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

FORM 10-Q

(Mark one)

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

For the quarterly period ended September 30, 2002

or

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

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

Commission File Number: 000-24915

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

Delaware	95-4669792
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
135 Main Street, San Francisco, CA	94105
(Address of principal executive offices)	(Zip Code)

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

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

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

The number of shares outstanding of registrant's $1.00 par value common stock, as of the close of business on October 31, 2002: 1,000 shares.

GOLDEN STATE HOLDINGS INC.
THIRD QUARTER 2002 REPORT ON FORM 10-Q
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GOLDEN STATE HOLDINGS INC. AND SUBSIDIARIES
Consolidated Balance Sheets
September 30, 2002 and December 31, 2001
(Unaudited)
(dollars in thousands, except per share data)

Assets	September 30, 2002	December 31, 2001
Cash and due from banks	$ 795,795	$ 709,139
Interest-bearing deposits in other banks	1,302,952	103
Short-term investment securities	89,400	95,929
Cash and cash equivalents	2,188,147	805,171
Securities available for sale, at fair value	109,816	116,054
Securities held to maturity	17,379	30,602
Mortgage-backed securities available for sale, at fair value	3,879,741	7,057,903
Mortgage-backed securities held to maturity	1,100,407	1,385,113
Loans held for sale, net	1,954,851	2,608,365
Loans receivable, net	36,862,720	39,335,623
Investment in FHLB System	1,105,423	1,446,607
Premises and equipment, net	260,222	276,411
Foreclosed real estate, net	11,986	18,564
Accrued interest receivable	247,413	288,308
Goodwill (net of accumulated amortization of $286,470 at both September 30, 2002 and December 31, 2001)	563,726	590,420
Other intangible assets (net of accumulated amortization of $23,042 at September 30, 2002 and $19,541 at December 31, 2001)	46,922	50,423
MSRs (net of valuation allowance of $274,080 at September 30, 2002 and $153,345 at December 31, 2001)	1,002,755	1,623,947
Derivative assets	233,623	349,026
Other assets	843,554	536,281
Total assets	$50,428,685	$56,518,818
Liabilities, Minority Interest and Stockholder's Equity		
Deposits	$25,100,210	$25,146,827
Securities sold under agreements to repurchase	1,961,157	2,363,945
Borrowings	18,413,733	24,444,541
Derivative liabilities	372,910	250,711
Other liabilities	1,231,494	1,188,005
Total liabilities	47,079,504	53,394,029
Commitments and contingencies	--	--
Minority interest	500,000	500,000
Stockholder's equity		
Common stock, $1.00 par value, 1,000 shares authorized, issued and outstanding	1	1
Additional paid-in capital	1,576,362	1,569,894
Accumulated other comprehensive loss, net	(139,052)	(63,327)
Retained earnings (substantially restricted)	1,411,870	1,118,221
Total stockholder's equity	2,849,181	2,624,789
Total liabilities, minority interest and stockholder's equity	$50,428,685	$56,518,818

See accompanying notes to unaudited consolidated financial statements.

GOLDEN STATE HOLDINGS INC. AND SUBSIDIARIES
Consolidated Statements of Income
Nine Months Ended September 30, 2002 and 2001
(Unaudited)
(in thousands)

	Nine Months Ended September 30, 2002	2001
Interest income:		
Loans receivable	$1,903,553	$2,286,425
Mortgage-backed securities available for sale	229,562	486,859
Mortgage-backed securities held to maturity	56,126	99,401
Loans held for sale	94,700	99,241
Securities available for sale	4,900	16,902
Securities held to maturity	399	22,058
Interest-bearing deposits in other banks	2,585	808
Dividends on FHLB stock	56,811	63,451
Other	14,763	--
Total interest income	2,363,399	3,075,145
Interest expense:		
Deposits	377,583	666,343
Securities sold under agreements to repurchase	60,616	166,858
Borrowings	847,607	1,238,600
Other	2,384	--
Total interest expense	1,288,190	2,071,801
Net interest income	1,075,209	1,003,344
Noninterest income:		
Loan servicing fees, net	(62,901)	(35,652)
Customer banking fees and service charges	181,603	160,991
Gain on sale, settlement and transfer of loans, net	74,904	69,050
(Loss) gain on sale of assets, net	(469)	21,976
Other income	14,788	43,974
Total noninterest income	207,925	260,339
Noninterest expense:		
Compensation and employee benefits	365,449	345,993
Occupancy and equipment	123,238	119,135
Professional fees	23,999	25,185
Loan expense	10,962	12,683
Foreclosed real estate operations, net	(1,366)	(1,239)
Amortization of goodwill and other intangible assets	3,501	44,821
Other expense	168,782	168,052
Total noninterest expense	694,565	714,630
Income before income taxes, minority interest and cumulative effect of change in accounting principle	588,569	549,053
Income tax expense	194,680	211,253
Minority interest	20,240	20,241
Income before cumulative effect of change in accounting principle	373,649	317,559
Cumulative effect of change in accounting principle, net of applicable taxes of $1,072 in 2001	--	(1,552)
Net income	$ 373,649	$ 316,007

See accompanying notes to unaudited consolidated financial statements.

