a savings association and its affiliates be on terms that are at least as favorable to the savings association as those prevailing at the time for comparable transactions with non-affiliated companies. Section 23A also limits the extent to which a savings association or its subsidiaries may engage in certain "covered transactions" with its affiliates. A "covered transaction" is defined to include:

- a loan or extension of credit to an affiliate;
- a purchase of investment securities issued by an affiliate;
- a purchase of assets from an affiliate (with certain exceptions);
- the acceptance of securities issued by an affiliate as collateral for a loan or extension of credit to any party; or
- the issuance of a guarantee, acceptance or letter of credit on behalf of an affiliate.

During 2001, 2000, and 1999, the Bank had no covered transactions.

Non-Investment Grade Debt Securities

Savings associations are prohibited from investing in a corporate debt security that, when acquired, is not rated in one of the four highest rating categories by at least one nationally recognized statistical rating organization. The Bank does not own any non-investment grade corporate debt securities.

Community Reinvestment Act and the Fair Lending Laws

Savings associations are responsible under the CRA to help meet the credit needs of their communities, including low- and moderate-income neighborhoods. In addition, the Fair Lending Laws prohibit lenders from discriminating on the basis of specified characteristics. The OTS and the Department of Justice may take enforcement actions against a savings association that fails to comply with the Fair Lending Laws. The Bank received an "Outstanding" rating in its most recent CRA examination completed in July 2001.

Proposed Regulatory Legislation

From time to time, Congress considers legislative proposals that could substantially alter the regulation of the Bank and Golden State. These proposals have included the merger of the BIF and SAIF and the merger of the OTS with the Office of the Comptroller of the Currency. The Company cannot determine whether, or in what form, such legislation might be enacted and what impact such changes might have on Golden State and the Bank.

ITEM 2. Properties

The executive offices of the Bank and the Company are located at 135 Main Street, San Francisco, California, 94105, and its telephone number is (415) 904-1100. The Bank leases approximately 97,000 square feet in the building in which its executive offices are located, under a lease expiring in 2006. The Bank maintains its Data Center in a portion of a 252,000 square foot facility in West Sacramento, California under a lease expiring in 2006.

The Company and its subsidiaries occupied additional executive, administrative and operational space at 24 sites in California, Maryland, Texas and Arizona as of December 31, 2001. These sites included approximately 413,000 owned square feet (four sites) and 351,000 leased square feet (twenty sites) with lease expirations ranging from 2002 to 2008.

At December 31, 2001, the Bank operated 356 retail branches in California and Nevada, which included approximately 988,000 owned square feet (125 branches) and 1,200,000 leased square feet (231 branches) with lease expirations ranging from 2002 to 2034. Some of these retail branches also housed loan production and administrative space. FNMC operated eight loan production offices in California, Montana and Nevada. These offices were independent of branch facilities and included approximately 100,000 leased square feet with expirations ranging from 2002 to 2006.

The Bank is responsible for various facilities not occupied by the Company or its subsidiaries as a result of branch and operational consolidations from the 1996 Acquisitions, the Cal Fed Acquisition, the merger with Glendale Federal and certain branch purchases. During 2001, leases on six sites totalling approximately 84,000 square feet were terminated. As of December 31, 2001, there were 33 branch sites not occupied by the Company or its subsidiaries, of which 29 sites were leased or subleased generating income, leaving four sites unoccupied. In addition, there was one administrative facility not occupied by the Company or its subsidiaries. This facility was subleased, generating income.

The following table presents a state-by-state breakdown of all retail branches, administrative facilities and loan production offices operated by the Bank at December 31, 2001:

	Branches			Administrative Facilities			Loan Production Facilities		
	Owned	Leased	Vacant	Owned	Leased	Vacant	Owned	Leased	Vacant
Arizona	--	--	--	--	1	--	--	--	--
California	118	221	33	3	16	1	--	6	--
Maryland	--	--	--	1	1	--	--	--	--
Montana	--	--	--	--	--	--	--	1	--
Nevada	7	10	--	--	--	--	--	1	--
Texas	--	--	--	--	4	--	--	--	--
Total	125	231	33	4	22	1	--	8	--

ITEM 3. 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 4. Submission of Matters to a Vote of Security Holders

None.

PART II

ITEM 5. Market for the Registrant's Common Equity and Related Stockholder Matters

The common stock of Golden State trades on the NYSE under the symbol "GSB" and is also listed on the PE. The following table sets forth, for the periods indicated, the range of high and low sales prices of the Company's common stock and of the LTW™s:

	Common Stock		LTW™s	
	High	Low	High	Low
Year Ended December 31, 2001				
First Quarter	$30.25	$25.80	$1.53	$1.16
Second Quarter	31.83	27.60	1.35	1.24
Third Quarter	35.33	27.27	1.36	1.20
Fourth Quarter	29.39	24.07	1.32	1.18
Year Ended December 31, 2000				
First Quarter	$16.56	$12.44	$1.44	$0.88
Second Quarter	19.69	14.13	1.34	1.03
Third Quarter	23.75	18.19	1.44	1.03
Fourth Quarter	31.50	21.00	1.63	1.16

At the close of business on February 28, 2002, the Company's common stock and LTW™ prices were $30.48 and $1.21 per share, respectively.

Ronald O. Perelman, a Director of the Company and GS Holdings, 35 East 62nd Street, New York, New York 10021, through GSB Investments Corp., beneficially owns 31.60% of the Golden State common stock outstanding as of March 1, 2002. Gerald J. Ford, Chairman of the Board, Chief Executive Officer and a Director of the Company, the Bank and GS Holdings, 200 Crescent Court, Suite 1350, Dallas, Texas 75201, individually and through a limited partnership he controls, Hunter's Glen/Ford, Ltd., beneficially owns 14.76% of the Golden State common stock at March 1, 2002. The balance of the common stock of Golden State is publicly held. In addition, pursuant to the Golden State Merger agreement, GSB Investments and Hunter's Glen are entitled to receive additional shares of Golden State common stock under certain circumstances, which could cause the actual ownership percentages of GSB Investments and Hunter's Glen to change.

Number of Holders of Common Stock

At February 28, 2002, 135,910,784 shares of Company common stock were outstanding and held by 5,959 holders of record. Also at February 28, 2002, 83,631,960 LTW™s were outstanding and held by 5,891 holders of record.

Dividends

Dividends on Golden State's common stock of $0.10 per share in each of the quarters totalled $54.1 million for 2001. $26.4 million in dividends were paid in 2000 and no dividends were paid in 1999. See discussion of dividend restrictions in note 24 of the Company's Notes to Consolidated Financial Statements.

ITEM 6. Selected Financial Data

The data presented below represents selected financial data relative to the Company for each of the years in the five-year period ended December 31, 2001.

	Year Ended December 31,				
	2001 (1)	2000 (2)	1999 (3)	1998 (4)	1997 (5)
	(dollars in millions, except per share data)				
Selected Operating Data					
Interest income	$3,968	$4,106	$3,652	$2,585	$2,128
Interest expense	2,607	2,959	2,466	1,820	1,499
Net interest income	1,361	1,147	1,186	765	629
Provision for loan losses	--	--	10	40	80
Noninterest income	351	440	400	418	331
Noninterest expense	979	913	907	741	642
Income before income taxes, minority interest, extraordinary items and cumulative effect of change in accounting principle	733	674	669	402	238
Income tax expense (benefit) (6)	292	137	186	(107)	41
Minority interest: provision in lieu of income tax expense (6)	3	162	123	--	--
Minority interest: other (7)	27	28	39	111	102
Income before extraordinary items and cumulative effect of change in accounting principle	411	347	321	398	95
Extraordinary items – gain (loss) on early extinguishment of debt, net	--	3	2	(150)	--
Cumulative effect of change in accounting principle, net of tax	(2)	--	--	--	--
Net income	409	350	323	248	95
Earnings per common share:					
Basic:					
Income before extraordinary items and cumulative effect of change in accounting principle	$ 2.88	$2.50	$2.45	$5.00	$1.67
Net income	2.87	2.52	2.47	3.11	1.67
Diluted:					
Income before extraordinary items and cumulative effect of change in accounting principle	2.86	2.44	2.29	4.88	1.67
Net income	2.85	2.46	2.31	3.04	1.67
Dividends per common share	0.40	0.20	--	--	--
Selected Performance Ratios					
Return on average assets (8)	0.68%	0.59%	0.58%	0.63%	0.31%
Return on average common equity (9)	17.82	20.25	20.96	27.38	27.42
Return on tangible common equity (10)	28.69	42.27	61.57	185.65	(41.42)
Average equity to average assets	3.84	2.91	2.75	2.30	1.13
Yield on interest-earning assets (11)	7.08	7.28	6.97	7.21	7.51
Cost of interest-bearing liabilities (12)	4.66	5.26	4.69	5.05	5.28
Net interest margin (13)	2.44	2.05	2.27	2.13	2.21
Efficiency ratio of the Bank (14)	48.35	47.85	47.38	49.38	50.76
Dividend payout ratio (15)	13.94	7.94	--	--	--
Ratio of Earnings to Combined Fixed Charges and Minority Interest (16)					
Excluding interest on deposits	1.39x	1.22x	1.29x	1.25x	1.16x
Including interest on deposits	1.27	1.15	1.19	1.15	1.08

	December 31,				
	2001 (1)	2000 (2)	1999 (3)	1998 (4)	1997 (5)
	(dollars in millions, except per share data)				
Selected Financial Data					
Securities available for sale	$ 116	$ 641	$ 1,076	$ 771	$ 813
Securities held to maturity	31	588	185	251	58
Mortgage-backed securities available for sale	7,058	9,867	13,765	12,948	5,077
Mortgage-backed securities held to maturity	1,385	2,887	2,150	2,771	1,338
Loans receivable, net	39,336	39,593	33,953	30,281	19,424
Intangible assets	641	691	820	924	676
MSRs	1,624	1,559	1,272	944	537
Total assets	56,491	60,517	57,019	54,869	31,362
Deposits	25,134	23,430	23,036	24,620	16,203
Securities sold under agreements to repurchase	2,364	4,511	5,482	4,238	1,842
Borrowings	24,445	28,801	25,669	22,376	11,233
Total liabilities	53,421	57,866	54,957	52,694	29,981
Minority interest	500	500	500	593	1,012
Stockholders' equity	2,570	2,151	1,562	1,582	369
Common shares outstanding	135,756,046	134,320,658	122,242,588	128,597,769	56,722,988
Diluted shares outstanding	143,799,140	143,797,709	138,692,802	139,427,759	56,722,988
Book value per diluted share	$17.87	$14.96	$11.26	$11.34	$6.51
Tangible book value per diluted share	13.41	10.15	5.35	4.72	(5.40)
Regulatory Capital Ratios of the Bank					
Tangible capital	6.62%	6.30%	5.81%	5.29%	5.65%
Core capital	6.62	6.30	5.81	5.29	5.65
Risk-based capital:					
Core capital	11.54	11.58	11.36	10.27	10.14
Total capital	12.98	13.08	12.89	11.69	11.93
Selected Other Data					
Number of full service customer facilities	356	354	349	358	225
Loans serviced for others (17)	$85,459	$85,772	$75,782	$68,803	$47,933
Full-time equivalent staff (FTE)	8,219	7,834	7,578	8,003	4,983
Non-performing assets as a % of the Bank's total assets	0.22%	0.23%	0.35%	0.57%	0.87%

(1) 2001 earnings include the cumulative effect of change in accounting principle related to the adoption of EITF No. 99-20.

(2) 2000 earnings include gains on the early extinguishment of debt of $3.0 million, net of tax.

(3) On April 16, 1999, the Company acquired twelve retail branches with deposits of $543 million in the Nevada Purchase. During April 1999, FNMC sold servicing rights in the 1999 Servicing Sale. In August 1999, the Company sold deposits totalling $70.1 million to Humboldt Bank. Noninterest income for the year ended December 31, 1999 includes pre-tax gains of $16.3 million from the sale of MSRs and $2.3 million on the sale of deposits. During 1999, the Company redeemed the remaining 925,640 shares of the Bank Preferred Stock for a total redemption price of $97.6 million, resulting in $5.1 million of expenses and tender premiums, reflected as minority interest on the Company's 1999 consolidated statement of income.

(Footnotes continued on next page)

(4) On September 11, 1998, the Company acquired assets in the Glen Fed Merger with fair values totalling approximately $18.8 billion and liabilities (including deposit liabilities) with fair values totalling approximately $17.7 billion. In addition, on September 11, 1998, the Company consummated the Florida Branch Sale, with associated deposit accounts totalling $1.4 billion, which resulted in a pre-tax gain of $108.9 million. Noninterest expense for the year ended December 31, 1998 includes $59.2 million in merger and integration costs. During 1998, GS Escrow Corp. issued $2 billion in debt securities to fund, in part, the Refinancing Transactions. The Company purchased 3,806,660 shares of the two outstanding series of Bank Preferred Stock in the Bank Preferred Stock Tender Offers for a total redemption price of $423.0 million, resulting in $36.9 million of expenses and tender premiums, reflected as minority interest expense on the Company's 1998 consolidated statement of income. In addition, during 1998, the Company purchased the FN Holdings Notes in the Debt Tender Offers for an aggregate purchase price of $1.1 billion. Further, the Company defeased the 12½% Parent Holdings Notes in the Parent Holdings Defeasance for an aggregate purchase price, including accrued interest payable, of $553.7 million. The after-tax premiums and expenses paid in connection with the Refinancing Transactions totalled $150.3 million and are reflected as an extraordinary loss on the Company's 1998 consolidated statement of income.

(5) On January 3, 1997, the Company acquired assets with fair values totalling approximately $14.2 billion and liabilities (including deposit liabilities) with fair values totalling approximately $12.9 billion in the Cal Fed Acquisition. In addition, on May 31, 1997, the Company acquired a $3.2 billion loan servicing portfolio in the Weyerhaeuser Purchase. Noninterest income for the year ended December 31, 1997 includes pre-tax gains of $14.0 million related to the 1997 Servicing Sale, $25 million on the sale of ACS stock, and $3.6 million on the sale of deposits. Noninterest expense for the year ended December 31, 1997 includes a $29.0 million provision for professional fees and unreimbursable costs related to the foreclosure of 1-4 unit residential loans serviced for others.

(6) Income tax expense for 1997 and the first half of 1998 represents federal AMT reduced, to the extent of 90%, by net operating loss carryovers, and state tax at an assumed rate of 11%. On June 30, 1998, the Bank recorded a $250 million reduction of the valuation allowance related to its deferred tax asset. Income tax expense for the second half of 1998 and for 1999 represents an effective tax rate of 42%. 1999 income tax expense includes a $122.7 million tax benefit based on the actual filing of the Mafco Group and Golden State 1998 consolidated federal income tax returns. The tax benefit is fully offset by an increase in minority interest expense. 2000 income tax expense includes a $161.7 million tax benefit as a result of a reduction of the valuation allowance on its deferred tax asset based on favorable resolutions of federal income tax audits of Old California Federal and Glendale Federal, and the status of Mafco's, including the Company's, audits for the years 1991 through 1995. This tax benefit is fully offset by an increase to minority interest expense. 2001 income tax expense includes a $25.8 million tax benefit as a result of the reversal of an accrued state tax liability. Golden State's effective state tax rate was 1%, 6% and 8% in 2001, 2000 and 1999, respectively. The reduction of the rate in 2000 was the result of changes in management's estimates of the expected state tax liability of the Company. The reduction in 2001 was the result of a reduction in accrued state tax liability as previously discussed.

(7) Represents dividends on the REIT Preferred Stock, net of related tax benefit, the FN Holdings Preferred Stock and the Bank Preferred Stock. The REIT Preferred Stock was issued on January 31, 1997. Minority interest for the years ended December 31, 1999 and 1998 also includes early redemption premiums on the Bank Preferred Stock. A 20% minority interest in Auto One is included, as appropriate, beginning in 1998 until its purchase in 2001.

(8) Return on average assets represents net income as a percentage of average assets for the periods presented.

(9) Return on average common equity represents net income as a percentage of average common equity for the periods presented.

(Footnotes continued on next page)

(10) Return on tangible common equity represents net income excluding intangible asset amortization as a percentage of average common equity excluding average intangible assets.

(11) Yield on interest-earning assets represents interest income as a percentage of average interest-earning assets.

(12) Cost of interest-bearing liabilities represents interest expense as a percentage of average interest-bearing liabilities.

(13) Net interest margin represents net interest income as a percentage of average interest-earning assets.

(14) Efficiency ratio represents noninterest expense reduced by goodwill amortization as a percentage of net interest income plus noninterest income (each component adjusted for non-recurring items).

(15) Dividend payout ratio represents dividends per share as a percentage of basic net income per share.

(16) Earnings used in computing the ratio of earnings to combined fixed charges and minority interest consist of income before income taxes, minority interest and extraordinary items. Fixed charges consist of interest expense on borrowings, the interest component of lease expense and, where indicated, interest expense on deposits.

(17) Includes loans serviced by the Bank and its subsidiaries, excluding loans serviced for the Bank by FNMC and including non-residential loans serviced for others.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Please read the MD&A in conjunction with the Consolidated Financial Statements of Golden State and the notes included elsewhere in this Form 10-K. The following discussion includes historical information relating to Golden State.

For a discussion of the impact to the Company of recent accounting changes, refer to note 2 of the Company's Notes to Consolidated Financial Statements.

Critical Accounting Policies

The Company believes the critical accounting policies related to certain activities affect its more significant judgments and estimates used in the preparation of its consolidated financial statements. Refer to notes 2(e) and 2(m) in the Company's Notes to Consolidated Financial Statements for a discussion of the accounting policies for the allowance for loan losses and MSRs, as well as the "Allowance for Loan Losses" and "Mortgage Banking Activities" sections of this document.

Results of Operations

Based in San Francisco, Golden State is the indirect, publicly traded parent of California Federal, a community oriented bank that provides diversified financial services for consumers and small businesses in California and Nevada. At December 31, 2001, it was the third largest thrift in the U.S. with $56.5 billion in assets and 356 branches.

Golden State reported net income of $409.4 million, or $2.85 per diluted share for 2001. Net income for 2001 includes a loss of $1.6 million, net of tax, from the cumulative effect of change in accounting principle related to the adoption of EITF No. 99-20. Income before cumulative effect of change in accounting principle was $410.9 million, or $2.86 per diluted share for the year ended December 31, 2001.

On a pre-tax basis, net income for 2001 also included a $153.3 million valuation provision on the Company's MSR asset that related to revised estimates of future loan payoffs as a result of lower mortgage interest rates. This amount was partially offset by a $79.9 million gain from the Company's MSR hedging activities in accordance with SFAS No. 133. Net income for 2001 also included MSR amortization expense of $361.1 million, and a $6.1 million unrealized loss from the application of SFAS No. 133 on the derivative rate locks, forward loan sale commitments and closed loan inventory. Cash flow hedging related activities resulted in net interest rate swap expense on FHLB advances of $67.3 million, and net interest rate swap expense on reverse repurchase agreements of $8.2 million.

Net income for 2000 was $350.5 million, or $2.46 per diluted share, which includes gains on the early extinguishment of debt, net of tax, of $3.0 million. The Bank's efficiency ratio was 48.35% for the year ended December 31, 2001, compared to 47.85% for the comparable period in 2000.

On a pre-tax basis, net income for 2000 also included the effect of hedging activities resulting in net interest rate swap expense on FHLB advances of $7.2 million and net interest rate swap expense on reverse repurchase agreements of $0.9 million. Amortization expense on the MSRs was $204.0 million. During 2000, hedging-related activities on the MSRs were not accounted for in accordance with SFAS No. 133, which was prospective in application.

The following table presents Golden State's consolidated average balance sheet for the past three years, with the related interest income, interest expense, and average interest rates for the periods presented. Average balances are calculated on a daily basis.

	Year Ended December 31,								
	2001			2000			1999		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
				(dollars in millions)					
ASSETS									
Interest-earning assets (1):									
Securities and interest-bearing deposits in banks (2)	$ 749	$ 43	5.81%	$ 1,424	$ 90	6.34%	$ 1,554	$ 100	6.45%
Mortgage-backed securities available for sale	9,278	603	6.50	12,017	800	6.66	13,706	873	6.37
Mortgage-backed securities held to maturity	1,572	124	7.89	2,730	206	7.56	2,392	178	7.43
Loans held for sale	2,026	138	6.78	837	63	7.48	1,659	110	6.60
Loans receivable, net:									
Residential	31,428	2,142	6.81	29,800	2,108	7.07	24,723	1,726	6.98
Commercial real estate	6,273	506	8.06	5,711	465	8.13	5,427	416	7.67
Consumer	896	75	8.40	763	78	10.27	649	62	9.59
Automobile	1,800	212	11.76	1,294	151	11.64	635	80	12.50
Commercial banking	610	47	7.69	519	52	9.96	514	48	9.40
Loans receivable, net	41,007	2,982	7.27	38,087	2,854	7.49	31,948	2,332	7.30
FHLB stock	1,412	79	5.63	1,301	93	7.14	1,113	60	5.36
Total interest-earning assets	56,044	3,969	7.08%	56,396	4,106	7.28%	52,372	3,653	6.97%
Noninterest-earning assets	3,819			3,070			3,735		
Total assets	$59,863			$59,466			$56,107		
LIABILITIES, MINORITY INTEREST AND STOCKHOLDERS' EQUITY									
Interest-bearing liabilities:									
Deposits	$24,358	$ 832	3.41%	$23,240	$ 928	3.99%	$23,902	$ 888	3.72%
Securities sold under agreements to repurchase (3)	3,590	196	5.41	5,380	352	6.45	5,057	266	5.18
Borrowings (3)	27,727	1,578	5.67	27,407	1,679	6.10	23,613	1,313	5.56
Other	55	1	2.80	--	–	--	--	–	--
Total interest-bearing liabilities	55,730	2,607	4.66%	56,027	2,959	5.26%	52,572	2,467	4.69%
Noninterest-bearing liabilities	1,338			1,210			1,453		
Minority interest	497			498			540		
Stockholders' equity	2,298			1,731			1,542		
Total liabilities, minority interest and stockholders' equity	$59,863			$59,466			$56,107		
Net interest income		$1,362			$1,147			$1,186	
Interest rate spread (4)			2.42%			2.02%			2.28%
Net interest margin			2.44%			2.05%			2.27%

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

(2) Includes interest-bearing deposits in other banks and securities purchased under agreements to resell.

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

(4) Interest rate spread represents the difference between the average rates of total interest-earning assets and total interest-bearing liabilities.

The following table shows the changes in interest income and expense 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 year's rate) and rate (change in average interest rate multiplied by the prior year's volume). Changes attributable to both volume and rate have been allocated proportionately.

	Year Ended December 31,					
	2001 vs. 2000			2000 vs. 1999		
	Increase (Decrease) Due to			Increase (Decrease) Due to		
	Volume	Rate	Net	Volume	Rate	Net
	(in millions)					
INTEREST INCOME:						
Securities and interest-bearing deposits in banks	$ (40)	$ (7)	$ (47)	$ (8)	$ (2)	$ (10)
Mortgage-backed securities available for sale	(178)	(19)	(197)	(116)	43	(73)
Mortgage-backed securities held to maturity	(91)	9	(82)	25	3	28
Loans held for sale	80	(5)	75	(63)	16	(47)
Loans receivable, net	301	(173)	128	460	62	522
FHLB stock	9	(23)	(14)	11	22	33
Total	81	(218)	(137)	309	144	453
INTEREST EXPENSE:						
Deposits	(23)	(73)	(96)	(24)	64	40
Securities sold under agreements to repurchase	(105)	(51)	(156)	18	68	86
Borrowings	13	(114)	(101)	228	138	366
Other	1	--	1	--	--	--
Total	(114)	(238)	(352)	222	270	492
Change in net interest income	$ 195	$ 20	$ 215	$ 87	$(126)	$ (39)

Year Ended December 31, 2001 versus Year Ended December 31, 2000

Interest Income. Total interest income was $4.0 billion for 2001, a decrease of $137.1 million from 2000. Total interest-earning assets for 2001 averaged $56.0 billion, compared to $56.4 billion for 2000. The decrease in interest-earning assets is primarily a result of a decline in mortgage-backed securities, principally due to management's decision to sharply reduce purchases. This decrease was partially offset by increased loan volume and an increase in loans held for sale due to significant refinancing activity during 2001 as a result of 40-year record low mortgage interest rates. The change in net interest income attributed to changes in volume increased despite a decrease in total average interest-earning assets because the volume of average interest-earning assets with higher rates increased more than the offsetting decrease in the volume of average interest-earning assets with lower rates. The yield on total interest-earning assets for 2001 decreased to 7.08% from 7.28% for 2000, primarily due to the repricing of loans and securities available for sale at lower rates, partially offset by a higher percentage of loans to total earning assets during 2001. At December 31, 2001, 13% of the Company's portfolio loans were tied to COFI indices, 13% to Treasury-based indices and 47% were "hybrid" ARMs - fixed for three to ten years and then adjusting annually. Twenty-three percent of the portfolio is fixed. The remaining 4% of the portfolio is in other adjustable-rate products.

Golden State earned $3.0 billion of interest income on loans receivable for 2001, an increase of $127.9 million from 2000. The average balance of loans receivable was $41.0 billion for 2001, compared to $38.1 billion for 2000. The weighted average yield on loans receivable decreased to 7.27% for 2001 from 7.49% for 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, primarily due to lower interest rates during 2001 and new product offerings. The decrease in the weighted average yield reflects the repricing of variable-rate loans, a decrease in the prime rate on commercial banking loans and comparatively lower market interest rates in 2001, partially offset by a higher yield on auto loans purchased after July 1, 2001, which are recorded on a gross-coupon basis, rather than a credit-adjusted yield basis. The impact of this change on net interest income during the year ended December 31, 2001 was an increase of $10.1 million.

Loan production is detailed in the table below (in thousands):

	Year Ended December 31,		
	2001	2000	1999
Loans funded:			
Residential real estate loans:			
Adjustable-rate	$ 6,765,133	$ 7,259,633	$ 6,959,519
Fixed-rate	18,748,809	5,841,362	8,755,853
Total residential real estate loans	25,513,942	13,100,995	15,715,372
Commercial real estate loans	1,652,885	1,287,732	781,042
Commercial loans	1,043,144	701,023	610,385
Consumer nonmortgage loans	803,997	736,416	573,844
Auto loans (directly originated)	20,175	12,145	--
Other	--	124	353
Total loans funded	$29,034,143	$15,838,435	$17,680,996
Loans purchased:			
Residential real estate loans	$ 3,148,581	$ 594,639	$ 2,048,315
Auto loans (a)	1,150,013	1,053,960	485,802
Total loans purchased	$ 4,298,594	$ 1,648,599	$ 2,534,117

(a) Approximately 41%, 43% and zero percent of this volume was in prime product; 59%, 57% and 100% was in sub-prime product for the years ended December 31, 2001, 2000 and 1999, respectively.

Golden State earned $137.4 million of interest income on loans held for sale for 2001, an increase of $74.8 million from 2000. The average balance of loans held for sale was $2.0 billion for 2001, an increase of $1.2 billion from 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 $17.6 billion during the year ended December 31, 2001, an increase of 230% over the $5.3 billion originated during 2000. The weighted average yield on loans held for sale decreased to 6.78% for 2001 from 7.48% for 2000, primarily due to declining market interest rates.

Interest income on mortgage-backed securities available-for-sale was $603.1 million in 2001, a decrease of $197.3 million from 2000. The average portfolio balance decreased $2.7 billion, to $9.3 billion for 2001. The weighted average yield on these assets decreased from 6.66% for 2000 to 6.50% for 2001. The decrease in the volume is primarily attributed to management's decision to sharply reduce purchases, coupled with high repayments and sales of mortgage-backed securities, partially offset by the $1.1 billion reclassification 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 $124.1 million for 2001, a decrease of $82.4 million from 2000. The average portfolio balance decreased $1.2 billion, to $1.6 billion for 2001, 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 2001 and 2000 were 7.89% and 7.56%, 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 $43.6 million for 2001, a decrease of $46.9 million from 2000. The average portfolio balance was $0.7 billion for 2001 and $1.4 billion for 2000. The decrease in the volume is primarily attributed to payments and maturities of securities. The lower weighted average yield of 5.81% for 2001 compared to 6.34% for 2000 is primarily due to $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 2001.

Dividends on FHLB stock were $79.5 million for 2001, a decrease of $13.4 million from 2000. The average balance outstanding during 2001 and 2000 was $1.4 billion and $1.3 billion, respectively. The weighted average dividend on FHLB stock declined to 5.63% for 2001 from 7.14% for 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 $2.6 billion for 2001, a decrease of $351.8 million from 2000. The decrease is primarily due to declining market interest rates and a reduction in securities sold under agreements to repurchase, partially offset by additional borrowings under FHLB advances and deposits used to fund total assets.

Interest expense on deposits, including Brokered Deposits, was $831.5 million for 2001, a decrease of $96.9 million from 2000. The average balance of deposits outstanding increased from $23.2 billion for 2000 to $24.4 billion for 2001. Deposit interest expense attributed to changes in volume decreased despite an increase in average volume because the volume of the average individual deposit categories with lower or zero rates (such as transaction and custodial accounts) increased significantly, while those with higher rates (such as CDs) decreased. 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 CDs and savings account balances. The overall weighted average cost of deposits decreased to 3.41% for 2001 from 3.99% for 2000, primarily due to a higher average balance of lower rate money market, custodial and checking accounts and a lower average balance of higher rate CDs in 2001.

Interest expense on securities sold under agreements to repurchase totalled $196.4 million for 2001, a decrease of $155.7 million from 2000. The average balance of such borrowings for 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 year ended December 31, 2001. The weighted average interest rate on these instruments decreased to 5.41% for 2001 from 6.45% for 2000, primarily due to maturities of higher rate fixed-rate borrowings and the repricing of variable-rate borrowings at lower rates during 2001.

Interest expense on borrowings totalled $1.6 billion for 2001, a decrease of $100.9 million from 2000. The average balance outstanding for 2001 and 2000 was $27.7 billion and $27.4 billion, respectively. The weighted average interest rate on these instruments decreased to 5.67% for 2001 from 6.10% for 2000. The increase in the average volume is the result of additional FHLB borrowings used to replace securities sold under agreements to repurchase, while the decrease in the weighted average rate is primarily due to declining market interest rates in 2001.

Net Interest Income. Net interest income was $1.4 billion for 2001, an increase of $214.7 million from 2000. The interest rate spread increased to 2.42% for 2001 from 2.02% for 2000, primarily as a result of declining market interest rates reducing costs 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 2.44% for the year ended December 31, 2001, up 39 basis points from the 2.05% reported during the year 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 $350.9 million for 2001, representing a decrease of $89.8 million from 2000. Noninterest income includes the following components (in thousands):

	Year Ended December 31,		
	2001	2000	1999
Noninterest income:			
Loan servicing fees, net	$ (14,393)	$176,159	$127,834
Customer banking fees and servicing charges	221,796	196,969	187,022
Gain on sale, settlement and transfer of loans, net	78,440	49,730	32,885
Gain (loss) on sale of assets, net	17,525	(13,426)	24,042
Other income	47,550	31,333	28,211
Total noninterest income	$350,918	$440,765	$399,994

Loan servicing fees for the Company were $(14.4) million for the year ended December 31, 2001, compared to $176.2 million in 2000 and $127.8 million for 1999. The following table details the components of loan servicing fees, net (dollars in thousands):

	Year Ended December 31,		
	2001	2000	1999
Components of loan servicing fees, net:			
Loan servicing fees	$ 457,542	$390,616	$358,992
Amortization of MSRs	(361,076)	(204,032)	(212,310)
Pass-through Interest Expense	(37,462)	(10,425)	(18,848)
Net gain on MSRs/MSR derivatives (SFAS No. 133)	79,948	--	--
MSR valuation provision	(153,345)	--	--
Total loan servicing fees, net	$ (14,393)	$176,159	$127,834
Portfolio run off rate (residential portfolio only)	30.1%	12.3%	20.7%
Run off rate of MSR value (residential portfolio only)	23.9	11.2	N/A
MSR amortization rate (residential portfolio only)	24.1	13.6	18.1

As the table reflects, gross loan servicing fees increased $66.9 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 $84.1 billion at December 31, 2000 to $85.2 billion at December 31, 2001. The portfolio runoff rate, representing the percentage of the residential portfolio that has been paid off during the year, influences MSR amortization, which increased $157.0 million in 2001 over the same period in 2000. MSR amortization was also affected by a higher average MSR balance for the year ended December 31, 2001 compared to the same period in 2000. Pass-through Interest Expense increased $27.0 million (259%) year over year, also influenced by higher runoff rates. Servicing fee income includes a $79.9 million pre-tax gain from the impact of SFAS No. 133 pertaining to the MSR fair value hedges. A $153.3 million pre-tax valuation provision on the MSRs was recorded during the year ended December 31, 2001. See "—Mortgage Banking Risk Management" for further discussion.

Customer banking fees were $221.8 million for 2001 compared to $197.0 million for 2000. The increase is primarily attributed to increased emphasis by management on transaction account growth and higher fee income on mutual fund, annuity and other investment and insurance product sales through Cal Fed Investments. 2001 also includes a $3.3 million reclassification to reflect gross revenues from customer check printing fees rather than net revenues. Transaction accounts (including custodial accounts) as a percentage of retail deposits increased to 57.4% at December 31, 2001, from 46.5% at December 31, 2000. The following table details the components of customer banking fees (in thousands):

	Year ended December 31,		
	2001	2000	1999
Components of customer banking fees and service charges:			
Transaction account fees	$146,580	$120,992	$117,500
Other retail customer fees	2,548	3,179	2,633
Investment sales income	61,994	55,435	51,608
Insurance commissions	10,674	17,363	15,281
Total customer banking fees and service charges	$221,796	$196,969	$187,022

Gain on sale, settlement and transfer of loans, net totalled $78.4 million for 2001, an increase of $28.7 million from 2000. During the years ended December 31, 2001 and 2000, the Company recorded reductions in its recourse liability of $24.5 million and $20.5 million, respectively, which is included in this income category. 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 sold 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 2001, California Federal sold $16.3 billion in single-family mortgage loans originated for sale with servicing rights retained as part of its ongoing mortgage banking operations at gains of $48.7 million compared to $5.2 billion of such sales for the corresponding period in 2000 at gains of $21.1 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 a result of 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 in 2001 also includes a $6.1 million unrealized loss from the application of SFAS No. 133 on the derivative rate locks, forward loan sale commitments and closed loan inventory.

Gain on sale of assets, net totalled $17.5 million for 2001, compared to a net loss of $13.4 million for 2000. The gain during 2001 includes a $17.3 million gain on the sale of $777.9 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 $5.8 million loss on the mark-to-market of the Company's portfolio of IO strip and "B" tranche mortgage securities pursuant to EITF No. 99-20, as well as a $4.1 million write-down in the Company's equity securities portfolio. 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 $1.5 million gain from the sale of $699.2 million mortgage-backed securities with an average yield of 7.27% during the fourth quarter and a $1.3 million gain from the sale of interest rate swaps with a notional amount of $150.0 million in August 2000.

Other income totalled $47.6 million for 2001, an increase of $16.2 million from 2000, primarily attributed 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 Systems.

Noninterest Expense. Total noninterest expense was $979.3 million for 2001, an increase of $66.1 million from 2000. Noninterest expense for 2001 included increases of $29.0 million in other noninterest expense, $27.8 million in compensation and employee benefit expense, $12.4 million in occupancy and equipment expense and $3.8 million in foreclosed real estate operations, net. These increases were partially offset by decreases of $3.9 million in professional fees and $2.9 million in amortization of intangible assets. Noninterest expense includes the following components (in thousands):

	Year Ended December 31,		
	2001	2000	1999
Noninterest expense:			
Compensation and employee benefits	$455,199	$427,362	$391,597
Occupancy and equipment	173,269	160,820	148,411
Professional fees	37,475	41,381	52,667
Loan expense	16,828	17,018	17,200
Foreclosed real estate operations, net	(905)	(4,690)	(6,411)
Amortization of intangible assets	59,861	62,717	69,724
Other expense	237,616	208,631	233,421
Total noninterest expense	$979,343	$913,239	$906,609

Compensation and employee benefits expense was $455.2 million for 2001, an increase of $27.8 million from 2000. The increase is primarily attributed to an increase in staff (from 7,834 FTE at December 31, 2000 to 8,219 at December 31, 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 $173.3 million for 2001, an increase of $12.4 million from 2000, primarily due to an increase in depreciation expense as a result of purchases of furniture and equipment, mainly computers with depreciable lives of 36 months, as well as higher contract maintenance and repair fees and increased rent expense.

Professional fees were $37.5 million for 2001, a decrease of $3.9 million from 2000, primarily due to a decrease in consulting fees related to various data processing systems projects.

Foreclosed real estate operations, net totalled $0.9 million in income for the year ended 2001, compared to $4.7 million in income for 2000, primarily due to fewer gains on sale of REO properties during 2001.

Amortization of intangible assets was $59.9 million for 2001, a decrease of $2.9 million from 2000, primarily attributed to a $50.0 million reduction in the goodwill balance in December 2000 due to the reversal of Old California Federal state deferred taxes.

Other noninterest expense was $237.6 million in 2001 compared to $208.6 million in 2000. The increase in expenses relates to increases in a number of operating expense categories, including retail back office operations, bank charges, telephone, marketing, courier service and charitable contributions.

Provision for Loan Losses. The provision for loan losses was zero for both 2001 and 2000. This reflects management's evaluation of the adequacy of the allowance based on, among other things, past loan loss experience and known and inherent risks in the portfolio, evidenced in part by the continued decline in the Bank's level of non-performing assets. For further information, refer to "– Balance Sheet Analysis – Allowance for Loan Losses."

Provision for Income Tax. During 2001, Golden State recorded net income tax expense of $292.0 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, during 2001, 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. 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 $3.2 million, an amount equal to the reduction in income tax expense. These adjustments had no impact on net income available to common stockholders (see "—Minority Interest.")

During 2000, Golden State recorded gross income tax expense of $298.5 million, which was offset by a tax benefit of $161.7 million, resulting in net income tax expense of $136.8 million. Based on favorable resolutions of federal income tax audits of Old California Federal and Glendale Federal, and the current status of Mafco's, including the Company's, audits for the years 1991 through 1995. During 2000, management changed its judgment about the realizability of the Company's deferred tax asset and reduced its valuation allowance by $211.7 million. 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 (see "—Minority Interest.")

Golden State's effective gross federal income tax rate was 39% and 38% during 2001 and 2000, respectively, while its federal statutory income tax rate was 35% during both periods. In 2001, the difference between the effective and statutory rates was primarily the result of a reduction in the accrued state tax liability and non-deductible goodwill amortization. In 2000, the difference between the effective and statutory rates was primarily the result of non-deductible goodwill amortization. Golden State's effective state tax rate was 1% and 6% during 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. For each of the years ended December 31, 2001 and 2000, dividends on the REIT Preferred Stock were recorded totalling $27.0 million, net of the income tax benefit, which will inure to the Bank as a result of the deductibility of such dividends for income tax purposes.

Minority interest for 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. Also during 2001, minority interest income of $110 thousand was recorded representing post-merger interest expense resulting from a tax audit of Old California Federal. As a result of this transaction, Issuable Shares was reduced by $110 thousand.

Minority interest expense for 2000 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 first quarter reduction of the valuation allowance on the Bank's deferred tax asset (see note 23 of the Company's Notes to Consolidated Financial Statements). Minority interest expense for 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 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 year ended December 31, 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 32 of the Company's Notes to 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	--	66,416	69,856	(56,324)	--	--	(79,948)	--
Warehouse loans	(33,562)	--	--	--	--	--	--	33,562
Interest rate locks	--	--	(2,911)	(13,269)	--	--	--	16,180
FLSC hedges	--	--	36,878	5,697	--	--	--	(42,575)
Cash flow hedges - swaps	--	--	–	(126,343)	51,611	74,732	--	--
Fair Value Adjustments – Year ended December 31, 2001	**(33,562)**	**66,416**	**103,823**	**(190,239)**	**51,611**	**74,732**	**(79,948)**	**7,167**
Other Activity – Year ended December 31, 2001:								
MSR hedge additions	--	--	713,575	--	--	--	--	--
MSR hedge sales and maturities	--	--	(660,726)	37,963	--	--	--	--
Hedge receipts and payments	--	(121)	15,820	(8,401)	--	–	--	–
Total Other Activity – Year ended December 31, 2001	**--**	**(121)**	**68,669**	**29,562**	**--**	**–**	**--**	**–**
Total Impact from SFAS No. 133 – Year ended December 31, 2001	**$(29,728)**	**$ (98,472)**	**$349,026**	**$(250,711)**	**$82,446**	**$119,379**	**$(79,948)**	**$ 6,118**

During the year ended December 31, 2001, the impact of SFAS No. 133 added $0.30 to diluted earnings per share. For additional discussion of the Company's hedging activities, please see note 37 to the Company's Notes to Consolidated Financial Statements.

Year Ended December 31, 2000 versus Year Ended December 31, 1999

Interest Income. Total interest income was $4.1 billion for 2000, an increase of $453.5 million from 1999. Total interest-earning assets for 2000 averaged $56.4 billion, compared to $52.4 billion for the corresponding period in 1999, 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 2000 increased to 7.28% from 6.97% for 1999, primarily due to a higher percentage of loans to total earning assets and the repricing of variable-rate earning assets.

Golden State earned $2.9 billion of interest income on loans receivable for 2000, an increase of $520.5 million from 1999. The average balance of loans receivable was $38.1 billion for 2000, compared to $31.9 billion for 1999. The weighted average rate on loans receivable increased to 7.49% for 2000 from 7.30% for 1999. The increase in the average balance reflects an increase in loan origination activity and new auto loan production from the Downey Acquisition. The increase in the weighted average rate reflects the repricing of variable-rate loans, an increase in the prime rate on commercial banking loans and comparatively higher market rates in 2000, partially offset by lower rates on new purchases of prime auto loans, including those purchased in the Downey Acquisition.

Golden State earned $62.6 million of interest income on loans held for sale for 2000, a decrease of $46.9 million from 1999. The average balance of loans held for sale was $837 million for 2000, a decrease of $822 million from 1999, primarily attributed to a reduction in fixed-rate originations due to higher interest rates, coupled with longer holding periods for loans held for sale in 1999. The weighted average rate on loans held for sale increased to 7.48% for 2000 from 6.60% for 1999, primarily due to higher market interest rates.

Interest income on mortgage-backed securities available for sale was $800.4 million in 2000, a decrease of $72.4 million from 1999. The average portfolio balance decreased during 2000 by $1.7 billion, to $12.0 billion for 2000. The weighted average yield on these assets increased from 6.37% for 1999 to 6.66% for 2000. The decrease in the volume and the increase in the weighted average yield are primarily due to the reclassification of $1.1 billion in mortgage-backed securities to the held-to-maturity portfolio, run-off of existing portfolios and the sale of approximately $1.4 billion in mortgage-backed securities during 2000, partially offset by the impact of purchases.

Interest income on mortgage-backed securities held to maturity was $206.5 million for 2000, an increase of $28.8 million from 1999. The average portfolio balance increased during 2000 by $338.0 million, to $2.7 billion for 2000, primarily attributed to the reclassification of $1.1 billion in mortgage-backed securities from the available-for-sale portfolio, partially offset by the run-off of existing portfolios. The run-off in these securities was replaced with the origination and purchase of whole loans instead of additional mortgage-backed securities. The weighted average yields for 2000 and 1999 were 7.56% and 7.43%, respectively.

Interest income on securities and interest-bearing deposits in other banks was $90.5 million for 2000, a decrease of $9.7 million from 1999. The average portfolio balance was $1.4 billion for 2000 and $1.6 billion for 1999. The lower weighted average yield of 6.34% for 2000, compared to 6.45% for 1999 reflects $2.4 million and $7.7 million, respectively, in interest income on federal income tax refunds related to Old California Federal for periods prior to the Golden State Acquisition for which there are no corresponding assets.

Dividends on FHLB stock were $92.9 million for 2000, an increase of $33.2 million from 1999. The average balance outstanding during 2000 and 1999 was $1.3 billion and $1.1 billion, respectively. The weighted average dividend on FHLB stock increased to 7.14% for 2000 from 5.36% for 1999. The increase in the average balance and weighted average yield is due to an increase in the amount of such stock owned by the Company as a result of an increase in borrowings under FHLB advances and an increase in the dividend rate on FHLB stock.

Interest Expense. Total interest expense was $3.0 billion for 2000, an increase of $492.6 million from 1999. The increase is primarily the result of additional borrowings under FHLB advances and securities sold under agreements to repurchase used to fund loans and offset the reduction in average deposit balances, coupled with an overall higher interest rate environment.

Interest expense on deposits, including Brokered Deposits, was $928.4 million for 2000, an increase of $40.1 million from 1999. The average balance of deposits outstanding decreased from $23.9 billion for 1999 to $23.2 billion for 2000. The decrease in the average balance includes declines in the average balance of CDs, custodial accounts, passbook savings and money market accounts, offset in part by an increase in the average balance of customer checking accounts. These changes reflect the Company's focus during 2000 on consumer checking account growth. The overall weighted average cost of deposits increased to 3.99% for 2000 from 3.72% for 1999, primarily due to rising market interest rates.

Interest expense on securities sold under agreements to repurchase totalled $352.1 million for 2000, an increase of $86.6 million from 1999. The average balance of such borrowings for 2000 and 1999 was $5.4 billion and $5.1 billion, respectively. The increase is primarily attributed to the funding of loans and the purchase of mortgage-backed securities during 1999, as well as deposit run-off. The weighted average interest rate on these instruments increased to 6.45% for 2000 from 5.18% for 1999, primarily due to an increase in market interest rates on new borrowings in 2000 compared to 1999.

Interest expense on borrowings totalled $1.7 billion for 2000, an increase of $365.9 million from 1999. The average balance outstanding for 2000 and 1999 was $27.4 billion and $23.6 billion, respectively. The weighted average interest rate on these instruments increased to 6.10% for 2000 from 5.56% for 1999, primarily due to higher prevailing market interest rates in 2000. The higher volume reflects the increase in FHLB advances used to fund loans and the purchase of mortgage-backed securities during 1999.