GOLDEN STATE HOLDINGS INC. AND SUBSIDIARIES
Consolidated Statements of Income
Three Months Ended September 30, 2002 and 2001
(Unaudited)
(in thousands)

	Three Months Ended September 30,	
	2002	2001
Interest income:		
Loans receivable	$612,551	$745,411
Mortgage-backed securities available for sale	61,064	141,882
Mortgage-backed securities held to maturity	16,396	28,418
Loans held for sale	23,997	46,565
Securities available for sale	1,619	2,327
Securities held to maturity	123	5,606
Interest-bearing deposits in other banks	2,427	269
Dividends on FHLB stock	16,019	18,079
Other	2,685	--
Total interest income	736,881	988,557
Interest expense:		
Deposits	116,721	201,854
Securities sold under agreements to repurchase	18,262	45,466
Borrowings	263,759	384,753
Other	929	--
Total interest expense	399,671	632,073
Net interest income	337,210	356,484
Noninterest income:		
Loan servicing fees, net	43,685	(28,746)
Customer banking fees and service charges	62,583	55,171
Gain on sale, settlement and transfer of loans, net	19,389	47,165
(Loss) gain on sale of assets, net	(8,851)	5,755
Other income	3,151	7,534
Total noninterest income	119,957	86,879
Noninterest expense:		
Compensation and employee benefits	122,854	114,796
Occupancy and equipment	42,226	41,334
Professional fees	7,930	10,535
Loan expense	3,431	4,114
Foreclosed real estate operations, net	(695)	(386)
Amortization of goodwill and other intangible assets	1,167	14,941
Other expense	60,614	56,888
Total noninterest expense	237,527	242,222
Income before income taxes and minority interest	219,640	201,141
Income tax expense	81,073	87,544
Minority interest	6,746	6,747
Net income	$131,821	$106,850

See accompanying notes to unaudited consolidated financial statements.

GOLDEN STATE HOLDINGS INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
Nine Months Ended September 30, 2002 and 2001
(Unaudited)
(in thousands)

	Nine Months Ended September 30,	
	2002	2001
Net income	$ 373,649	$ 316,007
Other comprehensive (loss) income, net of tax:		
Unrealized holding (loss) gain on securities available for sale:		
Unrealized holding (loss) gain arising during the period	(3,378)	148,627
Less: reclassification adjustment for gain included in net income	(1,202)	(15,483)
	(4,580)	133,144
Amortization of market adjustment for securities transferred from available-for-sale to held-to-maturity	--	17,912
Transition adjustment upon adoption of SFAS No. 133	--	(44,647)
Unrealized loss on derivatives used for cash flow hedges:		
Unrealized holding loss arising during the period	(147,888)	(127,349)
Less: reclassification adjustment for loss included in net income	76,743	25,406
Change in fair value of derivatives used for cash flow hedges, net of applicable taxes of $49,133 in 2002 and $70,402 in 2001	(71,145)	(101,943)
Other comprehensive (loss) income	(75,725)	4,466
Comprehensive income	$ 297,924	$ 320,473

See accompanying notes to unaudited consolidated financial statements.

GOLDEN STATE HOLDINGS INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
Three Months Ended September 30, 2002 and 2001
(Unaudited)
(in thousands)

	Three Months Ended September 30,	
	2002	2001
Net income	$131,821	$106,850
Other comprehensive loss, net of tax:		
Unrealized holding (loss) gain on securities available for sale:		
Unrealized holding (loss) gain arising during the period	(1,193)	50,462
Less: reclassification adjustment for gain included in net income	--	(5,911)
	(1,193)	44,551
Amortization of market adjustment for securities transferred from available-for-sale to held-to-maturity	--	14,446
Unrealized loss on derivatives used for cash flow hedges:		
Unrealized holding loss arising during the period	(79,602)	(98,672)
Less: reclassification adjustment for loss included in net income	25,315	13,489
Change in fair value of derivatives used for cash flow hedges, net of applicable taxes of $37,491 in 2002 and $58,828 in 2001	(54,287)	(85,183)
Other comprehensive loss	(55,480)	(26,186)
Comprehensive income	$ 76,341	$ 80,664

See accompanying notes to unaudited consolidated financial statements.

GOLDEN STATE HOLDINGS INC. AND SUBSIDIARIES
Consolidated Statement of Stockholder's Equity
Nine Months Ended September 30, 2002
(Unaudited)
(in thousands)

	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss), Net: Securities	Derivatives	Total	Retained Earnings (Substantially Restricted)	Total Stockholder's Equity
Balance at December 31, 2001	$ 1	$1,569,894	$56,052	$(119,379)	$ (63,327)	$1,118,221	$2,624,789
Net income	--	--	--	--	--	373,649	373,649
Dividends to parent	--	--	--	--	--	(80,000)	(80,000)
Change in net unrealized holding gain on securities available for sale	--	--	(4,580)	--	(4,580)	--	(4,580)
Change in net unrealized holding loss on derivatives	--	--	--	(71,145)	(71,145)	--	(71,145)
Impact of Golden State restricted common stock	--	3,040	--	--	--	--	3,040
Tax benefit on exercise of stock options	--	3,428	--	--	--	--	3,428
Balance at September 30, 2002	$ 1	$1,576,362	$51,472	$(190,524)	$(139,052)	$1,411,870	$2,849,181

See accompanying notes to unaudited consolidated financial statements.

GOLDEN STATE HOLDINGS INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
Nine Months Ended September 30, 2002 and 2001
(Unaudited)
(in thousands)

	Nine Months Ended September 30, 2002	Nine Months Ended September 30, 2001
Cash flows from operating activities:		
Net income	$ 373,649	$ 316,007
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Amortization of goodwill and other intangible assets	3,501	44,821
Amortization of purchase accounting premiums and discounts, net	7,592	8,125
Accretion of discount on borrowings	688	818
Amortization of MSRs	326,269	219,793
Loss (gain) on sale of assets, net	469	(21,976)
Gain on sale of foreclosed real estate, net	(1,994)	(2,438)
Loss on sale, settlement and transfer of loans, net	274,356	184,371
Capitalization of originated MSRs	(349,260)	(253,421)
Depreciation and amortization of premises and equipment	39,907	39,903
Amortization of deferred debt issuance costs	4,480	5,283
FHLB stock dividends	(56,811)	(63,451)
Purchases and originations of loans held for sale	(14,701,581)	(12,205,482)
Net proceeds from the sale of loans held for sale	15,046,828	10,933,006
Net gain on derivatives used to hedge MSRs	(33,855)	(29,491)
Provision for loss on MSRs	120,735	158,000
Increase in other assets	(169,297)	(289,628)
Decrease in accrued interest receivable	40,895	36,372
Increase in other liabilities	238,631	485,580
Amortization of deferred compensation expense – Golden State restricted common stock	1,289	1,379
Gain on non-monetary exchange of Star Systems common stock	--	(20,671)
Reduction in net accrued tax liability	--	(25,805)
Income tax benefit	(45,791)	(3,370)
Minority interest: other	20,240	20,241
Dividends on restricted common stock	22	49
Net cash provided by (used in) operating activities	$ 1,140,962	$ (461,985)

(Continued)

See accompanying notes to unaudited consolidated financial statements.

GOLDEN STATE HOLDINGS INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows (continued)
Nine Months Ended September 30, 2002 and 2001
(Unaudited)
(in thousands)

	Nine Months Ended September 30, 2002	Nine Months Ended September 30, 2001
Cash flows from investing activities:		
Purchases of securities available for sale	$ (69,052)	$ (45,616)
Proceeds from maturities of securities available for sale	78,754	654,157
Purchases of securities held to maturity	(2,886)	(7,541)
Principal payments and proceeds from maturities of securities held to maturity	16,109	321,555
Purchases of mortgage-backed securities available for sale	(43,644)	(120,809)
Principal payments on mortgage-backed securities available for sale	3,129,403	2,263,091
Proceeds from sales of mortgage-backed securities available for sale	64,300	777,265
Principal payments on mortgage-backed securities held to maturity	284,737	344,727
Proceeds from sales of loans	48,436	72,064
Loan originations and principal collections, net	5,625,227	1,630,891
Purchases of loans receivable	(3,320,012)	(3,138,329)
Purchases of FHLB stock	(58,484)	(23,193)
Redemption of FHLB stock	399,668	--
Purchases of premises and equipment	(27,257)	(29,217)
Proceeds from disposal of premises and equipment	19,106	10,806
Proceeds from sales of foreclosed real estate	21,308	24,622
Proceeds from sale of Concord EFS common stock	--	29,948
Purchases of MSRs	(223,079)	(233,453)
Hedge receipts	86,662	14,663
Purchases of derivatives	(1,230,598)	(354,017)
Proceeds from sales and settlements of derivatives	1,993,381	408,377
Net cash provided by investing activities	6,792,079	2,599,991
Cash flows from financing activities:		
Net (decrease) increase in deposits	(46,346)	1,055,445
Proceeds from additional borrowings	59,593,471	87,843,153
Principal payments on borrowings	(65,597,340)	(89,205,993)
Net decrease in securities sold under agreements to repurchase	(402,788)	(1,117,147)
Principal payment of FN Holdings Notes	(250)	--
Principal payment on GS Holdings Notes	--	(350,000)
Dividends on common stock	(80,000)	(135,000)
Dividends paid to minority stockholders of subsidiary, net of taxes	(20,240)	(20,241)
Tax benefit on exercise of stock options	3,428	1,578
Net cash used in financing activities	(6,550,065)	(1,928,205)
Net change in cash and cash equivalents	1,382,976	209,801
Cash and cash equivalents at beginning of period	805,171	783,074
Cash and cash equivalents at end of period	$ 2,188,147	$ 992,875