Net Interest Income. Net interest income was $1.1 billion for 2000, a decrease of $39.1 million from 1999. The interest rate spread declined to 2.02% for 2000 from 2.28% for 1999, primarily as a result of maturities and repayments of lower rate interest-bearing liabilities being replaced with interest-bearing liabilities having comparatively higher rates. The effect of higher rates on liabilities was partially offset by higher yielding assets replenishing asset run-off in a rising rate environment and the repricing of variable-rate assets.

Noninterest Income. Total noninterest income, consisting primarily of loan servicing fees, customer banking fees and gains on sales of assets, was $440.8 million for 2000, representing an increase of $40.8 million from 1999.

Loan servicing fees, net of amortization of MSR and pass-through interest expense, were $176.2 million for 2000, compared to $127.8 million for 1999. The single-family residential loan servicing portfolio, excluding loans serviced for the Bank, increased from $72.9 billion at December 31, 1999 to $84.1 billion at December 31, 2000. Incremental loan servicing fees were partially offset by amortization of MSRs and pass-through interest expense. MSR amortization for 2000 decreased by $8.3 million from 1999 due to a reduction in the estimated prepayment rate, partially offset by a higher MSR basis. Loan servicing fees benefited from the slowdown in mortgage loan prepayments in 2000, with an average prepayment rate on loans serviced for others of 9% during 2000, compared to 17% during 1999. Interest pass-through expense declined $8.4 million in 2000 compared to 1999, as a result of these lower prepayments on loans serviced for others.

Customer banking fees were $197.0 million for 2000 compared to $187.0 million for 1999. The increase is primarily attributed to increased emphasis by management on transaction account growth and higher fee income on mutual fund, annuity and other security sales through Cal Fed Investments.

Gain on sale, settlement and transfer of loans, net totalled $49.7 million for 2000, an increase of $16.8 million from 1999. During 2000, the Company recorded $20.5 million of reductions in its recourse liability. This liability is a life-of-asset accrual. Given the paydowns which have occurred on the underlying loans and the improving credit and real estate market conditions present, the Company determined that the liability balance exceeded its estimate of the required accrual for the remaining life of the recourse assets by $20.5 million. Gains attributed to early payoffs and settlement of commercial loans with unamortized discounts were $9.8 million lower in 2000 compared to 1999. During 2000, California Federal sold $5.1 billion in single-family mortgage loans originated for sale with servicing rights retained as part of its ongoing mortgage banking operations compared to $9.7 billion of such sales for 1999, while the gains on such sales increased $3.5 million between the two periods. In addition, the gain on sale was reduced in 1999 by $2.7 million, reflecting LOCOM adjustments.

Net loss on sale of assets totalled $13.4 million for 2000, compared to a net gain of $21.7 million for 1999. 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 $1.5 million gain from the sale of $699.2 million mortgage-backed securities with an average yield of 7.27% during the fourth quarter and a $1.3 million gain from the sale of interest rate swaps with a notional amount of $150.0 million in August 2000. These sales were undertaken to benefit both the net interest margin and the Company's interest rate sensitivity in future periods. The $21.7 million gain reported in 1999 primarily relates to the $16.3 million gain on the Servicing Sale.

Noninterest Expense. Total noninterest expense was $913.2 million for 2000, an increase of $6.6 million from 1999. Noninterest expense for 2000 included increases of $35.8 million in compensation expense and $12.4 million in occupancy and equipment expense. These increases were partially offset by decreases of $24.8 million in other noninterest expense, $11.3 million in professional fees and $7.0 million in amortization of intangible assets.

Compensation and employee benefits expense was $427.4 million for 2000, an increase of $35.8 million from 1999. The increase is primarily attributed to normal salary increases and higher employment levels in expanding lines of business, including the impact of additional employees from the Downey Acquisition.

Occupancy and equipment expense was $160.8 million for 2000, an increase of $12.4 million from 1999, primarily attributed to increased depreciation expense related to a change in the depreciable lives of personal computers and an increase in rent expense on leased facilities.

Professional fees were $41.4 million for 2000, a decrease of $11.3 million from 1999, primarily due to legal and consulting fee expenses incurred in 1999 related to the two goodwill litigation cases and the Y2K project.

Amortization of intangible assets was $62.7 million for 2000, a decrease of $7.0 million from 1999, primarily attributed to a lower goodwill base due to a $50.0 million reduction in goodwill in the first quarter of 2000, resulting from a reduction in the valuation allowance against the Company's deferred tax asset (see "– Provision for Income Tax"), and a $38.2 million reduction in goodwill resulting from an income tax refund received during the fourth quarter of 1999 related to Old California Federal. This decrease was partially offset by amortization expense related to the $7.7 million and $50.7 million in goodwill recorded in connection with the Downey Acquisition and the Nevada Purchase, respectively.

Other noninterest expense was $208.6 million in 2000 compared to $233.4 million in 1999. The decline in operating expenses was primarily attributed to management's continued expense reduction efforts. In addition, 1999 included merger and integration costs of $7.7 million, representing transition expenses, which include severance, conversion and consolidation costs incurred in connection with the Golden State Acquisition. Such costs were not incurred during 2000.

Provision for Loan Losses. The provision for loan losses was zero in 2000, down from $10 million in 1999. The decrease in 2000 reflects management's evaluation of the adequacy of the allowance based on, among other things, past loan loss experience and known and inherent risks in the portfolio, evidenced in part by the continued decline in the Bank's level of non-performing assets. For further information, refer to "– Balance Sheet Analysis – Allowance for Loan Losses."

Provision for Income Tax. During 2000, Golden State recorded gross income tax expense of $298.5 million, which was offset by a tax benefit of $161.7 million, resulting in net income tax expense of $136.8 million. Based on favorable resolutions of federal income tax audits of Old California Federal and Glendale Federal, and the current status of Mafco's, 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 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.

During 1999, Golden State recorded gross income tax expense of $309.2 million, which was offset by a tax benefit of $122.7 million, for a net income tax expense of $186.5 million. A provision in lieu of income taxes was recorded for the $122.7 million of pre-merger tax benefits, in the form of net operating losses and other items, which are retained by the previous owners of FN Holdings. The tax benefit adjustment resulted from the 1998 tax filings in 1999.

Golden State's effective gross federal income tax rate was 38% during 2000 and 1999, while its federal statutory income tax rate was 35% during both periods. The difference between the effective and statutory rates was primarily the result of non-deductible goodwill amortization. Golden State's effective state tax rate was 6% and 8% during 2000 and 1999, respectively. The effective state tax rate declined during 2000 as a result of changes in management's estimates of the expected state tax liability of the Company.

Minority Interest. Minority interest expense for 2000 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 first quarter reduction of the valuation allowance on the Bank's deferred tax asset (see note 28 of the Company's Notes to Consolidated Financial Statements). Minority interest expense for 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. In addition, for 2000, dividends on the REIT Preferred Stock were recorded totalling $27.0 million, net of the income tax benefit, which will inure to the Bank as a result of the deductibility of such dividends for income tax purposes.

Minority interest for 1999 included a $122.7 million provision in lieu of income taxes, representing pre-merger tax benefits retained by the previous owners of FN Holdings and $5.0 million in net premiums paid in connection with the redemption of the Bank Preferred Stock. Minority interest expense also included dividends on the Bank Preferred Stock that had not yet been acquired by GS Holdings and the REIT Preferred Stock totalling $1.8 million and $26.4 million, respectively. In addition, for 2000, dividends on the REIT Preferred Stock were recorded totalling $26.4 million, net of the income tax benefit, which will inure to the Bank as a result of the deductibility of such dividends for income tax purposes. The reduction in minority interest relative to the Bank Preferred Stock reflects the impact of the $60.7 million in Bank Preferred Stock redeemed on April 1, 1999 and the $31.8 million redeemed on September 1, 1999. Minority interest expense for 1999 also included a $1.7 million benefit reversal representing that portion of Auto One's loss attributable to the 20% interest in the common stock of Auto One that was issued as part of the GSAC Acquisition.

Extraordinary Items. During 2000, the FHLB called and the Bank prepaid $400 million in 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.

During 1999, the Bank repurchased all of the remaining $6.0 million outstanding principal amount of the 11.20% Senior Notes assumed in the SFFed Acquisition, resulting in an extraordinary loss of $0.2 million, net of income taxes of $0.1 million, on the early extinguishment of debt. In addition, during 1999 the FHLB called and the Bank prepaid $500 million in FHLB advances, resulting in an extraordinary gain of $2.7 million, net of income taxes of $1.9 million, on the early extinguishment of such borrowings.

Provision for Federal and State Income Taxes

During the years 2001, 2000 and 1999, Golden State recorded income tax expense, excluding the tax effects associated with extraordinary items, cumulative effect of change in accounting principle and minority interest in 2001, 2000 and 1999, of $295.1 million, $298.5 million, and $309.2 million, respectively. 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. During 2001, 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. In addition, during 2001, the Company also recorded additional Federal tax expense of $13.9 million due to the reduction of the state tax expense.

In 2001, 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 adjustments had no impact on net income available to common stockholders. Included in the 2000 tax expense is a $161.7 million provision in lieu of taxes resulting from adjustments related to pre-merger tax benefits, in the form of net operating loss carryovers and other items, which are retained by the previous owners of FN Holdings under the Golden State Merger agreement. For further information, see note 28 of the Company's Notes to Consolidated Financial Statements.

The Company's effective federal income tax rates were 39%, 38% and 38% in 2001, 2000 and 1999, respectively. The Company's federal statutory income tax rate was 35% in each of the years 2001, 2000 and 1999. For the year ended December 31, 2001, the difference between the effective and statutory rates was primarily the result of a reduction in the accrued state tax liability and non-deductible goodwill amortization. For the years ended December 31, 2000 and 1999, the difference between the effective and statutory rates was primarily the result of non-deductible goodwill amortization. During the years 2001, 2000 and 1999, Golden State's effective state tax rates were 1%, 6% and 8%, respectively. The effective state tax rate declined during 2001 as a result of a reduction in the accrued state tax liability as previously discussed.

For federal income tax purposes, the Bank, GS Holdings and Golden State Bancorp are parties to a Tax Sharing Agreement, pursuant to which:

(a) the Bank pays to GS Holdings amounts equal to the income taxes that the Bank would be required to pay if it were to file a return separately from the Golden State Bancorp consolidated group,

(b) GS Holdings pays to the Company amounts equal to the income taxes that GS Holdings would be required to pay if it were to file a consolidated return on behalf of itself and the Bank separately from the Golden State Bancorp consolidated group, and

(c) in connection with the Golden State Acquisition, Mafco Holdings continues to be bound for all obligations accruing for taxable periods on or prior to September 11, 1998.

Under federal tax law, the parties subject to the tax sharing agreement in effect prior to the Golden State Acquisition are subject to several liability with respect to the consolidated federal income tax liabilities of the Mafco Group for any taxable period during which Parent Holdings, FN Holdings or the Bank is, as the case may be, a member of such group. Therefore, Parent Holdings, FN Holdings or the Bank may be required to pay Mafco Holdings' consolidated federal tax liability notwithstanding prior payments made under the Tax Sharing Agreement by FN Holdings or the Bank to Mafco Holdings. Mafco Holdings has agreed, however, under the Tax Sharing Agreement, to indemnify FN Holdings and the Bank for any such federal income tax liability (and certain state and local tax liabilities) of Mafco Holdings or any of its subsidiaries (other than FN Holdings and the Bank) that FN Holdings or the Bank is actually required to pay.

In connection with the Golden State Acquisition, the Company deconsolidated from the Mafco Group. As a result, only the amount of the NOLs of the Company not utilized by the Mafco Group on or before December 31, 1998 are available to offset taxable income of the Company thereafter. The Deconsolidation Adjustment may continue to change based upon the results of IRS audits for all open years of Mafco and the Company. Any change to the Deconsolidation Adjustment will be recorded as an adjustment to the amounts due or distributions made to the previous owners of FN Holdings. In addition, adjustments related to the valuation allowance as a result of the Deconsolidation Adjustment will be recorded as an adjustment to federal income tax expense. Such adjustment will be offset by minority interest since under the merger agreement with Golden State the tax benefits from any NOLs and other tax attributes of Parent Holdings and subsidiaries are retained by the previous owners of FN Holdings. Accordingly, any change to the Deconsolidation Adjustment should have no impact on Golden State's effective tax rate. Changes are recorded in the period during which such change is determined.

At December 31, 2001, the Company had regular NOL carryforwards for federal income tax purposes of approximately $2.8 million, which are available to offset future federal taxable income, if any, through 2007. In addition, the Company had AMT credit carryforwards of approximately $126.6 million which are available to offset future federal regular income taxes, if any, over an indefinite period. The IRS is examining the 1991 through 1995 federal income tax returns of the Company and any NOL or AMT credit carryforwards are subject to review and disallowance, in whole or in part, by the IRS.

In accordance with SFAS No. 109, a deferred tax liability has not been recognized for the base year reserves of the Bank. For further information, see note 28 of the Company's Notes to Consolidated Financial Statements.

The Company is subject to taxation in certain states in which it operates, including California. For California franchise tax purposes, savings institutions are taxed as "financial corporations." Financial corporations are taxed at the general corporate franchise tax rate plus an "in lieu" rate based on their statutory exemption from local business and personal property taxes.

Balance Sheet Analysis

At December 31, 2001, Golden State's assets totalled $56.5 billion, down from $60.5 billion at December 31, 2000. The decrease was primarily due to management's decision to sharply reduce purchases of mortgage-backed securities, partially offset by increased loan volume and growth in loans held for sale. 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. (For a discussion of the loan portfolio, see "—Loan Portfolio.") The decline in interest-earning assets was accompanied by decreased borrowings from the FHLB and securities sold under agreements to repurchase, partially offset by increases in deposits and other liabilities. For further information on the Company's management of assets and liabilities, as well as information on the Company's liquidity and capital, see "—Risk Management," "—Liquidity" and "—Capital Management."

Investment Activities

OTS regulations require the Bank to maintain a specified minimum amount of liquid assets which may be invested in certain types of securities. The amount of excess securities balances (including cash equivalent securities) may change over time based on the Bank's asset/liability funding needs and interest rate risk management objectives. Management considers anticipated future cash flows and all available sources of credit and maintains liquidity at levels believed to be appropriate in relation to funding needs (including deposit withdrawal requests, loan funding commitments, and other investment or restructuring requirements). For further information regarding liquidity, refer to "—Liquidity."

Cash Equivalents

Cash equivalents totalled $805.2 million and $783.1 million at December 31, 2001 and 2000, respectively. The Company sells federal funds, purchases securities under agreements to resell, and invests in interest-bearing deposits in other banks to help meet the Bank's regulatory liquidity requirements and as temporary holdings until the funds can be otherwise deployed or invested.

Securities Available for Sale

Securities available for sale totalled $116.1 million and $641.2 million at December 31, 2001 and 2000, respectively. They consist primarily of municipal securities and U.S. government and agency obligations. For further information, refer to notes 5 and 6 of the Company's Notes to Consolidated Financial Statements.

Securities Held to Maturity

Securities held to maturity totalled $30.6 million and $587.5 million at December 31, 2001 and 2000, respectively. They consist of commercial paper and municipal securities. For further information, refer to notes 5 and 7 of the Company's Notes to Consolidated Financial Statements.

Mortgage-backed Securities Available for Sale

Mortgage-backed securities available for sale totalled $7.1 billion and $9.9 billion at December 31, 2001 and 2000, respectively. At December 31, 2001 and 2000, mortgage-backed securities available for sale included securities totalling $362.8 million and $723.9 million, respectively, which resulted from the securitization of certain qualifying mortgage loans from the Bank's portfolio in order to provide more efficient collateral for borrowings. Mortgage-backed securities available for sale included $1.8 billion and $3.0 billion of variable-rate securities as of December 31, 2001, and 2000, respectively.

On January 1, 2001, the Company reclassified $1.1 billion carrying value of mortgage-backed securities from the held-to-maturity to the available-for-sale portfolio, as permitted upon the adoption of SFAS No. 133. During 2000, the Company reclassified $1.1 billion carrying value of mortgage-backed securities from the available-for-sale to the held-to-maturity portfolio. For more information, refer to notes 5 and 8 of the Company's Notes to Consolidated Financial Statements.

Golden State maintains a significant portfolio of mortgage-backed securities as a means of investing in housing-related mortgages without the costs and credit risk associated with originating and holding mortgage loans. By investing in mortgage-backed securities, management seeks to achieve a positive spread over the cost of funds used to purchase these securities. Mortgage-backed securities available for sale are carried at fair value, with unrealized gains and losses reported in a separate component of stockholders' equity. Premiums and discounts on the purchase of mortgage-backed securities are amortized or accreted as a yield adjustment over the life of the securities using the interest method, with the amortization or accretion effect of prepayments being adjusted based on revised estimates of future repayments.

Mortgage-backed securities generally yield less than the loans which underlie such securities because of their credit enhancements which reduce credit risk. In addition, mortgage-backed securities are more liquid than individual mortgage loans and may be used to collateralize borrowings. Mortgage-backed securities issued or guaranteed by the GNMA are generally weighted at 0% for risk-based capital purposes. Mortgage-backed securities issued or guaranteed by the FNMA or the FHLMC (except interest-only securities or the residual interests in CMOs) are generally weighted at 20% for risk-based capital purposes, compared to a weight of 50% to 100% for residential loans.

The Company held privately issued CMOs with an aggregate carrying value of $5.0 billion at December 31, 2001. The following represents all such investments with a carrying value in excess of 10% of stockholders' equity (in millions):

Issuer	Aggregate Amortized Cost	Aggregate Fair Market Value
Cendant Mortgage Corporation	$285	$289
Chase Mortgage Finance Corporation	289	295
Countrywide Home Loans	305	311
First Nationwide Trust	265	264
GE Capital Mortgage Services, Inc.	399	404
Norwest Asset Securities Corp.	411	420
Residential Funding Mortgage Securities	541	549

At December 31, 2001, all of the mortgage-backed securities held by the Company had one of the two highest credit ratings from one or more of the national rating agencies except for $235.5 million, of which $45.4 million are non-rated CMO residual class securities formed by Old California Federal's and Glendale Federal's originations of residential mortgages. Rating agencies may revise or withdraw credit ratings at anytime. The mortgage-backed securities which Golden State purchases and maintains in its portfolio include certain CMOs. A CMO is a special type of pay-through debt obligation in which the stream of principal and interest payments on the underlying mortgages or mortgage-backed securities is used to create classes with different maturities and, in some cases, amortization schedules, and a residual class of the CMO security being sold, with each such class possessing different risk characteristics. The residual interest sold represents any residual cash flows which result from the excess of the monthly receipts generated by principal and interest payments on the underlying mortgage collateral and any reinvestment earnings thereon, less the cash payments to the CMO holders and any administrative expenses. As a matter of policy, due to the risk associated with residual interests, the Company does not invest in the residual interests of CMOs.

For further information on mortgage-backed securities available for sale, refer to notes 5 and 8 of the Company's Notes to Consolidated Financial Statements.

Mortgage-backed Securities Held to Maturity

At December 31, 2001 and 2000, mortgage-backed securities held to maturity totalled $1.4 billion and $2.9 billion, respectively. Mortgage-backed securities held to maturity are carried at amortized cost unless there is evidence of a decline in value that is other than temporary. Other-than-temporary declines in value are charged to income in the periods in which the declines are determined. Premiums and discounts on the purchase of mortgage-backed securities are amortized or accreted as a yield adjustment over the life of the securities using the interest method, with the amortization or accretion effect of prepayments being adjusted based on revised estimates of future repayments.

On January 1, 2001, the Company reclassified $1.1 billion carrying value of mortgage-backed securities from the held-to-maturity to the available-for-sale portfolio, as permitted upon the adoption of SFAS No. 133. During 2000, the Company reclassified $1.1 billion carrying value of mortgage-backed securities from the available-for-sale to the held-to-maturity portfolio. For further information on mortgage-backed securities held to maturity, refer to notes 5 and 9 of the Company's Notes to Consolidated Financial Statements.

Sources of Funds

The Company's major sources of funds for lending, investment and other general business purposes are: deposits, sales of securities under agreements to repurchase, advances from the FHLB, sales, maturities and principal repayments on loans and mortgage-backed securities and issuances of debentures and preferred stock. Management closely monitors rates and terms of competing sources of funds on a daily basis and utilizes the source which is most cost-effective. The availability of funds from sales of loans and securities is influenced by the levels of general interest rates and other market conditions. For additional information regarding the Company's sources of funds, see "—Liquidity" and the Company's Consolidated Statements of Cash Flows in the Consolidated Financial Statements.

Loan principal and interest payments are a source of funds, while customer deposit inflows and outflows, and loan repayments and prepayments are influenced significantly by the levels of general interest rates and money market conditions, and may fluctuate widely. The Company may use borrowings to compensate for reductions in normal sources of funds such as customer deposits.

Deposits

The Company offers a variety of deposit accounts designed to attract both short-term and long-term deposits. There are no rate limitations on any type of deposit account presently offered by the Company. At December 31, 2001, deposits totalled $25.1 billion, compared with $23.4 billion at December 31, 2000.

	December 31,					
	2001		2000		1999	
	Amount	Percent of Deposits	Amount	Percent of Deposits	Amount	Percent of Deposits
	(dollars in millions)					
Transaction accounts:						
Passbook accounts	$ 3,056	12.2%	$ 3,087	13.2%	$ 3,666	16.0%
Demand deposits:						
Interest-bearing	2,139	8.5	2,063	8.8	1,974	8.6
Noninterest bearing custodial accounts	2,513	10.0	826	3.5	814	3.6
Other noninterest bearing	2,000	8.0	1,717	7.4	1,384	6.0
Money market deposit accounts:						
Non-brokered	4,614	18.4	2,949	12.6	2,953	12.8
Brokered	85	0.3	84	0.4	191	0.8
Total transaction accounts	14,407	57.4	10,726	45.9	10,982	47.8
Term accounts:						
Non-brokered	10,618	42.3	12,241	52.5	11,791	51.3
Brokered	61	0.3	370	1.6	199	0.9
Total term accounts	10,679	42.6	12,611	54.1	11,990	52.2
Total transaction and term accounts	25,086	100.0%	23,337	100.0%	22,972	100.0%
Accrued interest payable	47		92		61	
Purchase accounting adjustments	1		1		3	
Total	$25,134		$23,430		$23,036	

Deposit balances averaged $24.4 billion and $23.2 billion during 2001 and 2000, respectively, with average interest rates of 3.41% and 3.99%, respectively. The weighted average stated interest rates on deposits at December 31, 2001 and 2000 were 3.42% and 4.00%, respectively.

The following table presents the average balance and weighted average rate paid on each deposit type of the Bank for the periods indicated, excluding the impact of purchase accounting adjustments:

	For the Year Ended December 31,					
	2001		2000		1999	
	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid
	(dollars in millions)					
Transaction accounts:						
Passbook accounts	$ 3,020	2.54%	$ 3,449	3.38%	$ 3,652	3.41%
Demand deposits:						
Interest-bearing	2,053	0.25	2,056	0.68	1,908	0.93
Noninterest bearing	3,701	--	2,523	--	2,665	--
Money market deposit accounts	3,958	3.28	2,997	4.03	3,196	3.89
Term accounts	11,626	5.30	12,214	5.56	12,476	5.02
Total	$24,358	3.42%	$23,239	4.00%	$23,897	3.74%

The following table sets forth the scheduled maturities of the Company's term accounts by stated interest rate at December 31, 2001 (in millions):

	2002	2003	2004	2005	2006	Total
3.00 – or less	$1,857	$ 166	$ --	$ --	$ --	$ 2,023
3.01 – 4.00%	2,345	331	35	--	1	2,712
4.01 – 5.00%	3,103	442	68	4	162	3,779
5.01 – 6.00%	1,160	87	16	14	11	1,288
6.01 – 7.00%	653	3	14	169	1	840
7.01 – 8.00%	24	1	7	5	--	37
Total term accounts	$9,142	$1,030	$140	$192	$175	$10,679

The following table sets forth remaining maturities for the Company's term deposits in amounts of $100,000 or more at December 31, 2001 (in millions):

3 months or less	$ 811
Over 3 months but within 6 months	745
Over 6 months but within 12 months	842
Over 12 months	401
	$2,799

At December 31, 2001, the aggregate amount outstanding of CDs of $100,000 or larger at the Company was $2.8 billion, compared with $3.3 billion at December 31, 2000. Deposits held by foreign investors at the Bank totalled $99.6 million and $93.6 million at December 31, 2001 and 2000, respectively.

The Bank's deposit accounts are primarily held by individuals residing near retail branch offices in California and Nevada. The Bank has emphasized, and will continue to emphasize, a retail branch network for attracting deposits. Key market areas, particularly in California and Nevada, will continue to be targeted for expansion of retail deposits and the cross-selling of additional consumer products.

The Bank issues Brokered Deposits, usually in amounts less than $100,000, which are obtained from a diverse customer base. These funds generally cost more than traditional passbook and money market deposits and are more volatile as a source of funds because of their sensitivity to the rates offered. However, they supplement retail customer deposits as a source of funds for financing and liquidity purposes. At December 31, 2001, California Federal had $146.5 million of Brokered Deposits outstanding, representing 0.6% of total deposits. For more information on deposits, refer to note 17 of the Company's Notes to Consolidated Financial Statements.

Borrowings

The Company and the Bank utilize various borrowings as alternative sources of funds for their business needs. These sources have included securities sold under agreements to repurchase, FHLB advances, senior and subordinated debentures and the purchase of federal funds. For further information, refer to notes 18 and 19 of the Company's Notes to Consolidated Financial Statements.

Short-term Borrowings. Short-term borrowings consist of securities sold under agreements to repurchase, federal funds purchased, and short-term FHLB advances. These instruments are discussed more fully in the subsequent sections.

The following table sets forth each category of the Company's borrowings maturing within one year, including the average amount outstanding and the maximum amount outstanding at the end of the period. Amounts and rates reflected in the table exclude repricing, accrued interest payable and purchase accounting adjustments.

	At or for the year ended December 31,		
	2001	2000	1999
		(dollars in millions)	
Securities sold under agreements to repurchase:			
Average balance outstanding	$ 1,688	$ 4,049	$ 4,959
Maximum amount outstanding at any month end during the period	2,448	6,073	5,996
Balance outstanding at end of period	400	2,596	5,207
Average interest rate during the period	5.52%	6.28%	5.24%
Average interest rate at end of period	3.63	6.68	5.48
Federal funds purchased:			
Average balance outstanding	$ 296	$ 73	$ 54
Maximum amount outstanding at any month end during the period	670	315	160
Balance outstanding at end of period	225	--	55
Average interest rate during the period	3.94%	6.52%	5.12%
Average interest rate at end of period	1.63	--	5.50
Short-term FHLB advances:			
Average balance outstanding	$10,899	$10,816	$ 8,107
Maximum amount outstanding at any month end during the period	11,431	13,601	11,270
Balance outstanding at end of period	10,231	8,791	11,270
Average interest rate during the period	5.05%	6.26%	5.40%
Average interest rate at end of period	4.20	6.56	5.84

At December 31, 2001, the Company had an estimated additional secured borrowing capacity of $8.7 billion with the FHLB and other sources.

Securities Sold Under Agreements to Repurchase. The Company enters into reverse repurchase agreements whereby it sells marketable U.S. government and mortgage-backed securities and CMOs with a commitment to repurchase the securities at a specified price and on a specified date. These agreements are recorded as financings, and the obligation to repurchase assets sold is reflected as a liability on the consolidated balance sheet. The carrying value of assets underlying the agreements is included in the asset accounts. The securities underlying the agreements are delivered to the dealers who arranged the transactions. The counterparty to the repurchase agreement may have loaned the securities to other parties in the normal course of their operations; however, all agreements require that the identical securities be resold to the Company at the maturity of the agreements. In order to reduce possible risks associated with these borrowing transactions, the Company enters into the reverse repurchase agreements with national investment banking firms and major commercial banks which are primary dealers in these securities.

Federal Funds Purchased California Federal must meet legal reserve requirements on a daily basis by maintaining a specified total amount of deposits at the Federal Reserve Bank and vault cash. Occasionally, the Bank may borrow funds from another bank with excess reserves to meet its requirements for the day. These borrowings are repaid with interest at maturity based on the federal funds rate.

FHLB Advances. The FHLB functions in a credit capacity for savings institutions and certain other home financing institutions. California Federal is a member of the FHLB System. Among other benefits, FHLB membership provides the Bank with a central credit facility from which it may generally borrow through advances secured by its home mortgages and other assets (principally securities which are obligations of, or guaranteed by, the U.S. government). Such advances may be made pursuant to several different credit programs made available from time to time by the FHLB to meet seasonal activity and other withdrawals of deposit accounts and to expand lending. The FHLB prescribes the acceptable uses, as well as limitations on the size of such advances. Depending on the program, such limitations are based either on a fixed percentage of the institution's net worth or on the FHLB's assessment of the institution's creditworthiness.

The following table presents the balance and weighted average rate paid on FHLB advances for the periods indicated, excluding accrued interest payable and the impact of purchase accounting adjustments (dollars in millions):

	2001		2000		1999	
	Balance	Average Rate	Balance	Average Rate	Balance	Average Rate
Fixed-rate borrowings	$17,484	5.13%	$21,333	6.08%	$19,971	5.61%
Variable-rate borrowings	4,836	2.23	5,090	6.71	3,365	6.04
Total FHLB advances	$22,320	4.50%	$26,423	6.21%	$23,336	5.67%

The Bank is required to own capital stock in the FHLB in an amount equal to the greater of:

(a) 1% of the aggregate outstanding principal amount of its residential mortgage loans, home purchase contracts and similar obligations at the beginning of each calendar year,

(b) 0.3% of total assets, or

(c) 5% of its FHLB advances.

The Bank currently complies with FHLB stock ownership requirements. For further information, refer to note 19 of the Company's Notes to Consolidated Financial Statements.

Interest Rate Swap Agreements. The Company uses interest rate swap agreements to hedge against movements in interest rates that would otherwise have adverse effects on its net interest margin. The Company utilizes pay-fixed swaps as an alternative to longer-term fixed rate borrowings, as these instruments are more liquid and often times less costly than borrowing long term directly. The Company had interest rate swap agreements with a notional principal amount of $4.1 billion and $3.2 billion outstanding at December 31, 2001 and 2000, respectively, for this purpose. The notional amount does not represent amounts exchanged by the parties and thus, is not a measure of the Company's exposure at that time. The Company receives a variable rate based on LIBOR and pays a fixed rate under these agreements. In order to reduce possible counterparty nonperformance risk, the Company enters into interest rate swap agreements only with primary dealers in U.S. government securities and the FHLB. The Company incurred net interest rate swap expense on FHLB advances of $67.3 million and $7.2 million during 2001 and 2000, respectively, and net interest rate swap expense on reverse repurchase agreements of $8.2 million and $0.9 million in 2001 and 2000, respectively. For additional information, refer to note 37 of the Company's Notes to Consolidated Financial Statements.

GS Holdings Notes. On August 6, 1998, GS Escrow, which subsequently merged into GS Holdings, issued $2 billion principal amount of the GS Holdings Notes. The GS Holdings Notes are unsecured and unsubordinated obligations of GS Holdings and rank in right of payment with all other unsubordinated and unsecured indebtedness of GS Holdings. The terms and conditions of the notes impose restrictions that affect, among other things, the ability of GS Holdings to incur debt, pay dividends or make distributions, engage in a business other than holding the common stock of the Bank and similar banking institutions, make acquisitions, create liens, sell assets and make certain investments. On August 1, 2001, $350 million of the GS Holdings Notes matured and was paid in full. For additional information on the GS Holdings Notes and other borrowings, refer to note 19 of the Company's Notes to Consolidated Financial Statements.

Mortgage Banking Activities

Mortgage banking activities allow the generation of fee income without the associated capital retention requirements attributable to traditional real estate lending activities. Generally, the Company originates fixed-rate 1-4 unit residential loans for sale in the secondary mortgage market. The Company employs forward sale hedging techniques to minimize the interest rate and pricing risks associated with the origination and sale of such loans. The Company has also entered into one-year flow agreements with third party lenders whereby the Company has committed to purchase newly originated mortgage loan servicing rights for monthly or quarterly deliveries up to an agreed upon total principal amount.

At the time of origination, management identifies 1-4 unit residential loans that are expected to be sold in the foreseeable future. At December 31, 2001, management had identified $2.6 billion of 1-4 unit residential loans as held-for-sale. These loans are recorded at either fair market value (for those loans which were hedged in accordance with SFAS No. 133) or LOCOM (for those loans which were not hedged). At December 31, 2001, the Company had forward and whole loan sale commitments to sell loans totalling $4.7 billion. In addition, FNMC had entered into commitments to originate and purchase fixed- and variable-rate loans (mortgage loan pipeline) of $9.0 billion.

The following table provides detailed information related to FNMC's MSRs:

	December 31, 2001	December 31, 2000
	(dollars in thousands)	
Residential Mortgage Servicing Portfolio:		
Total UPB residential loans serviced	$112,262,916	$111,992,361
Total number of residential loans serviced	997,276	1,048,262
Total UPB residential loans serviced for others	$ 85,218,280	$ 84,080,891
Total number of residential loans serviced for others	838,234	879,180

	Year Ended December 31, 2001	Year Ended December 31, 2000
	(dollars in thousands, except as noted)	
Mortgage loans sold	$16,379,633	$5,249,365
Mortgage loans sold with recourse	503,107	728,011
Mortgage loans sold (servicing retained)	16,357,473	5,249,365
Portfolio Characteristics:		
Weighted average contractual servicing fee earned	42bps	41bps
Average loan balance	$ 102	$ 96
Weighted average note rate	7.36%	7.58%
Secured by California property	45.67%	45.21%
Per loan servicing cost (in whole dollars)	$ 47	$ 47

	Number of Loans (whole numbers)	Loan Principal (dollars in thousands)	MSR Basis
Residential Mortgage Servicing Portfolio:			
Balance – December 31, 2000 (a)	879,180	$ 84,080,891	$1,555,232
Originated servicing	92,845	14,997,706	369,514
Flow purchases	82,540	11,457,943	306,198
Bulk purchases	(20)	(1,587)	(34)
Runoff	(216,311)	(25,316,673)	(358,177)
Valuation provision	--	--	(153,345)
SFAS No. 133 reclassification to derivatives	--	--	(95,013)
Fair value adjustment (SFAS No. 133)	--	--	(3,338)
Other	--	--	(121)
Balance – December 31, 2001 (a)	838,234	$ 85,218,280	$1,620,916

(a) Excludes $3.0 million and $4.1 million of MSRs on non-single family residential portfolios at December 31, 2001 and 2000, respectively.

The table below summarizes mortgage servicing acquisitions and sales:

	Number of Loans (whole numbers)			Loan Principal (in millions)			MSR Basis (in millions)		
	2001	2000	1999	2001	2000	1999	2001	2000	1999
Residential Mortgage Servicing Portfolio:									
Acquired servicing rights	82,520	146,601	121,568	$11,456.4	$15,679.0	$14,482.9	$306.2	$344.3	$333.7
Servicing rights sold	--	861	50,700	--	22.7	2,121.8	--	0.2	18.6

The Company uses a variety of instruments to hedge against the change in value of the mortgage servicing portfolio due to expected prepayment risk assumption changes in a declining interest rate environment. See "—Risk Management—Mortgage Banking Risk Management" and notes 16 and 37 to the Company's Notes to Consolidated Financial Statements for a more detailed discussion of these hedging activities. During 2001, the Company's net income reflected net gains on the hedging of the fair value of loan servicing rights of $79.9 million and net losses on the hedging of the fair value of derivative rate locks, forward loan sale commitments and closed loan inventory of $6.1 million as a result of the Company's implementation and adoption of SFAS No. 133.

The Company, through FNMC, has generally retained the right to service the loans it has sold. FNMC collects payments of principal and interest from the borrower and, after retaining a servicing fee, remits the balance to the investors. When a loan is sold and MSRs are retained, a portion of the cost of originating the mortgage loan is allocated to the MSR based on its relative fair market value. The servicing asset is amortized in proportion to, and over the period of, estimated net servicing income. The net gains on sales of 1-4 unit residential loans during 2001, 2000 and 1999 totalled $48.7 million, $21.1 million and $14.9 million, respectively, and included amounts related to the capitalization of originated and excess MSRs. The Company capitalized $369.5 million, $126.6 million and $193.9 million during 2001, 2000 and 1999, respectively, related to the origination of residential loans. During 2001, the Company recorded a $6.1 million unrealized loss from the application of SFAS No. 133 on the derivative rate locks, forward loan sale commitments and closed loan inventory. The Company monitors the prepayments on the loans serviced for investors and reduces the balance of the MSR asset if the actual prepayments exceed the estimated prepayment trends used to record the original asset. The Company's assumptions relative to the prepayment speed, discount and servicing fee rates are reviewed periodically to reflect current market conditions and regulatory requirements. The Company measures the impairment of MSRs based on the difference between the carrying amount of the MSRs and their current fair value. At December 31, 2001, the Company had a $153.3 million allowance for the loss in fair value of the MSRs. At December 31, 2000, no allowance for impairment of the Company's MSRs was necessary.

In addition to MSRs, the Company, through FNMC, has non-credit enhancing IO strips that are created when loans are sold with servicing retained and a portion of the interest retained by the Company does not depend on the servicing work being performed. The Company, in the event the servicing rights were sold or transferred, would retain the right to this interest. The IO strips are amortized to interest income using the interest method. IO strips issued prior to April 1, 2001 of $19.9 million are classified as available-for-sale securities, while IO strips issued after April 1, 2001 of $16.2 million are classified as held-for-trading securities. Like MSRs, the value of IO strips is sensitive to the prepayment speeds of the underlying loans. The Company monitors the prepayments of the underlying loans and reduces the balance of these assets if expected prepayments are in excess of the estimated prepayment assumptions used to record the original asset. At December 31, 2001, the Company had an $8.8 million valuation allowance on the available-for-sale IO strips and had recorded an unrealized gain of $1.7 million for the fair market value adjustment on the held-for-trading securities.

For information regarding the effect of interest rate changes or mortgage banking activities, see "—Risk Management—Mortgage Banking Risk Management."

Loan Portfolio

The Company principally originates adjustable and fixed-rate mortgage loans secured by residential real estate. The Company also originates adjustable-rate and fixed-rate mortgage loans secured by multi-family and commercial real estate, commercial, and home equity loans. The Company also participates in a number of affordable housing programs and initiatives. During 2000 and 2001, increased focus was placed on expanding the percentage of non-1-4 family mortgage loans in the portfolio. As a result, originations for multi-family and commercial real estate loans increased from $1.3 billion in 2000 to $1.7 billion in 2001, auto loan originations and purchases totalled $1.2 billion in 2001, an increase of $104.1 million over 2000, and home equity lending increased from $525.9 million in 2000 to $601.9 million in 2001. In addition, the commercial banking group was expanded to heighten focus on small business and middle market lending.

The following table reflects activity related to loans receivable, excluding loans held for sale:

	Year Ended December 31,	
	2001	2000
	(in millions)	
Balance at beginning of period	$ 39,881	$34,327
Fundings:		
1-4 unit residential	7,791	7,756
Multi-family residential	1,302	987
Commercial real estate	351	301
Construction	1	1
Equity line	602	526
Other consumer	222	223
Commercial loans	1,043	701
Purchases:		
Downey Acquisition	--	380
Automobile	1,150	1,054
Other	3,149	595
Sales	(84)	(69)
Foreclosures	(31)	(47)
Payments, payoffs and other	(15,796)	(6,854)
Balance at end of period	$ 39,581	$39,881

The composition of the Company's loan portfolio, excluding loans held for sale, is as follows:

	December 31, 2001	2000	1999	1998	1997
	(in millions)				
Real estate loans:					
1-4 unit residential	$29,546	$30,828	$26,966	$23,493	$14,071
Multi-family residential	4,130	3,569	2,881	2,641	3,035
Commercial real estate	2,355	2,487	2,565	2,940	2,146
Land	14	22	32	33	5
Construction	3	8	8	22	1
Total real estate loans	36,048	36,914	32,452	29,129	19,258
Equity-line loans	639	539	433	385	355
Other consumer loans	283	303	237	242	107
Auto loans, net	1,918	1,567	698	487	171
Commercial loans	693	558	507	541	30
Total loans receivable	39,581	39,881	34,327	30,784	19,921
Less:					
Deferred loan fees, costs, discounts and premiums, net	(243)	(230)	(174)	(82)	(47)
Allowance for loan losses	497	526	555	589	419
Purchase accounting adjustments, net	(9)	(8)	(7)	(4)	125
Loans receivable, net	$39,336	$39,593	$33,953	$30,281	$19,424

In addition to the interest earned on its loans, the Company charges fees for loan originations, prepayments, modifications, late payments, changes of property ownership, assumptions and other similar services. The amount of this fee income varies with the volume of loan originations, prepayments, the general economic conditions affecting the portfolio and other competitive factors affecting the mortgage market.

Generally, late charges are assessed when payments are delinquent. On loans secured by real estate, these charges are generally limited to 4% to 6% of the overdue payment of principal and interest and are generally not imposed until the payment is more than 10 days late, in accordance with the contractual terms of the loans and regulatory requirements in effect when the loans were made.

The following table presents the Company's real estate loan portfolio (excluding loans held for sale), by collateral type, interest rate type and state concentration at December 31, 2001:

	1-4 unit Residential		Multi-family Residential		Commercial and Other		Total Real	
State	Variable	Fixed	Variable	Fixed	Variable	Fixed	Estate Loans	% of Total
	(dollars in millions)							
California	$18,547	$4,707	$2,518	$1,097	$1,524	$559	$28,952	80.32%
Texas	429	125	87	120	11	34	806	2.24
Florida	532	201	23	6	33	7	802	2.22
Illinois	412	68	18	6	9	21	534	1.48
Washington	393	45	40	18	4	2	502	1.39
Colorado	371	52	14	17	4	7	465	1.29
New York	253	129	6	4	12	15	419	1.16
Nevada	215	103	23	33	9	2	385	1.07
Other states (1)	2,149	815	36	64	66	53	3,183	8.83
Total	$23,301	$6,245	$2,765	$1,365	$1,672	$700	$36,048	100.00%

(1) Real estate loans involving property located in 42 states, Puerto Rico and the District of Columbia; not more than 1% of the total amount of such loans are located in any one state.

The following table summarizes the Company's loan portfolio, excluding loans held for sale, at December 31, 2001, based upon contractually scheduled principal payments allocated to the indicated maturity categories. This table does not reflect expected prepayments.

	Due Within One Year	Due Over One But Within Five Years	Due Over Five Years	Total
		(in millions)		
Real estate loans:				
1-4 unit residential				
Variable-rate	$ 4	$ 18	$23,279	$23,301
Fixed-rate	29	36	6,180	6,245
Multi-family residential				
Variable-rate	129	576	2,060	2,765
Fixed-rate	43	125	1,197	1,365
Commercial real estate and other				
Variable-rate	268	638	766	1,672
Fixed-rate	41	141	518	700
Total	514	1,534	34,000	36,048
Commercial and consumer loans:				
Variable-rate	240	110	671	1,021
Fixed-rate	476	1,657	379	2,512
Total	716	1,767	1,050	3,533
Total loans receivable	$1,230	$3,301	$35,050	$39,581

1-4 Unit Residential Lending

The Company currently offers three primary 1-4 unit residential ARM programs, and a variety of 1-4 unit fixed- rate programs with maturities ranging from 15 to 30 years. The Company's 1-4 unit residential loans are originated by FNMC through three channels: retail, wholesale and correspondent. In addition, the Company has a significant retail origination presence in California. Wholesale originations (where loans are acquired from independent loan brokers) are conducted through regional wholesale offices throughout the United States. The Company also purchases newly originated loans from correspondents throughout the United States and through contracts to administer various housing bond and other private mortgage lending programs. The Company's originations of ARM loans on 1-4 unit residential real estate are generally held for investment, while fixed-rate 1-4 unit residential loans are generally held-for-sale to the secondary mortgage market.

Adjustable-rate programs include mortgages which:

(a) provide for annual interest rate adjustments based upon the average of the six-month LIBOR,

(b) provide for monthly interest rate adjustments after the third month based upon the twelve month average of the monthly one year Treasury Bill index,

(c) provide for annual rate adjustments based upon the weekly average yield on U.S. Treasury securities adjusted to a constant maturity of one year, or

(d) provide for annual rate adjustments based upon the weekly average yield on U.S. Treasury securities adjusted to a constant maturity of one year after an initial fixed-rate period of three, five or seven years.

A variety of features are incorporated into ARM loans to protect borrowers from unlimited adjustments in interest rates and payments. All ARMs have lifetime caps which limit the amount of rate increases over the life of the loan. In addition, ARMs whose rates adjust annually have rate caps which limit the amount that rates can change to two percentage points per year. Loans which adjust monthly based upon the twelve month average of the monthly one year Treasury Bill index limit payment changes to no more than 7.5% of the payment amount per year. This may lead to monthly payments which are less than the amount necessary to amortize the loan to maturity at the interest rate in effect for any particular month. In the event that the monthly payment is not sufficient to pay interest accruing on the loan during the month, this deficiency is added to the loan's principal balance (*i.e.*, negative amortization). The total outstanding principal balance for a particular loan under this program is not allowed to exceed 110% of the original loan amount as a result of negative amortization.

The Company's portfolio of 1-4 unit residential mortgage loans contains other loan products which may negatively amortize, generally to not more than 125% of the original loan amount. Every five years and at any time the loan reaches its maximum amount, the loan payment is recalculated to the payment sufficient to repay the UPB in full at the maturity date. As of December 31, 2001, the Company's capitalized interest relative to such 1-4 unit residential loans was approximately $13.0 million. This amount represents approximately 0.39% of the approximately $3.4 billion of 1-4 unit residential ARMs that have the potential to experience negative amortization.

The Company also originates 15- and 30-year fully amortizing 1-4 unit fixed-rate residential loans under a variety of fixed-rate programs, primarily for resale in the secondary mortgage market. When 1-4 unit residential loans are sold, FNMC normally retains the servicing of the loan.

On all ARM products, the Company offers a three-year prepayment penalty pricing option, wherein the borrower receives favorable pricing in exchange for agreeing to pay a fee in the event that the borrower prepays more than 20% of the original principal balance in any rolling twelve-month period during the first three years after the inception of the loan. On all fixed-rate products except for 15-year conforming loans, the Company offers a similar prepayment penalty pricing option that applies during the first five years after inception of the loan. The penalty does not apply if the prepayment occurs in connection with the sale of the property securing the loan. FNMC originated $5.5 billion of loans with prepayment penalty options during 2001. See "—Mortgage Banking Activities" for a further discussion of these activities.