See accompanying notes to unaudited consolidated financial statements.

(1) Basis of Presentation

These financial statements are in accordance with GAAP for interim financial information and Regulation S-X, Article 10. They are unaudited and exclude some of the disclosures for complete financial statements. Management believes it has made all adjustments necessary so that the financial statements are presented fairly. The results of operations for the three and nine months ended September 30, 2002 may not indicate future results. Certain prior period amounts have been reclassified to conform to current presentation.

These financial statements should be read with the consolidated financial statements of GS Holdings included in the Company's Annual Report on Form 10-K for the year ended December 31, 2001. A glossary of defined terms begins on page 70 of this document. All terms used but not defined in the glossary are clarified in the Company's Annual Report on Form 10-K.

GS Holdings, a wholly owned subsidiary of Golden State, is a holding company whose only significant asset is all of the common and preferred stock of the Bank. Activities for the consolidated entity are primarily carried out by the Bank and its subsidiaries.

These unaudited consolidated financial statements include the accounts of GS Holdings, the Bank and the Bank's wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Minority interest: other represents amounts attributable to the REIT Preferred Stock of California Federal Preferred Capital Corporation, a wholly owned subsidiary of the Bank.

As GS Holdings' common stock is wholly owned by Golden State, EPS data is not presented.

(2) Pending Merger

On May 21, 2002, Citigroup and Mercury Merger Sub, a wholly owned subsidiary of Citigroup, entered into a merger agreement with Golden State whereby Golden State will be merged with and into Mercury Merger Sub, with Mercury Merger Sub as the surviving company. On October 28, 2002, Citigroup received Federal Reserve Board approval for the Merger. On October 29, 2002, the OTS approved the related merger of the Bank with and into Citibank (West), FSB (in formation). The Merger is anticipated to close during the fourth quarter of 2002.

The value of the merger consideration per share of the Golden State's common stock is the sum of

(a) $16.40 and

(b) 0.5613 fractional share of Citigroup common stock for each share of Golden State common stock delivered at closing.

Golden State's common stockholders will be entitled to elect to receive merger consideration in the form of cash or Citigroup common stock, or a combination, subject to certain limitations.

(3) 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.

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

	Nine Months Ended September 30,	
	2002	2001
	(in thousands)	
Cash paid for:		
Interest	$1,370,115	$ 2,227,021
Income taxes, net	189,178	164,458
Transfer of loans to foreclosed real estate	12,647	22,990
Loans made to facilitate the sale of real estate	--	168
Reclassification of loans from loans held for sale to loans receivable	--	6,542
Reclassification of loans receivable to loans held for sale	100,095	161,073
Goodwill adjustment related to tax adjustments	13,159	--
Impact of restricted common stock	3,040	3,055
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
Transfer of loans receivable to claims receivable	177,268	159,025

(5) Redemption of FN Holdings Notes

On January 2, 2002, GS Holdings redeemed the remaining $250 thousand principal of the FN Holdings $10^5/_8$% Senior Notes for a redemption price of $263 thousand, including accrued interest. The premium paid in connection with the redemption was not material.

(6) Segment Reporting

The Company derives most of its revenues from interest income, and interest expense is the most significant expense. Therefore, net interest income after provision for loan losses is presented for each segment. Because the Company also evaluates performance based on noninterest income and noninterest expense goals, these measures of segment profit and loss are also presented. The Company does not allocate income taxes to the segments.

	Nine Months Ended September 30,			Three Months Ended September 30,		
	Community Banking	Mortgage Banking	Total	Community Banking	Mortgage Banking	Total
			(in thousands)			
Net interest income after provision for loan losses: (a)						
2002	$ 1,033,696	$ 109,138	$ 1,142,834	$ 326,032	$ 31,243	$ 357,275
2001	1,036,087	73,592	1,109,679	357,105	37,132	394,237
Noninterest income: (b)						
2002	$ 239,964	$ (2,912)	$ 237,052	$ 73,794	$ 56,047	$ 129,841
2001	271,592	18,572	290,164	104,743	(3,571)	101,172
Noninterest expense: (c)						
2002	$ 577,251	$ 120,794	$ 698,045	$ 199,675	$ 39,012	$ 238,687
2001	601,934	116,176	718,110	202,475	40,907	243,382
Pre-tax contribution:						
2002	$ 696,409	$ (14,568)	$ 681,841	$ 200,151	$ 48,278	$ 248,429
2001	705,745	(24,012)	681,733	259,373	(7,346)	252,027
Segment assets at period end: (d)						
2002	$50,191,067	$4,625,912 (e)	$54,816,979	$50,191,067	$4,625,912 (e)	$54,816,979
2001	59,216,186	7,325,189 (e)	66,541,375	59,216,186	7,325,189 (e)	66,541,375

(a) Includes $67.6 million and $106.3 million for the nine months ended September 30, 2002 and 2001, respectively, in earnings credit provided to FNMC by the Bank, primarily for custodial bank account balances generated by FNMC. Also includes $97.3 million and $217.0 million for the nine months ended September 30, 2002 and 2001, respectively, in interest income and expense on intercompany loans.

Includes $20.1 million and $37.8 million for the three months ended September 30, 2002 and 2001, respectively, in earnings credit provided to FNMC by the Bank, primarily for custodial bank account balances generated by FNMC. Also includes $25.1 million and $82.9 million for the three months ended September 30, 2002 and 2001, respectively, in interest income and expense on intercompany loans.

(b) Includes $29.1 million and $29.8 million for the nine months ended September 30, 2002 and 2001, respectively, in intercompany servicing fees. Also includes $9.9 million and $14.3 million for the three months ended September 30, 2002 and 2001, respectively, in intercompany servicing fees.

(c) Includes $3.5 million for each of the nine months ended September 30, 2002 and 2001, in intercompany noninterest expense. Also includes $1.2 million for each of the three months ended September 30, 2002 and 2001, in intercompany noninterest expense.

(d) Includes $4.3 billion and $7.0 billion for 2002 and 2001, respectively, in intercompany borrowings and $49.4 million and $49.9 million for 2002 and 2001, respectively, in intercompany deposits maintained with the Bank.

(e) Includes $1.2 billion and $1.6 billion for 2002 and 2001, respectively, in MSRs and the related hedge.

The following reconciles the above table to the amounts shown on the consolidated financial statements (in thousands):

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2002	2001	2002	2001
Net interest income after provision for loan losses:				
Total net interest income for reportable segments	$ 1,142,834	$ 1,109,679	$ 357,275	$ 394,237
Elimination of intersegment net interest income	(67,625)	(106,335)	(20,065)	(37,753)
Total	$ 1,075,209	$ 1,003,344	$ 337,210	$ 356,484
Noninterest income:				
Total noninterest income for reportable segments	$ 237,052	$ 290,164	$ 129,841	$ 101,172
Elimination of intersegment servicing fees	(29,127)	(29,825)	(9,884)	(14,293)
Total	$ 207,925	$ 260,339	$ 119,957	$ 86,879
Noninterest expense:				
Total noninterest expense for reportable segments	$ 698,045	$ 718,110	$ 238,687	$ 243,382
Elimination of intersegment expense	(3,480)	(3,480)	(1,160)	(1,160)
Total	$ 694,565	$ 714,630	$ 237,527	$ 242,222
Pre-tax contribution:				
Total contributions for reportable segments	$ 681,841	$ 681,733	$ 248,429	$ 252,027
Elimination of intersegment contributions	(93,272)	(132,680)	(28,789)	(50,886)
Total	$ 588,569	$ 549,053	$ 219,640	$ 201,141
Total assets at period end:				
Total assets for reportable segments	$54,816,979	$66,541,375	$54,816,979	$66,541,375
Elimination of intersegment borrowings	(4,338,856)	(6,997,022)	(4,338,856)	(6,997,022)
Elimination of intersegment deposits	(49,438)	(49,853)	(49,438)	(49,853)
Total	$50,428,685	$59,494,500	$50,428,685	$59,494,500

(7) Loans Receivable, Net

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

	September 30, 2002	December 31, 2001
Real estate loans:		
1-4 unit residential	$26,324,514	$29,546,035
Multi-family residential	4,506,114	4,130,287
Commercial real estate	2,177,980	2,354,919
Land	5,515	14,055
Construction	868	2,495
Total real estate loans	33,014,991	36,047,791
Equity-line	878,661	639,297
Other consumer loans	220,651	283,434
Auto loans, net (a)	2,179,431	1,917,591
Commercial loans	778,058	693,114
Total consumer and other loans	4,056,801	3,533,436
Total loans receivable	37,071,792	39,581,227
Deferred loan fees, costs, discounts and premiums, net	232,864	243,120
Allowance for loan losses	(448,042)	(497,298)
Purchase accounting adjustments, net	6,106	8,574
Total loans receivable, net	$36,862,720	$39,335,623

(a) $918 million, or 42% and $766 million, or 40% of this portfolio, represents prime product as of September 30, 2002 and December 31, 2001, respectively.