The following table summarizes 1-4 unit residential loan originations (in millions):

	2001			2000		
Production Channel	ARM	Fixed	Total	ARM	Fixed	Total
Retail	$ 492.1	$ 2,722.6	$ 3,214.7	$ 652.9	$ 842.8	$ 1,495.7
Wholesale	5,212.8	6,943.7	12,156.5	4,360.7	1,448.5	5,809.2
Correspondent	1,060.2	4,986.6	6,046.8	2,246.0	1,993.5	4,239.5
Other	--	4,095.9	4,095.9	--	1,556.6	1,556.6
	$6,765.1	$18,748.8	$25,513.9	$7,259.6	$5,841.4	$13,101.0

The Company attempts to mitigate the credit risks associated with mortgage lending activities by the use of carefully developed underwriting standards. Substantially all 1-4 unit residential loans originated are underwritten to conform with standards adopted by FNMA, FHLMC, GNMA, or other secondary market investors. Accordingly, the Company's underwriting standards include LTV ratios and maximum loan amounts for both fixed-rate loans and ARMs that closely mirror secondary market requirements.

Loans Held for Sale

Activity related to loans held for sale is summarized as follows:

	December 31,	
	2001	2000
	(in millions)	
Balance at beginning of period	$ 846	$ 729
Purchases and originations	17,723	5,344
Sales	(16,296)	(5,151)
Payments, payoffs and other	335	(76)
Balance at end of period	$ 2,608	$ 846

Loans held for sale are carried at the lower of aggregate amortized cost or market value; substantially all are 1-4 family fixed rate residential loans.

Multi-family, Commercial and Other Real Estate Lending

The Company's loan portfolio includes loans that are primarily secured by multi-family residential, commercial, industrial, office and retail real estate properties. The Company's efforts to grow this portfolio were enhanced during 2000 and 2001, in line with the Company's goal to increase its overall portfolio percentage of non-residential loans.

The Company's variable-rate multi-family and commercial real estate loans have a maximum amortized loan term of 30 years with loans having balloon payments ranging from one to 30 years. ARMs primarily adjust with either the FHLB 11th District COFI, the 12 MAT or the LIBOR with a monthly or semi-annual rate adjustment. The terms and characteristics of the ARMs originated for multi-family and commercial real estate lending purposes are similar to those for residential lending, except that newly originated loans do not typically have negative amortization features. As such, many of the same risks and protections related to residential borrowers are present in the multi-family and commercial real estate portfolios, including the potential for negative amortization on a portion of the loan portfolio. Negative amortization, if applicable, for multi-family and commercial real estate loans is allowed to increase the outstanding principal balance to 110% of the original loan amount. If the loan reaches 110% of the original loan amount, all future interest rate increases will increase the monthly payment to amortize the loan over the remaining life of the loan. At December 31, 2001, the Company's capitalized interest relative to such loans was approximately $0.3 million, which represents approximately 0.01% of the $2.1 billion of multi-family and commercial real estate loans that have the potential to experience negative amortization.

At December 31, 2001 and 2000, the multi-family and commercial real estate loan portfolio totalled $6.5 billion and $6.1 billion, respectively. The Company originates multi-family and commercial real estate loans through its Commercial Real Estate Group which has loan production and asset management offices located in San Francisco, Los Angeles, Dallas, Phoenix, San Diego and Sacramento. New loan originations are produced through several sources, including direct borrower solicitation, mortgage brokerage referrals, real estate sales agent referrals, and loan purchases from other investors or originators.

Generally, multi-family secured loans have LTV ratios of 75% or below and DCRs of 1.20 or above. Loans secured by commercial properties (shopping centers, office buildings, warehouses, etc.) generally have LTVs of 70% or below and DCRs of 1.30 and above. Typically, loan originations do not include loans secured by land, land development properties or special purpose properties such as hotels, motels, golf courses and resort properties. Most loan originations are secured by completed and leased properties.

The following table summarizes origination activity for multi-family, commercial and other real estate loans (in millions):

	December 31,	
	2001	2000
Multi-family residential	$1,302	$ 987
Commercial real estate	351	301
	$1,653	$1,288

A portion of the Company's MSRs, which are rights to service mortgages held by others, were acquired from Old FNB, Old California Federal, and Glendale Federal which had sold multi-family and commercial real estate loans subject to certain recourse provisions. These recourse liabilities were assumed by the Company in the FN Acquisition, the Cal Fed Acquisition and the Glen Fed Merger. At December 31, 2001, the principal balance of loans sold with recourse totalled $1.5 billion.

Consumer Lending

The Company's consumer loan originations are primarily concentrated in home equity lending. The portfolio is geographically dispersed across California and Nevada and correlates closely to retail deposit branch distribution. At December 31, 2001, the home equity portfolio totalled $639 million or 69.3% of the total consumer loan portfolio of $922 million. At December 31, 2000, the home equity portfolio totalled $539 million or 64.0% of the total consumer loan portfolio of $842 million.

The following table summarizes consumer loan origination activity (in millions):

	December 31,	
	2001	2000
Equity line of credit	$602	$526
Other consumer	222	223
	$824	$749

The Company offers a prime interest rate-based home equity line of credit on owner-occupied residential and nonowner-occupied properties. In determining the amount of credit to be extended, all loans secured by the collateral properties are aggregated and compared to the appraised value of the properties. The Company's policy is to extend credit up to a maximum combined LTV ratio of 100%.

Other consumer loan products include: fixed-rate home equity installment loans, second trust deed residential loans, mobile home loans, overdraft protection lines and other unsecured lines of credit. The Company generates consumer loan applications at its retail branches. In addition, the Company conducts direct-mail solicitations, principally of its existing customers, for secured loans. All consumer loan processing, servicing and collection operations are located in Sacramento, California.

Auto Lending

The Company purchases and originates prime and sub-prime auto loans through its subsidiary, Auto One, which has an established servicing platform for such loans. At December 31, 2001 and 2000, the Company's auto loan portfolio totalled $1.9 billion and $1.6 billion, respectively, of which, $1.2 billion and $934.9 million, respectively, were sub-prime. Substantially all of Auto One's loans were purchased from independent automobile dealers or in bulk from third parties.

Auto One's loans have fixed interest rates, with terms to maturity based upon the mileage on the collateral vehicle, up to a maximum of 72 months. The weighted average term for 2001 prime and sub-prime production was 65 and 61 months, respectively, while the weighted average term on the portfolio at December 31, 2001 was 52 and 47 months, respectively.

Auto One loan purchases in 2001 consisted of 24,968 prime and 45,263 sub-prime loans, with average loan balances of $19.1 thousand and $14.7 thousand, respectively. The portfolio at December 31, 2001 consisted of 55,987 prime and 105,299 sub-prime contracts, with average loan balances of $13.3 thousand and $11.1 thousand, respectively.

Approximately 70% of Auto One's purchases of prime loans in 2001 are collateralized with vehicles two years old or newer. Approximately 68% of Auto One's purchases of sub-prime loans in 2001 are collateralized with vehicles two years old or newer. Underwriting on loans purchased from dealers is performed by Auto One personnel prior to purchase.

All Auto One originated loans and loans purchased after July 1, 2001 are recorded on a gross-coupon basis, rather than on a credit-adjusted yield basis. Accordingly, an allowance for loan losses is established for those loans where an adverse situation has occurred that will affect the borrower's ability to repay the principal and interest. Please refer to note 2 of the Company's Notes to Consolidated Financial Statements for a complete discussion of the accounting for purchased auto loans.

Activity related to auto loans purchased prior to July 1, 2001 is summarized as follows (in millions):

	Contractual Payments Receivable	Nonaccretable Contractual Cash Flows	Accretable Yield	Allocated Allowance for Loan Losses	Purchased Auto Loans, net
Balance, December 31, 1999	$1,025	$(203)	$(124)	$ (3)	$ 695
Purchases and acquisitions	1,965	(267)	(266)	--	1,432
Repossessions & charge-offs	(150)	90	(6)	8	(58)
Payments, payoffs & accretion	(716)	64	145	--	(507)
Provision for loan losses	--	--	--	(7)	(7)
Reclassification	--	(19)	19	--	--
Balance, December 31, 2000	2,124	(335)	(232)	(2)	1,555
Purchases and acquisitions through June 30, 2001	914	(154)	(125)	--	635
Repossessions & charge-offs	(142)	83	(12)	12	(59)
Payments, payoffs & accretion	(1,011)	100	203	--	(708)
Provision for loan losses	--	--	--	(13)	(13)
Reclassification	--	(30)	30	--	--
Balance, December 31, 2001	$ 1,885	$(336)	$(136)	$ (3)	$1,410

Commercial Banking

The Company's commercial banking program has four components: community business banking, commercial markets banking, agribusiness lending and SBA lending. The Company's commercial banking loan products primarily have adjustable interest rates that are indexed to the prime rate. At December 31, 2001, deposit relationships under the various commercial banking product lines totalled $1.6 billion.

The Company's community business banking product line includes business checking and savings products of various types, cash management products and services, account analysis, payroll services, electronic banking services, and merchant draft services. Community business banking focuses primarily on businesses with annual sales of less than $10 million located in the markets served by the Company's retail banking offices. To meet the credit needs of these business customers, the Company offers a wide variety of secured and unsecured prime-based lines of credit and term loans with maturities up to ten years. The maximum credit commitment offered by community business banking is $1 million. At December 31, 2001, total funded and unfunded credit commitments under the community business banking group totalled $496.1 million, compared to $382.6 million at December 31, 2000.

The Company, through its commercial markets group, accommodates businesses with annual sales of up to $150 million, but focuses primarily on businesses with annual sales between $10 million and $75 million. The Company offers its commercial markets group customers products including business checking accounts, various cash management services, revolving lines of credit, accounts receivable and inventory financing, and term loans. Specific loan terms are determined based upon the financial strength of the borrower, the amount of credit granted, and the type and quality of collateral available. At December 31, 2001, funded and unfunded credit commitments under the commercial markets group totalled $392.8 million, compared to $234.6 million at December 31, 2000.

The Company's agribusiness lending program serves the Central Valley region of California and specializes in production loans for crops such as cotton, grapes, nuts, stone fruit and dairy operations, together with agricultural-related businesses, such as processors and packers. At December 31, 2001, funded and unfunded credit commitments under the agribusiness lending program totalled $172.3 million, compared to $171.7 million at December 31, 2000.

The SBA is a federal government agency created to assist small businesses by providing guarantees of loans made to eligible small businesses. Through its SBA lending program, the Company focuses on the long-term needs of small businesses and provides long-term, variable and fixed-rate financing to expanding businesses. The Company has been granted statewide preferred lender status by the SBA. This designation allows the Company to approve SBA guaranteed loan applications without prior review from the SBA, thereby accelerating the decision-making process for small business loan applications. Preferred lenders, the highest lender status awarded by the SBA, enjoy priority funding and service from the SBA. Loans approved through the preferred lender program carry a maximum SBA guarantee of 75%. At December 31, 2001, funded and unfunded credit commitments under the SBA lending program totalled $160.1 million, compared to $157.7 million at December 31, 2000. Additionally, the SBA servicing portfolio totalled $70.8 million and $100.1 million at December 31, 2001 and 2000, respectively.

Problem and Potential Problem Assets

Savings associations are required to classify their assets on a regular basis, establish prudent allowances for loan losses and make quarterly reports of troubled asset classifications to the OTS. Assets must be classified as "pass," "special mention," "substandard," "doubtful" or "loss." An asset is generally designated as "special mention" if potential weaknesses are identified that, if left uncorrected, would result in deterioration of the repayment prospects for the asset. An asset, or a portion thereof, is generally classified as "substandard" if it possesses a well-defined weakness which could jeopardize the timely liquidation of the asset or realization of the collateral at the asset's book value. Thus, these assets are characterized by the possibility that the association will sustain some loss if the deficiencies are not corrected. An asset, or portion thereof, is classified as "doubtful" if identified weaknesses make collectibility or liquidation in full highly questionable and improbable. An asset, or a portion thereof, that is considered to be uncollectible is classified "loss." It should be noted that the Company does not maintain assets in a loss classification category; rather, the carrying value of all troubled assets is reduced by any amount considered to be uncollectible. The OTS has authority to approve, disapprove or modify any asset classification or any amount established as an allowance pursuant to such classification. Savings associations must maintain adequate general valuation allowances in accordance with generally accepted accounting principles and federal regulations for assets classified as "substandard" or "doubtful" and either immediately write off assets classified as "loss" or establish specific valuation allowances equal to the amounts classified as "loss."

The Company has a comprehensive process for classifying assets, and asset reviews are performed on a periodic basis. Such reviews are prioritized according to an asset's risk characteristics, such as loan size, collateral type and/or location, and potential loan performance problems. The objective of the review process is to identify significant trends and determine the levels of loss exposure to the Company that would require adjustments to specific and general valuation allowances. If the quality of the Company's loans deteriorates or if the allowance for loan losses is inadequate to absorb actual losses, a material adverse effect on the Company's results of operations and financial condition would be likely to result.

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 that have entered the workout 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 December 31, 2001 and 2000, loans that were considered to be impaired totalled $59.1 million and $97.2 million, respectively, (of which $14.1 million and $19.5 million, respectively, were on nonaccrual status). The average recorded investment in impaired loans during the years ended December 31, 2001 and 2000, was approximately $60.5 million and $91.3 million, respectively. For the years ended December 31, 2001, 2000 and 1999, the Company recognized interest income on those impaired loans of $4.6 million, $8.3 million and $9.5 million, respectively, which included $0.5 million, $1.6 million and $2.7 million, respectively, of interest income recognized using the cash basis method of income recognition.

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

	December 31, 2001		December 31, 2000	
	Non-performing	Impaired	Non-performing	Impaired
	(in millions)			
Real Estate:				
1-4 unit residential	$ 75	$ 1	$ 89	$ 1
Multi-family residential	--	9	3	24
Commercial and other	4	32	2	40
Total real estate	79	42	94	65
Non-real estate	22	17	21	32
Total loans	101 (a)	$59 (b)	115 (a)	$97 (b)
Foreclosed real estate, net	19		19	
Repossessed assets	4		7	
Total non-performing assets	$124		$141	

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

(b) Includes $14.1 million and $19.5 million of non-performing loans at December 31, 2001 and 2000, respectively.

The following table indicates outstanding balances of impaired loans, net of purchase accounting adjustments, by collateral type, interest rate type and state concentration as of December 31, 2001:

	1-4 Unit Residential		Multi-family Residential		Commercial and Other		Non-real Estate		Total Impaired Loans	% of Total
State	Variable	Fixed	Variable	Fixed	Variable	Fixed	Variable	Fixed		
	(dollars in millions)									
California	$ 1	$ --	$ 9	$--	$15	$ 1	$16	$ 1	$43	72.88%
Illinois	--	--	--	--	6	--	--	--	6	10.17
Other states (1)	--	--	--	--	10	--	--	--	10	16.95
Total	$ 1	$ --	$ 9	$--	$31	$ 1	$16	$ 1	$59	100.00%

(1) Represents five states, none of which had impaired loans in excess of 1% of the total.

Non-performing Assets

Loan Portfolio Risk Elements

When a borrower fails to make a contractually required payment on a loan, the loan is characterized as delinquent. In most cases, delinquencies are cured promptly. However, foreclosure proceedings, and in some cases workout proceedings, generally begin if the delinquency is not cured. The procedures for foreclosure actions vary from state to state, but generally if the loan is not reinstated within certain periods specified by statute, the property securing the loan can be acquired through foreclosure by the lender. While deficiency judgments against the borrower are available in some of the states in which the Company originates loans, the value of the underlying collateral property is usually the principal source of recovery available to satisfy the loan balance.

In general, loans are placed on nonaccrual status after being contractually delinquent for 90 days. When a loan is placed on nonaccrual status, all interest previously accrued but not received is reversed and the loan is considered non-performing. The Company may modify or restructure a loan as a result of a borrower's inability to service the obligation under the original terms of the loan agreement.

The following table indicates the Company's loans which have been placed on nonaccrual status, as well as the carrying value of foreclosed real estate and repossessed assets, at the dates indicated:

	December 31,				
	2001	2000	1999	1998	1997
	(dollars in millions)				
Non-performing loans:					
Real Estate:					
1-4 unit residential	$ 75	$ 89	$126	$190	$165
Multi-family residential	--	3	6	16	12
Commercial and other	4	2	8	10	6
Construction	--	--	--	1	2
Total real estate	79	94	140	217	185
Equity-line, consumer and other non-real estate	22	21	11	9	7
Total non-performing loans	101	115	151	226	192
Foreclosed real estate, net	19	19	45	80	77
Repossessed assets	4	7	4	4	3
Total non-performing assets	$124	$141	$200	$310 (a)	$272 (b)
Non-performing loans as a percentage of loans receivable	0.25%	0.29%	0.44%	0.75%	0.99%
Non-performing assets as a percentage of the Bank's total assets	0.22%	0.23%	0.35%	0.57%	0.87%

(a) Includes $111.7 million of assets acquired in the Glen Fed Merger.

(b) Includes $70.2 million of assets acquired in the Cal Fed Acquisition.

Interest income of $6.2 million, $4.7 million and $6.4 million was received and recognized by the Company during the years ended December 31, 2001, 2000 and 1999, respectively, for loans on nonaccrual status at each respective year end. Had the loans performed in accordance with their original terms, $10.0 million, $7.4 million and $10.9 million would have been recognized during December 31, 2001, 2000 and 1999, respectively. The Company has had no loans contractually past due 90 days or more on accrual status in the past five years.

The following table presents non-performing real estate assets by geographical region of the country as of December 31, 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:				
Northeast (1)	$10	$ 2	$12	12.25%
California	46	10	56	57.15
Other regions	23	7	30	30.60
Total	$79	$19	$98	100.00%

(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 December 31, 2001, the Company's largest non-performing asset was $2.3 million and the Company had two non-performing assets over $2 million in size with balances averaging $1.9 million. At December 31, 2001, the Company had 3,850 non-performing assets below $2 million in size, including 905 non-performing 1-4 unit residential assets.

The level of non-performing assets is directly affected by economic conditions throughout the country. The following table indicates non-performing real estate loans, net of purchase accounting adjustments, by collateral type, interest rate type and state concentration as of December 31, 2001:

	1 – 4 unit Residential		Multi-family Residential		Commercial and Other		Total Non-performing Real Estate	% of
State	Variable	Fixed	Variable	Fixed	Variable	Fixed	Loans	Total
	(dollars in millions)							
California	$29	$14	$ --	$ --	$3	$ --	$46	58.23%
Florida	5	3	--	--	1	--	9	11.39
New York	4	1	--	--	--	--	5	6.33
Hawaii	2	1	--	--	--	--	3	3.80
New Jersey	2	1	--	--	--	--	3	3.80
Illinois	1	1	--	--	--	--	2	2.53
Texas	1	1	--	--	--	--	2	2.53
Other states (1)	6	3	--	--	--	--	9	11.39
Total	$50	$25	$ --	$ --	$4	$ --	$79	100.00%

(1) There are 29 states, Puerto Rico, Virgin Islands, Guam and the District of Columbia, of which no one state had non-performing loans in excess of 1% of the total.

Allowance for Loan Losses

The Company maintains an allowance to absorb losses inherent in the loan portfolio. Management periodically evaluates the adequacy of the allowance to maintain a level sufficient to absorb expected loan losses. Provisions for loan losses (charged to current earnings) and balances acquired through acquisitions increase the allowance, while charge-offs (net of recoveries) decrease it. The provision considers both specifically identified problem loans as well as credit risks not specifically identified in the loan portfolio. The Company recorded no provision for loan losses during the years ended December 31, 2001 and 2000. The Company recorded provisions for loan losses of $10 million for the year ended December 31, 1999. Although management believes that its present 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. For more information on the accounting policy for the allowance for loan losses, see note 2(e) of the Company's Notes to Consolidated Financial Statements.

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.

The formula allowance element considers losses that are embedded within loan portfolios, but have 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.

Therefore, if the general credit characteristics of a loan portfolio have not changed significantly over time, and the time-frame between the loss-causing event and loss realization is determined to be approximately two years for a given portfolio type based upon observable data, it is probable that historical losses approximate the loss that is embedded in today's portfolio, and such embedded loss can be estimated by calculating historical loss experience over a period of two years.

The formula allowance is determined by applying loss factors against all non-impaired loans. Loss factors may be adjusted for significant factors that, in management's judgment, affect the collectibility of the portfolio as of the evaluation date. Loss factors are calculated based on migration models that estimate the probability that loans will become delinquent and ultimately result in foreclosure over a period of between one and 2.5 years, depending on the loan type, and the rates of loss that have been experienced on foreclosed loans. The foreclosure migration and loss severity rates are then averaged over the past ten years in order to capture experience across a period that management believes approximates a business cycle. A contingency factor is then added to provide for the modeling risk associated with imprecision in estimating inherent loan losses.

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 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 entire real estate-secured portfolio are summarized below:

	% of Total Portfolio Concentration in		
	California	Northern CA	Southern CA
Residential	79%	39%	40%
Commercial Real Estate	88	28	60
Consumer (primarily Home Equity)	88	41	47

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 December 31, 2001, the allowance for loan losses was $497 million, consisting of a $377 million formula allowance, an $18 million specific allowance and a $102 million unallocated allowance. Although the loan loss allowance has been allocated by type of loan for internal valuation purposes, $479 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. The Company's unallocated allowance at December 31, 2001, 2000 and 1999 was $102 million, $113 million and $158 million, respectively. The unallocated portion of the allowance declined over the past two years, primarily as a result of the reduced uncertainty associated with the changes in portfolio composition from various acquisitions and new business activities, most notably the entry into commercial banking and sub-prime auto lending.

The following table sets forth the allocation of the Company's allowance for loan losses and the percentage of loans in each category to total loans at the dates indicated:

	Year Ended December 31,				
	2001	2000	1999	1998	1997
	(in millions)				
Specific allowance:					
Real estate loans:					
1-4 unit residential	$ 9	$ 11	$ 16	$ --	$ --
Multi-family residential and commercial real estate	6	8	18	17	8
Total real estate loans	15	19	34	17	8
Equity-line and consumer loans	3	8	5	--	--
Total specific allowance	18	27	39	17	8
General allowance:					
Real estate loans:					
1-4 unit residential	215	217	219	251	202
Multi-family residential and commercial real estate	153	175	258	261	190
Total real estate loans	368	392	477	512	392
Equity-line and consumer loans	111	107	39	60	19
Total general allowance	479	499	516	572	411
Total allowance for loan losses	$497	$526	$555	$589	$419

The following table sets forth the allocation of the Company's allowance for loan losses and the percentage of loans in each category to total loans at the dates indicated (dollars in millions):

	Year Ended December 31,									
	2001		2000		1999		1998		1997	
	Allowance Balance	% of Loans to Total Loans	Allowance Balance	% of Loans to Total Loans	Allowance Balance	% of Loans to Total Loans	Allowance Balance	% of Loans to Total Loans	Allowance Balance	% of Loans to Total Loans
Real estate:										
1-4 unit residential	$224	75%	$228	77%	$235	79%	$251	76%	$202	71%
Multi-family residential and commercial real estate	159	16	183	15	276	16	278	18	198	26
Total real estate loans	383	91	411	92	511	95	529	94	400	97
Equity-line and other loans	114	9	115	8	44	5	60	6	19	3
Total	$497	100%	$526	100%	$555	100%	$589	100%	$419	100%

The following table summarizes activity in the Company's allowance for loan losses during the periods indicated:

	Year Ended December 31,				
	2001	2000	1999 (in millions)	1998	1997
Balance at beginning of period	$526	$555	$589	$419	$247
Purchases – Glen Fed Merger	--	--	--	170	--
Purchases – Cal Fed Acquisition	--	--	--	--	144
Provision for loan losses	--	--	10	40	80
Charge-offs:					
1-4 unit residential	(5)	(7)	(19)	(27)	(38)
Multi-family residential and commercial real estate	--	(6)	(7)	(9)	(8)
Auto loans	(15)	(7)	(1)	(1)	--
Consumer and other	(12)	(14)	(13)	(9)	(10)
Total charge-offs	(32)	(34)	(40)	(46)	(56)
Recoveries:					
1-4 unit residential	1	--	1	1	2
Multi-family residential and commercial real estate	--	1	1	2	--
Consumer and other	2	4	2	3	2
Total recoveries	3	5	4	6	4
Net charge-offs	(29)	(29)	(36)	(40)	(52)
Allocation to Nonaccretable Contractual Cash Flows of purchased auto loan portfolio	--	--	(7)	--	--
Reclassifications	--	--	(1)	--	--
Balance at end of period	$497	$526	$555	$589	$419

The Company has increased its allowance for loan losses over the past five years both through provisions (and charges to income) of $130 million and through balances of $314 million acquired in connection with the various acquisitions which occurred during that time. Charge-offs during the five-year period totalled $208 million. However, it should be noted that the charge-off activity related to predecessor institutions is not reflected in this table for periods prior to acquisition by the Company. Losses charged by predecessor institutions during the years presented prior to 2001 totalled $76 million.

A summary of the activity in the allowance for loan losses by loan type is as follows for the years ended December 31, 2001, 2000 and 1999:

	1-4 Unit Residential	Multi-family Residential and Commercial Real Estate	Consumer and Other	Total
		(in millions)		
Balance – December 31, 1998	$251	$278	$ 60	$589
Provisions for loan losses	2	3	5	10
Charge-offs	(19)	(7)	(14)	(40)
Recoveries	1	1	2	4
Allocation to Nonaccretable Contractual Cash Flows of purchased auto loan portfolio	--	--	(7)	(7)
Reclassifications	--	1	(2)	(1)
Balance – December 31, 1999	235	276	44	555
Provisions for loan losses	--	(7)	7	--
Charge-offs	(7)	(6)	(21)	(34)
Recoveries	--	1	4	5
Reclassifications	--	(80)	80	--
Balance – December 31, 2000	228	184	114	526
Provisions for loan losses	--	(25)	25	--
Charge-offs	(5)	--	(27)	(32)
Recoveries	1	--	2	3
Balance – December 31, 2001	$224	$159	$114	$497

The table below provides the Company's ratios of net charge-offs on loans to average outstanding loan balances during the periods indicated:

	Year Ended December 31,				
	2001	2000	1999	1998	1997
Real estate:					
1-4 unit residential	0.01%	0.02%	0.07%	0.11%	0.25%
Multi-family residential and commercial real estate	--	0.09	0.10	0.18	0.15
Consumer and other	0.74	0.64	0.67	0.50	1.72

Risk Management

The Company's risk management policies are established by the Bank's Asset/Liability Management Committee. 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 the market value of portfolio equity to measure the stability of earnings; management of liquidity to maintain 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. See "—Quantitative and Qualitative Disclosures about Market Risk."

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 interest rate risk and liquidity 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.

The Company's operations are significantly influenced by general economic conditions in the markets and geographic areas in which the Company conducts its business, the monetary and fiscal policies of the federal government and the regulatory policies of certain governmental agencies. Deposit balances and the cost of borrowings are influenced by interest rates on competing investments and general market interest rates. The Company's loan volume and yields are also impacted by market interest rates on loans, the supply and demand for housing, and the availability of funds.

Asset and Liability Management

Golden State, through the Bank, actively pursues investment and funding strategies to minimize the sensitivity of its earnings to interest rate fluctuations. The Company measures the interest rate sensitivity of its balance sheet through net interest income and market value simulation, as well as gap and duration analysis. After taking into consideration both the variability of rates and the maturities of various instruments, it evaluates strategies which may 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-rate-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 on the whole adjust in accordance with the repricing of its liabilities. At December 31, 2001, approximately 77% of the Company's net loan portfolio consisted of ARMs.

One of the most important sources of the Bank's net income is net interest income, which is the difference between the combined yield earned on interest-earning assets and the combined rate paid on interest-bearing liabilities. Net interest income is also dependent on the relative balances of interest-earning assets and interest-bearing liabilities.

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. In order to reduce the negative impact of assets with periodic rate caps in a rising interest rate environment, the Bank issued liabilities whose rates are capped against rising rates. 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 UPB through negative amortization.

Conversely, in a period of falling rates, ARMs can be subject to repayments as borrowers convert from floating-rate mortgages to low fixed-rate mortgages. As the ARMs reprice downward or are converted to low fixed-rate mortgages, the yield on interest-earning assets is reduced, thereby negatively impacting the net interest margin. The Bank seeks to manage this risk by structuring the maturity and repricing of its liabilities to best offset the impact on the net interest margin.

During 2001, the Company entered into interest rate swap agreements to adjust its interest rate risk exposure on variable rate reverse repurchase agreements and FHLB advances. See "—Balance Sheet Analysis—Sources of Funds." During 2001, the Company's net interest margin decreased by $75.5 million as a result of these interest rate swap agreements. See notes 2 (p) and 37 of the Company's Notes to Consolidated Financial Statements for more information.

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 used. The Company's estimated interest rate sensitivity gap at December 31, 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)	$ 96	$ --	$ --	$ --	$ 96
Securities held to maturity (1)	31	--	--	--	31
Securities available for sale (3)	116	--	--	--	116
Mortgage-backed securities available for sale (3)	7,058	--	--	--	7,058
Mortgage-backed securities held to maturity (1) (4)	1,356	10	18	--	1,384
Loans held for sale, net (3)	2,608	--	--	--	2,608
Loans receivable, net (1) (5)	19,251	17,262	3,219	--	39,732
Investment in FHLB	1,447	--	--	--	1,447
Total interest-earning assets	31,963	17,272	3,237	--	52,472
Noninterest-earning assets	--	--	--	4,019	4,019
	$31,963	$17,272	$3,237	$4,019	$56,491
INTEREST-BEARING LIABILITES:					
Deposits (6)	$23,595	$ 1,538	$ 1	$ --	$25,134
Securities sold under agreements to repurchase (1)	2,291	73	--	--	2,364
FHLB advances (1)	13,844	8,591	--	--	22,435
Other borrowings (1)	270	1,740	--	--	2,010
Total interest-bearing liabilities	40,000	11,942	1	--	51,943
Noninterest-bearing liabilities	--	--	--	1,479	1,479
Minority interest	--	--	--	500	500
Stockholders' equity	--	--	--	2,569	2,569
	$40,000	$11,942	$ 1	$4,548	$56,491
Gap before interest rate swap agreements	$ (8,037)	$ 5,330	$3,236		$ 529
Interest rate swap agreements	3,340	(3,320)	(20)		--
Gap	$ (4,697)	$ 2,010	$3,216		$ 529
Cumulative gap	$ (4,697)	$ (2,687)	$ 529		
Gap as a percentage of total assets	(8.31)%	3.56%	5.69%		0.94%
Cumulative gap as a percentage of total assets	(8.31)%	(4.75)%	0.94%		0.94%

(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 December 31, 2001. The actual maturity and rate sensitivity of the assets could vary substantially if future prepayments differ from prepayment estimates.

(2) Consists of less than $0.1 million of interest-bearing deposits in other banks and $95.9 million of short-term investment securities.

(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 $1 million.

(5) Excludes allowance for loan losses of $497 million and non-performing loans of $101 million.

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

At December 31, 2001, Golden State's cumulative gap totalled $529 million. At December 31, 2000, Golden State's cumulative gap totalled $(463) million.

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 performance is highly dependent on the structure of the balance sheet and the relationship between assets and liabilities. Differences in maturity, coupon rates and rate indices between assets and liabilities have the potential to create variability in earnings.

The following table sets forth the Company's balance sheet composition by index (in thousands):

	December 31, 2001	December 31, 2000
Balance Sheet Composition by Index:		
Securities		
Fixed	$ 5,348,562	$ 9,784,461
COFI	1,140,414	1,498,062
Treasury	1,516,419	2,174,307
Other ARMs	483,136	670,580
Unrealized gain/(loss)	97,070	(152,264)
Purchase accounting	4,129	6,997
Total securities	8,589,730	13,982,143
Loans		
Fixed	9,149,482	8,715,151
Hybrid ARMs	18,649,980	14,850,893
COFI	5,092,248	6,665,995
Treasury	5,340,633	8,473,308
Other ARMs	1,592,005	1,405,724
Purchase accounting	8,573	8,051
Allowance for loan losses	(497,298)	(526,308)
Total loans	39,335,623	39,592,814
Other interest-earning assets	4,151,004	2,292,462
Noninterest-earning assets	4,414,312	4,649,459
Total assets	$56,490,669	$60,516,878
Deposits	$25,134,078	$23,429,754
Borrowings:		
Fixed with maturities < 1 year	9,416,480	10,381,852
Fixed with maturities > 1 year	10,155,390	15,591,137
Adjustable	7,063,000	6,990,000
Purchase accounting	2,524	7,421
Accrued interest payable	171,092	341,456
Total borrowings	26,808,486	33,311,866
Noninterest-bearing liabilities	1,478,670	1,124,524
Minority interest and stockholders' equity	3,069,435	2,650,734
Total liabilities and equity	$56,490,669	$60,516,878

Mortgage Banking Risk Management

The recent decline in long-term interest rates has resulted in the acceleration of mortgage loan prepayments. Higher levels of prepayments accelerate amortization of MSRs which results in reduced servicing fee income and will result in a reduction in the market value of MSRs. For more information on the accounting policy for MSRs, see note 2 (m) of the Company's Notes to Consolidated Financial Statements. 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 the benchmark interest rate. 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 December 31, 2001, which were used to hedge against the change in value of the mortgage servicing portfolio due to expected prepayment risk assumption changes caused by declining rates. These derivative instruments included interest rate swap agreements, Constant Maturity Swap interest rate floor contracts, swaptions and principal only swaps. MSR derivatives used to hedge prepayment risk are comprised of the following (dollars in thousands):

Derivative	Notional Amount	Contract Provisions	Maturity	Fair Value at December 31, 2001 Assets	Fair Value at December 31, 2001 Liabilities
Interest rate swap agreements	$ 2,462,000	Weighted average pay rate of 1.9% Receive rates between 4.8% and 6.2%	2010 - 2011	$ 42,102	$(34,541)
Interest rate floor contracts (a)	3,054,000	Strike rates between 6.0% and 6.7%	2006	78,917	--
Swaption contracts (b)	4,111,000	Strike rates between 5.5% and 6.9%	2002 - 2004	183,641	--
Principal only swap agreements	378,928	Index tied to LIBOR based on cash flow from a PO strip	2002 - 2029	7,487	(1,076)
	$10,005,928			$312,147	$(35,617)

(a) 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.

(b) Premiums paid to counterparties in exchange for the right to enter into an interest rate swap are recorded as part of the MSR derivative asset on the balance sheet.

The estimated market value of interest rate floor contracts, interest rate swaps, principal only swaps and swaptions designated as hedges against MSRs at December 31, 2000 were $52.8 million, $5.1 million, $1.2 million and $105.6 million, respectively. Beginning January 1, 2001, the derivative instruments are carried at fair value in accordance with SFAS No. 133. See note 38 for further discussion.

These instruments effect an 80% hedge coverage (computed on the change in value under a 50 basis point change in interest rates) at December 31, 2001, on the value of the MSRs related to the fixed-rate loans serviced by FNMC, excluding loans with prepayment penalties. The comparable hedge ratio at December 31, 2000 was 75%. MSRs decline in value as interest rates fall due to the impact of increased prepayment activity. The level of prepayments and the decline in value are more sensitive at lower interest rates than at higher interest rate levels. As interest rates declined throughout 2001, the Company consistently increased the hedging activity in order to both increase the hedge ratio and to best offset the accelerating changes in MSR value for further declines in rates. The Company does not hedge loans with prepayment penalties or variable-rate loans. The Bank is exposed to counterparty credit risk to the extent of its derivative assets. In order to reduce the counterparty credit risk, the Bank has imposed credit approvals, limits and monitoring procedures. Credit risk related to derivative financial instruments is considered and, if material, provided for separately from the allowance for loan losses. As the Company generally enters into transactions only with high quality counterparties, it has no losses associated with counterparty nonperformance on derivative financial instruments. Further, the Company obtains collateral where appropriate and uses master netting arrangements in accordance with FASB Interpretation No. 39, as amended by FASB Interpretation No. 41.

For information on the accounting for and activities in MSRs and the MSR Hedge, refer to notes 2, 16 and 37 of the Company's Notes to Consolidated Financial Statements.

Recently Issued Accounting Pronouncements

Business Combinations

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

SFAS No. 141 requires that all business combinations be accounted for using the purchase method. Use of the pooling-of-interests method to account for business combinations, which APB Opinion No. 16 required to be used when certain criteria were met, is prohibited. SFAS No. 141 provides guidance for determining the 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 became effective for business combinations initiated after June 30, 2001, and has not materially impacted 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. 144.

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 December 31, 2001, the Company's $640.8 million intangible asset includes $1.0 million representing a core deposit intangible and $49.4 million representing goodwill generated pursuant to SFAS No. 72. The remaining $590.4 million of this asset balance represents goodwill that will cease to be amortized as of January 1, 2002 pursuant to SFAS No. 142. As a result of the implementation of SFAS No. 142, management expects GAAP earnings to increase by $13.9 million per quarter in 2002.

Accounting for Asset Retirement Obligations

In June 2001, the FASB issued SFAS No. 143, which addresses the recognition and measurement of obligations associated with the retirement of tangible long-lived assets. SFAS No. 143 applies to legal obligations associated with the retirement of long-lived assets resulting from the acquisition, construction, development or the normal operation of a long-lived asset. SFAS No. 143 requires that the fair value of an asset retirement obligation be recognized as a liability in the period in which it is incurred. The asset retirement obligation is to be capitalized as part of the carrying amount of the long-lived asset and the expense is to be recognized over the useful life of the long-lived asset. SFAS No. 143 is effective January 1, 2003, with early adoption permitted. The Company plans to adopt SFAS No. 143 effective January 1, 2003 and does not expect the adoption of the statement to have a material effect on the financial statements.

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 the Company beginning January 1, 2002. 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.

Liquidity

The ratio of cash and short-term U.S. Government securities and other specified securities to deposits and borrowings due within one year measures the Company's liquidity. The OTS requires that California Federal maintain sufficient liquidity to ensure its safe and sound operation. Effective March 15, 2001, the OTS eliminated the previously imposed minimum liquidity requirement of 4.00%. California Federal has been in compliance with the liquidity regulations during 2001 and 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. Distributions of the Bank's earnings are subject to regulatory limitations. The Bank also uses its operating income to pay dividends on its preferred stock owned by GS Holdings, subject to certain restrictions. In turn, GS Holdings uses distributions received from the Bank primarily to pay debt and expenses, and make distributions to Golden State, subject to certain restrictions. For more information on dividend restrictions for the Bank and GS Holdings, refer to note 24 of the Company's Notes to Consolidated Financial Statements.

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 Company must retain and attract new deposits, which depends upon the variety and effectiveness of its customer account products, service and convenience, and rates paid to customers. Any decline in retail deposit funding would adversely impact the Company's liquidity. The Company also obtains funds from the repayment and maturity of loans and mortgage-backed securities, as well as deposit inflows, loan sales, securities sold under agreements to repurchase, FHLB advances, and other secured and unsecured borrowings. The Company anticipates 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. A decline in the Bank's credit rating would adversely affect the Bank's ability to borrow and/or the related borrowing costs, thus impacting the Company's liquidity. In addition, if the Company were to default on a borrowing (see note 19 "Borrowings" for events of default), all principal and accrued interest would become due and payable, thus negatively affecting the Company's liquidity.

The consolidated Company's primary uses of funds are the origination or purchase of loans and mortgage-backed securities, maturing CDs, demand deposit withdrawals, repayment of borrowings and dividends to common shareholders. CDs scheduled to mature during the twelve months ending December 31, 2001 aggregate $9.1 billion. The Company may renew these certificates, attract new replacement deposits, replace such funds with other borrowings, or reduce the size of the balance sheet. See note 36 of the Company's Notes to Consolidated Financial Statements for the expirations of commitments to extend credit. In addition, at December 31, 2001, the Company had FHLB advances, securities sold under agreements to repurchase and other borrowings aggregating $16.4 billion maturing or repricing within twelve months. 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. See note 18 "Securities Sold Under Agreements to Repurchase" and note 19 "Borrowings" for the Company's contractual cash obligations related to these borrowings.

At December 31, 2001, all 3,007,300 shares of the $11^1/_2$% Bank Preferred Stock were held indirectly by Golden State. In 1999, GS Holdings redeemed the remaining 318,341 shares held by third parties. Cash dividends on the $11^1/_2$% Bank Preferred Stock are noncumulative and are payable at an annual rate of $11^1/_2$% if, when, and as declared by the Board of Directors of the Bank, subject to certain federal laws applicable to savings associations. Dividends totalled $34.6 million for each year ended December 31, 2001 and 2000.

At December 31, 2001, all 1,725,000 shares of $10^5/_8$% Bank Preferred Stock were held indirectly by Golden State. In 1999, GS Holdings redeemed the remaining 607,299 shares held by third parties. Cash dividends on the $10^5/_8$% Bank Preferred Stock are noncumulative and are payable at an annual rate of $10^5/_8$%, if, when, and as declared by the Board of Directors of the Bank, subject to certain federal laws applicable to savings associations. Dividends totalled $18.3 million for each year ended December 31, 2001 and 2000.

The dividends, net of tax benefits, on the REIT Preferred Stock were $27.0 million for each year ended December 31, 2001 and 2000. The terms of the REIT Preferred Stock provide that Preferred Capital Corp. may declare or pay dividends and other distributions of cash or stock so long as: (a) Preferred Capital Corp. has paid full dividends on the REIT Preferred Stock for the four most recent dividend periods and (b) the Board of Directors of Preferred Capital Corp. has approved the dividend. Repurchases, redemptions or other acquisitions of stock are considered distributions subject to these requirements. Preferred Capital Corp. is currently in compliance with such requirements.

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 on the GS Holdings Notes will approximate $108.1 million for the year 2002. Although GS Holdings expects that distributions and tax sharing payments from the Bank will cover future interest and principal payments, there is no guarantee. In addition, there is no assurance that Bank distributions will be permitted by the terms of any GS Holdings debt instruments, any class of preferred stock issued by the Bank or its subsidiaries, including the REIT Preferred Stock, or under applicable federal thrift laws then in effect.

The Company anticipates that cash and cash equivalents on hand, and its 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. See notes 17, 18 and 19 of the Company's Notes to Consolidated Financial Statements for debt maturity information and note 36 for commitment positions. See "Business—Regulation and Supervision." In addition to cash and cash equivalents of $805.2 million at December 31, 2001, the Company has substantial additional secured borrowing capacity with the FHLB and other sources amounting to $8.7 billion. The Company is exposed to credit-related losses in the event of nonperformance by the counterparties to derivative and hedging agreements. See note 37 of the Company's Notes to Consolidated Financial Statements.

Net cash used in operating activities for the year ended December 31, 2001 totalled $379.0 million compared to $267.0 million cash provided by operating activities in December 31, 2000. The change was principally due to a $12.6 billion increase in purchases and originations of loans held for sale, partially offset by a $10.9 billion increase in net proceeds from the sale of loans held for sale.

Net cash provided by operating activities for the year ended December 31, 2000 totalled $267.0 million compared to $2.0 billion during the year ended December 31, 1999. The change was principally due to a $4.6 billion decrease in net proceeds from the sale of loans held for sale, partially offset by a $3.0 billion reduction in purchases and originations of loans held for sale.

Net cash provided by investing activities for the year ended December 31, 2001 totalled $5.3 billion, an increase of $7.9 billion from the year ended December 31, 2000. Cash flows provided by investing activities included net loan originations and principal collections of $4.3 billion, principal payments on mortgage-backed securities totalling $3.9 billion, proceeds from maturing securities of $1.2 billion, proceeds from sale of mortgage-backed securities available for sale of $788.6 million and proceeds from sales and settlements of derivatives of $622.8 million. Cash flows used in investing activities included purchases of loans receivable of $4.3 billion, purchases of derivatives of $713.6 million, purchases of MSRs of $308.0 million and purchases of mortgage backed-securities available for sale of $171.9 million.

Net cash used in investing activities for the year ended December 31, 2000 totalled $2.6 billion, a decrease of $1.9 billion from the year ended December 31, 1999. Cash flows used in investing activities included net loan originations and principal collections of $3.8 billion, purchases of loans receivable of $1.6 billion, purchases of MSRs of $344.3 million, purchases of derivatives of $127.2 million, purchases of mortgage backed-securities available for sale of $115.3 million and purchases of FHLB stock of $107.6 million. Additionally, $379.3 million was used in the Downey Acquisition. Cash flows provided by investing activities included principal payments on mortgage-backed securities totalling $2.3 billion, proceeds from sale of mortgage-backed securities available for sale of $1.4 billion and proceeds from maturing securities of $109.3 million.

Net cash used in financing activities for the year ended December 31, 2001 totalled $4.9 billion, compared to net cash provided by financing activities of $2.5 billion from the year ended December 31, 2000. Cash flows used in financing activities included principal payments on borrowings of $115.5 billion, a net decrease in securities sold under agreements to repurchase of $2.1 billion, $350 million in principal payment on GS Holdings Notes and $64.0 million in the extinguishment of Issuable Shares. Additionally, $54.1 million in dividends was paid to common stockholders, while $27.0 million, net of taxes, was paid to minority stockholders. Cash flows provided by financing activities included proceeds from additional borrowings of $111.5 billion and a net increase in deposits of $1.7 billion.

Net cash provided by financing activities for the year ended December 31, 2000 totalled $2.5 billion, an increase of $437.5 million from the year ended December 31, 1999. Cash flows provided by financing activities included additional borrowings of $43.5 billion, a net increase in deposits of $395.4 million and the exercise of stock options and warrants of $131.9 million. Cash flows used in financing activities included principal payments on borrowings of $40.4 billion, net decrease in securities sold under agreements to repurchase of $970.4 million, $85.0 million in the extinguishment of Issuable Shares and $63.7 million for purchases of treasury stock. Additionally, $26.4 million in dividends was paid to common stockholders, while $27.0 million, net of taxes, was paid to minority stockholders.

The Company is a party to credit related financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit and commercial letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. See note 36 of the Company's Notes to Consolidated Financial Statements.

Other Activities

Certain Relationships and Related Transactions

The Company periodically enters into certain relationships and related transactions. See Item 13, "Certain Relationships and Related Transactions" for a discussion of these transactions.