(8) Intangible Assets

Upon adopting SFAS No. 142, management reviewed the records from the Company's various acquisitions. At September 30, 2002, the Company's goodwill and other intangible assets totalled $610.6 million. Of this amount, $563.7 million represents goodwill that is no longer being amortized as of January 1, 2002 pursuant to SFAS No. 142. The remaining $46.9 million represents other intangible assets that continue to be amortized. In addition, the Company held MSR balances in the amount of $1.0 billion at September 30, 2002.

The following table provides details on intangible assets including MSRs:

	As of September 30, 2002			As of December 31, 2001		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
	(dollars in thousands)					
Amortizable intangible assets:						
Unidentifiable intangibles	$ 64,451	$ (18,258)	$ 46,193	$ 64,451	$ (15,030)	$ 49,421
Core deposit intangibles	5,513	(4,784)	729	5,513	(4,511)	1,002
Other intangible assets	69,964	(23,042)	46,922	69,964	(19,541)	50,423
MSRs	2,433,721 (a)	(1,430,966)	1,002,755 (a)	2,728,643 (a)	(1,104,696)	1,623,947 (a)
Goodwill	--	--	--	876,890	(286,470)	590,420
Total amortizable intangible assets	$2,503,685	$(1,454,008)	$1,049,677	$3,675,497	$(1,410,707)	$2,264,790
Unamortizable goodwill	$ 850,196	$ (286,470)	$ 563,726	$ --	$ --	$ --

(Continued)

(a) After deducting $274.1 million and $153.3 million for the valuation allowance at September 30, 2002 and December 31, 2001, respectively.

As of September 30, 2002, all of the Company's goodwill, totalling $563.7 million, is included in the community-banking reporting segment. During the second quarter of 2002, goodwill was reduced by the following:

(a) $12.7 million representing California state tax refunds and pre-merger interest related to Old Cal Fed
(b) $12.6 million related to a reversal of a portion of the deferred tax asset valuation allowance related to Old Cal Fed and adjustments for sales and use tax related to Old Glen Fed and
(c) $0.6 million related to the reversal of a portion of the tax reserve based upon the status of Glendale Federal tax audits for 1991 through 1997.

In addition, during the third quarter of 2002, the following changes to goodwill were recorded:

(a) a $0.9 million decrease representing Federal income tax refunds related to the 1986-1992 audits of Old Cal Fed and
(b) a $30k increase due to a California state tax refund and pre-merger interest from the completion of the 1997 audit of Golden State.

Intangible acquisitions during the period were as follows:

	Nine Months Ended September 30,			
	2002		2001	
	Gross Carrying Value	Weighted Average Life (in years)	Gross Carrying Value	Weighted Average Life (in years)
	(dollars in thousands)			
MSRs originated and purchased during the period	$572,339	3.4	$486,874	5.2

	Three Months Ended September 30,			
	2002		2001	
	Gross Carrying Value	Weighted Average Life (in years)	Gross Carrying Value	Weighted Average Life (in years)
	(dollars in thousands)			
MSRs originated and purchased during the period	$129,365	3.4	$227,295	5.2

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In the first quarter of 2002, the Company reviewed the expected present value of future cash flows for all reporting units with recorded goodwill and determined that the carrying value of the goodwill was not impaired. Actual and estimated future amortization expense is as follows:

	Unidentifiable Intangibles	Core Deposit Intangibles	MSRs	Goodwill	Total
			(in thousands)		
Amortization expense:					
Three months ended September 30, 2002	$1,076	$ 91	$113,673	$ --	$114,840
Nine months ended September 30, 2002	3,228	273	326,269	--	329,770
Three months ended September 30, 2001	1,076	91	72,780	13,773	87,720
Nine months ended September 30, 2001	3,228	273	219,793	41,319	264,613
Estimated amortization expense:					
Three months ending December 31, 2002	1,076	91	98,616	--	99,783
Year ending December 31,					
2003	4,304	364	287,451	--	292,119
2004	4,304	364	200,454	--	205,122
2005	4,304	364	138,662	--	143,330
2006	4,304	364	92,394	--	97,062
2007	4,304	364	58,336	--	63,004