Litigation Tracking Warrants™

In connection with the Glendale Goodwill Litigation, Golden State distributed LTW™s to its security holders representing the right to receive, upon exercise of the LTW™s, Golden State common stock equal in value to 85% of the net after-tax proceeds, if any, from the Glendale Goodwill Litigation. For more information on LTW™s, refer to note 25 of the Company's Notes to Consolidated Financial Statements.

Litigation Interests

As a result of the California Federal Goodwill Litigation, the Bank has two outstanding classes of securities: the CALGZs and the CALGLs.

Each CALGZ entitles the holder to receive a recovery payment based upon the Cash Payment, if any, actually received by the Bank from the Government in resolution of the California Federal Goodwill Litigation. The amount of the recovery payment is equal to five millionths of one percent (0.000005%) of the Cash Payment after deducting:

(i) certain expenses incurred by the Bank in prosecuting the case;

(ii) any income tax liabilities of the Bank, computed on a pro forma basis, as a result of the Bank's receipt of the Cash Payment, with certain adjustments;

(iii) the effect of certain net operating loss carryforwards or other tax attributes, if any; and

(iv) the expenses incurred by the Bank in creating, issuing and trading the CALGZs.

Each CALGL entitles the holder to receive twenty millionths of one percent (0.0000020%) of the secondary recovery payment, if any. The secondary recovery payment means sixty percent (60%) of the Cash Payment, minus the sum of:

(i) certain expenses incurred by the Bank in prosecuting the case;

(ii) any income tax liabilities of the Bank, computed on a pro forma basis, as a result of the Bank's receipt of the Cash Payment (net of any income tax benefit, computed on a pro forma basis, from the payment of a portion of the secondary recovery payment to holders of the CALGLs);

(iii) the expenses incurred by the Bank in creating, issuing and trading the CALGZs and the CALGLs;

(iv) the payment due to the holders of the CALGZs; and

(v) $125,000,000.

Any payment to holders of the CALGZs and CALGLs will be subject to the OTS capital distribution regulations.

Holders of the CALGZs and the CALGLs are entitled to vote together as a single class with the holders of the common stock of the Bank and the Bank Preferred Stock, with each CALGZ and CALGL entitling the holder to 1/5 of one vote.

As of January 3, 1997, in connection with the Cal Fed Acquisition, the Bank recorded the California Federal Goodwill Litigation Asset at its estimated fair value of $100 million, net of estimated tax liabilities. As of September 11, 1998, in connection with the Glen Fed Merger, the Bank recorded the Glendale Goodwill Litigation Asset, which is the estimated after-tax recovery in the Glendale Goodwill Litigation that will inure to the Bank, net of amounts payable to the holders of the LTW™s, at its estimated fair value of $56.9 million, net of estimated tax liabilities.

The merger agreement for the Golden State Acquisition included a provision that "equalized" the effect of the potential recoveries in the California Federal Goodwill Litigation and the Glendale Goodwill Litigation between the two shareholder groups – *i.e.*, the former Golden State shareholders who were to benefit from the Glendale Goodwill Litigation, and GSB Investments and Hunter's Glen, who were to benefit from the California Federal Goodwill Litigation. This provision contemplated that GSB Investments and Hunter's Glen would retain all the risks and rewards of the California Federal Goodwill Litigation, but that they would be required to contribute (either in cash or in stock) an amount to equalize the contribution from the Glendale Goodwill Litigation.

Accordingly, at September 11, 1998, the net carrying value of $100 million of the California Federal Goodwill Litigation Asset was "dividended" to GSB Investments and Hunter's Glen, and a receivable from them was established to reflect the required "make whole" value of the Glendale Goodwill Litigation Asset. This receivable amounted to $41.2 million, and was recorded as an increase in equity and fluctuates based upon the market value of the LTW™s. Subsequently, changes to retained earnings and the contribution receivable were recorded to reflect changes in value. At December 31, 2001, 2000 and 1999, the inherent value of the amount to be contributed by GSB Investments and Hunter's Glen was recorded at $21.2 million, $20.6 million and $17.1 million, respectively.

Capital Management

At December 31, 2001, stockholders' equity was $2.6 billion, an increase of $418.7 million from December 31, 2000. The increase is principally the net result of $409.4 million in net income for the year, $112.6 million in adjustments to Issuable Shares related to pre-merger tax benefits retained by the previous owners of FN Holdings, an $88.1 million improvement in net unrealized gain/loss, after tax, on securities available for sale, a $30.4 million improvement in unrealized loss on securities upon reclassification from the held-to-maturity to the available-for-sale portfolio and $29.0 million of amortization on the unrealized holding loss on securities held to maturity. These amounts are offset, in part, by $74.7 million in net unrealized losses, after tax, during the period on derivatives, $63.7 million in extinguishment of Issuable Shares, $54.1 million of common stock dividends, a $44.6 million transition adjustment recorded upon the adoption of SFAS No. 133 and $24.7 million in adjustments to additional paid-in capital related to pre-merger tax benefits recorded as goodwill. For further information, see note 26 of the Company's Notes to Consolidated Financial Statements.

OTS capital regulations require the Bank 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 that is higher than the minimum. These capital requirements are currently applicable to the Bank but not to Golden State.

At December 31, 2001, the Bank's tangible, core and risk-based capital ratios of 6.62%, 6.62% and 12.98%, respectively, exceeded the minimum regulatory capital requirements.

The following is a reconciliation of the Bank's stockholder's equity to regulatory capital as of December 31, 2001:

	Tangible Capital	Core Capital	Risk-based Capital
		(dollars in millions)	
Stockholder's equity of the Bank	$4,124	$4,124	$4,124
Minority interest – REIT Preferred Stock	500	500	500
Unrealized holding gain on securities, net	(57)	(57)	(57)
Unrealized holding loss on derivative instruments, net	119	119	119
Non-allowable capital:			
Non-qualifying loan servicing rights	(149)	(149)	(149)
Intangible assets	(641)	(641)	(641)
Goodwill Litigation Assets	(159)	(159)	(159)
Investment in non-includable subsidiaries	(68)	(68)	(68)
Supplemental capital:			
Qualifying subordinated debentures	--	--	73
General loan loss allowance	--	--	397
Assets required to be deducted:			
Land loans with more than 80% LTV ratio	--	--	(9)
Equity in subsidiaries	--	--	(7)
Low-level recourse deduction	--	--	(9)
Regulatory capital of the Bank	3,669	3,669	4,114
Minimum regulatory capital requirement	831	2,218	2,536
Excess above minimum capital requirement	$2,838	$1,451	$1,578

	Tangible Capital Ratio	Leverage Capital Ratio	Risk-based Capital Ratio
Regulatory capital of the Bank	6.62%	6.62%	12.98%
Minimum regulatory capital requirement	1.50	4.00	8.00
Excess above minimum capital requirement	5.12%	2.62%	4.98%

The amount of adjusted total assets used for the tangible and leverage capital ratios is $55.5 billion. Risk-weighted assets used for the risk-based capital ratio amounted to $31.7 billion.

At December 31, 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 of the Bank	6.62%	11.54%	12.98%
"Well capitalized" ratio	5.00	6.00	10.00
Excess above "well capitalized" ratio	1.62%	5.54%	2.98%

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 December 31, 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 December 31, 2001.

Other Capital Activities

Warrants. During 1999, the Company had common stock purchase warrants outstanding which were exercised or expired before the end of the year. The Company had 10,768,153 transferable Standby Warrants outstanding at December 31, 1999, all of which were either exercised or expired during 2000. For more information on the Standby Warrants, refer to note 24 of the Company's Notes to Consolidated Financial Statements. For information on LTW™s, see "– Other Activities – Litigation Tracking Warrants™."

Issuable Shares. The Golden State Merger agreement provides that Golden State will accrue and distribute Issuable Shares to GSB Investments and Hunter's Glen based upon Golden State's use of certain tax benefits and upon California Federal's recoveries in certain specified litigation. The tax benefits are those resulting from net operating loss carryforwards of the consolidated group of which Parent Holdings was a part and the realization of certain other tax assets and liabilities of Golden State and Parent Holdings. The recoveries are California Federal's net after-tax recovery in certain specified litigation, including a portion of the net after-tax recovery, if any, in the California Federal Goodwill Litigation (following payment by California Federal of all amounts due, if any, to holders of the CALGZs and CALGLs and the retention of certain amounts of such recovery by the Bank). The portion of any net after-tax recovery in the California Federal Goodwill Litigation that will be excluded in determining the number of Issuable Shares to be issued will be based, with certain adjustments, on the amount of any net after-tax recovery in the Glendale Goodwill Litigation that the Bank may exclude in determining the number of shares of Golden State Common Stock that are issuable upon exercise of the LTW™s. At December 31, 2001, Issuable Shares valued at $189.5 million were included in equity. For more information on Issuable Shares, refer to notes 2(r) and 24 of the Company's Notes to Consolidated Financial Statements.

Impact of Inflation and Changing Prices

Prevailing interest rates have a more significant impact on the Company's performance than does the general level of inflation. While interest rates may bear some relationship to the general level of inflation (particularly in the long run), over short periods of time interest rates may not necessarily move in the same direction or change in the same magnitude as the general level of inflation. As a result, the business of the Company is generally not affected by inflation in the short run, but may be affected by inflation in the long run.

ITEM 7A. Quantitative and Qualitative Disclosures about Market Risk

In the normal course of business, the Company is exposed to interest rate risk, which is the potential for loss due to changes in interest rates. Financial products that expose the Company to interest rate risk include securities, loans, deposits, debt and derivative financial instruments such as swaps, swaptions, caps and floors.

ALCO, which includes senior management representatives, monitors and considers methods of managing the sensitivity of rate and repricing characteristics of the balance sheet components to maintain acceptable levels of changes in the NPV ratio and net interest income due to changes in interest rates. The Company's goal is to effectively invest its capital and to preserve the value created by its core business operations. The management monitoring processes discussed below are designed to minimize the impact of sudden and sustained changes in interest rates on the NPV ratio and net interest income.

The Company's exposure to interest rate risk is reviewed at least quarterly by the Board of Directors and ALCO. Interest rate risk exposure is measured using interest rate sensitivity analysis to determine the Bank's change in the NPV ratio and net interest income in the event of hypothetical changes in interest rates. Interest rate sensitivity gap analysis is used to determine impact of the repricing characteristics of the Bank's assets and liabilities. The Board may direct management to adjust its asset and liability mix to keep interest rate risk within Board-approved limits.

To reduce exposure to interest rate fluctuations, the Company developed strategies to manage its liquidity, shorten its effective maturities of certain interest-earning assets, and increase the ability of its asset base to respond to changes in interest rates. Management has sought to decrease the average maturity of its assets by originating primarily adjustable-rate residential mortgage loans and consumer loans, which are retained by the Company for its portfolio. Any long-term, fixed-rate single-family residential mortgage loans are either exchanged for mortgage-backed securities secured by such loans and are then sold or are sold directly for cash in the secondary market, generally with servicing retained.

Interest rate sensitivity analysis measures the Bank's interest rate risk by computing estimated changes in the NPV ratio in the event of a range of assumed changes in market interest rates. The NPV ratio is a market value adjusted capital to asset ratio and is computed by taking the market value of assets minus the market value of liabilities, divided by the market value of assets. This analysis assesses the risk of loss in value in the event of a sudden and sustained increase or decrease in market interest rates of one hundred to three hundred basis points. The Bank's Board of Directors has adopted an interest rate risk policy which establishes minimum NPV ratios for various interest rate scenarios.

The following table presents the Bank's NPV ratios for the various rate shock levels at December 31, 2001.

Change in Interest Rates	NPV Ratio
300 basis point rise	5.65%
200 basis point rise	6.90%
100 basis point rise	7.77%
Base Scenario	8.26%
100 basis point decline	8.01%
200 basis point decline	8.16%
NPV Sensitivity Measure	(1.36)%

The preceding table indicates that as of December 31, 2001, the Bank's NPV ratio would be expected to decrease in the event that prevailing market rates increase in a sudden and sustained manner. The NPV sensitivity measure, which compares the difference between the base scenario and the lesser of the 200 basis point rise or decline, as estimated by the Bank's model is (1.36)%. The NPV sensitivity measure of (1.36)% when combined with the Bank's NPV ratio of 6.90% in the 200 basis point rise results in a "minimal risk" rating as defined by the OTS policies, the lowest, or best, of four risk ratings.

The fair market value of the Company's equity decreases in a rising interest rate environment because the Company's interest-bearing liabilities generally reprice faster than its interest-earning assets, some of which are subject to periodic caps. The reduction in value of the net interest-earning assets is partially offset by an increase in value of MSRs that appreciate in value as rates rise. In the current assumed declining interest rate environment, the fair market value of the portfolio equity remains relatively stable as the repricing of assets and liabilities are similar and the decline in value of the MSRs is more highly offset by the hedges.

The Bank calculates the NPV ratio pursuant to guidelines established by the OTS. The calculation is based on the net present value of estimated cash flows considering market prepayment assumptions and interest rates provided by independent broker quotations and other public sources as of December 31, 2001, adjusted to reflect shifts in the Treasury yield curve, as appropriate.

The computation of the effect of hypothetical interest rate changes is based on numerous assumptions, including relative levels of market interest rates, loan prepayments and deposits decay, and should not be relied upon as indicative of actual results. Further, the computations do not contemplate any actions the ALCO could undertake in response to changes in interest rates.

Certain shortcomings are inherent in the method of analysis presented in the computation of the NPV. Actual values may differ from those projections presented, based upon market conditions. Certain assets, such as adjustable-rate loans, which represent one of the Bank's primary loan products, have features which restrict changes in interest rates on a short-term basis and over the life of the assets. In addition, the Bank's adjustable-rate loan portfolio could decrease due to refinancing if market interest rates remain at current levels or decline further. In the event of a change in interest rates, prepayment and early withdrawal levels would likely deviate significantly from those assumed in the NPV. Finally, the ability of many borrowers to repay their adjustable-rate mortgage loans may decrease in the event of interest rate increases.

In addition, the Bank uses interest rate sensitivity gap analysis to monitor the relationship between the maturity and repricing of its interest-earning assets and interest-bearing liabilities, to maintain an acceptable interest rate spread. See "—Risk Management" for further information.

ITEM 8. Financial Statements and Supplementary Data

The following consolidated financial statements of Golden State at December 31, 2001 and 2000 and for the years ended December 31, 2001, 2000 and 1999 are included in this report at the pages indicated.

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

PART III

ITEM 10. Directors and Executive Officers of the Registrant

Those portions of Golden State's definitive Proxy Statement to be filed with the SEC pursuant to Regulation 14A for use in connection with Golden State's Annual Meeting of Stockholders to be held on May 20, 2002 ("Proxy Statement") appearing under the captions "Proposal I – Election of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance" are incorporated herein by reference.

The following table sets forth certain information (ages as of March 1, 2002) concerning the executive officers of Golden State.

Name	Age	Position
Gerald J. Ford	57	Chairman of the Board, Chief Executive Officer and Director
Carl B. Webb	52	President, Chief Operating Officer and Director
Christie S. Flanagan	63	Executive Vice President and General Counsel
Richard A. Fink	61	Executive Vice President
Richard P. Hodge	47	Executive Vice President
Scott A. Kisting	54	Executive Vice President
James R. Staff	54	Executive Vice President
Richard H. Terzian	65	Executive Vice President and Chief Financial Officer
Stephen J. Trafton	55	Executive Vice President
Renee Nichols Tucei	45	Executive Vice President and Controller

In addition to the officers listed above, below are those individuals who hold senior positions with the Bank and are deemed to be executive officers of the Company for reporting purposes under the Securities Exchange Act of 1934.

Name	Age	Position at the Bank
Walter C. Klein, Jr.	58	Group Executive Vice President
Dennis L. Verhaegen	50	Group Executive Vice President

Mr. Ford has been Chairman of the Board and Chief Executive Officer of Golden State since 1998 and of California Federal and its predecessors since 1988. Mr. Ford has also been Chairman of the Board and Chief Executive Officer of GS Holdings since 1998 and of Preferred Capital Corporation since 1996. Mr. Ford is Chairman of the Board of FNMC and Chairman of the Board and Chief Executive Officer of Liberté Investors Inc. Mr. Ford is also a Director of Auto One, Freeport–McMoRan Copper & Gold Co. and McMoRan Exploration Co.

Mr. Webb has been President, Chief Operating Officer and a Director of Golden State and of GS Holdings since 1998, of California Federal and its predecessors since 1988, and of Preferred Capital Corporation since 1996. Mr. Webb is also a Director of FNMC and Auto One.

Mr. Flanagan has been Executive Vice President and General Counsel of Golden State since September 1998 and Group Executive Vice President and General Counsel of the Bank since June 2000. He served as Executive Vice President and General Counsel of the Bank from 1994 until June 2000. Mr. Flanagan is also the Executive Vice President, General Counsel and a Director of Preferred Capital Corp. and a Director of FNMC and Auto One. Mr. Flanagan was previously the managing partner of the law firm of Jenkens & Gilchrist, P.C. and is currently of counsel to the firm.

Mr. Fink has been an Executive Vice President of Golden State and of the Bank since September 1998. Mr. Fink was Vice Chairman and a Director of Golden State from 1997 until 1998 and was the Senior Executive Vice President and a Director of Glendale Federal from May 1992 until September 1998. He served Glendale Federal as Chief Credit Officer from February 1996 until September 1998.

Mr. Hodge has been Executive Vice President and Corporate Tax Director of Golden State since September 1998 and of the Bank since January 1996. Mr. Hodge has been employed with the Bank since November 1995. Prior to joining the Bank, Mr. Hodge was a tax partner of the public accounting firm of KPMG LLP.

Mr. Kisting has been Executive Vice President of Golden State since September 1998. He has been Group Executive Vice President and Director of Consumer and Business Banking of the Bank since June 2000. He served as Executive Vice President and Director of Consumer and Business Banking of the Bank from September 1998 until June 2000. Mr. Kisting has also been Chairman of the Board of Auto One since February 2000. Mr. Kisting was Chief Operating Officer of Citizens Financial Group from 1997 to 1998 and was previously associated with Norwest Corporation from 1990 to 1997, most recently as Group Executive Vice President.

Mr. Staff has been Executive Vice President and the Chief Financial Advisor of Golden State since September 1998. He has been Group Executive Vice President and Chief Financial Advisor of the Bank since June 2000. He served as Executive Vice President and Chief Financial Advisor of the Bank from 1994 until June 2000. He also serves as a Director of Preferred Capital Corp., Auto One and FNMC. Prior to joining the Bank, Mr. Staff was associated with the public accounting firm of KPMG LLP, most recently as a partner specializing in financial services.

Mr. Terzian has been Executive Vice President and Chief Financial Officer of Golden State since 1998 and Group Executive Vice President and Chief Financial Officer of the Bank since June 2000. He served as Executive Vice President and Chief Financial Officer of the Bank from 1995 until June 2000. Mr. Terzian has been the Executive Vice President, Chief Financial Officer and a Director of Preferred Capital Corp. since 1996. Mr. Terzian is also a Director of the Federal Home Loan Bank of San Francisco. Prior to joining the Bank, Mr. Terzian served as Chief Financial Officer of Dime Bancorp, Inc. and its subsidiary, The Dime Savings Bank of New York, FSB.

Mr. Trafton has been an Executive Vice President of Golden State and of the Bank since September 1998. Mr. Trafton was Chairman of the Board, Chief Executive Officer, President and a Director of Golden State from 1997 until 1998. Mr. Trafton also served as Chairman of the Board, Chief Executive Officer and President of Glendale Federal from 1992 until 1998.

Ms. Tucei has been Executive Vice President and Controller of Golden State since May 1999 and served as Senior Vice President and Controller from 1998 until 1999. Ms. Tucei has been Executive Vice President of GS Holdings since November 2000 and served as Senior Vice President and Controller from 1998 until 1999. Ms. Tucei has been Executive Vice President and Controller of the Bank since January 1999 and served as Senior Vice President and Controller of the Bank from 1994 until 1998 and of its predecessor, First Madison, from 1993 until 1994.

Mr. Klein has been a Group Executive Vice President of the Bank since June 2000. He served as Executive Vice President of the Bank from January 1996 until June 2000. Mr. Klein has been the President of FNMC since January 1996. He also serves as a Director of FNMC. Prior to joining the Bank, Mr. Klein was associated with PNC Mortgage Corp. of America and its predecessor, Sears Mortgage Corporation, most recently as Chairman and Chief Executive Officer.

Mr. Verhaegen has been Group Executive Vice President and Corporate Finance Director of the Bank since August 2000. He served as Executive Vice President and Corporate Finance Director of the Bank from February 1997 until August 2000. Mr. Verhaegen operated his own financial advisory and consulting firm from 1994 to 1996 and served as a Managing Director of First Southwest Company from 1992 to 1994. Mr. Verhaegen was also Senior Managing Director of the Financial Institutions Group of Bear, Stearns & Co. Inc. from 1988 to 1992.

ITEM 11. Executive Compensation

Those portions of Golden State's Proxy Statement appearing under the caption "Executive Compensation," "Report of the Compensation Committee on Executive Compensation" and "Performance Graph" are incorporated herein by reference.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management

That portion of Golden State's Proxy Statement appearing under the caption "Ownership of Golden State and Other Securities" is incorporated herein by reference.

ITEM 13. Certain Relationships and Related Transactions

That portion of Golden State's Proxy Statement appearing under the caption "Certain Relationships and Related Transactions" is incorporated herein by reference.

PART IV

ITEM 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) 1. Financial Statement Schedules

Schedules are omitted because of the absence of conditions under which they are required or because the required information is provided in the consolidated financial statements or notes thereto.

(b) Exhibits

2.1 Agreement and Plan of Reorganization, dated as of February 4, 1998, by and among First Nationwide (Parent) Holdings Inc., First Gibraltar Holdings, Inc., Hunter's Glen/Ford, Ltd., Golden State Bancorp Inc. and Golden State Financial Corporation. (Incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K dated February 4, 1998 (the "February 1998 Form 8-K").)

2.2 Amendment No. 1 dated as of July 31, 1998, by and among First Nationwide (Parent) Holdings Inc., First Nationwide Holdings Inc., Golden State Bancorp Inc., Golden State Financial Corporation, First Gibraltar Holdings Inc. and Hunter's Glen/Ford Ltd., to the Agreement and Plan of Reorganization, dated as of February 4, 1998, by and among the Parties. (Incorporated by reference to Exhibit 2.2 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1998 (the "1998 Form 10-K").)

2.3 Agreement dated as of August 20, 2000 by and between Golden State Bancorp Inc. and GSB Investments Corp. (Incorporated by reference to Exhibit 2.3 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2000.)

2.4 Agreement dated as of July 26, 2001 by and between Golden State Bancorp Inc. and GSB Investments Corp.

3.1 Certificate of Incorporation of the Registrant. (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 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1999.)

4.1 Indenture, dated as of October 1, 1986, between First Nationwide Bank, A Federal Savings Bank, and Bank of America National Trust and Savings Association re: $100,000,000 10% Subordinated Debentures due 2006. (Incorporated by reference to Exhibit 4.5 to FN Holdings' Annual Report on Form 10-K for the year ended December 31, 1994.)

4.2 First Supplemental Indenture, dated as of September 30, 1994, among First Madison Bank, FSB, First Nationwide Bank, A Federal Savings Bank, and Bank of America National Trust and Savings Association, supplementing the 2006 Indenture. (Incorporated by reference to Exhibit 4.6 to FN Holdings' Annual Report on Form 10-K for the year ended December 31, 1994.)

4.3 Second Supplemental Indenture, dated as of January 3, 1997, among First Nationwide Bank, A Federal Savings Bank, California Federal Bank, A Federal Savings Bank and Bank of America National Trust and Savings Association, as trustee, supplementing the 2006 Indenture. (Incorporated by reference to Exhibit 4.8 to Amendment No. 1 to FN Holdings' Registration Statement on Form S-1 (File No. 333-21015).)

4.4	Agreement Regarding Contingent Litigation Recovery Participation Interests, dated as of June 30, 1995, between California Federal Bank and Chemical Trust Company of California, as Interest Agent. (Incorporated by reference to Exhibit 4.17 to Amendment No. 1 to FN Holdings' Registration Statement on Form S-1 (File No. 333-21015).)
4.5	Agreement Regarding Secondary Contingent Litigation Recovery Participation Interests, dated as of December 2, 1996, between California Federal Bank and Chase Mellon Shareholder Services, L.L.C., as Interest Agent. (Incorporated by reference to Exhibit 4.18 to Amendment No. 1 to FN Holdings' Registration Statement on Form S-1 (File No. 333-21015).)
4.6	Warrant Agreement, dated as of May 4, 1998 between Golden State Bancorp Inc. and Chase Mellon Shareholder Services, L.L.C. as Warrant Agent. (Incorporated by reference to Exhibit 4.5 to the Registrant's Annual Report on Form 10-K for the year ended June 30, 1998.)
4.7	Indenture dated as of August 6, 1998 between GS Escrow Corp. and The Bank of New York, as Trustee. (Incorporated by reference to Exhibit 4.1 to Golden State Holdings Inc.'s Registration Statement on Form S-1 (File No. 333-64597).)
4.8	First Supplemental Indenture dated as of August 6, 1998 between GS Escrow Corp. and The Bank of New York, as Trustee. (Incorporated by reference to Exhibit 4.2 to Golden State Holdings Inc.'s Registration Statement on Form S-1 (File No. 333-64597).)
4.9	Second Supplemental Indenture dated as of August 6, 1998 between GS Escrow Corp. and The Bank of New York, as Trustee. (Incorporated by reference to Exhibit 4.3 to Golden State Holdings Inc.'s Registration Statement on Form S-1 (File No. 333-64597).)
4.10	Third Supplemental Indenture dated as of August 6, 1998 between GS Escrow Corp. and The Bank of New York, as Trustee. (Incorporated by reference to Exhibit 4.4 to Golden State Holdings Inc.'s Registration Statement on Form S-1 (File No. 333-64597).)
4.11	Fourth Supplemental Indenture dated as of August 6, 1998 between GS Escrow Corp. and The Bank of New York, as Trustee (Incorporated by reference to Exhibit 4.5 to Golden State Holdings Inc.'s Registration Statement on Form S-1 (File No. 333-64597).)
4.12	Fifth Supplemental Indenture dated as of September 11, 1998 between Golden State Holdings Inc. and the Bank of New York, as Trustee (Incorporated by reference to Exhibit 4.6 to Golden State Holdings Inc.'s Registration Statement on Form S-1 (File No. 333-64597).)
10.1	Tax Sharing Agreement, effective as of January 1, 1994, by and among First Madison Bank, FSB, FN Holdings and Mafco Holdings Inc. (Incorporated by reference to Exhibit 10.10 to FN Holdings' Registration Statement on Form S-1 (File No. 33-82654).)
10.2	Amendment to Tax Sharing Agreement, effective September 11, 1998, by and among Mafco Holdings Inc., Golden State Bancorp Inc., First Nationwide Holdings Inc., Glendale Federal Bank, A Federal Savings Bank, and New First Nationwide Holdings Inc. (Incorporated by reference to Exhibit 10.2 to the Registrant's 1998 Form 10-K.)
10.3	Tax Sharing Modification Agreement dated as of December 22, 1998, between Mafco Holdings Inc. and Golden State Bancorp Inc. (Incorporated by reference to Exhibit 10.3 to the Registrant's 1998 Form 10-K.)
10.4	Office Lease, dated as of November 15, 1990, between Webb/San Francisco Ventures, Ltd. and First Nationwide Bank, A Federal Savings Bank. Confidential treatment has been granted for portions of this document (Incorporated by reference to Exhibit 10.6 to Amendment No. 3 to FN Holdings' Registration Statement on Form S-1 (File No. 33-82654).)

10.5 Amendment No. 2 to Lease between First Nationwide Bank, A Federal Savings Bank, and RNM 135 Main, L.P. dated April 6, 1995. (Incorporated by reference to Exhibit 10.26 to Post-Effective Amendment No. 1 to FN Holdings' Registration Statement on Form S-1 (File No. 33-82654).)

10.6 Letter dated March 30, 2000 extending the term of the office lease dated as of November 15, 1990 between RNM 135 Main, L. P., as successor to Webb/San Francisco Venture, Ltd., and California Federal Bank, as successor to First Nationwide Bank, A Federal Savings Bank. (Incorporated by reference to Exhibit 10.6 to the Registrant's 2000 Form 10-K.)

10.7 Employment Agreement dated November 22, 1999, between California Federal Bank, and Gerald J. Ford. (Incorporated by reference to Exhibit 10.11 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1999 (the "1999 Form 10-K").)

10.8 Employment Agreement, dated as of December 17, 1999, between California Federal Bank, and Carl B. Webb, II. (Incorporated by reference to Exhibit 10.13 to the Registrant's 1999 Form 10-K.)

10.9 Employment Agreement, dated as of August 1, 1999, between California Federal Bank, and Christie S. Flanagan. (Incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1999.)

10.10 Employment Agreement, dated as of December 17, 1999, between California Federal Bank, and J. Randy Staff. (Incorporated by reference to Exhibit 10.18 to the Registrant's 1999 Form 10-K.)

10.11 Employment Agreement, dated as of August 1, 1999, between California Federal Bank, and Scott A. Kisting. (Incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1999.)

10.12 1998 Change of Control Plan, dated as of March 25, 1999. (Incorporated by reference to Exhibit 10.24 to the Registrant's 1999 Form 10-K.)

10.13 Golden State Bancorp Inc. Omnibus Stock Plan. (Incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1999.)

10.14 Golden State Bancorp Inc. Executive Compensation Plan. (Incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1999.)

10.15 Litigation Management Agreement, dated as of February 4, 1998, by and among Golden State Bancorp, Inc., Glendale Federal Bank, Federal Savings Bank, California Federal Bank, Stephen J. Trafton and Richard A. Fink. (Incorporated by reference to Exhibit 99.2 to the February 1998 Form 8-K.)

10.16 Reimbursement and Expense Allocation Agreement between Golden State Bancorp Inc. and California Federal Bank, dated November 23, 1998. (Incorporated by reference to Exhibit 10.56 to the Registrant's 1998 Form 10-K.)

10.17 Agreement for Provision of Services between California Federal Bank, A Federal Savings Bank and Golden State Management Inc., dated November 23, 1998. (Incorporated by reference to Exhibit 10.57 to the Registrant's 1998 Form 10-K.)

10.18 Agreement for Provision of Services between Mafco Holdings Inc. and Golden State Bancorp Inc., dated January 1, 1999. (Incorporated by reference to Exhibit 10.58 to the Registrant's 1998 Form 10-K.)

10.19 Amendment No. 1 dated as of January 1, 2000 to Agreement for Provision of Services between Mafco Holdings Inc. and Golden State Bancorp Inc., dated January 1, 1999. (Incorporated by reference to Exhibit 10.19 to the Registrant's 2000 Form 10-K.)

10.20 Amendment No. 2 dated as of December 2, 2001 to Agreement for Provision of Services between Mafco Holdings Inc. and Golden State Bancorp Inc., dated January 1, 1999.

12.1 Statement regarding the computation of ratio of earnings to combined fixed charges and minority interest for the Registrant.

21.1 Subsidiaries of the Registrant.

23.1 Consent of KPMG LLP, Independent Auditors of the Registrant.

24.1 Power of Attorney executed by John A. Moran.

24.2 Power of Attorney executed by Ronald O. Perelman.

24.3 Power of Attorney executed by Cora M. Tellez.

(c) Reports on Form 8-K

None.

GLOSSARY OF DEFINED TERMS

This glossary covers the preceding 10-K as well as the financial statements beginning on page F-1 of this document.

$6^1/_2$% 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.
$9^1/_8$% Preferred Stock – One newly issued share of preferred stock of the Bank having substantially the same terms as the REIT Preferred Stock
10% Subordinated Debentures due 2003 – In 1992, Old California Federal issued $13.6 million of 10.0% unsecured subordinated debentures due 2003
10% Subordinated Debentures due 2006 – As part of its 1994 acquisition of First Nationwide, California Federal assumed $92.1 million principal amount of subordinated debentures, which bear interest at 10% per annum and mature on October 1, 2006
$10^5/_8$% Bank Preferred Stock – $10^5/_8$% noncumulative perpetual preferred stock issued by California Federal
$11^1/_2$% Bank Preferred Stock – $11^1/_2$% noncumulative perpetual preferred stock issued by California Federal
11.20% Senior Notes due 2004 – As part of its 1996 acquisition of San Francisco Federal, California Federal assumed $50 million principal amount of 11.20% Senior Notes due September 1, 2004
1996 Acquisitions – 1996 acquisitions of Home Federal Financial Corporation and San Francisco Federal
1997 Servicing Sale – On September 30, 1997, FNMC sold servicing rights for approximately 52,000 loans with a UPB of approximately $2.3 billion, recognizing a pre-tax gain of $14.0 million.
12 MAT – the twelve month average of the monthly treasury constant maturity rates
2001 Notes – 6¾% Senior Notes due 2001 that are part of the GS Holdings Fixed Rate Notes
2003 Notes – 7% Senior Notes due 2003 that are part of the GS Holdings Fixed Rate Notes
2005 Notes – $7^1/_8$% Senior Notes due 2005 that are part of the GS Holdings Fixed Rate Notes
Accretable Yield – excess of the pool's Expected Cash Flows over the amount paid
ACS – Affiliated Computer Services
ALCO – Asset/Liability Management Committee
AMT – alternative minimum tax
APB – Accounting Principles Board
APB Opinion No. 16 – Business Combinations
APB Opinion No. 17 – Intangible Assets
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
Bank Preferred Stock – the $10^5/_8$% Bank Preferred Stock together with the $11^1/_2$% Bank Preferred Stock
Bank Preferred Stock Tender Offers – FN Holdings commenced cash tender offers for each of the Bank's two outstanding series of Bank Preferred Stock in August 1998
BIF – Bank Insurance Fund
Brokered Deposits – Issued CDs through direct placement programs and national investment banking firms
Cal Fed – Cal Fed Bancorp Inc.
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.
CALGL – Secondary Contingent Litigation Recovery Participation Interests
CALGZ – Contingent Litigation Recovery Participation Interests
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.
Cash Payment – Amount, if any, actually received by the Bank pursuant to a final nonappealable judgment in or final settlement of its claim against the United States Government in the lawsuit, California Federal Bank v. United States, Civil Action No. 92-138C

GLOSSARY OF DEFINED TERMS (continued)

CD – Certificate of deposit
CFI – Cal Fed Investments
Claims Court – United States Court of Federal Claims
CMO – collateralized mortgage obligation
COFI – Cost of Funds Index (tied to the FHLB's 11^{th} District cost of funds)
Company – Golden State Bancorp Inc.
CRA – Community Reinvestment Act
DCR – debt coverage ratio
Debt Tender Offers – On September 14, 1998, GS Holdings commenced cash tender offers for the FN Holdings Notes
DECP – Deferred Executive Compensation Plan
Deconsolidation Adjustment – Upon the Company's deconsolidation from the Mafco Group, a federal income tax return filed on behalf of itself and its subsidiaries caused a reduction of NOLs and other tax attributes which resulted in a reduction in retained earnings in 1998
Downey Acquisition – Auto One's acquisition of the Downey Auto Finance Corporation in February, 2000.
DP – Data Processing
ECP – Executive Compensation Plan
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
EPS – earnings per share
Expected Cash Flows – expected principal and interest cash flows
Fair Lending Laws – Equal Credit Opportunity and the Fair Housing Act, together
FASB – Financial Accounting Standards Board
FASB Interpretation No. 39 – Offsetting of Amounts Related to Certain Contracts
FASB Interpretation No. 41 – Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements
FDIC – Federal Deposit Insurance Corporation
FDICIA – Federal Deposit Insurance Corporation Improvement Act
FHLB – Federal Home Loan Bank of San Francisco
FHLB System – Federal Home Loan Bank System
FHLMC – Federal Home Loan Mortgage Corporation
FICO – Financing Corporation
FIRREA – Financial Institutions Reform, Recovery and Enforcement Act of 1989 and its implementing regulations.
First Gibraltar – First Gibraltar Holdings Inc.
Fixed Rate Notes – The 2001 Notes, 2003 Notes and 2005 Notes, collectively, which together with the Floating Rate Notes are the GS Holdings Notes
Floating Rate Notes due 2003 – GS Holdings Notes consist in part of $250 million aggregate principal amount of its Floating Rate Notes Due 2003
Florida Branch Sale – On September 11, 1998, the Bank consummated the sale of its Florida deposit franchise (consisting of 24 branches with deposits of $1.4 billion) to Union Planters Bank of Florida, a wholly owned subsidiary of Union Planters Corp.
FLSC – forward loan sale commitments
FN Acquisition – California Federal acquired First Nationwide as part of its 1994 acquisition
FN Holdings – First Nationwide Holdings Inc.
FN Holdings $10^5/_8$% Notes – In connection with the Cal Fed Acquisition, GS Holdings acquired the net proceeds from the issuance of $575 million principal amount of FN Escrow's $10^5/_8$% Senior Subordinated Notes due 2003
FN Holdings Notes – FN Holdings $12^1/_4$% Senior Notes, the FN Holdings $9^1/_8$% Senior Sub Notes and the FN Holdings $10^5/_8$% Notes, collectively
FN Holdings Preferred Stock – the preferred stock of FN Holdings
FNMA – Federal National Mortgage Association
FNMC – First Nationwide Mortgage Corporation
FSLIC – Federal Savings and Loan Insurance Corporation

GLOSSARY OF DEFINED TERMS (continued)

FTE – Full-time equivalent staff
GAAP –accounting principles generally accepted in the United States of America
Glen Fed Merger – Glendale Federal Bank merged with and into the Bank
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.
GNMA – Government National Mortgage Association
Golden State – Golden State Bancorp Inc.
Golden State Acquisition – FN Holdings Asset Transfer, Holding Company Mergers and Glen Fed Merger, collectively
Golden State Common Stock – Golden State common stock, par value $1.00
Golden State Group – consolidated group of Golden State Bancorp, Golden State Holdings and California Federal Bank, for which Golden State is the common parent
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
GSAC – Gulf States Acceptance Company
GSAC Acquisition – Auto One, a subsidiary of the Bank, acquired 100% of the partnership interests in Gulf States Acceptance Company, a Delaware limited partnership and its general partner, Gulf States Financial Services, Inc., a Texas corporation, in February 1998
GSB – Golden State Bancorp
GSB Investments – GSB Investments Corp.
GS Escrow – GS Escrow Corp.
GS Holdings – Golden State Holdings Inc.
GS Holdings Notes – On August 6, 1998, GS Escrow Corp, which subsequently merged into GS Holdings, issued $2 billion of fixed and floating rate notes.
HOLA – Home Owners' Loan Act of 1933
Hunter's Glen – Hunter's Glen/Ford, Ltd.
IO – Interest only
Incentive Plan – management incentive plan
IRS – Internal Revenue Service
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
LOCOM – lower of cost or market
LTIP – Long Term Incentive Plan
LTV – Loan-to-value
LTW™ – Litigation Tracking Warrants
Mafco Group – Mafco Holdings Inc. affiliated group
Mafco Holdings – Mafco Holdings Inc.
MBS – mortgage-backed securities
MD&A – management's discussion and analysis
Merger Agreement – Agreement and Plan of Merger among FN Holdings, Cal Fed Bancorp Inc. and California Federal Bank, A Federal Savings Bank
MSR – Mortgage servicing rights
MSR Hedge – 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
NASDAQ – National Association of Securities Dealers Automated Quotations system

GLOSSARY OF DEFINED TERMS (continued)

Nevada Purchase – The Bank acquired twelve retail branches located in Nevada with deposits of approximately \$543 million from Norwest Bank, Nevada, a subsidiary of Norwest Corporation, and Wells Fargo Bank, N.A. in April 1999.
NOL – net operating loss
Nonaccretable Contractual Cash Flows – Excess of the pool's scheduled contractual principal and contractual interest payments over its Expected Cash Flows as an amount that should not be accreted
notional amount – the amount on which calculations, payments, and the value of a derivative is based. Notional amounts do not represent direct credit exposures.
NPV – Net portfolio value
NYSE – New York Stock Exchange
OCI – Other comprehensive income
Old California Federal – California Federal Bank, A Federal Savings Bank prior to the Cal Fed Acquisition
Old FNB – First Nationwide Bank, A Federal Savings Bank prior to the FN Acquisition
Old FNB Indenture – Indenture governing the 10% Subordinated Debentures Due 2006
Omnibus Stock Plan – Golden State Bancorp Inc. Omnibus Stock Plan
OTC – over-the-counter
OTS – Office of Thrift Supervision
Parent Holdings – First Nationwide (Parent) Holdings Inc.
Parent Holdings Defeasance – the defeasance of the Parent Holdings Notes
Parent Holdings Notes –$12^1/_2$ Senior Notes due 2003
Participants – certain executive officers of the Bank eligible for the management incentive plan
Pass-through Interest Expense – represents interest that FNMC pays to the investor(s) for loans serviced by FNMC, which are paid off by the borrower(s) before the end of the month. FNMC picks up the shortfall of interest on the respective loans as a result of the contractual agreement between the servicer (FNMC) and the investor(s) (*i. e.* GNMA)
PE – Pacific Exchange
PO – Principal only
Preferred Capital Corporation – California Federal Preferred Capital Corporation
QTL – Qualified Thrift Lender
Refinancing Transactions – On September 14, 1998, GS Holdings commenced Debt Tender Offers and together with the Bank Preferred Stock Tender Offers and the Parent Holdings Defeasance
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.
REO – real estate owned
Repos – short-term securities sold under agreements to repurchase
SAIF – Savings Association Insurance Fund
SBA – Small Business Administration
Scheduled Contractual Cash Flows – the pool's scheduled contractual principal and contractual interest payments
SEC – Securities and Exchange Commission
Servicing Sale – During April 1999, the Bank's wholly-owned mortgage banking subsidiary, First Nationwide Mortgage Corporation sold servicing rights on approximately 49,000 loans with a UPB of \$2.0 billion.
SFAS – Statement of Financial Accounting Standards
SFAS No. 65 – Accounting for Certain Mortgage Banking Activities
SFAS No. 72 – Accounting for Certain Acquisitions of Banking or Thrift Institutions
SFAS No. 109 – Accounting for Income Taxes
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. 123 – Accounting for Stock-Based Compensation
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

GLOSSARY OF DEFINED TERMS (continued)

SFAS No. 141 – Accounting for Business Combinations
SFAS No. 142 – Accounting for Goodwill and Intangible Assets
SFAS No. 143 – Accounting for Asset Retirement Obligations
SFAS No. 144 – Accounting for the Impairment or Disposal of Long-Lived Assets
SFFed Acquisition – The acquisition of San Francisco Federal by the Company in February 1996
SLHC –savings and loan holding company
Standby Warrants – Golden State issued transferable common stock purchase warrants
Stock Plan – Golden State Bancorp Inc. Omnibus Stock Plan
Tax Sharing Agreement – Prior to the Golden State Acquisition, for federal income tax purposes, the Bank, FN Holdings, and Mafco Holdings were parties to a tax sharing agreement effective as of January 1, 1994
Warrants – Golden State issued common stock purchase warrants in March 1993 in connection with an exchange of preferred stock for outstanding subordinated debentures and capital notes
Weyerhaeuser Purchase – On May 31, 1997, FNMC acquired a 1-4 unit residential loan servicing portfolio of approximately $3.2 billion and approximately 40,000 loans from WMC Mortgage
UPB – Unpaid principal balance
Verdugo – Verdugo Trustee Service Corporation
Y2K – Year 2000
XCF – XCF Acceptance 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.

Dated: March 19, 2002

GOLDEN STATE BANCORP INC.

By: /s/ Gerald J. Ford
Gerald J. Ford
Chairman of the Board
and Chief Executive Officer

Pursuant to the requirement of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

Name	Title	Date
/s/ Gerald J. Ford Gerald J. Ford	Chairman of the Board, Chief Executive Officer and Director (Principal Executive Officer)	March 19, 2002
/s/ Carl B. Webb Carl B. Webb	President, Chief Operating Officer and Director	March 19, 2002
/s/ Richard H. Terzian Richard H. Terzian	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	March 19, 2002
/s/ Renee Nichols Tucei Renee Nichols Tucei	Executive Vice President and Controller (Principal Accounting Officer)	March 19, 2002
/s/ Paul M. Bass, Jr. Paul M. Bass, Jr.	Director	March 19, 2002
/s/ George W. Bramblett, Jr. George W. Bramblett, Jr.	Director	March 19, 2002
/s/ Brian P. Dempsey Brian P. Dempsey	Director	March 19, 2002

/s/ Howard Gittis Howard Gittis	Director	March 19, 2002
/s/ John F. King John F. King	Director	March 19, 2002
/s/ John F. Kooken John F. Kooken	Director	March 19, 2002
/s/ Gabrielle K. McDonald Gabrielle K. McDonald	Director	March 19, 2002
* John A. Moran	Director	March 19, 2002
* Ronald O. Perelman	Director	March 19, 2002
/s/ B. M. Rankin, Jr. B. M. Rankin, Jr.	Director	March 19, 2002
/s/ Thomas S. Sayles Thomas S. Sayles	Director	March 19, 2002
/s/ Robert Setrakian Robert Setrakian	Director	March 19, 2002
* Cora M. Tellez	Director	March 19, 2002

* James R. Eller Jr., by signing his name, hereto, does hereby execute this report on Form 10-K on behalf of the directors and officers of the Registrant indicated above by asterisks, pursuant to powers of attorney duly executed by such directors and officers and filed as exhibits to this report on Form 10-K.