The impact of the adoption of SFAS No. 142 on earnings was as follows:

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2002	2001	2002	2001
	(in thousands)			
Reported net income before cumulative effect of change in accounting principle	$373,649	$317,559	$131,821	$106,850
Add back goodwill amortization, net of tax	--	40,543	--	13,514
Adjusted net income before cumulative effect of change in accounting principle	$373,649	$358,102	$131,821	$120,364

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2002	2001	2002	2001
	(in thousands)			
Reported net income	$373,649	$316,007	$131,821	$106,850
Add back goodwill amortization, net of tax	--	40,543	--	13,514
Adjusted net income	$373,649	$356,550	$131,821	$120,364

(9) Deposits

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

	September 30, 2002	December 31, 2001
Transaction Accounts:		
Non-interest checking	$ 2,364,211	$ 2,013,162
Interest-bearing checking	2,273,112	2,139,674
Subtotal checking	4,637,323	4,152,836
Money market	5,045,218	4,614,223
Passbook savings	3,193,481	3,055,766
Total transaction accounts	12,876,022	11,822,825
Certificates of deposit	9,328,273	10,618,260
Total customer deposits	22,204,295	22,441,085
Custodial accounts	2,837,731	2,512,684
Accrued interest payable	32,856	46,184
Purchase accounting	103	329
Total retail deposits	25,074,985	25,000,282
Brokered Deposits	25,225	146,545
Total deposits	$25,100,210	$25,146,827
Checking deposits (including custodials) as a % of retail deposits	29.8%	26.7%
Transaction accounts (including custodials) as a % of retail deposits	62.7%	57.3%
Checking deposits (excluding custodials) as a % of customer deposits	20.9%	18.5%
Transaction accounts (excluding custodials) as a % of customer deposits	58.0%	52.7%

(10) Accrued Termination and Facilities Costs

In connection with the Golden State Acquisition, the Company recorded liabilities resulting from:

- branch consolidations due to duplicate facilities and
- employee severance and termination benefits due to a planned reduction in force.

The merger and integration plan relating 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 the plan (in thousands):

	Branch Consolidations	Severance and Termination Benefits	Total
Balance at December 31, 2001	$14,208	$12,500	$26,708
Charges to liability account	(3,095)	--	(3,095)
Balance at September 30, 2002	$11,113	$12,500	$23,613

(11) Income Taxes

During the nine months ended September 30, 2002, GS Holdings recorded gross income tax expense of $240.5 million, which was offset by a tax benefit of $45.8 million, for net income tax expense of $194.7 million. Based on the current status of Mafco Holdings' audits for the years 1991 through 1995 and anticipated reversal of deferred tax assets with established valuation allowance, management changed its judgment about the realizability of the Company's deferred tax assets and reduced its valuation allowance by $44 million in the second quarter. As a result of reducing the valuation allowance, income tax expense was reduced by $31.4 million and goodwill was reduced by $12.6 million.

On September 11, 2002, California enacted a law requiring large banks (those with average assets in excess of $500 million) to conform to federal law with respect to accounting for bad debts. Prior to the law change, all banks, regardless of size, were eligible to use the reserve method of accounting for bad debts which enabled them to take deductions for anticipated bad debt losses prior to the losses being incurred for California tax purposes. With the change, large banks may now only deduct actual charge-offs net of recoveries in determining their California taxable income. Banks that are required to conform to the new law must include in current year taxable income 50 percent of the bad debt reserves that existed as of the end of the prior tax year. As a concession for requiring large banks to comply with the new law, recapture of the remaining 50 percent of the reserve is waived thereby creating a permanent tax benefit. The Company's tax benefit resulting from the law change was $8.7 million and has been reflected in the Company's income tax expense for the quarter ended September 30, 2002.

In addition, an accrued liability had been established in prior years 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 of the California audit of Glendale Federal Bank for the years 1991 through 1997, management reduced its accrued state tax liability by $8.7 million during the nine months ended September 30, 2002. Goodwill was reduced by $0.6 million in connection with this transaction. The Company also recorded additional Federal tax expense of $3.1 million due to the reduction of the state tax expense.

During the nine months ended September 30, 2001, GS Holdings recorded net income tax expense of $211.3 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 the nine months ended September 30, 2001, an income tax benefit was recorded for $3.2 million due to the utilization of net operating losses of a subsidiary made available as a result of the subsidiary's liquidation into California Federal Bank.

(12) Stockholder's Equity

At September 30, 2002, there were 1,000 shares of GS Holdings common stock issued and outstanding.

Dividends on common stock during the nine months ended September 30, 2002 and 2001 totalled $80.0 million and $135.0 million, respectively.