By: /s/ James R. Eller, Jr.
James R. Eller, Jr.
Attorney-in-fact

INDEPENDENT AUDITORS' REPORT

The Stockholders and Board of Directors
Golden State Bancorp Inc.:

We have audited the accompanying consolidated balance sheets of Golden State Bancorp Inc. and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Golden State Bancorp Inc. and subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2(p) to the consolidated financial statements, the Company changed its method of accounting for derivative instruments and hedging activities in 2001 with the adoption of Statement of Financial Accounting Standards No. 133, "*Accounting for Derivative Instruments and Hedging Activities.*"

KPMG LLP

San Francisco, California
January 15, 2002

GOLDEN STATE BANCORP INC. AND SUBSIDIARIES
Consolidated Balance Sheets
December 31, 2001 and 2000
(dollars in thousands, except per share data)

Assets	2001	2000
Cash and due from banks	$ 709,169	$ 697,513
Interest-bearing deposits in other banks	103	123
Short-term investment securities	95,929	85,510
Cash and cash equivalents	805,201	783,146
Securities available for sale, at fair value	116,112	641,205
Securities held to maturity (fair value of $30,602 and $590,571 at December 31, 2001 and 2000, respectively)	30,602	587,503
Mortgage-backed securities available for sale, at fair value (includes securities pledged to creditors with the right to sell or repledge of $1,607,130 and $2,620,399 at December 31, 2001 and 2000, respectively)	7,057,903	9,866,823
Mortgage-backed securities held to maturity (fair value $1,411,157 and $2,959,677 at December 31, 2001 and 2000, respectively) (includes securities pledged to creditors with the right to sell or repledge of $763,438 and $2,053,070 at December 31, 2001 and 2000, respectively)	1,385,113	2,886,612
Loans held for sale, net	2,608,365	845,763
Loans receivable, net	39,335,623	39,592,814
Investment in FHLB System	1,446,607	1,361,066
Premises and equipment, net	306,890	327,329
Foreclosed real estate, net	18,564	19,080
Accrued interest receivable	288,308	364,414
Intangible assets (net of accumulated amortization of $306,011 and $246,150 at December 31, 2001 and 2000, respectively)	640,843	691,288
MSRs, net of valuation allowance	1,623,947	1,559,323
Derivative assets	349,026	--
Other assets	477,565	990,512
Total assets	$56,490,669	$60,516,878
Liabilities, Minority Interest and Stockholders' Equity		
Deposits	$25,134,078	$23,429,754
Securities sold under agreements to repurchase	2,363,945	4,511,309
Borrowings	24,444,541	28,800,557
Derivative liabilities	250,711	--
Other liabilities	1,227,959	1,124,524
Total liabilities	53,421,234	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; 152,164,166 and 150,703,716 shares issued at December 31, 2001 and 2000, respectively)	152,164	150,704
Issuable Shares	189,532	172,308
Additional paid-in capital	1,551,520	1,534,736
Accumulated other comprehensive loss, net	(61,806)	(89,874)
Retained earnings (substantially restricted)	1,054,511	698,597
Treasury stock at cost (16,408,120 and 16,383,058 shares at December 31, 2001 and 2000, respectively)	(316,486)	(315,737)
Total stockholders' equity	2,569,435	2,150,734
Total liabilities, minority interest and stockholders' equity	$56,490,669	$60,516,878

See accompanying notes to consolidated financial statements.

GOLDEN STATE BANCORP INC. AND SUBSIDIARIES
Consolidated Statements of Income
Years Ended December 31, 2001, 2000 and 1999
(in thousands, except per share data)

	2001	2000	1999
Interest income:			
Loans receivable	$2,980,884	$2,852,971	$2,332,500
Mortgage-backed securities available for sale	603,142	800,444	872,823
Mortgage-backed securities held to maturity	124,117	206,469	177,644
Loans held for sale	137,430	62,591	109,486
Securities available for sale	18,718	55,917	76,669
Securities held to maturity	23,899	29,499	11,459
Interest-bearing deposits in other banks	973	5,034	12,049
Dividends on FHLB stock	79,485	92,872	59,639
Total interest income	3,968,648	4,105,797	3,652,269
Interest expense:			
Deposits	831,538	928,407	888,286
Securities sold under agreements to repurchase	196,425	352,100	265,467
Borrowings	1,577,630	1,678,491	1,312,629
Other	1,565	–	–
Total interest expense	2,607,158	2,958,998	2,466,382
Net interest income	1,361,490	1,146,799	1,185,887
Provision for loan losses	–	–	10,000
Net interest income after provision for loan losses	1,361,490	1,146,799	1,175,887
Noninterest income:			
Loan servicing fees, net	(14,393)	176,159	127,834
Customer banking fees and service charges	221,796	196,969	187,022
Gain on sale, settlement and transfer of loans, net	78,440	49,730	32,885
Gain (loss) on sale of assets, net	17,525	(13,426)	24,042
Other income	47,550	31,333	28,211
Total noninterest income	350,918	440,765	399,994
Noninterest expense:			
Compensation and employee benefits	455,199	427,362	391,597
Occupancy and equipment	173,269	160,820	148,411
Professional fees	37,475	41,381	52,667
Loan expense	16,828	17,018	17,200
Foreclosed real estate operations, net	(905)	(4,690)	(6,411)
Amortization of intangible assets	59,861	62,717	69,724
Other expense	237,616	208,631	233,421
Total noninterest expense	979,343	913,239	906,609
Income before income taxes, minority interest, extraordinary items and cumulative effect of change in accounting principle	733,065	674,325	669,272
Income tax expense	291,995	136,781	186,483
Minority interest: provision in lieu of income tax expense	3,137	161,688	122,684
Minority interest: other	26,988	28,376	39,390
Income before extraordinary items and cumulative effect of change in accounting principle	410,945	347,480	320,715
Extraordinary items – gains on early extinguishment of debt, net of applicable taxes of $2,083 and $1,801 in 2000 and 1999, respectively	--	3,014	2,472
Cumulative effect of change in accounting principle, net of applicable taxes of $1,072 in 2001	(1,552)	–	–
Net income	$ 409,393	$ 350,494	$ 323,187
Earnings per share:			
Basic			
Income before extraordinary items and cumulative effect of change in accounting principle	$ 2.88	$2.50	$2.45
Extraordinary items	–	0.02	0.02
Cumulative effect of change in accounting principle	(0.01)	–	–
Net income	$ 2.87	$2.52	$2.47
Diluted			
Income before extraordinary items and cumulative effect of change in accounting principle	$ 2.86	$2.44	$2.29
Extraordinary items	--	0.02	0.02
Cumulative effect of change in accounting principle	(0.01)	–	–
Net income	$ 2.85	$2.46	$2.31
Dividends declared per common share	$ 0.40	$0.20	$ --

See accompanying notes to consolidated financial statements.

GOLDEN STATE BANCORP INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2001, 2000 and 1999
(in thousands)

	2001	2000	1999
Net income	$409,393	$350,494	$ 323,187
Other comprehensive income (loss), net of tax:			
Unrealized holding gain (loss) on securities available for sale:			
Unrealized holding gain (loss) arising during the period	131,966	170,729	(280,618)
Less: reclassification adjustment for (gain) loss included in net income	(13,517)	9,976	(742)
	118,449	180,705	(281,360)
Amortization of market adjustment for securities transferred from available-for-sale to held-to-maturity	28,998	4,630	--
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 $51,611	(74,732)	--	--
Other comprehensive income (loss)	28,068	185,335	(281,360)
Comprehensive income	$437,461	$535,829	$ 41,827

See accompanying notes to consolidated financial statements.

GOLDEN STATE BANCORP INC. AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2001, 2000 and 1999
(dollars in thousands)

	Common Stock		Issuable	Additional Paid-in	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Substantially	Common Stock in Treasury		Total Stockholders'
	Shares	Amount	Shares	Capital	on Securities, Net	Restricted)	Shares	Amount	Equity
Balance at December 31, 1998	128,687,763	$128,688	$ --	$1,392,155	$ 6,151	$ 56,471	(89,994)	$ (1,687)	$1,581,778
Net income	--	--	--	--	--	323,187	--	--	323,187
Golden State Acquisition – see note 3	--	--	--	(12,380)	--	--	--	--	(12,380)
Adjustment to initial dividend of tax benefits to former parent due to deconsolidation	--	--	--	--	--	15,519	--	--	15,519
Adjustment to contribution receivable from GSB Investments and Hunter's Glen in respect of their proportionate ownership of the California Federal Goodwill Litigation Asset	--	--	--	--	--	(24,081)	--	--	(24,081)
Reclassification of Litigation Tracking Warrants owned by the Bank	--	--	--	--	--	--	--	(1,987)	(1,987)
Change in net unrealized holding gain (loss) on securities available for sale	--	--	--	--	(281,360)	--	--	--	(281,360)
Issuable Shares (1999 usage of pre-merger NOLs)	--	--	197,562	--	--	--	--	--	197,562
Issuable Shares (1998 tax benefits)	--	--	2,665	(2,665)	--	--	--	--	--
Issuable Shares (interest on Old California Federal tax refund)	--	--	4,454	--	--	--	--	--	4,454
Distribution of Issuable Shares	5,540,319	5,540	--	(5,540)	--	--	--	--	--
Impact of restricted stock	56,908	57	--	420	--	--	--	--	477
Purchase of treasury stock	--	--	--	--	--	--	(12,463,800)	(250,245)	(250,245)
Exercise of stock options and warrants	435,695	436	--	7,444	--	--	--	--	7,880
Sale of common stock in treasury	--	--	--	(699)	--	--	75,697	1,678	979
Balance at December 31, 1999	134,720,685	$134,721	$204,681	$1,378,735	$(275,209)	$371,096	(12,478,097)	$(252,241)	$1,561,783

(Continued)

See accompanying notes to consolidated financial statements.

GOLDEN STATE BANCORP INC. AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2001, 2000 and 1999
(dollars in thousands)

	Common Stock Shares	Common Stock Amount	Issuable Shares	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss) on Securities, Net	Retained Earnings (Substantially Restricted)	Common Stock in Treasury Shares	Common Stock in Treasury Amount	Total Stockholders' Equity
Balance at December 31, 1999	134,720,685	$134,721	$ 204,681	$1,378,735	$(275,209)	$371,096	(12,478,097)	$(252,241)	$1,561,783
Net income	--	--	--	--	--	350,494	--	--	350,494
Adjustment to contribution receivable from GSB Investments and Hunter's Glen in respect of their proportionate ownership of the California Federal Goodwill Litigation Asset	--	--	--	--	--	3,451	--	--	3,451
Change in net unrealized holding loss on securities available for sale	--	--	--	--	180,705	--	--	--	180,705
Amortization of unrealized holding loss on securities held to maturity	--	--	--	--	4,630	--	--	--	4,630
Issuable Shares (1999 usage of pre-merger NOLs)	--	--	3,919	--	--	--	--	--	3,919
Issuable Shares (2000 usage of pre-merger NOLs)	--	--	162,565	--	--	--	--	--	162,565
Pro-rata adjustment to pre-merger tax benefits recorded as goodwill	--	--	--	(39,305)	--	--	--	--	(39,305)
Issuable Shares adjustment for tax refund and related interest	--	--	39,455	(38,066)	--	--	--	--	1,389
Distribution of Issuable Shares	4,882,904	4,883	(100,000)	95,117	--	--	--	--	--
Cancellation of restricted shares	(2,025)	(2)	--	2	--	--	--	--	--
Impact of restricted common stock	220,327	220	--	2,955	--	--	--	--	3,175
Purchase of treasury stock	--	--	--	--	--	--	(3,916,411)	(63,724)	(63,724)
Exercise of stock options and warrants	10,881,743	10,882	--	120,991	--	--	--	--	131,873
Sale of common stock in treasury	--	--	--	(94)	--	--	11,450	228	134
Dividends on common stock	--	--	--	--	--	(26,444)	--	--	(26,444)
Issuance of common stock	82	--	--	--	--	--	--	--	--
Cash settlement resulting in the extinguishment of Issuable Shares	--	--	(138,312)	14,401	--	--	--	--	(123,911)
Balance at December 31, 2000	150,703,716	$150,704	$ 172,308	$1,534,736	$ (89,874)	$698,597	(16,383,058)	$(315,737)	$2,150,734

(Continued)

See accompanying notes to consolidated financial statements.

GOLDEN STATE BANCORP INC. AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2001, 2000 and 1999
(dollars in thousands)

	Common Stock		Issuable	Additional Paid-in	Accumulated Other Comprehensive (Loss) Income, Net			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	--	--	--	--	--	--	--	409,393	--	--	409,393
Change in net unrealized holding gain (loss) on securities available for sale	--	--	--	--	88,075	--	88,075	--	--	--	88,075
Amortization of unrealized holding loss on securities held to maturity	--	--	--	--	28,998	--	28,998	--	--	--	28,998
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	--	--	--	--	--	(74,732)	(74,732)	--	--	--	(74,732)
Adjustment to contribution receivable from GSB Investments and Hunter's Glen in respect of their proportionate ownership of the California Federal Goodwill Litigation Asset	--	--	--	--	--	--	--	658	--	--	658
Issuable Shares (pro-rata 2001 usage of pre-merger NOLs)	--	--	98,217	--	--	--	--	--	--	--	98,217
Pro-rata adjustment to pre-merger tax benefits recorded as goodwill	--	--	--	(24,694)	--	--	--	--	--	--	(24,694)
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)
Adjustment to capitalized costs - 2000 extinguishment of Issuable Shares	--	--	--	998	--	--	--	--	--	--	998
Issuable Shares adjustment for changes in tax benefits	--	--	14,007	415	--	--	--	--	--	--	14,422
Distribution of Issuable Shares	1,041,198	1,041	(20,000)	18,959	--	--	--	--	--	--	--
Impact of restricted common stock	99,108	99	--	3,359	--	--	--	--	--	--	3,458
Exercise of stock options	320,144	320	--	7,447	--	--	--	--	--	--	7,767
Purchase of treasury stock	--	--	--	--	--	--	--	--	(25,062)	(749)	(749)
Dividends on common stock	--	--	--	--	--	--	--	(54,137)	--	--	(54,137)
Balance at December 31, 2001	152,164,166	$152,164	$189,532	$1,551,520	$ 57,573	$(119,379)	$(61,806)	$1,054,511	(16,408,120)	$(316,486)	$2,569,435

See accompanying notes to consolidated financial statements.

GOLDEN STATE BANCORP INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
Years Ended December 31, 2001, 2000 and 1999
(in thousands)

	2001	2000	1999
Cash flows from operating activities:			
Net income	$ 409,393	$ 350,494	$ 323,187
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Amortization of intangible assets	59,861	62,717	69,724
Provision for deferred income taxes	109,783	39,131	94,780
Accretion of discount on borrowings	1,041	1,093	1,018
Amortization of purchase accounting premiums and discounts, net	11,269	269	7,541
Amortization of MSRs	361,076	204,032	212,310
Provision for loan losses	--	--	10,000
(Gain) loss on sale of assets, net	(17,525)	13,426	(21,699)
Gain on sale of branches, net	--	--	(2,343)
Gain on sale of foreclosed real estate, net	(3,203)	(8,950)	(13,069)
Loss on sale, settlement and transfer of loans, net	291,074	76,918	152,657
Capitalization of originated MSRs	(369,514)	(126,648)	(185,541)
Extraordinary items – gains on early extinguishment of debt, net	--	(3,014)	(2,472)
Depreciation and amortization of premises and equipment	57,712	54,465	40,895
Amortization of deferred debt issuance costs	6,773	7,354	7,295
FHLB stock dividends	(79,485)	(92,872)	(59,639)
Purchases and originations of loans held for sale	(17,934,105)	(5,344,219)	(8,345,470)
Net proceeds from the sale of loans held for sale	15,996,488	5,059,241	9,711,385
Net gain on derivatives used to hedge MSRs	(79,948)	--	--
Provision for loss on MSRs	153,345	--	--
Decrease (increase) in other assets	194,712	(482,695)	47,793
Decrease (increase) in accrued interest receivable	76,106	(41,580)	(4,141)
Increase (decrease) in other liabilities	390,704	305,850	(183,181)
Amortization of deferred compensation expense - restricted common stock	1,768	1,897	477
Gain on non-monetary exchange of Star Systems common stock	(20,671)	--	--
Reduction in net accrued tax liability	(25,805)	--	--
Minority interest: provision in lieu of income taxes	3,137	161,688	122,684
Minority interest: other	26,988	28,376	39,390
Dividends on restricted common stock	63	36	--
Net cash (used in) provided by operating activities	(378,963)	267,009	2,023,581

(Continued)

See accompanying notes to consolidated financial statements.

GOLDEN STATE BANCORP INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows, continued
Years Ended December 31, 2001, 2000 and 1999
(in thousands)

	2001	2000	1999
Cash flows from investing activities:			
Acquisitions and divestitures:			
Downey Acquisition	$ --	$ (379,314)	$ --
Nevada Purchase	--	--	458,943
Purchases of securities available for sale	(90,967)	(54,789)	(807,690)
Proceeds from maturities of securities available for sale	700,563	58,022	431,934
Purchases of securities held to maturity	(9,403)	(4,199)	(28,869)
Principal payments and proceeds from maturities of securities held to maturity	530,345	51,289	94,820
Purchases of mortgage-backed securities available for sale	(171,943)	(115,256)	(4,832,344)
Principal payments on mortgage-backed securities available for sale	3,477,044	1,878,401	3,623,918
Proceeds from sales of mortgage-backed securities available for sale	788,564	1,367,666	193,732
Principal payments on mortgage-backed securities held to maturity	433,575	428,067	621,179
Proceeds from sales of loans	83,829	98,894	18,528
Loan originations and principal collections, net	4,277,725	(3,804,590)	(1,694,325)
Purchases of loans receivable	(4,298,594)	(1,648,599)	(2,197,573)
Purchases of FHLB stock, net	(23,193)	(107,570)	(110,477)
Purchases of premises and equipment	(40,507)	(60,787)	(49,241)
Proceeds from disposal of premises and equipment	16,448	4,170	14,549
Proceeds from sales of foreclosed real estate	33,442	75,312	136,565
Proceeds from sale of Concord EFS common stock	29,948	--	--
Purchases of MSRs	(308,003)	(344,262)	(334,842)
Hedge (payments) receipts	(7,298)	5,593	(10,191)
Purchases of derivatives	(713,575)	(127,199)	(67,698)
Proceeds from sales and settlements of derivatives	622,765	101,114	46,860
Purchase of remaining 20% interest in Auto One	(9,000)	--	--
Proceeds from sales of MSRs	--	774	30,802
Net cash provided by (used in) investing activities	5,321,765	(2,577,263)	(4,461,420)
Cash flows from financing activities:			
Branch sales	--	--	(69,340)
Net increase (decrease) in deposits	1,705,121	395,412	(2,052,128)
Proceeds from additional borrowings	111,475,897	43,513,455	33,029,009
Principal payments on borrowings	(115,466,294)	(40,367,906)	(29,717,967)
Net (decrease) increase in securities sold under agreements to repurchase	(2,147,364)	(970,438)	1,243,352
Principal payment on GS Holdings Notes	(350,000)	--	--
Bank Preferred Stock Tender Offers	--	--	(97,621)
Debt Tender Offers	--	--	(253)
Dividends on common stock	(54,137)	(26,444)	--
Dividends paid to minority stockholders, net of taxes	(26,988)	(26,987)	(30,752)
Exercise of stock options and warrants	7,767	131,873	7,880
Purchases of treasury stock	(749)	(63,724)	(250,245)
Sales of treasury stock	--	134	979
Extinguishment of Issuable Shares	(64,000)	(85,000)	--
Net cash (used in) provided by financing activities	(4,920,747)	2,500,375	2,062,914
Net change in cash and cash equivalents	22,055	190,121	(374,925)
Cash and cash equivalents at beginning of year	783,146	593,025	967,950
Cash and cash equivalents at end of year	$ 805,201	$ 783,146	$ 593,025

See accompanying notes to consolidated financial statements.

(1) Organization

The Company is a holding company with no business operations of its own. The Company's only significant asset is its ownership of all of the common stock of GS Holdings, which owns all of the common and preferred stock of the Bank. The Company's principal business operations are conducted by the Bank and its subsidiaries.

The Bank is a diversified financial services company that primarily serves consumers in California and, to a lesser extent, in Nevada. The Bank's principal business consists of operating retail branches that provide deposit products (for example demand, transaction and savings accounts), and sell investment products (for example mutual funds, annuities and insurance). In addition, it engages in mortgage banking activities, including originating and purchasing 1-4 unit residential loans for sale or retention, and servicing loans for itself and others. To a lesser extent, the Bank originates and/or purchases commercial real estate, commercial banking and consumer loans for investment. Revenues are derived primarily from interest earned on loans and 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 and borrowings, and general and administrative expenses including compensation and benefits, occupancy and equipment, professional fees and other general and administrative expenses.

(2) Summary of Significant Accounting Policies

The accounting and reporting policies of the Company conform to GAAP and prevailing practices within the banking and thrift industries. The following summarizes the more significant of these policies.

A glossary of defined terms appears on page 84.

(a) Basis of Presentation

The accompanying consolidated financial statements include the accounts of Golden State, which owns all of the common stock of GS Holdings, which owns all of the common and preferred stock of the Bank. All significant intercompany balances and transactions have been eliminated in consolidation. Certain amounts in the prior years have been reclassified to conform to the current year's presentation.

(b) Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash and due from banks, interest-bearing deposits in other banks, and other short-term investment securities with original maturities of three months or less. Savings and loan associations are required by the Federal Reserve System to maintain non-interest bearing cash reserves equal to a percentage of certain deposits. The reserve requirement for California Federal at December 31, 2001 was $52.3 million, which was met with vault cash of $112.2 million and cash reserves of $28.6 million. In addition, the Company held restricted cash related to escrows on loans held for sale of $63.5 million and $43.4 million at December 31, 2001 and 2000, respectively.

(c) Securities and Mortgage-backed Securities

The Company's investment in securities consists primarily of U.S. government and agency securities and mortgage-backed securities. The Company classifies debt and equity securities, including mortgage-backed securities, into one of three categories: held-to-maturity, available-for-sale or trading securities. Securities held to maturity represent securities which management has the positive intent and ability to hold to maturity; these are carried at amortized cost. Securities bought and held principally for the purpose of selling them in the near term are classified as trading securities and are reported at fair value, with unrealized gains and losses included in income. All other securities, including equity securities with readily determinable fair values, are classified as available-for-sale and are carried at fair value, with unrealized holding gains and losses, net of tax, reported as a separate component of stockholders' equity. Declines in the value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. Realized gains and losses on securities available for sale are computed on a specific identification basis and are accounted for on a trade-date basis.

Securities available for sale include IO strips, some of which are accounted for as trading securities and reported at fair value and some of which are accounted for in accordance with EITF No. 99-20 with impairment charges recorded to income.

Amortization and accretion of premiums and discounts relating to mortgage-backed securities is recognized using the interest method over the estimated lives of the underlying mortgages.

(d) Loans Held for Sale, Net

One to four unit residential loans originated and intended for sale in the secondary market which qualify for fair value hedging under SFAS No. 133 are carried at fair market value, less the values associated with servicing. Net unrealized gains and losses are recognized as a component of income.

One to four unit residential loans originated and intended for sale in the secondary market which do not qualify for fair value hedging under SFAS No. 133 were carried at the lower of aggregate cost or fair market value based on quoted market prices for mortgage-backed securities backed by similar loans. Net unrealized losses were recognized in a valuation allowance by charges to income.

Loans held for sale are valued based upon quoted market prices for mortgage-backed securities backed by similar loans.

(e) Loans Receivable, Net

Loans receivable, net, is stated at UPBs, less the allowance for loan losses, and net of deferred loan origination fees or costs and purchase discounts or premiums.

Interest is accrued monthly at the loan's stated rate for loans on accrual status. Discounts or premiums on 1-4 unit residential loans are accreted or amortized to income using the interest method, generally over the remaining contractual loan period. Discounts or premiums on consumer and other loans are recognized over the lives of the loans using the interest method.

Adjustable-rate mortgages comprise a significant portion of the Company's real estate loan portfolio. The interest rate and payment terms of these mortgages adjust on a periodic basis in accordance with various published indices. The majority of these adjustable-rate mortgages have terms which limit the amount of interest rate adjustment that can occur each year and over the life of the mortgage. When such limits are applied, negative amortization occurs on certain adjustable-rate mortgages. See note 36.

Charges to income increase the allowance for loan losses while charge-offs (net of recoveries) decrease it. Management periodically evaluates the adequacy of the allowance based on such factors as the Company's past loan loss experience, known and inherent risks in the 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 uses assumptions consistent with those that would be used by unrelated buyers and sellers. For example, in determining the estimated fair value of a loan's collateral, management would consider occupancy, rental rates, and property expenses from industry sources. Management's methodology for assessing the adequacy of the allowance includes the evaluation of the following three key elements: (a) the formula allowance, (b) specific allowances for identified problem loans and (c) the unallocated allowance. As management utilizes information currently available to make such evaluation, the allowance for loan losses is subjective and may be adjusted in the future depending on changes in economic and environmental conditions, management assumptions about specific borrowers or other factors. Additionally, regulatory authorities, as an integral part of their regular examination process, review the Bank's allowance for estimated losses on a periodic basis. These authorities may require the Bank to recognize adjustments to the allowance based on their judgment of information available to them at the time of their examination.

Loans that are contractually ninety days or more past due are placed on nonaccrual status, and the related accrued interest is charged off, or an allowance is established, based on management's periodic evaluation. The allowance is established by a charge to interest income equal to all interest previously accrued, and income is subsequently recognized only to the extent that cash payments are received. When, in management's judgment, the borrower's ability to make periodic interest and principal payments resumes, the loan is returned to accrual status.

(f) Securitized Loan Sales

When the Company sells residential mortgage loans as part of a securitization transaction, it generally retains the servicing rights and one or more subordinated tranches, both of which are retained interests in the securitized receivables. Gain or loss on sale of the receivables depends in part on the previous carrying amount of the financial assets involved in the transfer, allocated between the assets sold and the retained interests based on their relative fair values at the date of transfer. To obtain fair values, quoted market prices are used if available. However, quotes are generally not available for retained interests, so the Company generally estimates fair value based on the present value of future expected cash flows estimated using management's best estimates of the key assumptions (credit losses, prepayment speeds and discount rates commensurate with the risks involved) applied by an independent company in its valuation analysis.

(g) Auto One Loans

The Company, through its subsidiary, Auto One, originates loans and also purchases loans individually and in groups. For loans purchased prior to July 1, 2001, the loans are grouped and accounted for in homogeneous pools based upon certain risk characteristics, including interest coupon rate, credit quality, and period of origination. At acquisition, the Company estimated the amount and timing of undiscounted Expected Cash Flows for each pool. For certain purchased pools of loans, the amount paid reflects the Company's determination that it is probable the Company will be unable to collect all amounts due according to the contractual terms of the underlying loans in the pool. Accordingly, at acquisition, the Company recognized the excess of the Scheduled Contractual Cash Flows over the Expected Cash Flows as Nonaccretable Contractual Cash Flows. The excess of the Expected Cash Flows over the price paid – representing the Accretable Yield – is accreted into interest income over the remaining life of each pool.

Over the life of each pool of bans purchased prior to July 1, 2001, the Company continues to estimate Expected Cash Flows. In the event a pool's actual cash flows plus the expected cash payments are less than the Expected Cash Flows estimated at the time of the purchase, the amount by which the current carrying value of the pool exceeds the present value of the expected cash flows discounted at the originally estimated internal rate of return is an impairment and requires an allocation of the allowance for loan losses established by provisions for loan losses. If the present value of a pool's expected remaining cash flows discounted at the originally estimated internal rate of return exceeds the current carrying value of the pool, the amount of the Accretable Yield is increased and the amount of the Nonaccretable Contractual Cash Flows is decreased by the amount the sum of a pool's expected remaining cash flows exceeds the sum of the remaining payments less the Nonaccretable Contractual Cash Flows. The adjusted Accretable Yield is accreted into interest income over the pool's remaining life using the interest method.

All Auto One originated loans, and Auto One loans purchased after July 1, 2001 are recorded on a gross-coupon basis, rather than on a credit-adjusted yield basis. Accordingly, an allowance for loan losses is established for those loans when an adverse situation has occurred that will affect the borrower's ability to repay principal and interest.

(h) Impaired Loans

The Company considers a loan impaired when, based on 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. Any insignificant delay or insignificant shortfall in amount of payments will not cause a loan to be considered impaired. 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 loan-to-value 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, consumer loans, commercial banking loans under $100,000 and performing multi-family and commercial real estate loans under $500,000, excluding loans which have entered the workout process.

Impairment is measured 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 measures collateral-dependent impaired loans based 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. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment.

Cash receipts on impaired loans not performing according to contractual terms are generally applied to reduce the carrying value of the loan, unless the Company believes it will recover the remaining principal balance. 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.

(i) Loan Origination and Commitment Fees and Related Costs

Loan origination fees, net of loan origination costs, are deferred and amortized to interest income using the interest method, generally over the contractual term of the loan, adjusted for actual loan prepayment experience. Unamortized fees, net of loan origination costs on loans sold or paid in full, are recognized as income or expense, as appropriate. Adjustable-rate loans with lower initial interest rates during the introductory period result in the amortization of a substantial portion of the net deferred fees during the introductory period.

Fees received in connection with loan commitments are deferred and recognized as fee revenue on a straight-line basis over the term of the commitment. If the commitment is subsequently exercised during the commitment period, the remaining unamortized commitment fee at the time of exercise is recognized over the term of the loan using the interest method.

Forward loan sale commitments and related commitment fees, which are paid to investors for the right to deliver residential loans in the future at specified yield, are marked to market through earnings and included in derivative assets and liabilities. Prior to the adoption of SFAS No. 133 on January 1, 2001, these fees were deferred. Amounts were included in the recognition of gain (loss) on sale of loans as loans were delivered to the investor in proportion to the percentage relationship of loans delivered to the total commitment amount. Any unused fees were recognized as an expense at the expiration of the commitment date, or earlier, if it was determined the commitment would not be filled.

Other loan fees and charges, which represent income from the prepayment of loans, delinquent payment charges, and miscellaneous loan services, are recognized as income when collected.

(j) Premises and Equipment, Net

Land is carried at cost. Premises, equipment and leasehold improvements are stated at cost, less accumulated depreciation. Premises, equipment and leasehold improvements are depreciated to their residual value on a straight-line basis over the lesser of the lease term or the estimated useful lives of the various classes of assets. Maintenance and repairs on premises and equipment are charged to expense in the period incurred.

Closed facilities of the Company and its subsidiaries are carried at fair value. In the case of leased premises that are vacated by the Company, a liability is recorded representing the difference between the net present value of future lease payments plus holding costs and the net present value of anticipated sublease income, if any, for the remaining term of the lease.

(k) Foreclosed Real Estate, Net

Real estate acquired through, or in lieu of, loan foreclosure is initially recorded at fair value less estimated disposal costs at the time of foreclosure. Subsequent to foreclosure, the Company charges current earnings with a provision for estimated losses if the carrying value of the collateral property exceeds its fair value. Gains or losses on the sale of real estate are recognized upon disposition of the property. Carrying costs such as maintenance and property taxes are expensed as incurred.

(l) Intangible Assets

Intangible assets, which primarily consist of the excess of cost over fair value of net assets acquired in business combinations accounted for as a purchase, are amortized on a straight-line basis over the expected period to be benefited of 15 years. The Company periodically reviews the operations of the businesses acquired to determine that income from operations continues to support the recoverability of its intangible assets and the amortization periods used. See note 2(w), “Recent Accounting Pronouncements – Goodwill and Other Intangible Assets.”

(m) Mortgage Servicing Rights

The Company purchases MSRs separately and acquires MSRs through the sale of loans it purchases or originates. Generally, purchased MSRs are capitalized at the cost to acquire the rights and are carried at the lower of cost, net of accumulated amortization, or fair value, in accordance with SFAS No. 140 and SFAS No. 65. Originated MSRs are capitalized based on the relative fair value of the servicing right to the fair value of the loan and the servicing right and are carried at the lower of the capitalized amount, net of accumulated amortization, or fair value. In addition, the MSR carrying value is further adjusted for changes in fair value resulting from the application of hedge accounting, in accordance with SFAS No. 133. Changes in fair value are recorded in loan servicing fees.

A portion of the cost of originating a mortgage loan is allocated to the mortgage servicing right based on its relative fair value. To determine the fair value of MSRs the Company uses market prices for comparable mortgage servicing contracts, when available, or alternatively, uses a valuation model that calculates the present value of estimated future net servicing income. In using this valuation method, the Company incorporates assumptions that market participants would use in estimating future net servicing income, which includes estimates of the cost to service, the discount rate, custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. See note 39 for more information on the valuation of MSRs.

MSRs are amortized in proportion to, and over the period of, estimated net servicing income. The amortization of the MSRs is analyzed periodically and is adjusted to reflect changes in prepayment rates and other estimates.

The Company evaluates the possible impairment of servicing rights based on the difference between the carrying amount and current fair value of the servicing rights. In determining impairment, the Company aggregates all MSRs and stratifies them into tranches based on the predominant risk characteristics of interest rate, loan type and investor type. If impairment exists, a valuation allowance is established for any excess of amortized cost over the current fair value, by risk stratification tranche, by a charge to income. If the Company later determines that all or a portion of the impairment no longer exists for a particular tranche, a reduction of the allowance may be recorded as an increase to income.

The Company employs hedging techniques through the use of interest rate floors, interest rate swaptions, interest rate swaps and principal-only swaps to reduce the sensitivity of its earnings and value of its servicing rights to changing interest rates and borrower prepayments as further discussed in note 38. At the inception of the hedge and throughout the hedge period, high effectiveness of the hedge instruments is anticipated. Therefore, changes in the market value of the hedge instruments due to changes in the benchmark interest rate being hedged will substantially offset changes in the market value of MSRs due to these interest rate changes. Both the changes in the market value of the MSR and the offsetting related hedge instruments are marked to market through current income.

If high effectiveness did not exist, the hedge instruments would be considered speculative and would be marked to market with changes in market value reflected in current income, and the MSR carrying value would not be adjusted, except for any LOCOM adjustments required in accordance with SFAS No. 140.

Since the adoption of SFAS No. 133, the Company's derivative contracts are carried at fair market value with changes in value reflected in income. Amounts paid and received under the terms of these contracts are recognized as income and expense when paid and received.

Prior to the adoption of SFAS No. 133 on January 1, 2001, the premium paid by the Company on the interest rate floors and swaptions was amortized over the life of the contract. Amounts received or paid under the interest rate swaps, principal only swaps, interest rate floors, interest rate swaptions or terminated hedges were included in the carrying value of MSRs and were amortized as part of the basis in MSRs.

(n) Gains/Losses on Sales, Settlement and Transfer of Loans, Net

Mortgage loans are generally sold with the MSRs retained by the Company. The carrying value of mortgage loans sold is reduced by the cost allocated to the associated MSRs. Gains or losses on sales of mortgage loans are recognized based on the difference between the selling price and the carrying value of the related mortgage loans sold. Deferred origination fees and expenses, net of commitment fees paid in connection with the sale of the loans, are recognized at the time of sale in the gain or loss determination.

Unrealized mark to market gains and losses on those loans held for sale, forward loan sale commitments and interest rate lock commitments which qualify as fair value hedges are recognized in income.

In the normal course of business, the Company purchases loans held for investment at a discount. Proceeds received in settlement of loans in excess of the carrying value are included in gain on sale and settlement of loans, net.

(o) Servicing Fee Income

Servicing fee income is recorded for fees earned for servicing mortgage loans under servicing agreements with FNMA, FHLMC, GNMA and certain private investors. The fees are based on a contractual percentage of the outstanding principal balance or a fixed amount per loan and are recorded as income when received. The amortization of and valuation provisions for MSRs and Pass-through Interest Expense are netted against servicing fee income.

(p) Derivatives

The Company adopted SFAS No. 133 on January 1, 2001. 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 effect on pre-tax net income from the adoption was an increase of $1.0 million. In accordance with the transition provisions of SFAS No. 133, the Company recorded a transition adjustment of $44.6 million (net of $30.8 million in taxes), (as a decrease in equity) in OCI in a manner similar to a cumulative effect of a change in accounting principle. The transition adjustment was the initial amount necessary to adjust the carrying values of certain derivative instruments (that qualified as cash flow hedges) to fair value to the extent that the related hedge transactions had not yet been recognized. In accordance with SFAS No. 133, derivative assets represent contracts with a positive fair value (where the counterparty would owe the Company money) and derivative liabilities represent contracts with a negative fair value (where the Company would owe the counterparty money).

The Company uses interest rate derivative financial instruments (interest rate swaps, interest rate floors, interest rate swaptions and principal only swaps) primarily to hedge against the change in value of the mortgage servicing portfolio due to expected prepayment risk assumption changes caused by declining interest rates and to hedge against the interest rate risk inherent in floating-rate FHLB advances and reverse repos. These instruments serve to reduce the Company's exposure to movements in interest rates, both at inception and throughout the hedge period. At the inception of the hedge, the Company identifies an individual asset or liability, or an identifiable group of essentially similar assets or liabilities, that expose the Company to interest rate risk at the consolidated level.

Interest rate derivative financial instruments receive hedge accounting treatment only if they are designated as a hedge and are expected to be, and are, effective in substantially reducing interest rate risk arising from the assets and liabilities identified as exposing the Company to risk. Those derivative financial instruments that do not meet the hedging criteria discussed below would be classified as trading activities and would be recorded at fair value with changes in fair value recorded in income. Derivative hedge contracts must meet specific effectiveness tests (*i.e.*, over time the change in their fair values due to the designated hedge risk must be within 80 to 125 percent of the opposite change in the fair values of the hedged assets or liabilities). Changes in fair value of the derivative financial instruments must be effective at offsetting changes in the fair value of the hedged items due to the designated hedge risk during the term of the hedge. Further, if the underlying financial instrument differs from the hedged asset or liability, there must be a clear economic relationship between the prices of the two financial instruments.

If periodic assessment indicates derivatives no longer provide an effective hedge, the derivatives contracts would be closed out and settled or classified as a trading activity. For hedges of borrowings, the net settlement (upon close out or termination) that offsets changes in the value of the hedged borrowing is deferred and amortized into net interest income over the life of the hedged asset or liability. For hedges of MSRs, the net settlement (upon close out or termination) that offsets changes in the value of the MSRs adjusts the basis of the MSRs and is deferred and amortized to loan servicing income over the life of the MSRs. The portion, if any, of the net settlement amount that did not offset changes in the value of the hedge asset or liability is recognized immediately in noninterest income.

Beginning January 1, 2001, in accordance with SFAS No. 133, hedges of FHLB advances and reverse repos are generally accounted for as cash flow hedges, with changes in fair value recorded in derivative assets or liabilities and OCI. MSR hedges are accounted for as fair value hedges, with changes in fair value recorded in derivative assets or liabilities and loan servicing fees. Rate lock commitments and hedges of forward loan sales are recorded at fair value, with changes in fair value recorded in derivative assets or liabilities and gain (loss) on sale of loans, net. MSR hedging instruments are marked to market through earnings and included in derivative assets and liabilities. The fair market value is recorded based on the estimated amounts that the Company would receive or pay to terminate the contracts at the reporting date. Prior to January 1, 2001, hedge-related premiums were classified on the balance sheet with the hedged asset or liability at the time the premium was paid. These premiums were amortized to net loan servicing fee income over the life of the contract.

Prior to January 1, 2001, interest rate swaps that hedged borrowings were accounted for under the "accrual method." Interest rate floors, swaptions, principal only swaps and interest rate swaps that hedged MSRs were accounted for under the "deferral method." Under the accrual method, the net interest payment due or owed under the instrument was recognized over the life of the contract in net interest income. Under the deferral method, realized gains or losses, or payments made or received on the derivative financial instrument, were reported as adjustments to the carrying value of the hedged asset or liability. There was no recognition under either method on the balance sheet for changes in the fair value of the derivatives.

Cash flows resulting from the derivative financial instruments that are accounted for as hedges of assets and liabilities are classified in the cash flow statement in the same category as the cash flows of the items being hedged.

(q) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

A valuation allowance is maintained against the deferred tax asset in an amount representing the amount of such asset which is more likely than not that the Company will be unable to utilize. The deferred tax asset is continually evaluated for realizability. To the extent that management's judgment regarding the realization of the deferred tax asset changes, an adjustment to the allowance is recorded, with an offsetting increase or decrease, as appropriate, in income tax expense. Such adjustments are recorded in the period in which management's estimate as to the realizability of the asset changed.

Prior to the Golden State Merger, for federal income tax purposes, Parent Holdings and FN Holdings were members of the Mafco Group, and accordingly, their federal taxable income or loss prior to the Golden State Acquisition was included in the consolidated federal income tax return filed by Mafco. Parent Holdings may also be included in certain state and local income tax returns of Mafco or its subsidiaries. The FN Holdings tax sharing agreement with Mafco provided that income taxes be based on the separate results of FN Holdings. The agreement generally provided that FN Holdings would pay Mafco amounts equal to the taxes that FN Holdings would be required to pay if it were to file a return separately from the affiliated group. Furthermore, the agreement provided that FN Holdings would be entitled to take into account any net operating loss carryovers in determining its tax liability. The agreement also provided that Mafco pay FN Holdings amounts equal to tax refunds FN Holdings would be entitled to if it had always filed a separate company tax return. Parent Holdings did not enter into any tax sharing agreements with Mafco.

In connection with the Golden State Acquisition, the tax sharing agreement with Mafco was assumed by the Company for taxable periods ending after the acquisition. The Company, the successor of Parent Holdings, is the parent corporation of the Golden State affiliated group. Accordingly, the Company and its subsidiaries file consolidated federal income tax returns and certain state and local income tax returns for periods subsequent to September 11, 1998.

(r) Issuable Shares

Golden State will accrue and distribute Issuable Shares to GSB Investments, as successor to First Gibraltar, and Hunter's Glen based on: (a) the use by the combined company of certain tax benefits resulting from net operating loss carryforwards of the consolidated group of which Parent Holdings was a part, and the realization of certain other tax assets and liabilities of Golden State and Parent Holdings and (b) California Federal's net after-tax recovery in certain specified litigation, including a percentage of the net after-tax recovery, if any, in the California Federal Goodwill Litigation (following payment by California Federal of all amounts due, if any, to the holders of the CALGZs and the CALGLs and the retention of certain amounts of such recovery by the Bank).

The Golden State Merger agreement provides generally that the amount of the net after-tax recovery, if any, resulting from the California Federal Goodwill Litigation which will be excluded in determining the number of Issuable Shares issuable in respect of the California Federal Goodwill Litigation will be based on 15% of the value of the net after-tax recovery in the Glendale Goodwill Litigation to be excluded for purposes of determining the number of shares of Golden State Common Stock issuable upon exercise of the LTW™s, adjusted to reflect the pro forma ownership interest of GSB Investments and Hunter's Glen in Golden State at the time of the Golden State Merger.

The total number of Issuable Shares cannot be determined at the present time, as such number depends upon factors that are not subject to determination at this time. These factors include, among other things, the market price of Golden State Common Stock, the net value to the Company of certain assets and liabilities of Golden State and Parent Holdings, including potential recoveries in the Glendale Goodwill Litigation, the California Federal Goodwill Litigation and certain other litigation to which affiliates of Parent Holdings are parties, and potential tax benefits resulting from the use of net operating loss carryforwards of the consolidated group of which Parent Holdings was a part and the realization of certain other tax assets and liabilities of Golden State and Parent Holdings.

For financial reporting purposes, the Company records its estimate of Issuable Shares related to the pro-rata use of tax benefits based upon the Company's net income, adjusted for permanent tax differences. The Company's basic and diluted shares outstanding include the effect of Issuable Shares. For purposes of determining the number of additional shares to actually be issued in a given year, computations are based upon contractual provisions contained in the Golden State Merger agreement. Such provisions pertain to the Company's taxable income (net income as reported, adjusted for permanent tax differences and adjusted further for temporary differences), as reported on the Company's federal income tax returns and are subject to certain limitations.

(s) Stock Compensation Plan

SFAS No. 123 encourages all entities to adopt a fair value based method of accounting for employee stock compensation plans, whereby compensation cost is measured at the grant date based on the value of the award and is recognized over the service period, which is usually the vesting period. However, it also allows an entity to continue to measure compensation cost for those plans using the intrinsic value based method of accounting prescribed by APB Opinion No. 25, whereby compensation cost is the excess, if any, of the quoted market price of the stock at the grant date (or other measurement date) over the amount an employee must pay to acquire the stock. Stock options issued under Golden State's stock option plan established for the benefit of the Bank's employees have no intrinsic value at the grant date, and under APB Opinion No. 25, no compensation cost was recognized for them. Compensation expense related to restricted stock issued under Golden State's stock plan is 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. Dividends on unvested restricted stock are recorded as compensation expense with a corresponding increase to additional paid-in capital. The Company uses the accounting methodology prescribed in APB Opinion No. 25 and complies with the disclosure requirements of SFAS No. 123.

(t) Earnings per Common Share

Basic earnings per common share includes the dilutive effect of Issuable Shares, but excludes the dilutive effect of stock options, restricted stock and warrants. The dilutive effect of stock options, restricted stock and warrants issued prior to September 11, 1998 (which are convertible into the right to receive both shares of Golden State Common Stock and LTW™s) used to compute diluted earnings per share, is based on the average market prices of Golden State's Common Stock and LTW™s for the period. The dilutive effect of Issuable Shares (used in both the basic and diluted earnings per share computation), stock options, restricted stock and warrants issued after September 11, 1998 is based solely on the average market price of Golden State's Common Stock for the period as such shares are not eligible to receive LTW™s upon issuance. Basic earnings per common share is computed by dividing net income available to common stockholders by the average number of common shares outstanding during the period, including the dilutive effect of Issuable Shares, as appropriate. Diluted earnings per common share is computed by dividing net income available to common stockholders by the average number of common shares outstanding during the period, including the dilutive effect of Issuable Shares, stock options, restricted stock and warrants outstanding during the period.

(u) Off-balance Sheet Activities

The Company is a party to credit related financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit and commercial letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

The Company's exposure to credit loss is represented by the contractual amount of these commitments. The Company uses the same credit policies in making commitments as it does for on-balance sheet instruments.

(v) Management's Use of Estimates

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect (a) the reported amounts of assets and liabilities, (b) disclosure of contingent assets and liabilities at the date of the consolidated financial statements and (c) the reported amounts of revenues and expenses during the reported period. On an ongoing basis, the Company evaluates its estimates, including those related to investments, allowances for loan losses, loans held for sale, MSRs, intangible assets, income taxes, post-retirement benefits, contingencies and litigation. Actual results could differ from those estimates. Material estimates subject to change include the allowance for loan losses and MSRs. For more information on the assumptions used in making these estimates, refer to notes 2(e), 2(m), 16 and 38.

(w) Recent Accounting Pronouncements

Business Combinations

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

SFAS No. 141 requires that all business combinations be accounted for using the purchase method. Use of the pooling-of-interests method to account for business combinations, which APB Opinion No. 16 required to be used when certain criteria were met, is prohibited. SFAS No. 141 provides guidance for determining the 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 became effective for business combinations initiated after June 30, 2001, and has not materially impacted 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. 144.

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 December 31, 2001, the Company's $640.8 million intangible asset includes $1.0 million representing a core deposit intangible and $49.4 million representing goodwill generated pursuant to SFAS No. 72. The remaining $590.4 million of this asset balance represents goodwill that will cease to be amortized as of January 1, 2002 pursuant to SFAS No. 142. As a result of the implementation of SFAS No. 142, management expects GAAP earnings to increase by $13.9 million per quarter in 2002.

Accounting for Asset Retirement Obligations

In June 2001, the FASB issued SFAS No. 143, which addresses the recognition and measurement of obligations associated with the retirement of tangible long-lived assets. SFAS No. 143 applies to legal obligations associated with the retirement of long-lived assets resulting from the acquisition, construction, development or the normal operation of a long-lived asset. SFAS No. 143 requires that the fair value of an asset retirement obligation be recognized as a liability in the period in which it is incurred. The asset retirement obligation is to be capitalized as part of the carrying amount of the long-lived asset and the expense is to be recognized over the useful life of the long-lived asset. SFAS No. 143 is effective January 1, 2003, with early adoption permitted. The Company plans to adopt SFAS No. 143 effective January 1, 2003 and does not expect the adoption of the statement to have a material impact on the Company's financial condition or operating results.

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 the Company beginning January 1, 2002. 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.

(3) Acquisitions and Divestitures

Golden State Acquisition

On September 11, 1998, pursuant to the Golden State Merger agreement, Parent Holdings and Hunter's Glen completed the Golden State Merger, accounted for under the purchase method of accounting.

Pursuant to the Golden State Merger agreement, First Gibraltar, the parent company of Parent Holdings, and Hunter's Glen, a 20% minority shareholder of FN Holdings, received at the closing of the Golden State Acquisition, in consideration of their interests as stockholders of Parent Holdings and FN Holdings, 56,722,988 shares of Golden State Common Stock, that constituted, in the aggregate, 47.9% of the common stock outstanding, immediately after giving effect to the Golden State Acquisition. In connection with the Golden State Merger, the Hunter's Glen minority interest in FN Holdings was extinguished. Subsequent to the Golden State Merger, GSB Investments, an indirect subsidiary of Mafco Holdings Inc., became the successor to First Gibraltar under the Golden State Merger agreement and the owner of the shares of common stock previously held by First Gibraltar.

At September 11, 1998, Glendale Federal had total assets of approximately $18.9 billion and deposits of $11.3 billion and operated 181 branches and 26 loan offices in California. Excess cost over fair value of net assets acquired in the Golden State Acquisition totalled $354.8 million. Since the date of purchase, the results of operations related to such assets and liabilities have been included in the Company's consolidated statements of income.

Merger and integration costs associated with the Golden State Acquisition was $7.7 million for the year ended December 31, 1999, including severance for terminated California Federal employees, expenses for California Federal branch closures, and conversion and consolidation costs, as well as transition expenses for duplicate personnel, facilities and computer systems during the integration period. No such expenses were incurred during 2001 or 2000.

During the year ended December 31, 1999, the Company recorded fair value and other adjustments to increase intangible assets in the Golden State Acquisition by $0.3 million, increasing a previously recorded vacant facility accrual. In addition, intangible assets were reduced by $16.6 million, $18.1 million and $12.4 million related to (a) previously accrued severance and termination costs (which had not been utilized upon completion of the integration plan), (b) a "true-up" adjustment of the deferred tax asset and (c) the purchase price, respectively.

During the year ended December 31, 2000, the Company recorded adjustments to reduce intangible assets by $2.3 million related to a tax refund for periods prior to the Golden State Acquisition and to increase intangible assets by $2.1 million to "true-up" the deferred tax asset. No adjustments were made in 2001 for the Golden State Acquisition.

Auto One Acquisition

On November 16, 2001, the Bank purchased the remaining 20% interest in its subsidiary, Auto One, for $9 million, which was recorded as goodwill.

Downey Acquisition

On February 29, 2000, Auto One closed the Downey Acquisition with prime auto loans of approximately $370 million. Intangible assets of $7.7 million were recorded in connection with this acquisition.

Nevada Branch Purchase

On April 16, 1999, the Bank consummated the Nevada Purchase with deposits of approximately $543 million. An unidentifiable intangible asset of $50.7 million was recorded in connection with this acquisition.

Cal Fed Acquisition

On January 3, 1997, pursuant to the Merger Agreement among FN Holdings, Cal Fed and Old California Federal, FN Holdings completed the Cal Fed Acquisition. At December 31, 1996, Old California Federal had total assets of approximately $14.1 billion and deposits of $8.9 billion, and operated 119 branches in California and Nevada. Excess cost over fair value of net assets acquired in the Cal Fed Acquisition totalled $397.6 million. Since the date of purchase, the results of operations related to such assets and liabilities have been included in the Company's consolidated statements of income.

During 1999, the Company recorded an adjustment to reduce other liabilities and excess cost over fair value of net assets acquired by $38.2 million, related to a tax refund for periods prior to January 3, 1997. During 2000, the Company recorded adjustments to reduce other liabilities and excess cost over fair value of net assets acquired by $52.1 million as a result of a "true-up" the deferred tax asset, $21.0 million related to the reversal of state deferred taxes and $180 thousand related to receipt of a tax refund for periods prior to the Cal Fed Acquisition. During 2001, the Company recorded adjustments to increase other liabilities and excess cost over fair value of net assets acquired by $416 thousand for tax deficiencies for periods prior to the Cal Fed Acquisition.

Servicing Sale

During April 1999, the Bank's wholly-owned mortgage banking subsidiary, FNMC, sold servicing rights on approximately 49,000 loans with a UPB of $2.0 billion, recognizing a pre-tax gain of $16.3 million.

Purchase Accounting Adjustments

Premiums and discounts related to interest-earning assets acquired and interest-bearing liabilities assumed are amortized (accreted) to operations using the interest method over the estimated remaining lives of the respective assets and liabilities.

(4) Supplemental Disclosure of Cash Flow Information

	Year Ended December 31, 2001	2000	1999
		(in thousands)	
Cash paid (received) for:			
Interest	$2,827,012	$2,881,704	$2,255,685
Income taxes, net	220,212	(37,858)	9,608
Non-cash activities:			
Reclassification of mortgage-backed securities from the available-for-sale portfolio to the held-to-maturity portfolio	--	1,055,611	--
Reclassification of securities from the available-for-sale portfolio to the held-to-maturity portfolio	--	445,000	--
Principal reductions to loans due to foreclosure	30,990	47,175	101,692
Loans made to facilitate the sale of real estate	1,631	5,433	10,039
Loans exchanged for mortgage-backed securities	--	116,517	227,099
Reclassification of loans from loans held for sale to loans receivable	6,542	77,913	110,313
Reclassification of loans receivable to loans held for sale	160,999	--	--
Reclassification of mortgage-backed securities to loans held for sale	--	1,052	--
Reduction of previously accrued severance and contract termination costs	--	--	18,908
True-up of deferred tax asset	--	--	18,146
Reduction of valuation allowance of deferred tax asset	--	211,738	--
Adjustment to initial dividend of tax benefits to former parent due to deconsolidation	--	--	(15,519)
Reclassification of Litigation Tracking Warrants owned by the Bank	--	--	(1,987)
Adjustment to contribution receivable from GSB Investments and Hunter's Glen in respect of their proportionate ownership of the California Federal Goodwill Litigation Asset	658	3,451	(24,081)
Issuable Shares (usage of pre-merger NOLs)	98,217	166,484	197,562
Adjustment to additional paid-in capital and Issuable Shares for changes to tax benefits	14,422	--	--
Issuable Shares adjustment for tax refund and related interest	--	1,389	--
Adjustment to pre-merger tax benefits retained by previous owners of FN Holdings	(24,694)	(39,305)	--
Impact of restricted common stock	3,458	3,175	477
Distribution of Issuable Shares	(20,000)	(100,000)	(5,540)
Extinguishment of Issuable Shares:			
Reduction of Issuable Shares	(11,000)	(53,312)	--
Increase to other liabilities	700	38,911	--
Increase to additional paid-in capital	10,300	14,401	--
Reversal of previously capitalized costs – 2000 extinguishment of Issuable Shares	998	--	--
Adjustment to Golden State Acquisition purchase price	--	--	(12,380)
Reclassification of mortgage-backed securities from the held-to-maturity portfolio to the available-for-sale portfolio upon the adoption of SFAS No. 133	1,067,933	--	--
Reclassification of securities from the held-to-maturity portfolio to the available-for-sale portfolio upon the adoption of SFAS No. 133	84,984	--	--
Reclassification of derivative assets ($173.6 million) and derivative liabilities ($8.8 million) related to MSRs at fair value upon the adoption of SFAS No. 133	164,767	--	--

(5) 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 comprise securities which are required as part of the Bank's regulatory liquidity portfolio. The net unrealized loss related to these securities of $64.0 million, which is included as a component of equity (accumulated other comprehensive loss), is amortized to interest income over the remaining life of the securities 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.

(6) Securities Available for Sale

Securities available for sale and the related unrealized gain or loss consisted of the following (in thousands):

	December 31, 2001				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Net Unrealized Gain	Carrying Value
Marketable equity securities	$ 681	$ 265	$ --	$ 265	$ 946
U.S. government and agency obligations	29,190	180	--	180	29,370
Municipal securities	85,377	678	(259)	419	85,796
Total	$115,248	$1,123	$(259)	864	$116,112
Estimated tax effect				(353)	
Net unrealized holding gain in stockholders' equity				$ 511	

	December 31, 2000				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Net Unrealized Gain (Loss)	Carrying Value
Marketable equity securities	$ 4,779	$325	$ (4)	$ 321	$ 5,100
U.S. government and agency obligations	638,488	36	(2,419)	(2,383)	636,105
Total	$643,267	$361	$(2,423)	(2,062)	$641,205
Estimated tax effect				842	
Net unrealized holding loss in stockholders' equity				$(1,220)	

	December 31, 1999				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Net Unrealized Gain (Loss)	Carrying Value
Marketable equity securities	$ 375	$811	$ (7)	$ 804	$ 1,179
U.S. government and agency obligations	1,143,665	47	(69,125)	(69,078)	1,074,587
Total	$1,144,040	$858	$(69,132)	(68,274)	$1,075,766
Estimated tax effect				28,777	
Net unrealized holding loss in stockholders' equity				$(39,497)	

The weighted average stated interest rates on securities available for sale were 3.55%, 6.21% and 6.24% at December 31, 2001, 2000 and 1999, respectively.

The following represents a summary of the amortized cost, estimated fair value (carrying value) and weighted average yield of securities available for sale with related maturities (dollars in thousands):

	December 31, 2001		
	Amortized Cost	Estimated Fair Value	Weighted Average Yield
Marketable equity securities	$ 681	$ 946	4.83%
U.S. government and agency obligations:			
Maturing within 1 year	23,095	23,098	1.81
Maturing after 1 year but within 5 years	6,095	6,272	4.76
Municipal securities:			
Maturing after 5 years but within 10 years	19,828	19,869	4.79
Maturing after 10 years	65,549	65,927	5.12
Total	$115,248	$116,112	4.38%

At December 31, 2001, U.S. government and agency obligations available for sale of $26.9 million were pledged as collateral for various obligations, none of which were pledged to creditors with the right to sell or repledge. See note 36.

(7) Securities Held to Maturity

Securities held to maturity consisted of the following (in thousands):

	December 31, 2001				
	Amortized Cost	Unrealized Gains	Unrealized Losses	Net Unrealized Gain (Loss)	Estimated Fair Value
Commercial paper	$30,602	$--	$--	$--	$30,602

	December 31, 2000				
	Amortized Cost	Unrealized Gains	Unrealized Losses	Net Unrealized Gain (Loss)	Estimated Fair Value
Municipal securities	$511,532	$6,153	$ (3,085)	$ 3,068	$514,600
Commercial paper	75,971	--	--	--	75,971
Total	$587,503	$6,153	$ (3,085)	$ 3,068	$590,571
Securities included above transferred from available-for-sale	$497,894	$ --	$(52,894)	$(52,894)	$445,000
Estimated tax effect				21,607	
Amortization of unrealized holding loss				2,289	
Net unrealized holding loss in stockholders' equity				$(28,998)	

	December 31, 1999				
	Amortized Cost	Unrealized Gains	Unrealized Losses	Net Unrealized Gain (Loss)	Estimated Fair Value
Municipal securities	$ 84,727	$415	$(5,323)	$(4,908)	$ 79,819
Commercial paper	100,630	--	--	--	100,630
Total	$185,357	$415	$(5,323)	$(4,908)	$180,449

The weighted average stated interest rates on securities held to maturity were 2.37%, 5.95% and 4.89% at December 2001, 2000 and 1999, respectively. The entire balance of securities held to maturity at December 31, 2001, which had a weighted average yield of 2.37%, matures within one year.

At December 31, 2001, commercial paper investments of $30.3 million were held in reserve with third-party trustees to guarantee credit enhancements on loans transferred as part of securitization transactions by the Bank. See note 36.

(8) Mortgage-Backed Securities Available for Sale

The following table provides details on MBS sales (in thousands):

	Year Ended December 31, 2001	2000	1999
Proceeds from sales	$788,564	$1,367,666	$193,732
Carrying value	771,230	1,385,802	193,732
Net gain (loss) on sales (a)	$ 17,334	$ (18,136)	$ --

(a) Net gain (loss) on sales represents gross gains in 2001 and gross gains of $19.6 million and gross losses of $1.5 million in 2000.

Mortgage-backed securities available for sale and the related unrealized gain or loss consisted of the following (in thousands):

December 31, 2001	Amortized Cost	Unrealized Gains	Unrealized Losses	Net Unrealized Gain (Loss)	Carrying Value
GNMA	$ 388,888	$ 3,991	$ (249)	$ 3,742	$ 392,630
FNMA	1,052,686	10,905	(2,254)	8,651	1,061,337
FHLMC	418,820	4,730	(518)	4,212	423,032
Other mortgage-backed securities	200,130	205	(2,110)	(1,905)	198,225
Collateralized mortgage obligations	4,884,717	85,833	(4,062)	81,771	4,966,488
Other – trading securities (IO strips)	16,191	--	--	--	16,191
Total	$6,961,432	$105,664	$(9,193)	96,471	$7,057,903
Estimated tax effect				(39,409)	
Net unrealized holding gain in stockholders' equity				$ 57,062	

December 31, 2000	Amortized Cost	Unrealized Gains	Unrealized Losses	Net Unrealized Gain (Loss)	Carrying Value
GNMA	$ 385,906	$ 152	$ (4,050)	$ (3,898)	$ 382,008
FNMA	1,327,352	3,429	(7,648)	(4,219)	1,323,133
FHLMC	534,498	2,395	(467)	1,928	536,426
Other mortgage-backed securities	338,405	1,156	(2,053)	(897)	337,508
Collateralized mortgage obligations	7,330,167	11,679	(54,098)	(42,419)	7,287,748
Total	$9,916,328	$18,811	$(68,316)	(49,505)	$9,866,823
Estimated tax effect				20,223	
Net unrealized holding loss in stockholders' equity				$(29,282)	

	December 31, 1999				
	Amortized Cost	Unrealized Gains	Unrealized Losses	Net Unrealized Loss	Carrying Value
GNMA	$ 645,299	$ 402	$ (12,897)	$ (12,495)	$ 632,804
FNMA	2,554,242	5,087	(56,767)	(51,680)	2,502,562
FHLMC	910,543	4,958	(8,553)	(3,595)	906,948
Other mortgage-backed securities	499,117	6,845	(10,018)	(3,173)	495,944
Collateralized mortgage obligations	9,562,817	1,778	(338,288)	(336,510)	9,226,307
Total	$14,172,018	$19,070	$(426,523)	(407,453)	$13,764,565
Estimated tax effect				171,741	
Net unrealized holding loss in stockholders' equity				$(235,712)	

The following represents a summary of the amortized cost, estimated fair value (carrying value), weighted average yield and weighted average life of mortgage-backed securities available for sale (dollars in thousands):

	December 31, 2001			
	Amortized Cost	Estimated Fair Value	Weighted Average Yield	Weighted Average Life (in years)
GNMA	$ 388,888	$ 392,630	6.81%	22.8
FNMA	1,052,686	1,061,337	6.26	21.7
FHLMC	418,820	423,032	6.75	20.5
Other mortgage-backed securities	200,130	198,225	6.64	20.0
Collateralized mortgage obligations	4,884,717	4,966,488	6.36	23.8
Other – trading securities (IO strips)	16,191	16,191	13.62	28.8
Total	$6,961,432	$7,057,903	6.42%	23.2

The weighted average stated interest rates on mortgage-backed securities available for sale were 6.46%, 6.89% and 6.62% at December 31, 2001, 2000 and 1999, respectively. At December 31, 2001, 2000 and 1999, mortgage-backed securities available for sale included securities totalling $0.4 billion, $0.7 billion and $0.9 billion, respectively, which resulted from the securitization of certain qualifying mortgage loans from the Bank's, Old California Federal's, Glendale Federal's and San Francisco Federal's loan portfolios.

At December 31, 2001, 2000 and 1999, mortgage-backed securities available for sale included $1.8 billion, $3.0 billion and $4.3 billion, respectively, of variable-rate securities.

At December 31, 2001, mortgage-backed securities available for sale of $3.9 billion were pledged as collateral for FHLB advances and securities sold under agreements to repurchase, $1.6 billion of which were pledged to creditors who have the right to sell or repledge the collateral. See notes 18, 19 and 36. Further, at December 31, 2001, mortgage-backed securities available for sale with a carrying value of $776.8 million were pledged for various other obligations and include $127.0 million in securities pledged to FNMA associated with the sales of certain securitized multi-family loans as further discussed in note 36.

(9) Mortgage-Backed Securities Held to Maturity

Mortgage-backed securities held to maturity consisted of the following (in thousands):

	December 31, 2001				
	Amortized Cost	Unrealized Gains	Unrealized Losses	Net Unrealized Gain (Loss)	Estimated Fair Value
FHLMC	$ 86,504	$ 3,188	$ --	$ 3,188	$ 89,692
FNMA	1,297,948	22,862	--	22,862	1,320,810
Other mortgage-backed securities	661	--	(6)	(6)	655
Total	$1,385,113	$26,050	$(6)	$26,044	$1,411,157

	December 31, 2000				
	Amortized Cost	Unrealized Gains	Unrealized Losses	Net Unrealized Gain (Loss)	Estimated Fair Value
GNMA	$ 237,437	$ 6,309	$ (1,204)	$ 5,105	$ 242,542
FHLMC	234,969	7,785	(2)	7,783	242,752
FNMA	2,413,331	60,771	(589)	60,182	2,473,513
Other mortgage-backed securities	875	--	(5)	(5)	870
Total	$2,886,612	$74,865	$ (1,800)	$ 73,065	$2,959,677
Securities included above transferred from available-for-sale	$1,110,920	$ 628	$(55,937)	$(55,309)	$1,055,611
Estimated tax effect				22,594	
Amortization of unrealized holding loss				2,341	
Net unrealized holding loss in stockholders' equity				$(30,374)	

	December 31, 1999				
	Amortized Cost	Unrealized Gains	Unrealized Losses	Net Unrealized Gain (Loss)	Estimated Fair Value
FHLMC	$ 161,129	$ 3,801	$ --	$ 3,801	$ 164,930
FNMA	1,987,428	16,687	(20,170)	(3,483)	1,983,945
Other mortgage-backed securities	1,139	--	--	--	1,139
Total	$2,149,696	$20,488	$(20,170)	$ 318	$2,150,014

The following represents a summary of the amortized cost (carrying value), estimated fair value, weighted average yield and weighted average life of mortgage-backed securities held to maturity (dollars in thousands):

	December 31, 2001			
	Amortized Cost	Estimated Fair Value	Weighted Average Yield	Weighted Average Life (in years)
FHLMC	$ 86,504	$ 89,692	7.24%	19.7
FNMA	1,297,948	1,320,810	6.46	15.3
Other mortgage-backed securities	661	655	12.61	13.8
Total	$1,385,113	$1,411,157	6.51%	15.5

The weighted average stated interest rates on mortgage-backed securities held to maturity were 6.46%, 7.45% and 6.92% at December 31, 2001, 2000 and 1999, respectively. At December 31, 2001, 2000 and 1999, mortgage-backed securities held to maturity included securities with carrying values totalling $1.4 billion, $1.8 billion and $2.1 billion, respectively, which resulted from the securitization with FNMA and FHLMC of certain qualifying mortgage loans from the Bank's, Old California Federal's, Glendale Federal's and San Francisco Federal's loan portfolio with full recourse to the Bank.

At December 31, 2001, 2000 and 1999, mortgage-backed securities held to maturity included $1.3 billion, $1.8 billion and $2.1 billion, respectively, of variable-rate securities.

At December 31, 2001, mortgage-backed securities held to maturity of $0.9 billion were pledged as collateral for various obligations, $0.8 billion of which were pledged to creditors who have the right to sell or repledge the collateral. See notes 18, 19 and 36. Further, at December 31, 2001, mortgage-backed securities held to maturity with a carrying value of $146.8 million were pledged for various other obligations. See note 36.

(10) Loans Receivable, Net

Loans receivable, net, included the following (in thousands):

	December 31, 2001	December 31, 2000
Real estate loans:		
1-4 unit residential	$29,546,035	$30,828,368
Multi-family residential	4,130,287	3,569,228
Commercial real estate	2,354,919	2,487,093
Land	14,055	22,384
Construction	2,495	7,416
Total real estate loans	36,047,791	36,914,489
Equity-line	639,297	538,524
Other consumer loans	283,434	302,559
Auto loans, net (a)	1,917,591	1,567,257
Commercial loans	693,114	557,796
Total consumer and other loans	3,533,436	2,966,136
Total loans receivable	39,581,227	39,880,625
Deferred loan fees, costs, discounts and premiums, net	243,120	229,962
Allowance for loan losses	(497,298)	(526,308)
Purchase accounting adjustments, net	8,574	8,535
Total loans receivable, net	$39,335,623	$39,592,814

(a) $766.0 million and $632.4 million of this portfolio represents prime product as of December 31, 2001 and 2000, respectively. The prime product is 40% of the total portfolio balance at each date.

At December 31, 2001, $27.1 billion in residential loans, $3.6 billion in multi-family loans and $1.6 billion in commercial real estate loans were pledged as collateral for FHLB advances as discussed in notes 19 and 36.

As a result of the Golden State and Cal Fed Acquisitions, the Bank assumed obligations for certain loans sold with recourse. The outstanding balances of loans sold with recourse at December 31, 2001 totalled $2.0 billion. No loans were sold with recourse during the years ended December 31, 2001, 2000 and 1999. The Bank evaluates the credit risk of loans sold with recourse and, if necessary, records a liability (included in other liabilities) for estimated losses related to these potential obligations. At December 31, 2001, such liability totalled $23.7 million.

Auto loans purchased at a discount related to credit quality are included in the balance sheet amount of loans receivable as follows (in thousands):

	December 31, 2001	December 31, 2000
Auto loans: contractual payments receivable	$1,885,168	$2,124,182
Accretable Yield	(136,515)	(232,635)
Nonaccretable Contractual Cash Flows	(336,073)	(334,878)
Loans purchased at a discount relating to credit quality, net	$1,412,580	$1,556,669

Nonaccretable Contractual Cash Flows represents contractual principal and interest cash flows that the Company determined, at acquisition, it was probable the Company would be unable to collect. The decrease in Accretable Yield in 2001 is primarily due to fewer loan additions using the accretable yield methodology, offset in part by higher payments and payoffs.

	Accretable Yield	Nonaccretable Contractual Cash Flows
	(in thousands)	
Balance at December 31, 1998	$ (88,145)	$(121,334)
Addition – purchases	(114,640)	(163,816)
Accretion	80,432	--
Allocation from allowance for loan losses	--	(7,339)
Eliminations	(1,591)	89,488
Balance at December 31, 1999	(123,944)	(203,001)
Addition – purchases	(266,800)	(267,155)
Accretion	145,942	--
Reclassification	18,565	(18,565)
Charge-offs	(6,398)	--
Eliminations	--	153,843
Balance at December 31, 2000	(232,635)	(334,878)
Addition – purchases	(125,394)	(154,346)
Accretion	202,861	--
Reclassification	30,472	(30,472)
Charge-offs	(11,819)	--
Eliminations	--	183,623
Balance at December 31, 2001	$(136,515)	$(336,073)

During the year ended December 31, 2001 and 2000, the Company incurred losses totalling $11.8 million and $6.4 million, respectively, on loans purchased at a discount as a result of pool impairment. These losses are reflected as charge-offs. During the fourth quarter of 1999, the Company incurred losses of $7.3 million on loans purchased at a discount by increasing the allocated allowance for loan losses relative to such loans. No loss allowance was acquired from predecessor institutions in connection with the Downey Acquisition. No loss accruals were reversed in 2001, 2000 or 1999.

The following table presents loans which have been placed on nonaccrual status as of the dates indicated (in thousands):

	December 31, 2001	December 31, 2000
Nonaccrual loans:		
Real estate loans:		
1-4 unit residential	$ 75,078	$ 88,650
Multi-family residential	491	3,253
Commercial and other	3,786	1,509
Land	--	84
Construction	--	68
Total real estate	79,355	93,564
Non-real estate:		
Auto One	10,878	5,721
Commercial banking	9,759	14,986
Consumer	600	768
Total non-real estate	21,237	21,475
Total nonaccrual loans	$100,592	$115,039

For loans on nonaccrual status, the following table summarizes the interest income recognized ("Recognized") and total interest income that would have been recognized had the borrowers performed under the original terms of the loans ("Contractual") (in thousands):

	Year Ended December 31,					
	2001		2000		1999	
	Recognized	Contractual	Recognized	Contractual	Recognized	Contractual
Nonaccrual loans	$6,177	$9,968	$4,743	$7,385	$6,410	$10,864

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

	December 31, 2001	December 31, 2000	December 31, 1999
Balance – beginning of year	$526,308	$554,893	$588,533
Provision for loan losses	--	--	10,000
Charge-offs	(32,002)	(33,477)	(40,312)
Recoveries	3,122	4,892	4,681
Reclassifications (a)	(130)	--	(670)
Allocation to Nonaccretable Contractual Cash Flows of purchased auto loan portfolio	--	--	(7,339)
Balance – end of year	$497,298	$526,308	$554,893

(a) The reclassification of $130 thousand for the year ended December 31, 2001 relates to loans transferred to the held-for-sale portfolio. The reclassification of $670 thousand for the year ended December 31, 1999 represents an adjustment resulting from the acquisition of loans from GSAC.

At December 31, 2001, $29.0 billion, or 80.3%, of the Company's real estate loan portfolio was collateralized by properties located in California. The financial condition of the Company is affected by interest rates and real estate market conditions, both of which are volatile. Any downturn in the economy could reduce real estate values. An increase in the general level of interest rates may adversely affect the ability of certain borrowers to pay their obligations. Accordingly, if interest rates rise or real estate market values decline, particularly in California, the

Company may find it difficult to maintain its asset quality and may require additional allowances for loss above the amounts currently estimated by management.

(11) Securitized Loan Sales

In years prior to 2000, the Company entered into certain securitization transactions, which resulted in the recording of residual interests on the Company's books. The Company has securitized interests in residential real estate loans. When the Company securitized assets, it retained interest-only strips, subordinated tranches and, in some cases, a cash reserve account, all of which are considered retained interests in the securitized assets. Gains upon sale of the assets depend, in part, on the Company's allocation of the previous carrying amount of the assets to the retained interests. Previous carrying amounts are allocated in proportion to the relative fair values of the assets sold and interests retained.

At December 31, 2001, key economic assumptions and sensitivity of the current fair value of residual cash flows to immediate 10 percent and 20 percent adverse changes in those assumptions are as follows (dollars in thousands):

	Residential Adjustable-Rate Mortgage Loans
Fair value of retained interests (a)	$146,782
Weighted average life (in years)	4.01
Prepayment speed assumption (annual rate)	17.63%
Impact on fair value of 10% adverse change	$ (46)
Impact on fair value of 20% adverse change	$ (91)
Expected credit losses (annual rate)	(0.25)%
Impact on fair value of 10% adverse change	$ (37)
Impact on fair value of 20% adverse change	$ (74)
Bond equivalent effective yield discount rate (semi-annual compounding)	4.75%
Impact on fair value of 10% adverse change	$ (734)
Impact on fair value of 20% adverse change	$ (1,469)

(a) Excludes cash reserve accounts of $11.2 million.

The following table presents quantitative information about delinquencies and net credit losses for securitized financial assets managed by the Company (in thousands):

	Total Principal Amount of Loans		Principal Amount of Loans 60 Days or More Past Due (a)		Net Credit Losses (b)	
	December 31,				During the Year Ended December 31,	
	2001	2000	2001	2000	2001	2000
Carrying value of residential adjustable-rate mortgage loans managed or securitized (c):						
Loans held by the Company in portfolio	$148,236	$223,632	$ 953	$ 7,643	--	--
Loans held by others but serviced by the Company	13,179	80,734	84	2,759		
Total	$161,415	$304,366	$1,037	$10,402	--	--

(Continued)

(a) Loans 60 days or more past due are based on end-of-period total loans.

(b) Net credit losses are charge-offs and are based on total loans outstanding.

(c) Owned and securitized loans are mortgage loans in which the transferor retains a subordinate interest or retains any risk of loss.

(12) Impaired Loans

At December 31, 2001 and 2000, loans that are considered to be impaired totalled $59.1 million and $97.2 million, respectively (of which $14.1 million and $19.5 million, respectively, were on nonaccrual status). The average recorded investment in impaired loans during the years ended December 31, 2001, 2000 and 1999 was approximately $60.5 million, $91.3 million and $139.3 million, respectively. For the years ended December 31, 2001, 2000 and 1999, the Company recognized interest income on those impaired loans of $4.6 million, $8.3 million and $9.5 million, respectively, which included $0.5 million, $1.6 million and $2.7 million of interest income recognized using the cash basis method of income recognition.

Generally, allowances for loan losses relative to impaired loans have not been allocated from the general allowance because the carrying value of such loans, net of purchase accounting adjustments, exceeds the loans' related collateral values less estimated selling costs.

(13) Investment in FHLB

The Company carries FHLB stock at cost. The FHLB provides a central credit facility for member institutions. As a member of the FHLB system, the Bank is required to own FHLB capital stock in an amount equal to the greater of (a) 1% of the Bank's residential mortgage loans, home purchase contracts and similar obligations at the beginning of each calendar year, (b) .3% of total assets, or (c) 5% of its advances (borrowings) from the FHLB. The Bank was in compliance with this requirement at December 31, 2001, 2000 and 1999. At December 31, 2001, the Bank pledged FHLB stock as collateral for FHLB advances as further discussed in note 19.

(14) Premises and Equipment, Net

The following table summarizes premises and equipment, net (dollars in thousands):

	December 31, 2001	December 31, 2000	Estimated Depreciable Lives at December 31, 2001
Land	$ 45,689	$ 46,155	--
Buildings and leasehold improvements	164,119	157,893	1 – 39
Furniture and equipment	278,942	250,771	1 – 7
Construction in progress	10,261	12,169	--
	499,011	466,988	
Accumulated depreciation and amortization	(192,121)	(139,659)	
Total premises and equipment, net	$ 306,890	$ 327,329	

Depreciation and amortization expense related to premises and equipment for the years ended December 31, 2001, 2000 and 1999 totalled $57.7 million, $54.5 million and $40.9 million, respectively.

The Company rents certain premises and equipment under long-term, noncancellable operating leases expiring at various dates through the year 2034. Such rental expenses are included in occupancy and equipment expense and totalled $40.3 million, $39.1 million and $41.5 million, for the years ended December 31, 2001, 2000 and 1999, respectively. Rental income from sublease agreements for the years ended December 31, 2001, 2000 and 1999 totalled $4.9 million, $5.1 million and $5.6 million, respectively. At December 31, 2001, the projected minimum rental commitments, net of sublease agreements, under terms of the leases were as follows (in thousands):

Year Ending	Cash Commitment	Effect on Net Income
2002	$ 48,233	$ 28,530
2003	45,862	27,127
2004	41,282	24,418
2005	36,096	21,351
2006	25,058	14,822
Thereafter	54,299	32,118
Total	$250,830	$148,366

On October 4, 2001, the Bank sold a property complex consisting of a retail branch and a lending facility totalling approximately 17,088 square feet, resulting in a gain of $2.0 million. As part of the sale agreement, the Bank agreed to lease back 6,363 square feet, under two separate lease agreements. Approximately $0.9 million of the gain was deferred and is being recognized over the life of the respective leases. The lease covering the lending facility is a month-to-month lease. The lease covering the branch office is non-cancelable with a termination date of October, 2008. It is the Bank's intent to occupy these facilities until lease termination.

At December 31, 2001, the projected minimum rental commitments under the terms of the leases were as follows (in thousands):

Year Ending	Lending Facility	Branch	Total
2002	$17	$ 150	$ 167
2003	--	150	150
2004	--	150	150
2005	--	150	150
2006	--	150	150
Thereafter	--	264	264
Total	$17	$1,014	$1,031

On November 15, 1999, the Bank sold a complex consisting of a retail branch, a parking lot and administrative offices totalling approximately 139,608 square feet, resulting in a gain of $5.3 million. As part of the sale agreement, the Bank agreed to lease back 16,253 square feet under two separate lease agreements. Approximately $1.8 million of the gain was deferred and will be recognized over the life of the respective leases. The lease covering the branch and parking lot is cancelable with six months' notice with a final termination date of November, 2009. The lease covering the administrative offices is non-cancelable with a termination date of November, 2004. It is the Bank's intent to occupy these facilities until lease termination.

At December 31, 2001, the projected minimum rental commitments under the terms of the leases were as follows (in thousands):

	Branch and Parking Lot	Administrative Offices	Total
Year Ending			
2002	$116	$205	$ 321
2003	116	205	321
2004	116	188	304
2005	116	--	116
2006	116	--	116
Thereafter	337	--	337
Total	$917	$598	$1,515

(15) Accrued Interest Receivable

The following table summarizes accrued interest receivable (in thousands):

	December 31, 2001	December 31, 2000
Cash and cash equivalents and securities	$ 26,990	$ 54,637
Mortgage-backed securities	21,185	38,858
Loans receivable and loans held for sale	240,133	270,919
Total accrued interest receivable	$288,308	$364,414

(16) Mortgage Servicing Rights

The following table summarizes activity for MSRs and the MSR hedges for the years ended December 31, 2001, 2000 and 1999 (in thousands). Prior to the adoption of SFAS No. 133 on January 1, 2001, the MSR hedges were included in MSRs on the balance sheet. Since the adoption of SFAS No. 133, MSR hedges are a component of derivative assets and derivative liabilities on the balance sheet.

	MSR	MSR Hedge	Total
Balance at December 31, 1998	$ 855,727	$ 87,854	$ 943,581
Additions – purchases	334,842	--	334,842
Originated servicing	193,855	--	193,855
Sales	(18,604)	--	(18,604)
Swaption sales	28,727	(58,553)	(29,826)
Interest rate floor sales	21,208	(38,242)	(17,034)
Premiums paid	--	67,698	67,698
Payments made to counterparties, net	10,191	--	10,191
Amortization	(193,710)	(18,600)	(212,310)
Balance at December 31, 1999	1,232,236	40,157	1,272,393
Additions – purchases	344,262	--	344,262
Originated servicing	126,648	--	126,648
Sales	(440)	--	(440)
Swaption sales	(20,088)	(30,417)	(50,505)
Interest rate floor sales	(25,675)	(24,934)	(50,609)
Interest rate floor receipts	(224)	--	(224)
Premiums paid	--	127,199	127,199
Payments received from counterparties, net	(5,369)	--	(5,369)
Amortization	(187,040)	(16,992)	(204,032)
Balance at December 31, 2000	1,464,310	95,013	1,559,323
SFAS No. 133 transition adjustment	(69,754)	--	(69,754)
Additions – purchases	308,003	--	308,003
Originated servicing	369,514	--	369,514
Swaption sales	--	(488,143)	(488,143)
Interest rate floor sales	--	(151,715)	(151,715)
Interest rate floor receipts	(121)	(5,074)	(5,195)
Interest rate swap sales	--	17,228	17,228
Interest rate swap payments	--	18,688	18,688
Premiums paid	--	713,576	713,576
PO swap sale/matured	--	(135)	(135)
Payments received from counterparties, net	--	(6,195)	(6,195)
SFAS No. 133 current year fair value adjustments	66,416	83,287	149,703
Provision for loss in fair value	(153,345)	--	(153,345)
Amortization	(361,076)	--	(361,076)
Balance at December 31, 2001	$1,623,947	$ 276,530	$1,900,477

Aggregate 1-4 unit residential loan participations, whole loans and mortgage pass-through securities serviced for other investors (not including the Bank) by FNMC totalled $85.2 billion, $84.1 billion and $72.9 billion, at December 31, 2001, 2000 and 1999, respectively. In addition, FNMC had $13.8 billion, $11.1 billion and $10.4 billion of master servicing at December 31, 2001, 2000 and 1999, respectively.

The Company’s loans serviced for others, secured by properties located in California, Texas, and Florida was 45%, 7% and 6%, respectively, at December 31, 2001 and 46%, 7% and 6%, respectively, at December 31, 2000.

MSR fair value totalled $1.6 billion and $1.5 billion at December 31, 2001 and 2000, respectively. See discussion of valuation assumptions at note 39.

A recent decline in long-term interest rates has resulted in the acceleration of mortgage loan prepayments. Higher levels of prepayments accelerate amortization of MSRs and 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 the benchmark interest rate. 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.

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 year ended December 31, 2001, the Company recorded pre-tax valuation provisions on its MSRs of $153.3 million. The provision for 2001 is due in large part to the significant decline in interest rates during 2001. On an aggregate basis, at December 31, 2001, the estimated fair value of the MSRs was $15.3 million higher than book value (net of a valuation allowance of $153.3 million). To the extent there is recovery of fair values of the impaired tranches in future quarters, the valuation allowance will be reduced.

The Company owned several derivative instruments at December 31, 2001, which were used to hedge against the change in value of the mortgage servicing portfolio due to expected prepayment risk assumption changes. These derivative instruments included interest rate swap agreements, Constant Maturity Swap interest rate floor contracts, swaptions and principal only swaps. MSR derivatives at December 31, 2001 are comprised of the following (dollars in thousands):

Derivative	Notional Amount	Contract Provisions	Maturity	Fair Value at December 31, 2001	
				Assets	Liabilities
Interest rate swap agreements	$ 2,462,000	Weighted average pay rate of 1.9% Receive rates between 4.8% and 6.2%	2010 - 2011	$ 42,102	$(34,541)
Interest rate floor contracts (a)	3,054,000	Strike rates between 6.0% and 6.7%	2006	78,917	--
Swaption contracts (b)	4,111,000	Strike rates between 5.5% and 6.9%	2002 - 2004	183,641	--
Principal only swap agreements	378,928	Index tied to LIBOR from a PO strip	2002 - 2029	7,487	(1,076)
	$10,005,928			$312,147	$(35,617)

(a) 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.

(b) Premiums paid to counterparties in exchange for the right to enter into an interest rate swap are recorded as part of the MSR derivative asset on the balance sheet.

The estimated market value of interest rate floor contracts, interest rate swaps, principal only swaps and swaptions designated as hedges against MSRs at December 31, 2000 were $52.8 million, $5.1 million, $1.2 million and $105.6 million, respectively. Beginning January 1, 2001, the derivative instruments are carried at fair value in accordance with SFAS No. 133. See note 38 for further discussion.

The following summarizes servicing advances and other receivables (included in other assets) related to 1-4 unit residential loan servicing, net of valuation allowances of $16.3 million and $16.1 million in 2001 and 2000, respectively, (in thousands):

	December 31, 2001	December 31, 2000
Servicing advances	$108,682	$106,120
Checks in process of collection	1,215	745
Other	5,501	6,287
	$115,398	$113,152

(17) Deposits

A summary of the carrying value of deposits follows (dollars in thousands):

	December 31, 2001	December 31, 2000
Transaction Accounts:		
Non-interest checking	$ 2,000,413	$ 1,716,741
Interest-bearing checking	2,139,674	2,063,185
Subtotal checking	4,140,087	3,779,926
Money market	4,614,223	2,948,853
Passbook savings	3,055,766	3,086,852
Total transaction accounts	11,810,076	9,815,631
Certificates of deposit	10,618,260	12,241,809
Subtotal retail deposits	22,428,336	22,057,440
Custodial accounts	2,512,684	825,438
Accrued interest payable	46,184	80,225
Purchase accounting	329	1,009
Total retail deposits	24,987,533	22,964,112
Brokered Deposits:		
Certificates of deposit	60,692	369,581
Money market	84,993	84,155
Accrued interest payable	723	11,653
Purchase accounting	137	253
Total brokered deposits	146,545	465,642
Total deposits	$25,134,078	$23,429,754
Checking deposits as a % of retail deposits (including custodials)	26.7%	20.1%
Transaction accounts as a % of retail deposits (including custodials)	57.4%	46.5%
Checking deposits as a % of retail deposits (excluding custodials)	18.5%	17.1%
Transaction accounts as a % of retail deposits (excluding custodials)	52.7%	44.5%

The aggregate amount of jumbo certificates of deposit (term deposits) with a minimum denomination of $100,000 was approximately $2.8 billion and $3.3 billion at December 31, 2001 and 2000, respectively.

The following summarizes interest expense by deposit category (in thousands):

	December 31, 2001	2000	1999
Passbook savings	$ 76,702	$116,321	$124,618
Interest-bearing demand deposits	9,903	13,914	17,772
Money market deposit accounts	129,796	120,683	124,368
Term accounts	615,137	677,489	621,528
Total	$831,538	$928,407	$888,286

At December 31, 2001, term accounts were scheduled to mature as follows (in thousands):

Year Ending	
2002	$ 9,141,546
2003	1,029,717
2004	139,747
2005	191,974
2006	174,959
Thereafter	1,009
Total	$10,678,952

(18) Securities Sold Under Agreements to Repurchase

The following summarizes securities sold under agreements to repurchase (dollars in thousands):

	December 31, 2001			
	Underlying Collateral		Repurchase Liability	
	Recorded Value (a)	Market Value	Amount	Interest Rate
Maturing in 30 to 90 days	$ 251,830	$ 250,619	$ 200,000	4.16%
Maturing after 90 days to 1 year	221,859	220,736	200,000	3.10
Maturing over 1 year	1,925,644	1,914,635	1,950,000	3.11
Total (b)	2,399,333	2,385,990	2,350,000	3.20%
Accrued interest payable	--	--	13,945	
	$2,399,333	$2,385,990	$2,363,945	

	December 31, 2000			
	Underlying Collateral		Repurchase Liability	
	Recorded Value (a)	Market Value	Amount	Interest Rate
Maturing within 30 days	$ 980,736	$ 981,379	$ 888,748	6.61%
Maturing in 30 to 90 days	477,528	481,113	423,597	6.63
Maturing after 90 days to 1 year	1,315,377	1,317,242	1,284,115	6.74
Maturing over 1 year	1,931,155	1,943,241	1,850,000	7.28
Total (b)	4,704,796	4,722,975	4,446,460	6.93%
Accrued interest payable	--	--	64,849	
	$4,704,796	$4,722,975	$4,511,309	

(a) Recorded value includes accrued interest at December 31, 2001 and 2000. In addition, the recorded values at December 31, 2001 and 2000 include adjustments for the unrealized gain or loss on mortgage-backed securities available for sale.

(b) Total mortgage-backed securities collateral at December 31, 2001 and 2000 includes $0.8 billion and $1.7 billion, respectively, in outstanding balances of loans securitized with full recourse to the Bank. The market value of such collateral was $0.8 billion and $1.7 billion at December 31, 2001 and 2000, respectively.

At December 31, 2001 and 2000, these agreements had weighted average stated interest rates of 3.20% and 6.93%, respectively. Third party securities dealers hold the underlying securities. These dealers may have loaned the securities to other parties in the normal course of their operations, but all agreements require the dealers to resell to California Federal the identical securities at the maturities of the agreements. The average daily balance of securities sold under agreements to repurchase was $3.6 billion, $5.4 billion and $5.1 billion during 2001, 2000 and 1999, respectively; the weighted average rate was 5.41%, 6.45% and 5.18% during 2001, 2000 and 1999, respectively; and the maximum amount outstanding at any month-end during these periods was $4.7 billion, $8.5 billion and $6.2 billion, respectively.

At December 31, 2001, securities sold under agreements to repurchase were collateralized with $1.6 billion of mortgage-backed securities available for sale and $0.8 billion of mortgage-backed securities held to maturity.

(19) Borrowings

Borrowings are summarized as follows (dollars in thousands):

	December 31,			
	2001		2000	
	Carrying Value	Average Rate	Carrying Value	Average Rate
Fixed-rate borrowings from FHLB	$17,487,045	5.13%	$21,337,878	6.08%
Variable-rate borrowings from FHLB	4,836,000	2.23	5,090,000	6.71
10% Subordinated Debentures due 2006	92,100	10.00	92,100	10.00
FN Holdings $10^5/_8$% Senior Subordinated Notes due 2003	250	10.63	250	10.63
6½% Convertible Subordinated Debentures due 2001	--	--	160	6.50
10% Subordinated Debentures due 2003	--	--	4,299	10.00
Floating Rate Notes due 2003	250,000	3.23	250,000	7.76
$6^3/_4$% Senior Notes due 2001	--	--	350,000	6.75
7% Senior Notes due 2003	600,000	7.00	600,000	7.00
$7^1/_8$% Senior Notes due 2005	800,000	7.13	800,000	7.13
Federal funds purchased	225,000	1.63	--	--
Other borrowings	55	9.22	406	7.57
Total borrowings	24,290,450	4.63	28,525,093	6.28
Discount on borrowings	(5,580)		(8,564)	
Purchase accounting adjustments, net	2,524		7,420	
Subtotal	24,287,394	4.63%	28,523,949	6.28%
Accrued interest payable	157,147		276,608	
	$24,444,541		$28,800,557	

The following summarizes maturities and weighted average stated interest rates on borrowings at December 31, 2001, not including discounts, accrued interest payable or purchase accounting adjustments (dollars in thousands):

Maturities during the Years Ending December 31,	Balances Maturing		Weighted Average Rates	
	FHLB	Other	FHLB	Other
2002	$10,231,000	$ 225,018	4.20%	1.63%
2003	7,990,000	850,000	4.73	5.89
2004	3,450,000	--	5.24	--
2005	651,625	800,250	2.58	7.13
2006	--	92,100	--	10.00
Thereafter	420	37	7.74	9.54
Total	$22,323,045	$1,967,405	4.50%	6.10%

The following summarizes interest expense on borrowings for the years ended December 31, 2001, 2000 and 1999 (in thousands):

	Year Ended December 31,		
	2001	2000	1999
FHLB advances	$1,366,607	$1,521,806	$1,165,010
Interest rate swap agreements	67,279	7,188	5,940
10% Subordinated Debentures due 2006	9,210	9,210	9,210
11.20% Senior Notes due 2004	--	--	651
FN Holdings $10^5/_8$% Senior Subordinated Notes due 2003	27	27	26
6½% Convertible Subordinated Debentures due 2001	1	32	172
10% Subordinated Debentures due 2003	333	430	430
Floating Rate Notes due 2003	13,455	18,942	15,931
6¾% Senior Notes due 2001	13,781	23,625	23,625
7% Senior Notes due 2003	42,000	42,000	42,000
$7^1/_8$% Senior Notes due 2005	57,000	57,000	57,000
Federal funds purchased	11,661	4,747	2,750
Other borrowings	130	53	25
Discount accretion	1,042	2,060	1,031
Purchase accounting adjustments	(4,896)	(8,629)	(11,172)
Total	$1,577,630	$1,678,491	$1,312,629

The following summarizes the carrying value of assets pledged as collateral for FHLB advances (in thousands):

	December 31, 2001
Loans receivable	$32,332,761
Mortgage-backed securities available for sale	2,338,317
FHLB stock	1,446,607
Total	$36,117,685

FHLB Advances

During 2000, the FHLB called and the Bank prepaid $400 million in FHLB advances, resulting in extraordinary gains of $3.0 million, net of income taxes of $2.1 million, on the early extinguishment of such borrowings.

10% Subordinated Debentures Due 2006

As part of the FN Acquisition, California Federal assumed $92.1 million principal amount of the 10% Subordinated Debentures Due 2006.

Events of default under the Old FNB Indenture include, among other things: (a) a 30-day default in the payment of interest, (b) a default in principal payment when due, (c) the failure to comply with covenants in the Old FNB Indenture, provided that the Bank does not cure the default within 60 days of receipt of notice by the trustee or holders of at least 25% in principal amount of the outstanding 10% Subordinated Debentures Due 2006, (d) certain events of bankruptcy, insolvency or reorganization of the Bank, (e) the FSLIC (or a comparable entity) is appointed to act as conservator, liquidator, receiver or other legal custodian for the Bank and (f) a default under other indebtedness of the Bank in excess of $10 million resulting in such indebtedness becoming due and payable, and such default or acceleration has not been rescinded or annulled within 60 days of receipt of notice of such failure by the trustee to the Bank or by holders of at least 25% in principal amount of the outstanding 10% Subordinated Debentures Due 2006 to the Bank and the trustee.

11.20% Senior Notes Due 2004

As part of the SFFed Acquisition, California Federal assumed $50 million principal amount of the 11.20% Senior Notes. On December 20, 1999, the Bank repurchased all of the remaining $6.0 million outstanding principal amount of the 11.20% Senior Notes at a price of 113.9% of the principal amount, plus the accrued interest thereon. The Bank recorded an extraordinary loss, net of tax, of $0.2 million in connection with this repurchase.

FN Holdings 10⅝% Senior Subordinated Notes Due 2003

In connection with the Cal Fed Acquisition, GS Holdings acquired the net proceeds from the issuance of $575 million principal amount of the FN Holdings 10⅝% Notes and assumed FN Escrow's obligations under the FN Holdings 10⅝% Notes and indenture. At December 31, 2001, $0.3 million of the FN Holdings 10⅝% Notes remained outstanding.

GS Holdings had the right to redeem the FN Holdings 10⅝% Notes at its option, in whole or in part, during the twelve-month period beginning January 1, 2002 at a price of 102.656% plus accrued and unpaid interest to the date of redemption, and thereafter at 100% plus accrued and unpaid interest to the date of redemption. The $0.3 million of remaining FN Holdings 10⅝% Notes were redeemed in January, 2002.

As a result of the Cal Fed Acquisition, the Bank was obligated with respect to the following two outstanding securities of Old California Federal.

6½% Convertible Subordinated Debentures Due 2001

In 1986, Cal Fed Inc., Old California Federal's former parent company, issued $125 million of the 6½% Convertible Subordinated Debentures. As a result of a corporate restructuring in December 1992, Cal Fed Inc. was merged with and into XCF, a subsidiary of Old California Federal. The 6½% Convertible Subordinated Debentures were redeemable at the option of the holders on February 20, 2000, at 123% of their principal amount. Due to the purchase of all of the Cal Fed Stock by FN Holdings in the Cal Fed Acquisition on January 3, 1997, the common stock conversion feature has been eliminated. During the first quarter of 2000, the Bank repurchased $2.5 million outstanding principal amount of the 6½% Convertible Subordinated Debentures, resulting in an extraordinary gain of $41 thousand, net of income taxes of $30 thousand on the early extinguishment debt. The remaining balance of $160 thousand was paid in full during the first quarter of 2001.

10% Subordinated Debentures Due 2003

On December 16, 1992, Old California Federal issued $13.6 million of the 10% Subordinated Debentures. The remaining balance of $4.3 million was paid in full during the fourth quarter of 2001.

<u>Floating Rate Notes Due 2003</u>

On August 6, 1998, GS Escrow, an affiliate of GS Holdings, issued $250 million principal amount of the Floating Rate Notes Due 2003. The notes will mature on August 1, 2003 with interest payable quarterly on February 1, May 1, August 1 and November 1. Interest on the Floating Rate Notes is equal to three-month LIBOR plus 100 basis points per annum, except that the initial rate was 6¾%, based on six-month LIBOR until the first interest payment date on February 1, 1999. At December 31, 2001, the interest rate on the Floating Rate Notes Due 2003 was 3.23%. Deferred costs associated with the issuance of the Floating Rate Notes totalling $3.1 million were recorded in other assets and are being amortized over the term of the Floating Rate Notes.

The Floating Rate Notes are redeemable at the option of GS Holdings, in whole or in part, after August 1, 2000 at a price of 101.5% of the outstanding principal amount during the twelve-month period beginning August 1, 2000; at a price of 101% of the outstanding principal amount during the twelve-month period beginning August 1, 2001; and at a price of 100.5% of the outstanding principal amount during the twelve-month period beginning August 1, 2002; including accrued and unpaid interest, if any, to the date of redemption. In the event of a change in control, the Floating Rate Notes are redeemable in whole at the option of GS Holdings. The redemption price includes principal plus accrued and unpaid interest, if any, to the date of redemption, plus the excess, if any, of (a) the sum of the present value of the redemption price for the Floating Rate Notes and the remaining scheduled interest payments over (b) the outstanding principal amount of the Floating Rate Notes to be redeemed.

Fixed Rate Notes

On August 6, 1998, GS Escrow, an affiliate of GS Holdings, issued $350 million principal amount of the 2001 Notes, $600 million principal amount of the 2003 Notes and $800 million principal amount of the 2005 Notes. The Fixed Rate Notes will mature on August 1 of the respective year with interest payable semiannually on February 1 and August 1. The 2001 Notes matured and were paid in full on August 1, 2001. Deferred costs associated with the issuance of the Fixed Rate Notes totalling $3.5 million, $12.5 million and $19.5 million for the 2001 Notes, the 2003 Notes and the 2005 Notes, respectively, were recorded in other assets and are being amortized over the terms of the notes using the interest method.

The Fixed Rate Notes are redeemable at the option of GS Holdings, in whole or in part, at a redemption price equal to principal plus accrued and unpaid interest, if any, to the date of redemption, plus the excess, if any, of (a) the sum of the present value of the redemption price for the notes and the remaining scheduled interest payments over (b) the outstanding principal amount of the notes to be redeemed.

(20) Accrued Termination and Facilities Costs

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

	Branch Consolidations	Severance and Termination Benefits	Contract Terminations	Total
Balance at December 31, 1998	$ 29,870	$ 33,480	$11,815	$ 75,165
Additional liabilities recorded	9,401	71	--	9,472
Charges to liability account	(15,220)	(4,140)	(9,523)	(28,883)
Reversal of accrual	--	(16,641)	(2,267)	(18,908)
Balance at December 31, 1999	24,051	12,770	25	36,846
Additional liabilities recorded	2,504	--	--	2,504
Charges to liability account	(10,511)	(241)	(25)	(10,777)
Balance at December 31, 2000	16,044	12,529	--	28,573
Charges to liability account	(1,836)	--	--	(1,836)
Reversal of accrual	--	(29)	--	(29)
Balance at December 31, 2001	$ 14,208	$ 12,500	$ --	$ 26,708

The Bank had identified certain of its retail banking facilities to be closed and marketed for sale, with the related operations consolidated into other retail banking facilities acquired in the Golden State Acquisition. Accordingly, the liabilities established represent the estimated present value of occupancy expenses, offset by estimates of sub-lease income over the applicable remaining lease terms. The first group of branches was closed in November 1998. The final closure was in June 2000. The balance relating to accrued costs for branch consolidations remaining at December 31, 2001 represents remaining lease obligations, net of sub-lease income.

In connection with the Golden State Acquisition, management identified approximately 1,100 full-time equivalent positions to be eliminated. During 1999, this estimate was increased to 1,141. These positions spanned all areas and business units of the Bank. As of December 31, 2000, all positions had been eliminated. The balance relating to accrued severance and termination benefits remaining at December 31, 2001 primarily represents a liability for annuity benefits contractually payable to former senior officers of Golden State.

The Bank had also established additional liabilities for contract termination costs with outside service providers. As of December 31, 2000, all such contracts have been terminated.

The table below provides detail of the initial liability recorded in 1998, additional liabilities recorded and subsequent reversals of the excess liability (see note 3) (in thousands):

	Merger Costs Included in Allocation of Purchase Price	Expenses Recognized in Net Income (Pre-tax)	Total
Branch Consolidation	$ 22,304	$ 7,566	$ 29,870
Severance and termination benefits	42,211	6,092	48,303
Contract termination	14,455	--	14,455
Total liability initially established in 1998	78,970	13,658	92,628
Additional liability recorded in 1999	500	8,972	9,472
Excess liability reversed in 1999	(16,641)	(2,267)	(18,908)
Balance at December 31, 1999	62,829	20,363	83,192
Additional liability recorded in 2000	--	2,504	2,504
Balance at December 31, 2000	62,829	22,867	85,696
Excess liability reversed in 2001	(29)	--	(29)
Net liability recorded from Golden State Acquisition	$ 62,800	$22,867	$ 85,667

(21) Segment Reporting

The Company has two reportable segments, the community bank and the mortgage bank. The community bank operates retail deposit branches in California and Nevada. The community bank provides retail consumer and small businesses with: (a) deposit products (including demand, transaction and savings accounts), (b) investment products (including mutual funds, annuities and insurance) and (c) lending products (such as consumer and commercial loans). Further, the community bank segment invests in residential real estate loans purchased from FNMC and from others, and also invests in mortgage-backed and other securities. The mortgage banking segment, conducted by FNMC, operates loan production facilities throughout the United States and originates or purchases fixed-rate 1-4 unit residential loans for sale and services loans for itself and others. The mortgage banking segment also originates adjustable-rate loans for the community bank segment.

The accounting policies of the segments are the same as those described in note 2. The Company evaluates performance based on net interest income after provision for loan losses, noninterest income, and noninterest expense. The total of these three items is the reportable segment's net (pre-tax) contribution.

The Company's reportable segments are strategic business units that offer different services in different geographic areas. They are managed separately because each segment appeals to different markets and, accordingly, requires different technology and marketing strategies.

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.

	Community Banking	Mortgage Banking	Total
		(in thousands)	
Net interest income after provision for loan losses: (a)			
2001	$ 1,378,070	$ 112,788	$ 1,490,858
2000	1,249,638	7,585	1,257,223
1999	1,237,672	47,814	1,285,486
Noninterest income: (b)			
2001	$ 341,136	$ 51,160	$ 392,296
2000	245,127	242,034	487,161
1999	226,116	220,509	446,625
Noninterest expense: (c)			
2001	$ 825,857	$ 158,126	$ 983,983
2000	767,507	150,372	917,879
1999	733,342	177,907	911,249
Pre-tax contribution:			
2001	$ 893,349	$ 5,822	$ 899,171
2000	727,258	99,247	826,505
1999	730,446	90,416	820,862
Segment assets: (d)			
2001	$56,289,242	$5,876,410 (e)	$62,165,652
2000	60,151,543	3,498,106 (e)	63,649,649
1999	56,784,582	3,459,880 (e)	60,244,462

(a) Includes $129.4 million, $110.4 million and $109.6 million for 2001, 2000 and 1999, respectively, in earnings credit provided to FNMC by the Bank, primarily for custodial bank account balances generated by FNMC. Also includes $237.0 million, $253.2 million and $235.6 million for 2001, 2000 and 1999, respectively, in interest income and expense on intercompany loans.

(b) Includes $41.4 million, $46.4 million and $46.6 million for 2001, 2000 and 1999, respectively, in intercompany servicing fees.

(c) Includes $4.6 million for 2001, 2000 and 1999, respectively, in intercompany noninterest expense.

(d) Includes $5.6 billion, $3.1 billion and $3.2 billion for 2001, 2000 and 1999, respectively, in intercompany borrowings and $57.7 million, $43.6 million and $30.2 million for 2001, 2000 and 1999, respectively, in intercompany deposits maintained with the Bank.

(e) Includes $1.9 billion, $1.6 billion and $1.3 billion for 2001, 2000 and 1999, respectively, in MSRs and the related hedge.

The following reconciles the above table to the amounts shown on the consolidated financial statements as of and for the years ended December 31, (in thousands):

	2001	2000	1999
Net interest income after provision for loan losses:			
Total net interest income for reportable segments	$ 1,490,858	$ 1,257,223	$ 1,285,486
Elimination of intersegment net interest income	(129,368)	(110,424)	(109,599)
Total	$ 1,361,490	$ 1,146,799	$ 1,175,887
Noninterest income:			
Total noninterest income for reportable segments	$ 392,296	$ 487,161	$ 446,625
Elimination of intersegment servicing fees	(41,378)	(46,396)	(46,631)
Total	$ 350,918	$ 440,765	$ 399,994
Noninterest expense:			
Total noninterest expense for reportable segments	$ 983,983	$ 917,879	$ 911,249
Elimination of intersegment expense	(4,640)	(4,640)	(4,640)
Total	$ 979,343	$ 913,239	$ 906,609
Pre-tax contribution:			
Total contributions for reportable segments	$ 899,171	$ 826,505	$ 820,862
Elimination of intersegment contributions	(166,106)	(152,180)	(151,590)
Total	$ 733,065	$ 674,325	$ 669,272
Total assets:			
Total assets for reportable segments	$62,165,652	$63,649,649	$60,244,462
Elimination of intersegment borrowings	(5,617,314)	(3,089,139)	(3,195,180)
Elimination of intersegment deposits	(57,669)	(43,632)	(30,222)
Total	$56,490,669	$60,516,878	$57,019,060

(22) Comprehensive Income

Comprehensive income includes certain revenue, expenses, gains, and losses, such as unrealized gains and losses on available-for-sale securities, which are required to be reported as a separate component of the equity section of the balance sheet rather than in net income.

The tax effect associated with unrealized gain (loss) on securities for the years ended December 31, 2001, 2000 and 1999 is summarized as follows (in thousands):

	Before-tax amount	Tax benefit (expense)	Net-of-tax amount
2001			
Unrealized gain on securities:			
Unrealized holding gain arising during the period	$ 223,104	$ (91,138)	$ 131,966
Less: reclassification adjustment for gain in net income	(22,852)	9,335	(13,517)
Amortization of market adjustment for securities transferred from available-for-sale to held-to-maturity	49,025	(20,027)	28,998
Transition adjustment upon adoption of SFAS No. 133	(75,481)	30,834	(44,647)
Change in fair value of derivatives used for cash flow hedges	(126,343)	51,611	(74,732)
OCI	$ 47,453	$ (19,385)	$ 28,068
2000			
Unrealized gain on securities:			
Unrealized holding gain arising during the period	$ 299,092	$(128,363)	$ 170,729
Less: reclassification adjustments for losses in net income	16,866	(6,890)	9,976
Amortization of market adjustment for securities transferred from available-for-sale to held-to-maturity	7,826	(3,196)	4,630
OCI	$ 323,784	$(138,449)	$ 185,335
1999			
Unrealized loss on securities:			
Unrealized holding loss arising during the period	$(484,866)	$ 204,248	$(280,618)
Less: reclassification adjustments for gains in net income	(1,283)	541	(742)
Other comprehensive loss	$(486,149)	$ 204,789	$(281,360)

(23) Minority Interest

REIT Preferred Stock

In November 1996, the Bank formed Preferred Capital Corp. for the purpose of acquiring, holding and managing real estate mortgage assets. Preferred Capital Corp. is a Maryland corporation and qualifies as a REIT for federal income tax purposes. All of Preferred Capital Corp.'s common stock is owned by the Bank. FNMC services Preferred Capital Corp.'s mortgage assets pursuant to a subservicing agreement.

On January 31, 1997, Preferred Capital Corp. publicly issued $500 million of its REIT Preferred Stock, which is reflected in the Company's consolidated balance sheet as minority interest. Preferred Capital Corp. used the proceeds from such offering to acquire mortgage assets from the Bank. The REIT Preferred Stock has a stated liquidation value of $25 per share, plus declared and unpaid dividends, if any. The annual cash dividends on the 20,000,000 shares of REIT Preferred Stock, assuming such dividends are declared by the Board of Directors of Preferred Capital Corp., are expected to approximate $45.6 million per year. As long as Preferred Capital Corp. qualifies as a REIT, a distribution on the REIT Preferred Stock will be a dividends-paid deduction by Preferred Capital Corp. for tax purposes. Dividends paid on the REIT Preferred Stock during 2001, 2000 and 1999 were $27.0 million, $27.0 million and $26.4 million, respectively, net of the income tax benefit.

The REIT Preferred Stock ranks prior to the common stock of Preferred Capital Corp. and to all other classes and series of equity securities subsequently issued, other than any class or series expressly designated as being on a parity with or senior to the REIT Preferred Stock as to dividends and liquidating distributions.

Holders of the REIT Preferred Stock have no voting rights, except as required by law or certain limited circumstances.

Except in the event of a change of control or upon certain tax events, the REIT Preferred Stock is not redeemable prior to January 31, 2002. The REIT Preferred Stock is redeemable solely at the option of Preferred Capital Corp. or its successor or any acquiring or resulting entity with respect to Preferred Capital Corp. (including by any parent or subsidiary of Preferred Capital Corp., any such successor or any such acquiring or resulting entity), as applicable, at any time on and after January 31, 2002 in whole or in part, at $26.14 per share on or after January 31, 2002 and prior to January 31, 2003, and at prices decreasing pro-rata annually thereafter to the stated liquidation value of $25 per share on or after January 31, 2007, plus declared and unpaid dividends, if any, without interest. Upon change of control, the REIT Preferred Stock is redeemable on or prior to January 31, 2002 at the option of Preferred Capital Corp. or its successor or any acquiring or resulting entity with respect to the Bank (including by any parent or subsidiary of Preferred Capital Corp., any such successor or any such acquiring or resulting entity), as applicable, in whole, but not in part, at a price per share equal to: (a) $25, plus (b) an amount equal to declared and unpaid dividends, if any, to the date fixed for redemption; without interest and without duplication, an additional amount equal to the amount of dividends that would be payable on the REIT Preferred Stock in respect of the period from the first day of the dividend period in which the date fixed for redemption occurs to the date fixed for redemption (assuming all such dividends were to be declared), plus (c) a specified make whole premium.

Each share of REIT Preferred Stock will be exchanged automatically for one newly issued share of the 9$^{1}/_{8}$% Preferred Stock if the appropriate federal regulatory agency directs in writing such exchange because (a) the Bank becomes "undercapitalized" under prompt corrective action regulations, (b) the Bank is placed into conservatorship or receivership or (c) the appropriate federal regulatory agency, in its sole discretion, anticipates the Bank becoming "undercapitalized" in the near term. If issued, the 9$^{1}/_{8}$% Preferred Stock will rank on a parity with the Bank Preferred Stock.

Auto One Common Stock

In connection with the GSAC Acquisition, Auto One issued 250 shares of its common stock, par value $1.00 per share, representing a 20% interest in Auto One. During 2001, the Bank purchased the remaining 20% interest in Auto One for $9 million, which was recorded as goodwill.

11½% Bank Preferred Stock

During the year ended December 31, 1999, all of the remaining 318,341 outstanding shares of 11$^{1}/_{2}$% Bank Preferred Stock were redeemed by GS Holdings at $105.75 per share, for a total redemption price of $33.7 million. This transaction reduced minority interest by $31.8 million on the Company's consolidated balance sheet and resulted in a charge of $1.8 million to minority interest expense.

Dividends are payable quarterly at an annual rate of 11.50% per share when declared by the Bank's Board of Directors. Dividends paid on the 11$^{1}/_{2}$% Bank Preferred Stock for each year ended December 31, 2001, 2000 and 1999 totalled $34.6 million, of which $1.8 million was included in minority interest expense in 1999.

10$^{5}/_{8}$% Bank Preferred Stock

During the year ended December 31, 1999, all of the remaining 607,299 outstanding shares of 10$^{5}/_{8}$% Bank Preferred Stock were redeemed by GS Holdings at $105.313 per share, for a total redemption price of $63.9 million. This transaction reduced minority interest by $60.7 million on the Company's consolidated balance sheet and resulted in a charge of $3.2 million to minority interest expense.

Cash dividends on the 10 5/8% Bank Preferred Stock are noncumulative and are payable at an annual rate of 10 5/8% per share if, when, and as declared by the Board of Directors of the Bank. Dividends paid on the 10 5/8% Bank Preferred Stock for each year ended December 31, 2001, 2000 and 1999 totalled $18.3 million.

Pre-merger Tax Benefits

During 2001, 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. In addition, during 2001, minority interest income of $110 thousand was recorded representing post-merger interest expense resulting from a tax audit of Old California Federal. As a result of this transaction, Issuable Shares was reduced by $110 thousand.

During 2000 and 1999, minority interest expense of $161.7 million and $122.7 million, respectively, was recorded based upon changes to estimated pre-merger tax benefits retained by GSB Investments and Hunter's Glen. These amounts were fully offset by income tax benefits to Golden State in the same periods. See note 28.

(24) Stockholders' Equity

Common Stock

The Company has 250 million shares of common stock authorized with a par value of $1.00 per share. At December 31, 2001, GSB Investments beneficially owned 42,949,525 shares or 31.64% of Golden State, and Gerald J. Ford, the Chairman of the Board, Chief Executive Officer and a director of Golden State, individually and through Hunter's Glen/Ford, Ltd., a limited partnership controlled by Mr. Ford, beneficially owned 19,961,408 shares or 14.68% of Golden State.

Golden State common shares were issued during 2001, 2000 and 1999 for the exercise of stock options and warrants, and for restricted stock. See note 29. In 2001, 2000 and 1999, Golden State common shares were distributed in settlement of Issuable Shares. See "Issuable Shares."

Holders of Golden State Common Stock are entitled to receive dividends when, as and if declared by the Board of Directors of the Company. During 2001 and 2000, cash dividends on Golden State Common Stock totalled $54.1 million and $26.4 million, respectively. No dividends were paid in 1999.

At December 31, 2001, 2000 and 1999, there were 135,756,046, 134,320,658 and 122,242,588 shares, respectively, of Golden State Common Stock issued and outstanding (net of treasury stock), which included 202,365, 246,756 and 56,908 shares, respectively, of restricted stock. The effect of these restricted shares is included in the calculation of diluted earnings per share. See notes 29 and 35.

Issuable Shares

In accordance with the Golden State Merger agreement, on January 21, 1999, a total of 5,540,319 shares of Golden State Common Stock, valued at $100 million, were issued (4,432,255 shares to a subsidiary of Mafco Holdings and 1,108,064 shares to Hunter's Glen) as a result of net tax benefits realized by California Federal with respect to its gain from the Florida Branch Sale and the receipt of federal income tax refunds in excess of the amount reflected on the Company's consolidated balance sheets. The value of the remaining 147,677 shares totalling $2.7 million was reflected in additional paid-in capital prior to its reclassification in 1999 to Issuable Shares.

Based upon the Company's 1999 taxable income as filed in its federal income tax return, shares valued at $101.3 million (4,928,901 shares) were contractually issuable during the year ended December 31, 1999 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. On May 22, 2000, the remaining 147,677 common shares from 1998, valued at $2.7 million, and a portion of the 1999 contractually Issuable Shares of Golden State common stock (4,735,227 shares), valued at $97.3 million, were issued (in total, 3,906,323 shares to a subsidiary of Mafco Holdings and 976,581 shares to Hunter's Glen) as a result of net tax benefits realized by California Federal. The remaining shares allocable to GSB Investments, consisting of 154,939 shares valued at $3.2 million, were extinguished and 38,734 shares due to Hunter's Glen, valued at $0.8 million, were issued in January 2001 (as discussed below).

During the fourth quarter of 1999 and the second quarter of 2000, the Company recorded $4.5 million and $1.4 million, respectively, in Issuable Shares related to interest receivable on a federal tax refund related to Old California Federal for periods prior to the Golden State Acquisition. These transactions were recorded as charges to minority interest expense.

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 paid $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 was 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; $1.0 million of this amount was not utilized and was added back to stockholders' equity during 2001.

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.

On January 23, 2001, 458,647 and 38,734 common shares valued at $8.8 million and $0.8 million, respectively, were issued to Hunter's Glen for an Old California Federal tax refund and related interests and for tax benefits utilized for the year ended December 31, 1999. In addition, on July 17, 2001, 543,817 common shares valued at $10.4 million were issued to Hunter's Glen as a result of net tax benefits realized by the Company for the year ended December 31, 2000.

During 2001, the Company recorded $14.0 million in Issuable Shares related to additional pre-merger tax benefits retained by the previous owners of FN Holdings, GSB Investments and Hunter's Glen. These additional benefits resulted from imputed interest deductions on benefits payable to the former owners, additional operating losses made available as a result of a corporate dissolution and also included adjustments for prior years' tax audit settlements.

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.

During 2001 and 2000, the Company recorded $98.2 million and $162.6 million, respectively, 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.

Issuable Shares are included, as appropriate, in the calculation of basic and diluted earnings per share. See note 35.

Additional Paid-in Capital

During 2001, the Company recorded reductions to additional paid-in capital of $24.7 million representing pro-rata adjustments to pre-merger tax benefits retained by the previous owners of FN Holdings. In addition, during 2001, the Company recorded $19.0 million related to the distribution of Issuable Shares and additional paid-in capital also increased by $11.0 million representing Issuable Shares extinguished in excess of consideration paid, partially offset by $0.7 million in capitalized transaction expenses. Also during 2001, an increase of $0.4 million was made to Issuable Shares as a result of the finalization of Old Cal Fed tax liabilities for the years 1993-1996. Activity during 2001 also included increases of $7.4 million recorded in connection with the exercise of 320,144 stock options and $3.4 million recorded to reflect the impact of restricted common stock.

During 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 28. In addition, additional paid-in capital increased by $18.4 million during 2000, representing Issuable Shares extinguished in excess of consideration paid, partially offset by $4.0 million in capitalized transaction expenses.

During 1999, the Company recorded an adjustment to the purchase price in the Golden State Acquisition of $12.4 million. See note 3.

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 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, 1999, the equalization adjustment was written down to its fair value of $17.1 million but was subsequently increased to $20.6 million at December 31, 2000. At December 31, 2001, the inherent value of the amount to be contributed by GSB Investments and Hunter’s Glen was $21.2 million, which resulted in increases in retained earnings and the contribution receivable of $0.7 million.

During 1999, the Company recorded a $15.5 million increase in retained earnings representing an adjustment to reduce the initial dividend of tax benefits to GSB Investments and Hunter’s Glen upon the Company’s deconsolidation from its tax reporting group on September 11, 1998. See note 28.

Treasury Stock

At December 31, 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 fourth quarter of 2001, the board of directors of the Company authorized the repurchase during 2002 of up to $250 million of all publicly traded securities issued or issuable by the Company and any of its subsidiaries.

During the fourth quarter of 2000, the board of directors of the Company authorized a share repurchase program for 2001. The program authorized the repurchase of up to $250 million of all publicly traded securities issued by the Company and any of its subsidiaries beginning January 2, 2001 through December 31, 2001.

During the fourth quarter of 1999, the board of directors of the Company authorized a share repurchase program for 2000. The program authorized the repurchase of up to $250 million of all publicly traded securities issued by the Company and any of its subsidiaries beginning December 14, 1999.

During the years ended December 31, 2001, 2000 and 1999, the Company repurchased 25,062, 3,916,411 and 12,463,800 shares, respectively, of common stock at an aggregate purchase price of $0.7 million, $63.7 million and $250 million, respectively, or an average of $29.87, $16.27 and $20.08 per share, respectively. During the year ended December 31, 2001, no shares were issued out of treasury. During the years ended December 31, 2000 and 1999, shares totalling 11,450 and 75,697, respectively, were issued out of treasury in connection with options exercised by holders related to an earlier acquisition by the former Golden State prior to the Golden State Acquisition.

During 1999, the Company recorded a $2.0 million reduction in stockholders' equity representing a reclassification of the value associated with 708,767 LTW™s that have been withdrawn by holders, net of tax, which were previously recorded in other assets.

Payment of Dividends

The terms of the GS Escrow Notes indenture generally will permit GS Holdings to make distributions of up to 75% of the Consolidated Net Income of GS Holdings since July 1, 1998 if after giving effect to such distribution, (a) the Bank is "well capitalized" under applicable OTS regulations and (b) the Consolidated Common Stockholder's Equity of the Bank is at least equal to the Minimum Common Equity Amount. The Federal thrift laws and regulations of the OTS limit the Bank's ability to pay dividends on its preferred or common stock. The Bank generally may not pay dividends without the consent of the OTS if, after the payment of the dividends, it would not be deemed "adequately capitalized" under the prompt corrective action standards of the Federal Deposit Insurance Corporation Improvement Act of 1991.

On March 1, June 1, September 4 and December 3, 2001, Golden State paid dividends of $0.10 per common share totalling $13.5 million, $13.6 million, $13.5 million and $13.5 million on each date, to stockholders of record as of February 2, May 7, August 6 and November 5, 2001, respectively.

On September 1 and December 1, 2000, Golden State paid dividends of $0.10 per common share totalling $13.0 million and $13.4 million, respectively, to stockholders of record as of July 31 and November 3, 2000, respectively. There were no dividends on the common stock of Golden State during 1999.

As of December 31, 2001, the Bank could pay dividends of $501.2 million without the consent of the OTS and it could pay dividends of $896.6 million and still be "well-capitalized." As of December 31, 2001, GS Holdings could pay dividends, in addition to those already paid, of $666.3 million without violating the most restrictive terms of the GS Escrow Notes indenture.

Warrants

The Company had Warrants outstanding that were issued by Golden State in March 1993 in connection with an exchange of preferred stock for outstanding subordinated debentures and capital notes. Each Warrant entitled the registered holders thereof to receive from the Company one share of common stock and one LTW™ for ten Warrants for no additional consideration at any time until the expiration of the Warrants on March 10, 1999. During 1999, 11,730 warrants were exercised and 1,046 expired.

The Company had also issued transferable Standby Warrants. Each Standby Warrant entitled the holder thereof to purchase one share of common stock and one LTW™ for the purchase price of $12.00 per share prior to their expiration on August 21, 2000. The Standby Warrants traded on the NASDAQ national market system under the ticker symbol "GSBNW." During 2000, 10,753,859 Standby Warrants were exercised and 14,294 expired, resulting in an increase in stockholders' equity of $129.0 million.

(25) Litigation Tracking Warrants

In connection with the Glendale Goodwill Litigation, Golden State distributed LTW™s to its security holders representing the right to receive, upon exercise of the LTW™s, Golden State Common Stock equal in value to 85% of the net after-tax proceeds, if any, from the Glendale Goodwill Litigation. The LTW™s would be exercisable after notification by Golden State of its receipt of proceeds from a final judgment in or settlement of the litigation. The LTW™s would expire 60 days after such notice is given.

Golden State distributed LTW™s on May 29, 1998 to holders of Golden State Common Stock of record on May 7, 1998, on the basis of one LTW™ for each share held as of the close of business on that date. The Board of Directors also reserved additional LTW™s for future issuance in connection with conversions or exercises of the Company's outstanding Series A Preferred Stock, its two outstanding classes of common stock purchase warrants and employee stock options. The total number of LTW™s issued to holders of common stock and reserved for such future issuances is approximately 85 million. As of December 31, 2001, 83,616,460 LTW™s were issued.

The LTW™s trade on the NASDAQ national market system under the ticker symbol "GSBNZ."

(26) Regulatory Capital of the Bank

The Bank is subject to various regulatory capital requirements administered by the Federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory – and possibly additional discretionary – actions by regulators that could have a direct material effect on the Company's and the Bank's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to insure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of tangible and leverage capital to adjusted total assets, and of Tier 1 and total risk-based capital to risk-weighted assets. Management believes, as of December 31, 2001, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2001 and 2000, the most recent notification from the OTS categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum leverage, Tier 1 risk-based and total risk-based ratios as set forth in the table below. There are no conditions or events since the most recent notification that management believes have changed the institution's category.

The Bank's actual capital amounts and ratios as of December 31, 2001 and 2000 are presented in the following table (dollars in thousands):

	Actual		To be Adequately Capitalized		To be Well Capitalized	
2001	Amount	As a % of Assets	Amount	As a % of Assets	Amount	As a % of Assets
Stockholder's equity of the Bank per financial statements	$4,124,022					
Minority interest	500,000					
Net unrealized holding gain on securities	(57,564)					
Net unrealized holding loss on derivative instruments	119,379					
	4,685,837					
Adjustments for tangible and leverage capital:						
Goodwill litigation assets	(158,834)					
Non-qualifying MSRs	(148,617)					
Intangible assets	(640,843)					
Non-includable subsidiaries	(68,108)					
Total tangible capital	$3,669,435	6.62%	$ 831,857	1.50%	N/A	N/A
Total leverage capital	$3,669,435	6.62%	$2,218,285	4.00%	$2,772,857	5.00%
Tier 1 risk-based capital	$3,669,435	11.54%	N/A	N/A	$1,902,470	6.00%
Adjustments for risk-based capital:						
Qualifying subordinated debt	73,091					
General loan loss allowance	397,409					
Qualifying portion of unrealized holding gains	111					
Low level recourse	(9,301)					
Assets required to be deducted	(16,130)					
Total risk-based capital	$4,114,615	12.98%	$2,536,627	8.00%	$3,170,784	10.00%

2000	Actual Amount	Actual As a % of Assets	To be Adequately Capitalized Amount	To be Adequately Capitalized As a % of Assets	To be Well Capitalized Amount	To be Well Capitalized As a % of Assets
Stockholder's equity of the Bank per financial statements	$4,165,973					
Minority interest	500,000					
Net unrealized holding loss on securities	89,874					
	4,755,847					
Adjustments for tangible and leverage capital:						
Goodwill litigation assets	(158,809)					
Non-qualifying MSRs	(83,941)					
Intangible assets	(691,288)					
Non-includable subsidiaries	(62,592)					
Total tangible capital	$3,759,217	6.30%	$ 894,475	1.50%	N/A	N/A
Total leverage capital	$3,759,217	6.30%	$2,385,268	4.00%	$2,981,585	5.00%
Tier 1 risk-based capital	$3,759,217	11.58%	N/A	N/A	$1,942,330	6.00%
Adjustments for risk-based capital:						
Qualifying subordinated debt	91,985					
General loan loss allowance	405,857					
Qualifying portion of unrealized holding gains	145					
Low level recourse	(9,994)					
Assets required to be deducted	(11,770)					
Total risk-based capital	$4,235,440	13.08%	$2,589,773	8.00%	$3,237,216	10.00%

(27) Other Noninterest Expense

Other noninterest expense amounts are summarized as follows (in thousands):

	Year ended December 31, 2001	2000	1999
Other noninterest expense:			
Telephone	$ 27,614	$ 24,574	$ 26,088
Marketing	37,550	35,426	31,994
DP systems expense	25,600	24,864	23,443
Savings Association Insurance Fund deposit insurance premium	4,521	4,792	14,230
Insurance and surety bonds	8,072	7,198	7,412
Postage	14,638	13,116	13,021
Printing, copying and office supplies	15,205	13,541	12,968
Employee travel	14,191	15,183	13,855
Other losses	14,592	8,672	18,703
Merger and integration costs	--	--	7,747
Other expense	75,633	61,265	63,960
	$237,616	$208,631	$233,421

(28) Income Taxes

Total income tax expense was allocated as follows (in thousands):

	Year ended December 31, 2001	2000	1999
Income before income taxes, minority interest, extraordinary items And cumulative effect of change in accounting principle	$291,995	$136,781	$186,483
Extraordinary items and cumulative effect of change in accounting Principle	(1,072)	2,083	1,801
Net unrealized holding gain (loss) on securities available for sale	19,385	138,449	(204,789)
Stockholders' equity, for compensation expense for tax purposes in excess of amounts recognized for financial reporting purposes	1,310	526	2,246
Provision in lieu of income taxes – minority interest	3,137	161,688	122,684
	$314,755	$439,527	$108,425

Income tax expense attributable to income before income taxes, minority interest, extraordinary items and cumulative effect of change in accounting principle consisted of (in thousands):

	Year ended December 31, 2001	2000	1999
Federal			
Current	$151,181	$ 48,867	$ 31,013
Deferred	109,716	22,114	74,722
	260,897	70,981	105,735
State and local			
Current	31,031	48,783	60,690
Deferred	67	17,017	20,058
	31,098	65,800	80,748
Income tax expense before provision in lieu of income taxes	291,995	136,781	186,483
Provision in lieu of income taxes – minority interest	3,137	161,688	122,684
Total income tax expense	$295,132	$298,469	$309,167

The consolidated income tax expense differs from the amounts computed by applying the statutory federal corporate tax rate of 35% for 2001, 2000 and 1999 to income before income taxes, minority interest, extraordinary items and cumulative effect of change in accounting principle as follows (in thousands):

	Year ended December 31 2001	2000	1999
Computed "expected" income tax expense	$256,573	$236,014	$234,245
Increase in taxes resulting from:			
State income taxes, net of federal income tax benefit	20,214	42,770	52,486
Tax exempt income	(1,014)	(966)	(1,010)
Amortization of excess cost over fair value of net assets acquired	18,395	19,460	22,355
Other	964	1,191	1,091
	$295,132	$298,469	$309,167

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below (in thousands):

	December 31, 2001	December 31, 2000
Deferred tax assets:		
Net operating loss carryforwards	$ 972	$140,381
Foreclosed real estate	9	445
Loans receivable	154,758	151,555
Miscellaneous accruals	36,040	48,497
Accrued liabilities	74,894	39,002
State taxes	53,895	73,431
Purchased MSRs	75,301	93,723
Alternative minimum tax credit and other tax credit carryforwards	135,324	108,087
Unrealized losses on securities available for sale	42,684	62,069
Other	9,157	10,537
Total gross deferred tax assets	583,034	727,727
Less valuation allowance	(44,031)	(39,496)
Net deferred tax assets	539,003	688,231
Deferred tax liabilities:		
MSRs	137,311	177,600
Purchase accounting adjustments	1,708	7,684
FHLB stock	208,311	173,338
Deferred interest	1,461	322
Goodwill litigation	43,171	43,171
Contractual obligations	19,250	19,250
Deferred loan fees	192,298	198,934
Other	4,175	7,446
Net deferred tax liabilities	607,685	627,745
Total deferred tax (liabilities) and assets	$(68,682)	$ 60,486

Subsequently recognized tax benefits relating to the valuation allowance for deferred tax assets as of December 31, 2001 will be allocated as follows (in thousands):

Income tax benefit that would be reported in the consolidated statement of earnings as minority interest: provision in lieu of income taxes	$28,226
Goodwill and other noncurrent intangible assets	15,805
	$44,031

The net change in the total valuation allowance for the year ended December 31, 2001 was an increase of $4.5 million. The increase in the valuation allowance is attributable to additional net operating losses not likely to be realized.

Based on favorable resolutions of federal income tax audits of Old California Federal and Glendale Federal, and the status of Mafco's, 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 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.

Management believes that the realization of the resulting deferred tax asset is more likely than not, based upon the expectation that the Company will generate the necessary amount of taxable income in future periods.

At December 31, 2001, the Company had regular NOL carryforwards for federal income tax purposes of approximately $2.8 million which are available to offset future federal taxable income, if any, through 2007. In addition, the Company had alternative minimum tax credit carryforwards of approximately $126.6 million which are available to offset future federal regular income taxes, if any, over an indefinite period. The IRS is examining the 1991 through 1995 federal income tax returns of the Company and any NOL carryforwards are subject to review and disallowance, in whole or in part, by the IRS.

A deferred tax liability has not been recognized for the base year reserves of the Bank. The base year reserves are generally the balance of the tax bad debt reserve as of December 31, 1987 reduced proportionately for reductions in the Bank's loan portfolio since that date. At December 31, 2001, the amount of those reserves was $305 million. The amount of the unrecognized deferred tax liability at December 31, 2001 was $107 million. Pursuant to the Act, circumstances that may require an accrual of this unrecorded tax liability are a failure to meet the definition of a "bank" for federal income tax purposes, dividend payments in excess of the greater of current or accumulated earnings and profits, and other distributions, dissolution, liquidation or redemption of stock, excluding preferred stock meeting certain conditions.

(29) Employee Benefit Plans

Postretirement Health Care and Defined Benefit Plans

The Bank provides certain postretirement medical benefits to certain eligible employees and their dependents through age 64. In general, early retirement is age 55 with 10 years of service. Retirees participating in the plans generally pay Consolidated Omnibus Budget Reduction Act premiums for the period of time they participate. The estimated cost for postretirement health care benefits has been accrued on an actuarial net present value basis.

The following table sets forth the changes in the plan's benefit obligations and fair value of plan assets, as well as the funded status at December 31, 2001 and 2000 (in thousands):

	Postretirement Benefits		Non-Qualified Plans Pension Benefits		Qualified Plan Pension Benefits	
	2001	2000	2001	2000	2001	2000
Change in Benefit Obligation						
Benefit obligation at beginning of year	$ 10,370	$ 8,248	$ 15,732	$ 15,355	$103,591	$111,923
Service cost	365	601	--	--	--	--
Interest cost	788	624	1,155	1,041	7,956	7,933
Actuarial (gain) loss	(105)	1,279	1,065	1,229	14,452	(7,769)
Benefits paid	(407)	(382)	(1,646)	(1,893)	(7,600)	(8,496)
Benefit obligation at end of year	$ 11,011	$ 10,370	$ 16,306	$ 15,732	$118,399	$103,591
Change in Plan Assets						
Fair value at beginning of year	$ --	$ --	$ --	$ --	$133,312	$145,777
Actual return on plan assets	--	--	--	--	(5,590)	(3,969)
Employer contribution	407	382	1,647	1,893	--	--
Benefits paid	(407)	(382)	(1,647)	(1,893)	(7,600)	(8,496)
Fair value at end of year	$ --	$ --	$ --	$ --	$120,122	$133,312
Funded status	$(11,011)	$(10,370)	$(16,306)	$(15,732)	$ 1,723	$ 29,721
Unrecognized actuarial loss	--	--	--	--	30,138	(1,565)
Prepaid (accrued) benefit cost recognized in the consolidated balance sheet	$(11,011)	$(10,370)	$(16,306)	$(15,732)	$ 31,861	$ 28,156

Assumptions used in computing the funded status were:

Weighted Average Assumptions as of December 31,	Postretirement Benefits 2001	Postretirement Benefits 2000	Non-Qualified Plans Pension Benefits 2001	Non-Qualified Plans Pension Benefits 2000	Qualified Plan Pension Benefits 2001	Qualified Plan Pension Benefits 2000
Discount rate	7.00%	7.75%	7.00%	7.75%	7.00%	7.50%
Expected return on plan assets	N/A	N/A	9.00	9.00	9.00	9.00
Rate of compensation increase	0.00	0.00	0.00	0.00	0.00	0.00

The initial health care cost trend rate for medical benefits in 2002 is assumed to be 9%, the average trend rate is assumed to be 7% and the ultimate trend rate is assumed to be 5%, which will be reached in 9 years.

At December 31, 2001, an increase of 1% in the health care cost trend rate would cause the accumulated postretirement benefit obligation to increase by $1.2 million, and the service and interest cost to increase by less than $0.2 million. At December 31, 2001, a decrease of 1% in the health care cost trend rate would cause the accumulated postretirement benefit obligation to decrease by $1.0 million and the service and interest costs to decrease by $0.1 million.

The net periodic benefit cost for the years ended December 31, 2001, 2000 and 1999 included the following components (in thousands):

	Postretirement Benefits 2001	Postretirement Benefits 2000	Postretirement Benefits 1999	Qualified and Non-Qualified Pension Benefits 2001	Qualified and Non-Qualified Pension Benefits 2000	Qualified and Non-Qualified Pension Benefits 1999
Service cost	$ 365	$ 601	$ 612	$ --	$ --	$ --
Interest cost	788	624	539	9,111	8,974	9,059
Expected return on plan assets	--	--	--	(11,661)	(12,895)	(12,320)
Recognized net actuarial (gain) loss	(105)	1,279	(717)	1,065	1,228	1,164
Net periodic cost (income)	$1,048	$2,504	$ 434	$ (1,485)	$ (2,693)	$ (2,097)

Defined Contribution Plan

The Bank offers a defined contribution plan, available to substantially all employees with at least six months of employment. Employee contributions are voluntary. The plan provides for the deferral of up to 12% of eligible compensation of plan participants not to exceed the maximum allowed by the IRS. The Bank's matching contribution provides for 100% of the first 3% of employee deferrals and beginning in January 2000, 50% of the next 2% of employee deferrals. The annual discretionary employer profit sharing contribution is a maximum of 2.5% of eligible compensation. It can be declared at any level in the range from 0% to 2.5%. Prior to January 2000, the maximum was 3% of employee deferrals. Employees vest immediately in their own deferrals, employer matching contributions and employer profit sharing contributions. Prior to January 2000, employer matching contributions vested based on completed years of service. The Bank's contributions to such plan totalled $19.3 million, $16.7 million and $14.6 million for the years ended December 31, 2001, 2000 and 1999, respectively.

Effective January 1, 1999, the California Federal Employees' Investment Plan was amended to provide for automatic enrollment into the plan at a contribution rate of 3% unless the employee opts, in writing, to participate at a different deferral rate, or to opt out of the plan. Effective January 15, 1999, the plan was amended to allow the use of certain employer and employee contributions to purchase Golden State Common Stock at market prices. Contributions to the plan were used to purchase 221,315 shares for $6.2 million in 2001, 343,026 shares for $6.3 million in 2000 and 341,024 shares for $6.9 million in 1999. Sales by the plan of Golden State common shares during 2001 were 153,179 shares for $4.4 million; 217,166 shares for $4.5 million in 2000 and 52,126 shares for $1.1 million were sold by the plan in 1999. Effective March 1, 1999, the plan was also amended to reduce the length of required service to six months before an employee can contribute to the plan and to amend the enrollment date to the first of the applicable month.

In connection with the Glen Fed Merger, the Bank assumed sponsorship of the Glendale Federal's defined contribution plan. This plan was frozen at the merger date, therefore no contributions were made to the plan subsequent to the merger date. In the second quarter of 2000, Glendale Federal's plan was merged with the Bank's plan. The fair value of the assets transferred was $40 million.

Stock Plans

At December 31, 2001, 2000 and 1999, the Bank administered the following stock-based compensation plans: pre-merger stock option plans and the Omnibus Stock Plan.

In connection with the Glen Fed Merger, the Bank administered stock option plans that provided for the granting of options of Golden State Common Stock to employees and directors. All pre-merger stock option plans expired on August 18, 1998 as to the making of additional grants. Upon the consummation of the merger on September 11, 1998, substantially all options outstanding became exercisable.

On May 17, 1999, the Omnibus Stock Plan was approved, providing for the granting of Golden State stock options and restricted stock, as well as other instruments, to employees of Golden State and its subsidiaries and affiliates, non-employee directors and to consultants who provide significant services to Golden State. The total number of shares available for grant through March 15, 2009 under the Stock Plan is 7,000,000 shares, which may be issued from treasury or from authorized but unissued shares.

Non-qualified options granted under the stock plan 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.

The following is a summary of the transactions under all stock option plans:

	Number of Shares	Range of Option Prices	Weighted Average Exercise Price
Outstanding at December 31, 1998	1,993,787	$ 9.00 - $35.00	$19.30
Granted	1,352,000	$23.50 - $23.50	$23.50
Cancelled or expired	(276,000)	$23.50 - $28.50	$28.10
Exercised	(508,705)	$ 9.00 - $17.75	$13.44
Outstanding at December 31, 1999	2,561,082	$ 9.00 - $35.00	$21.74
Granted	1,350,850	$12.94 - $21.31	$14.04
Cancelled or expired	(101,200)	$14.00 - $28.50	$21.49
Exercised	(139,334)	$ 9.00 - $28.50	$17.84
Outstanding at December 31, 2000	3,671,398	$ 9.00 - $35.00	$19.06
Granted	1,416,100	$24.15 - $30.80	$28.09
Cancelled or expired	(51,755)	$14.00 - $35.00	$22.59
Exercised	(320,144)	$ 9.00 - $28.50	$19.22
Outstanding at December 31, 2001	4,715,599	$ 9.00 - $35.00	$21.59

Information about stock options outstanding at December 31, 2001 was as follows:

	Options Outstanding			Options Exercisable	
Exercise Price Range	Options Outstanding at End of Year	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Shares Exercisable at End of Year	Weighted Average Exercise Price
$ 9.00 - $12.63	247,750	2.8	$11.27	247,750	$11.27
$12.94 - $17.75	1,553,334	7.3	$14.54	717,709	$15.16
$18.75 - $23.50	1,251,665	7.4	$23.48	834,167	$23.49
$24.15 - $35.00	1,662,850	8.6	$28.31	318,700	$28.89

At December 31, 2001, 2000 and 1999, 2,118,326, 1,504,098 and 1,231,082 options were exercisable, respectively, and the related weighted average exercise prices were $20.05, $20.95 and $19.83, respectively.

No compensation cost was recognized by the Comp any for stock options granted during 2001, 2000 and 1999, 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 Golden State's common stock at the measurement date over the exercise price of the award. At December 31, 2001, 2000 and 1999, options to acquire an equivalent of 861,916, 1,038,416 and 1,231,082 LTW™s were outstanding under all plans.

If compensation cost during 2001, 2000 and 1999 for the Omnibus Stock Plan had been determined based on the fair value of the awards at the grant dates, net income would have been $401.5 million, $346.3 million and $321.3 million, respectively, basic earnings per common share would have been $2.82, $2.49 and $2.46, respectively, and diluted earnings per common share would have been $2.80, $2.43 and $2.29, respectively. The fair values of the options were estimated at the grant date using the Black-Scholes option pricing model, which includes the following assumptions used for the stock options awarded during 2001, 2000 and 1999: risk-free interest rate of 5.05%, 6.60% and 5.60%, respectively; expected option life of seven years in 2001, 2000 and 1999; expected volatility of 52.83%, 52.54% and 41.30%, respectively; and expected dividend yield of 1.43% in 2001, 0.01% in 2000 and no dividends in 1999.

The weighted average grant date fair value of the options granted during 2001, 2000 and 1999 were $14.61, $8.68 and $12.45 per share, respectively. The exercise price of each option equals the market price of Golden State's Common Stock on the date of the grant.

On January 22, 2001, January 24, 2000 and July 19, 1999, the Company awarded 99,108, 220,327 and 56,908 shares of restricted common stock, respectively, to certain of its employees. The market value on the date of each award was $26.38, $14.00 and $22.38 per share, respectively. These shares vest over two years in 50% increments on the anniversary of the grant date, based upon the continued service of the employee. 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. In addition, dividends on restricted stock are recorded as compensation expense with a corresponding increase to additional paid-in capital. During 2001, 2000 and 1999, $1.8 million, $1.9 million and $0.5 million, respectively, in compensation expense was recognized related to such awards. At December 31, 2001, 2000 and 1999, 202,365, 246,756 and 56,908 restricted shares, respectively, were outstanding, of which 143,499, 28,454 and zero shares, respectively, were vested. 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 35.

(30) Incentive Plans

On May 17, 1999, the Golden State Bancorp Inc. ECP was approved, providing for performance-based incentive awards to senior executives of the Company. Awards may be paid in cash; however up to 50% may be payable in restricted common stock granted under the Omnibus Stock Plan discussed in note 29. Compensation expense totalling $10.0 million, $8.7 million and $9.1 million relating to the ECP was recorded during the years ended December 31, 2001, 2000 and 1999, respectively.

Pursuant to the ECP, the Golden State Bancorp Inc. LTIP was approved, providing incentive awards to senior executives of the Company based solely on the performance of the Company's Common Stock over a three-year period. Awards may be paid in cash; however up to 50% may be payable in restricted common stock granted under the Omnibus Stock Plan discussed in note 29. Compensation expense totalling $5.7 million, $4.1 million and $2.0 million relating to the LTIP was recorded during the years ended December 31, 2001, 2000 and 1999, respectively. During the year ended December 31, 2001, $6.0 million in expense relating to the LTIP was also reversed due to specific stock performance triggers of the plan not being met during the prescribed period.

The DECP of the Bank provided for certain payments to participants in the DECP for annual incentives and in the event of a change of control of California Federal. The annual incentive feature of the DECP was terminated in 1998 upon the consummation of the merger of California Federal and Glendale Federal, and all amounts were paid out. No payment was made under the change of control provision because the Compensation Committee of California Federal determined that the merger of California Federal and Glendale Federal was not a change of control within the meaning of the DECP. California Federal subsequently entered into a replacement change of control agreement in 1999 with certain former participants in the DECP, so that amounts that would have been payable under the change of control provisions of the DECP would be paid to the former participants in the DECP who remain employed by California Federal upon the earlier to occur of (1) a change of control of California Federal subsequent to September 11, 1998 or (2) December 31, 2002. Compensation expense totalling $2.3 million relating to the DECP was recognized in each of the years ended December 31, 2001, 2000 and 1999.

(31) Extraordinary Items

During 2000, the FHLB called and the Bank prepaid $400 million in FHLB advances, resulting in extraordinary gains of $3.0 million, net of income taxes of $2.1 million, on the early extinguishment of such borrowings. Also in 2000, the Bank repurchased $2.5 million outstanding principal amount of the $6^{1}/_{2}$% Convertible Subordinated Debentures, resulting in an extraordinary gain of $41 thousand, net of income taxes of $30 thousand, on the early extinguishment of debt.

During the fourth quarter of 1999, the FHLB called and the Bank prepaid $500 million in FHLB advances, resulting in an extraordinary gain of $2.7 million, net of income taxes of $1.9 million, on the early extinguishment of such borrowings.

On December 20, 1999, the Bank repurchased all of the remaining $6.0 million outstanding principal amount of the 11.20% Senior Notes assumed in the SFFed Acquisition, resulting in an extraordinary loss of $0.2 million, net of income taxes of $0.1 million, on the early extinguishment of debt.

(32) Cumulative Effect of Change in Accounting Principle

On September 21, 2000, the EITF issued EITF No. 99-20, which was effective on April 1, 2001. EITF No. 99-20 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 during 2001, 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. Subsequent declines in the fair value of these securities, totalling $7.5 million on a pre-tax basis, were recorded in gain (loss) on sale of assets.

(33) 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.

(34) Goodwill Litigation Assets

In connection with the Cal Fed Acquisition, the Bank recorded as an asset part of the estimated after-tax cash recovery from the California Federal Goodwill Litigation that will inure to the Bank, net of amounts payable to holders of the Litigation Interests and the Secondary Litigation Interests in the Goodwill Litigation Asset. In connection with the Glen Fed Merger, the Bank recorded a second Goodwill Litigation Asset related to the estimated after-tax cash recovery from the Glendale Goodwill Litigation that will inure to the Bank, net of amounts payable to holders of the LTW™s. The Goodwill Litigation Asset related to the California Federal Goodwill Litigation was recorded at its estimated fair value of $100 million, net of estimated tax liabilities, as of January 3, 1997. The Goodwill Litigation Asset related to the Glendale Goodwill Litigation was recorded at its estimated fair value of $56.9 million, net of estimated tax liabilities, as of September 11, 1998. The California Federal Goodwill Litigation Asset of $100 million was distributed on September 11, 1998 to GSB Investments and Hunter's Glen in accordance with the Golden State Merger agreement. See note 24.

(35) Earnings per Common Share

Net income 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 period presented. Information used to calculate basic and diluted EPS is as follows (in thousands, except per share data):

	2001		2000		1999	
	Basic EPS	Diluted EPS	Basic EPS	Diluted EPS	Basic EPS	Diluted EPS
Income before extraordinary items and cumulative effect of change in accounting principle	$410,945	$410,945	$347,480	$347,480	$320,715	$320,715
Extraordinary items	--	--	3,014	3,014	2,472	2,472
Cumulative effect of change in accounting principle	(1,552)	(1,552)	--	--	--	--
Net income	$409,393	$409,393	$350,494	$350,494	$323,187	$323,187
Weighted average common shares outstanding (a)	135,070	135,070	127,153	127,153	130,299	130,299
Issuable Shares (b)	7,457	7,457	11,875	11,875	482	482
Total weighted average basic common shares outstanding	142,527	142,527	139,028	139,028	130,781	130,781
Effect of dilutive securities:						
Options and warrants (c)	--	745	--	2,220	--	5,249
Issuable Shares (b)	--	--	--	1,117	--	4,143
Restricted stock (a)	--	150	--	105	--	5
Total weighted average diluted common shares outstanding (b)	142,527	143,422	139,028	142,470	130,781	140,178
Income before extraordinary items and cumulative effect of change in accounting principle	$ 2.88	$ 2.86	$2.50	$2.44	$2.45	$2.29
Extraordinary items	--	--	0.02	0.02	0.02	0.02
Cumulative effect of change in accounting principle	(0.01)	(0.01)	--	--	--	--
Earnings per common share	$ 2.87	$ 2.85	$2.52	$2.46	$2.47	$2.31

(a) 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) 3,018,256 shares based on the use of pre-merger tax benefits during 2001; (ii) 4,066,472 shares based on the use of pre-merger tax benefits during 2000 and prior; (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.

(Footnotes continued on next page)

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) 1,084,471 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 24, "—Issuable Shares" for a discussion on extinguishment of Issuable Shares.

2000 and 1999 total basic and diluted weighted average shares outstanding include the effect of 5,540,319 shares issued on January 21, 1999 and 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 458,407 shares issued in January 2001 to Hunter's Glen and 1,169,276 shares related to the extinguishment of Issuable Shares distributed 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 and 1999 total basic and diluted weighted average shares outstanding include the effect, as appropriate, of an additional 7,448,870 and 9,609,054 shares, respectively, estimated to be issuable to GSB Investments and Hunter's Glen based on the use of pre-merger tax benefits during 2000 and 1999. See note 24.

(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.

Golden State's diluted shares outstanding were 143,799 thousand, 143,798 thousand and 138,693 thousand at December 31, 2001, 2000 and 1999, respectively.

(36) Commitments, Contingencies and Other Off-Balance-Sheet Activities

Credit Related Financial Instruments

The Company is a party to credit related financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit and commercial letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

The Company's exposure to credit loss is represented by the contractual amount of these commitments. The Company uses the same credit policies in making commitments as it does for on-balance sheet instruments.

Listed below are unfunded financial instruments whose contract amounts represent credit risk (in thousands):

	Contract Amount at December 31,	
	2001	2000
Commitments to extend credit		
Unutilized consumer lines	$1,467,625	$1,225,572
Unutilized commercial lines of credit	263,682	219,219
Commercial and standby letters of credit	24,953	2,112

The contracts for the Company's commitments to extend credit expire as follows (in thousands):

	2001				
	Contract Amount Expiring in				
Commitments to extend credit	Total	Less Than 1 Year	1-3 Years	4-5 Years	More Than 5 Years
Unutilized consumer lines	$1,467,625	$ 511,135	$ 39,181	$ 13,115	$ 904,194
Unutilized commercial lines of credit	263,682	159,705	75,013	15,601	13,363
Commercial and standby letters of credit	24,953	18,272	6,681	--	--

The fair value of commitments to extend credit were not significant at either December 31, 2001 or 2000.

Unutilized consumer lines of credit are commitments to extend credit. These lines are either secured or nonsecured and may be cancelled by the Company if certain conditions of the contract are not met. Many consumer line of credit customers are not expected to fully draw down their total lines of credit and, therefore, the total contractual amount of these lines does not necessarily represent future cash requirements.

Unutilized commitments under commercial lines of credit are commitments for possible future extensions of credit to existing customers. These lines of credit are uncollateralized, usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Company is committed.

Commercial and standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. All letters of credit issued have expiration dates within three years. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company generally holds collateral supporting those commitments in an amount deemed to be necessary.

Off-Balance Sheet Commitments to Originate, Purchase and Sell Loans

The following is a summary of the Company's pipeline of loans in process and mandatory forward commitments to sell loans at December 31, 2001 and 2000 that have not been recorded in the Company's balance sheet as they do not meet the definition of a derivative financial instrument. These amounts exclude commitments to extend credit which are summarized above. For more information on derivative instruments, see note 37.

	Contract Amount at December 31,	
	2001	2000
	(in thousands)	
Commitments to originate loans	$3,937,422	$1,186,393
Commitments to purchase loans	3,791,436	867,867
Mandatory commitments to sell loans	679,182	442,117

The Company's pipeline of loans in process includes loan applications for both portfolio and non-portfolio loans in various stages of processing that do not meet the definition of a derivative financial instrument. Until all required documentation is provided and underwritten, there is no credit risk to the Company. There is no interest rate risk until a rate commitment is extended by the Company to a borrower. Some of these commitments will ultimately be denied by the Company or declined by the borrower and therefore the commitment amounts do not necessarily represent future cash requirements. On a daily basis, the Company determines what percentage of the rate-locked pipeline of loans in process to hedge. Both the anticipated percentage of the pipeline that is expected to fund and the inherent risk position of the portfolio are considered in making this determination.

Mandatory and optional delivery forward commitments to sell loans are used by the Company to hedge its interest rate exposure from the time a loan has a committed rate to the time the loan is sold. These instruments involve varying degrees of credit and interest rate risk. Credit risk on these instruments is controlled through credit approvals, limits and monitoring procedures. To the extent that counterparties are not able to fulfill forward commitments, the Company is at risk for any fluctuations in the market value of the mortgage loans and locked pipeline.

Off-Balance Sheet Embedded Derivative Options

The Company also has off-balance sheet embedded options in borrowings as shown in the table below (in thousands):

	2001		2000	
Instruments	Notional Amount	Estimated Fair Value	Notional Amount	Estimated Fair Value
Interest rate caps	$2,000,000	$52,163	$1,800,000	$ 6,552
Interest rate swaptions	1,250,000	9,448	1,150,000	12,892

The off-balance sheet embedded options in borrowings at December 31, 2001 are scheduled to expire as shown in the table below (in thousands):

	Contract Amount Expiring in:				
Instruments	2002	2003	2004	2005	Total
Interest rate caps	$ --	$400,000	$350,000	$1,250,000	$2,000,000
Interest rate swaptions	--	150,000	--	1,100,000	1,250,000

Commitments and Contingencies

At December 31, 2001, the Bank had pledged as collateral the securities as detailed below (in thousands):

	Securities Available for Sale	Mortgage-backed Securities Available for Sale	Mortgage-backed Securities Held to Maturity	Commercial Paper Investments
Provide credit enhancements for certain bond-financed real estate projects originated by Old FNB	$23,098	$ 12,479	$ 8,137	$ --
Pledged securities for principal and interest on Bank loan securitization	--	172,117	7,802	--
Guarantee credit enhancements on multi-family bond issues and loans securitized by FNMA and FHLMC	1,044	132,368	23,816	--
Guarantee credit enhancements on loans transferred as part of securitization transactions by the Bank	--	--	--	30,320
Guarantee state and local agency deposits, and certain deposits with the Federal Reserve Bank	2,717	289,771	40,172	--
Cover the margin on interest rate swap agreements	--	170,107	66,853	--
Secure various obligations as discussed in notes 8, 9, 18 and 19 at December 31, 2001	--	3,945,448	763,438	--

At December 31, 2000, securities available for sale and mortgage-backed securities available for sale and held to maturity of $20.0 million, $6.5 billion and $2.1 billion, respectively, were pledged as collateral for various obligations.

At December 31, 2001, $27.1 billion in residential loans, $3.6 billion in multifamily loans and $1.6 billion in commercial real estate loans were pledged as collateral for FHLB advances.

At December 31, 2001 and 2000, loans receivable included approximately $5.5 billion and $7.9 billion, respectively, of loans that had the potential to experience negative amortization.

(37) On-Balance Sheet Derivative Instruments and Hedging Activities

Derivative Financial Instruments

Stand alone derivative financial instruments include swaps, futures, forwards, and option contracts, all of which derive their value from underlying interest rates. Embedded derivative financial instruments include interest rate caps and swaptions in borrowings, which are not reflected on the Company's balance sheet, and are discussed in note 36. These transactions involve both credit and market risk. The notional amounts are amounts on which calculations, payments, and the value of the derivative are based. Notional amounts do not represent direct credit exposures. Direct credit exposure is limited to the net difference between the calculated amounts to be received and paid, if any. Such difference, which represents the fair value of the derivative instruments, is reflected on the

Company's balance sheet as derivative assets and derivative liabilities for stand alone derivative financial instruments.

The Company is exposed to credit-related losses in the event of nonperformance by the counterparties to those agreements. The Company controls the credit risk of its financial contracts through credit approvals, limits and monitoring procedures, and does not expect any counterparties to fail their obligations. The Company deals only with primary dealers and the FHLB.

Derivative instruments are generally either negotiated OTC contracts or standardized contracts executed on a recognized exchange. Negotiated OTC derivative contracts are generally entered into between two counterparties that negotiate specific agreement terms, including the underlying instrument, amount, exercise prices and maturity.

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 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 MSR 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

The Company utilizes interest rate swaps primarily as an asset/liability management strategy to hedge against the interest rate risk inherent in variable-rate FHLB advances and securities sold under agreements to repurchase. The following table details the terms of interest rate swap agreements (dollars in thousands):

	December 31, 2001	December 31, 2000
Notional amounts outstanding to hedge borrowings	$4,089,670	$3,219,670
Weighted average maturities (in years)	2.8	4.1

These agreements provided for the Company to receive payments at a variable rate determined by a specified index (three month LIBOR) in exchange for making payments at a fixed rate (dollars in thousands):

	December 31, 2001	December 31, 2000
Weighted average pay rates	5.98%	6.76%
Weighted average receive rates	2.16%	6.73%
Unrealized loss relating to interest rate swaps	$201,825	$75,482

No interest rate swap agreements were terminated prior to maturity in 2001 or 2000. At December 31, 2001, an unrealized loss relating to interest rate swaps was recorded in derivative liabilities in accordance with SFAS No. 133. These losses will be recognized over the life of the FHLB advances or securities sold under agreements to repurchase, as appropriate.

Risk management results for the year ended December 31, 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 year ended December 31, 2001 was $75.5 million.

As of December 31, 2001, approximately $72.0 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 December 31, 2002.

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

Objectives and Context

The Company either purchases or originates MSRs 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 and other variables. Since the adoption of SFAS No. 133 on January 1, 2001, the carrying value of MSRs have been first adjusted upwards or downwards by the calculated change in the fair value of the MSRs being hedged and are then recorded at the lesser of their amortized cost or fair value. Prior to January 1, 2001, MSRs were generally recorded in the financial statements at the lesser of their amortized cost or their fair value.

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 change in fair value of the servicing rights asset associated with fixed rate, non-prepayment penalty loans for which it has recorded MSRs, 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 the change in value of the mortgage servicing portfolio due to expected prepayment risk assumption changes. Although the Company hedges the change in value of its MSRs, its hedge coverage ratio does not equate to 100%. The Company believes it is economically prudent to keep hedge coverage ratios at acceptable risk levels, which may vary depending on current and expected interest rate movement.

Interest Rate Swaps

The Company utilizes interest rate swaps as an asset/liability management strategy to hedge against the change in value of the mortgage servicing portfolio due to expected prepayment risk assumption changes. These 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. The primary risks associated with interest rate swaps are the ability of the counterparties to meet the terms of the contract and the possibility that swap rates may not move in an inverse manner or in an amount equal to mortgage rate movements.

The following table details the terms of interest rate swap agreements (dollars in thousands):

	December 31, 2001	December 31, 2000
Notional amount outstanding	$2,462,000	$1,345,000
Weighted average maturity outstanding (in years)	9.5	10

These agreements provided for the Company to make payments at a variable-rate determined by a specified index (three-month LIBOR) in exchange for receiving payments at a fixed-rate (dollars in thousands):

	December 31, 2001	December 31, 2000
Weighted average pay rate	1.88%	6.40%
Weighted average receive rate	5.68%	6.21%
Unrealized gain relating to use of interest rate swaps	$7,561	$5,099

No interest rate swap agreements were terminated prior to maturity in 2001 and 2000. At December 31, 2001, the unrealized gain relating to use of interest rate swaps was recorded in derivative assets in accordance with SFAS No. 133.

Principal Only Swaps

The Company utilizes PO swap agreements to hedge against the change in value of the mortgage servicing portfolio due to expected prepayment risk assumption changes. 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, which act in a manner similar to IO strips. 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. The contracts executed prior to December 31, 1998 call for the Company to pay floating interest to the counterparty based on: (a) an index tied to one month LIBOR and (b) the amortized notional balance of the swap. The contracts call for the Company to receive cash from the counterparty based on the cash flows received from the PO strip. For PO swap agreements executed after December 31, 1998, the agreement also requires the PO swap to be marked to market value. 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 nature of this instrument results in increased cash flows and positive changes in the value of the PO swap during a declining interest rate environment. This positive change in the value of the PO swap is highly correlated to prepayment activity. PO swap agreements present yield curve risk to the extent that short term interest rates (which impact the cash amount that the Company pays on the PO swap to the counterparty) rise while long term rates (which drive prepayment rates) stay the same. A third type of risk associated with PO swaps is the ability of the counterparties to meet the terms of the contract.

The following table details the terms of PO swap agreements (in thousands):

	December 31,	
	2001	2000
Notional amounts outstanding – PO swap assets	$288,941	$89,323
Fair market value – PO swap assets	7,487	6,384
Notional amounts outstanding – PO swap liabilities	89,987	103,776
Fair market value – PO swap liabilities	(1,076)	(5,182)

No PO swap agreements were terminated prior to maturity in 2001 or 2000.

Interest Rate Floors

The Company currently uses interest rate floors to hedge against the change in value of the mortgage servicing portfolio due to expected prepayment risk assumption changes. Interest rate floors are interest rate protection instruments that involve payment from the seller to the buyer of an interest differential. This differential is the difference between a long-term rate (*e.g.*, 10-year Constant Maturity Swaps in 2001 and 2000) 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 on a monthly basis by a counterparty, when the current long-term rate falls below the strike level of the agreement. The fair value of interest rate floor agreements is included in derivative assets or liabilities. Interest rate floors are subject to basis risk because of differences in movements of mortgage and LIBOR rates, market volatility and the impact of changes in the yield curve. In addition, a credit risk associated with purchased interest rate floor agreements is the ability of the counterparties to meet the terms of the contract.

The Company was party to interest rate floor contracts as detailed below (dollars in thousands):

	December 31,	
	2001	2000
Weighted average maturity (in years)	4.9	4.9
Notional amount of remaining interest rate floor contracts	$3,054,000	$2,338,000
Weighted average strike rate	6.36%	6.25%
Monthly floating rate	5.82%	6.15%
Strike rate exceeded floating rate	0.54%	0.10%
Cash received from interest rate floor contracts	$ 5,194	$ 224
Proceeds from sales of interest rate floor contracts	$ 151,715	$ 50,608
Fair value amount	$ 78,917	$ 52,839

Interest Rate Swaptions

The Company also uses swaptions to hedge against the change in value of the mortgage servicing portfolio due to expected prepayment risk assumption changes. 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. Swaptions are subject to basis risk because of differences in movements of mortgage and LIBOR rates, market volatility and the impact of changes in the yield curve. In addition, credit risk associated with swaptions is the ability of the counterparties to meet the terms of the contract.

At December 31, 2001 and 2000, the Company was a party to swaption contracts with a weighted average maturity of 2.4 years and 2.8 years, respectively, in which the Company paid the counterparties premiums in exchange for the right but not the obligation to purchase an interest rate swap agreement. Under the terms of the underlying interest rate swap agreement, the Company would pay the variable rate tied to three month LIBOR and would receive the fixed rate.

The Company was a party to swaption contracts with details below (dollars in thousands):

	December 31,	
	2001	2000
Notional amount of underlying interest rate swap contracts	$4,111,000	$2,178,000
Weighted average strike rate	6.39%	6.44%
Three-month LIBOR rate	1.88%	6.40%
Strike rate exceeded floating rate	4.51%	0.04%
Proceeds received from sales of swaption contracts	$ 488,143	$ 50,505
Fair market value	$ 183,641	$ 105,626

Results

Risk management results related to the hedging of MSRs are summarized below and are included in the caption entitled "Loan servicing fees, net" in the accompanying consolidated statements of income for 2001 (in thousands):

Gain on designated derivative contracts	$83,286
Decrease in value of designated MSRs	(3,338)
Net gain on derivatives used to hedge MSRs	$79,948

MSR Hedges

At December 31, 2001 and 2000, the Bank held cash collateral in the amount of $95.2 million and $20 million, respectively, related to interest rate derivatives used to hedge MSRs.

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 carried at fair market value, less the values associated with servicing (for those loans which qualify for fair value hedging under SFAS No. 133) or at the lower of aggregate amortized cost or fair market value (for those loans which do not qualify for fair value hedging under SFAS No. 133). 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 for 2001 (in thousands):

Unrealized gain on designated forward loan sale commitments recognized	$ 25,406
Decrease in value of warehouse loans	(29,728)
Net hedge ineffectiveness	$ (4,322)

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 for the origination and/or purchase of loans. 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 for 2001 (in thousands):

Unrealized gain on undesignated forward loan sale commitments recognized to income	$ 11,473
Loss on undesignated interest rate loan commitments recognized to income (a)	(13,269)
Net loss on derivatives	$ (1,796)

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(a) The fair value of interest rate loan commitments excludes the net servicing value of $9.2 million.

Notional Amounts of Derivatives

Information pertaining to the notional amounts of the Company's derivative financial instruments utilized in both MSR and balance sheet hedging is as follows (in thousands). In 2001, the fair values of these derivative financial instruments were recorded in the Company's balance sheet in accordance with SFAS No. 133.

	December 31, 2001		December 31, 2000	
	Notional Amount	Credit Risk (1)	Notional Amount	Credit Risk (1)
Interest rate swaps - borrowings	$ 4,089,670	$ --	$ 3,219,670	$ --
Interest rate swaps hedging MSRs	2,462,000	7,561	1,345,000	5,099
Principal only swaps	378,928	6,411	193,099	1,202
Interest rate floors	3,054,000	78,917	2,338,000	52,839
Interest rate swaptions	4,111,000	183,641	2,178,000	105,626
Forward loan sale commitments	3,980,863	36,879	679,487	--
Interest rate lock commitments	1,870,852	--	270,442	--
Total	$19,947,313	$313,409	$10,223,698	$164,766

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(1) Credit risk represents the amount of unrealized gain included in derivative assets which is subject to counterparty credit risk. It reflects the effect of master netting agreements and excludes $95.2 million and $20 million cash collateral held by the Bank at December 31, 2001 and 2000, respectively.

Derivative financial instruments used for other-than-trading purposes at December 31, 2001 are scheduled to mature as follows (in thousands):

	Notional Amounts						
	2002	2003	2004	2005	2006	Thereafter	Total
Interest rate swaps - borrowings	$ 400,000	$ 715,000	$1,685,000	$519,670	$ 750,000	$ 20,000	$ 4,089,670
Interest rate swaps hedging MSRs	--	--	--	--	--	2,462,000	2,462,000
Principal only swaps	204,286	--	44,896	--	--	129,746	378,928
Interest rate floors	--	--	--	--	3,054,000	--	3,054,000
Interest rate swaptions	110,000	2,049,000	1,952,000	--	--	--	4,111,000
Forward loan sale commitments	3,980,863	--	--	--	--	--	3,980,863
Interest rate lock commitments	1,870,852	--	--	--	--	--	1,870,852
Total	$6,566,001	$2,764,000	$3,681,896	$519,670	$3,804,000	$2,611,746	$19,947,313

For year-end fair values of derivative financial instruments used for other-than-trading purposes at December 31, 2001 and 2000, see note 38.

(38) Fair Value of Financial Instruments

The following table presents the carrying amounts and fair values of the Company's financial instruments (in thousands):

	December 31,			
	2001		2000	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets:				
Cash and cash equivalents	$ 805,201	$ 805,201	$ 783,146	$ 783,146
Securities available for sale	116,112	116,112	641,205	641,205
Securities held to maturity	30,602	30,602	587,503	590,571
Mortgage-backed securities available for sale	7,057,903	7,057,903	9,866,823	9,866,823
Mortgage-backed securities held to maturity	1,385,113	1,411,157	2,886,612	2,959,677
Loans held for sale	2,608,365	2,617,435	845,763	851,856
Loans receivable, net	39,335,623	39,743,756	39,592,814	39,262,610
Investment in FHLB	1,446,607	1,446,607	1,361,066	1,361,066
Accrued interest receivable	288,308	288,308	364,414	364,414
MSRs (a)	1,623,947	1,639,255	1,559,323	1,474,096
Financial Liabilities:				
Deposits	25,134,078	25,226,867	23,429,754	23,422,173
Securities sold under agreements to repurchase	2,363,945	2,365,311	4,511,309	4,555,425
Borrowings	24,444,541	24,886,860	28,800,557	28,802,601
On-balance Sheet Derivatives:				
Interest rate swaps hedging borrowings	(201,825)	(201,825)	--	--
Interest rate swaps hedging MSRs	7,561	7,561	--	--
Principal only swaps	6,411	6,411	--	--
Interest rate floors	78,917	78,917	--	--
Interest rate swaptions	183,641	183,641	--	--
Interest rate lock commitments (b)	(13,269)	(4,028)	--	--
Forward loan sale commitments	36,879	36,879	--	--
Total derivative assets and liabilities	98,315	107,556		
Off-balance Sheet Financial Instruments:				
Interest rate swaps hedging borrowings	--	--	--	(75,482)
Interest rate swaps hedging MSRs	--	--	--	5,099
Principal only swaps	--	--	--	1,202
Interest rate floors	--	--	--	52,839
Interest rate swaptions	--	--	--	105,626
Interest rate lock commitments	--	--	--	3,635
Forward loan sale commitments	--	--	--	(5,340)
Embedded derivative options in borrowings:				
Interest rate caps	--	52,163	--	6,552
Interest rate swaptions	--	9,448	--	12,892

(Continued)

(a) Fair value amounts presented for MSRs do not include the fair values of interest rate floor contracts, interest rate swaps, principal only swaps and interest rate swaptions. Prior to January 1, 2001, the MSR carrying value included unamortized premiums associated with interest rate floors and interest rate swaptions. The combined fair value of MSRs and the related derivatives is $1.9 billion and $1.6 billion at December 31, 2001 and 2000, respectively.

(b) The carrying value of interest rate lock commitments does not include the net servicing value, which when the loans are funded should result in a greater fair value than the carrying value.

The following summary presents a description of the methodologies and assumptions used to estimate the fair value of the Company's financial instruments. Much of the information used to determine fair value is highly subjective. When applicable, readily available market information has been utilized. However, considerable judgment is required in estimating fair value for certain items. The subjective factors include, among other things, the estimated timing and amount of cash flows, risk characteristics, and interest rates, all of which are subject to change.

Cash and cash equivalents: Cash and cash equivalents are valued at their carrying amounts included in the consolidated statement of financial condition, which are reasonable estimates of fair value due to the relatively short period to maturity of the instruments.

Securities and mortgage-backed securities: Securities and mortgage-backed securities are valued at quoted market prices where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

Loans held for sale: Loans held for sale are valued based on quoted market prices for mortgage-backed securities backed by similar loans.

Loans receivable, net: Fair values are estimated for loans in groups with similar financial and risk characteristics. Loans are segregated by type including residential, multi-family and commercial. Each loan type is further segmented into fixed and variable interest rate terms and by performing and non-performing categories in order to estimate fair values.

For performing residential mortgage loans, fair value is estimated by forecasting principal and interest payments, both scheduled and prepayments, and discounting these amounts using factors provided by secondary market sources. The fair value of performing commercial and multi-family loans is calculated by discounting scheduled principal and interest cash flows through the estimated maturity using estimated market discount rates that reflect the credit and interest rate risk inherent in the respective loan type.

Fair value for non-performing loans is estimated by discounting the forecasted cash flows using a rate commensurate with the risk associated with the estimated cash flows, or underlying collateral values, where appropriate.

Investment in FHLB: Since no secondary market exists for FHLB stock and the FHLB buys and sells the stock at par, fair value of these financial instruments approximates the carrying value.

Accrued interest: The carrying amounts of accrued interest approximate their fair values.

Mortgage servicing rights: The fair value of MSRs is based on market prices for comparable mortgage servicing contracts, when available, or alternatively a valuation model that calculates the present value of future net servicing income. In using the valuation model, the Company incorporates assumptions that market participants would use in estimating future net servicing income, which include estimates of the cost to service, the discount rate, custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. The following assumptions were used in estimating the fair value of residential MSRs; the fair value of commercial real estate and commercial banking MSRs is considered to be immaterial.

	December 31,	
	2001	2000
Weighted average default rate	1.03%	0.99%
Weighted average prepayment rate (CPR)	11.58%	12.78%
Weighted average discount rate	9.60%	10.20%

Deposits: The fair values of demand deposits, passbook accounts, money market accounts, and other deposits immediately withdrawable, by definition, approximate carrying values for the respective financial instruments. For fixed maturity deposits, the fair value was estimated by discounting expected cash flows by the current offering rates of deposits with similar terms and maturities.

Securities sold under agreements to repurchase: The fair value of securities sold under agreements to repurchase is estimated using a discounted cash flow analysis based on interest rates currently offered on such repurchase agreements with similar maturities.

Borrowings: The fair value of borrowings, other than FHLB advances, is estimated using discounted cash flow analyses based on current incremental rates for similar borrowing arrangements. The fair values of FHLB advances are estimated using a discounted cash flow analysis based on interest rates currently offered on advances with similar maturities.

On-balance Sheet Derivative Financial Instruments and Embedded Derivative Options: Derivative financial instruments are recorded at fair value based on the estimated amounts that the Company would receive or pay to terminate the contracts at the reporting date (*i.e.*, mark-to-market value). Dealer quotes are available for those derivative financial instruments hedging the Company's liabilities. The Company uses an independent consultant to model the value of the derivative financial instruments hedging MSRs.

Off-balance Sheet Financial Instruments - Loan Commitments:

The Company has two types of off-balance sheet loan commitments: (1) commitments for commercial loans originated for portfolio and (2) commitments for residential loans originated for portfolio.

These loan commitments are off-balance sheet because they do not meet the definition of a derivative as described in SFAS No. 133. The fair value of commitments for commercial loans originated for portfolio is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of commitments for residential loans originated for portfolio is estimated using as a basis the fair value of similar commitments for residential loans that meet the definition of a derivative and which are readily convertible to cash.

(39) Selected Quarterly Financial Data (Unaudited)

The following table presents selected unaudited quarterly financial data for the years ended December 31, 2001 and 2000 (in thousands, except per share data):

	Quarter Ended				
	December 31, 2001	September 30, 2001	June 30, 2001	March 31, 2001	Total 2001
Total interest income	$ 893,503	$ 988,557	$1,027,531	$1,059,057	$ 3,968,648
Total interest expense	(535,235)	(632,073)	(691,143)	(748,707)	(2,607,158)
Net interest income	358,268	356,484	336,388	310,350	1,361,490
Total noninterest income	96,528	85,949	109,594	58,847	350,918
Total noninterest expense	(249,833)	(247,288)	(246,866)	(235,356)	(979,343)
Income before income taxes, minority interest and cumulative effect of change in accounting principle	204,963	195,145	199,116	133,841	733,065
Income tax expense	(89,162)	(85,138)	(83,387)	(34,308)	(291,995)
Minority interest: provision in lieu of income tax expense	110	--	(3,247)	--	(3,137)
Minority interest: other	(6,747)	(6,747)	(6,747)	(6,747)	(26,988)
Income before cumulative effect of change in accounting principle	109,164	103,260	105,735	92,786	410,945
Cumulative effect of change in accounting principle, net of tax	--	--	(1,552)	--	(1,552)
Net income	$ 109,164	$ 103,260	$ 104,183	$ 92,786	$ 409,393
Earnings per share:					
Basic					
Income before cumulative effect of change in accounting principle	$0.76	$0.73	$ 0.74	$0.65	$ 2.88
Cumulative effect of change in accounting principle	--	--	(0.01)	--	(0.01)
Net income	$0.76	$0.73	$ 0.73	$0.65	$ 2.87
Diluted					
Income before cumulative effect of change in accounting principle	$0.76	$0.72	$ 0.73	$0.65	$ 2.86
Cumulative effect of change in accounting principle	--	--	(0.01)	--	(0.01)
Net income	$0.76	$0.72	$ 0.72	$0.65	$ 2.85
Dividends declared per common share	$0.10	$0.10	$ 0.10	$0.10	$ 0.40

	Quarter Ended				
	December 31, 2000	September 30, 2000	June 30, 2000	March 31, 2000	Total 2000
Total interest income	$1,060,382	$1,055,890	$1,022,871	$ 966,654	$ 4,105,797
Total interest expense	(776,649)	(770,244)	(732,554)	(679,551)	(2,958,998)
Net interest income	283,733	285,646	290,317	287,103	1,146,799
Total noninterest income	116,950	111,966	104,567	107,282	440,765
Total noninterest expense	(230,034)	(228,326)	(227,717)	(227,162)	(913,239)
Income before income taxes, minority interest and extraordinary items	170,649	169,286	167,167	167,223	674,325
Income tax (expense) benefit	(74,560)	(73,976)	(73,139)	84,894	(136,781)
Minority interest: provision in lieu of income tax expense	--	--	--	(161,688)	(161,688)
Minority interest: other	(6,796)	(6,797)	(8,184)	(6,599)	(28,376)
Income before extraordinary items	89,293	88,513	85,844	83,830	347,480
Extraordinary items – gains on early extinguishment of debt, net of tax	--	--	1,808	1,206	3,014
Net income	$ 89,293	$ 88,513	$ 87,652	$ 85,036	$ 350,494
Earnings per share:					
Basic					
Income before extraordinary items	$0.63	$0.63	$0.62	$0.62	$2.50
Extraordinary items	--	--	0.01	0.01	0.02
Net income	$0.63	$0.63	$0.63	$0.63	$2.52
Diluted					
Income before extraordinary items	$0.63	$0.62	$0.60	$0.59	$2.44
Extraordinary items	--	--	0.01	0.01	0.02
Net income	$0.63	$0.62	$0.61	$0.60	$2.46
Dividends declared per common share	$0.10	$0.10	$ --	$ --	$0.20

(40) Condensed Parent Company Financial Information

The following represents condensed balance sheets of the Company (parent company only) (in thousands):

	December 31,	
	2001	2000
Assets		
Cash	$ 8,242	$ 30,114
Investments in subsidiaries	2,657,204	2,340,843
Other assets	6,294	26,466
Total	$2,671,740	$2,397,423
Liabilities and Stockholders' Equity		
Other liabilities	$ 102,305	$ 246,689
Total liabilities	102,305	246,689
Total stockholders' equity	2,569,435	2,150,734
Total liabilities and stockholders' equity	$2,671,740	$2,397,423

The following represents parent company only condensed statements of income (in thousands):

	Year Ended December 31,		
	2001	2000	1999
Interest income	$ --	$ --	$ 47
Loss on assets	(4,098)	--	--
Dividends received from subsidiary	135,000	96,000	230,500
Total income	130,902	96,000	230,547
Interest expense	122	1,202	--
Noninterest expense	5,467	4,434	4,082
Total expense	5,589	5,636	4,082
Income before equity in undistributed net income of subsidiaries	125,313	90,364	226,465
Equity in undistributed net income of subsidiaries	283,261	420,905	102,562
Income before income taxes and minority interest	408,574	511,269	329,027
Income tax benefit	(3,956)	(2,302)	(42,293)
Income before minority interest	412,530	513,571	371,320
Minority interest – Provision in lieu of income taxes	3,247	161,688	43,679
Minority interest – Due to GSB Investments and Hunter's Glen	(110)	1,389	4,454
Net income	$409,393	$350,494	$323,187

The following represents parent company only statements of cash flows (in thousands):

	Year Ended December 31,		
	2001	2000	1999
Cash flows from operating activities:			
Net income	$ 409,393	$ 350,494	$ 323,187
Adjustments to reconcile net income to net cash provided by operating activities:			
Decrease (increase) in other assets	17,293	(16,063)	(24,656)
(Decrease) increase in other liabilities	(50,913)	38,618	34,721
Loss on assets	4,098	--	--
Minority interest – Provision in lieu of income taxes	3,247	161,688	43,679
Minority interest – Due to GSB Investments and Hunter's Glen	(110)	1,389	4,454
Equity in undistributed net income of subsidiaries	(283,261)	(420,905)	(102,562)
Net cash provided by operating activities	99,747	115,221	278,823
Cash flows from investing activities:			
Capital contribution to subsidiaries	(10,500)	(40,500)	(52,500)
Purchase of securities	--	(4,098)	--
Merger with Golden State Financial Corporation	--	--	959
Net cash used in investing activities	(10,500)	(44,598)	(51,541)
Cash flows from financing activities:			
Purchase of treasury stock	(749)	(63,724)	(250,245)
Exercise of stock options and warrants	7,767	131,873	7,880
Sale of treasury stock	--	134	979
Extinguishment of Issuable Shares	(64,000)	(85,000)	--
Dividends	(54,137)	(26,444)	--
Net cash used in financing activities	(111,119)	(43,161)	(241,386)
Net change in cash and cash equivalents	(21,872)	27,462	(14,104)
Cash and cash equivalents at beginning of year	30,114	2,652	16,756
Cash and cash equivalents at end of year	$ 8,242	$ 30,114	$ 2,652

Supplemental Disclosure of Cash Flow Information:

	Year Ended December 31,		
	2001	2000	1999
		(in thousands)	
Cash received for:			
Income taxes, net	$ (7,420)	$ (28,845)	$(54,710)
Non-cash financing activities:			
Adjustment to initial dividend of tax benefits to former parent due to deconsolidation	--	--	(15,519)
Distribution of Issuable Shares	(20,000)	(100,000)	(5,540)
Issuable Shares (usage of pre-merger NOLs)	98,217	166,484	197,562
Adjustment to additional paid-in capital and Issuable Shares for changes to tax benefits	14,422	--	--
Issuable Shares adjustment for tax refund and related interest	--	1,389	--
Adjustment to pre-merger tax benefits retained by previous owners FN Holdings	(24,694)	(39,305)	--
Reclassification of LTW™s owned by the Bank	--	--	(1,987)
Adjustment to contribution receivable from GSB Investments and Hunter's Glen in respect of their proportionate ownership of the California Federal Goodwill Litigation Asset	658	3,451	(24,081)
Impact of restricted common stock	3,458	3,175	477
Extinguishment of Issuable Shares:			
Reduction of Issuable Shares	(11,000)	(53,312)	--
Increase to other liabilities	700	38,911	--
Increase to additional paid-in-capital	10,300	14,401	--
Reversal of previously capitalized costs – 2000 extinguishment of Issuable Shares	998	--	--
Dividend of tax asset from subsidiary	10,551	--	--