(13) Executive and Stock Compensation

In the nine months ended September 30, 2002, Golden State granted to certain of the Company's employees non-qualified stock options equivalent to 884,000 shares of common stock at a weighted average price of $27.69 per share under the Stock Plan, all within the first quarter. During the nine months ended September 30, 2001, Golden State granted to certain of the Company's employees non-qualified stock options equivalent to 1,411,100 shares of common stock at a weighted average price of $27.69. Golden State did not grant any options to the Company's employees during the three months ended September 30, 2002 or 2001. These shares generally vest over three years in one-third increments on the anniversary of the grant date. The options generally expire 10 years from the date of grant. No compensation cost was recognized by the Company for these stock options during the nine months ended September 30, 2002, in accordance with the intrinsic value accounting methodology prescribed in APB Opinion No. 25, whereby compensation expense to employees is determined based upon the excess, if any, of the market price of the Company's common stock at the measurement date over the exercise price of the award.

During the three and nine months ended September 30, 2002, 58,834 and 486,509 options were exercised, and 11,263 and 53,860 options were cancelled or expired, respectively, under all plans. During the three and nine months ended September 30, 2001, 159,526 and 314,143 options were exercised and 28,247 and 49,924 options, respectively, were cancelled or expired under all plans.

At September 30, 2002 and 2001, options to acquire an equivalent of 5,059,352 and 4,718,433 shares and 659,583 and 861,916 LTW™s, respectively, remained outstanding under all plans.

On January 22, 2002 and 2001, Golden State awarded to certain of the Company's employees 112,760 and 99,108 shares, respectively, of restricted stock under the Golden State Bancorp Inc. Omnibus Stock Plan. The market value on the date of the award was $27.65 and $26.38 per share, respectively. These shares generally vest over two years in one-half increments on the anniversary of the grant date, based upon the continued service of the employee. During the nine months ended September 30, 2002, 152,299 restricted shares were vested and 2,770 restricted shares were cancelled. During the three months ended September 30, 2002, no restricted shares were vested or cancelled. During the three and nine months ended September 30, 2001, 28,454 and 143,499 restricted shares were vested, respectively, and none was cancelled. At September 30, 2002, a total of 160,056 restricted shares was outstanding. The compensation expense based on the stock price on the date of these awards was recognized on a straight-line basis over the vesting period for each service period 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 the three and nine months ended September 30, 2002, $0.4 million and $1.3 million, respectively, in compensation expense was recognized related to such awards. During the three and nine months ended September 30, 2001, $0.4 million and $1.4 million, respectively, in compensation expense was recognized related to such awards. These restricted shares have full voting and dividend rights.

(14) Cumulative Effect of Change in Accounting Principle

On September 21, 2000, the EITF issued EITF No. 99-20. This document, which was effective on April 1, 2001, establishes guidance for

(a) recognizing interest income (including amortization of premiums or discounts) on

(i) all credit-sensitive mortgage and asset-backed securities and
(ii) certain prepayment-sensitive securities including agency interest-only strips and

(b) determining when these securities must be written down to fair value because of impairment.

Existing GAAP did not provide interest recognition and impairment guidance for securities on which cash flows change as a result of both prepayments and credit losses and, in some cases, interest rate adjustments.

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

(15) 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 Amounts at	
	September 30, 2002	December 31, 2001
Commitments to extend credit		
Unutilized consumer lines	$1,806,013	$1,467,625
Unutilized commercial lines of credit	279,973	263,682
Commercial and standby letters of credit	28,138	24,953

The contracts for the Company's commitments to extend credit expire as follows (in thousands):

	September 30, 2002				
	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	$1,806,013	$525,354	$12,740	$10,574	$1,257,345
Unutilized commercial lines of credit	279,973	202,525	60,522	10,411	6,515
Commercial and standby letters of credit	28,138	26,541	1,597	--	--

The fair value of commitments to extend credit was not significant at either September 30, 2002 or December 31, 2001.

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 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 16.

	Contract Amounts at	
	September 30, 2002	December 31, 2001
	(in thousands)	
Commitments to originate loans	$4,571,467	$3,937,422
Commitments to purchase loans	2,262,925	3,791,436
Mandatory commitments to sell loans	405,494	679,182

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.

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 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):

	September 30, 2002		December 31, 2001	
Instruments	Notional Amount	Estimated Fair Value	Notional Amount	Estimated Fair Value
Interest rate caps	$2,000,000	$6,159	$2,000,000	$52,163
Interest rate swaptions	1,250,000	820	1,250,000	9,448

The off-balance sheet embedded options in borrowings at September 30, 2002 are scheduled to expire as shown in the table below (in thousands):

	Contract Amount Expiring in:			
Instruments	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 September 30, 2002, 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	$15,500	$ 9,909	$ 6,409	$ --
Pledged securities for principal and interest on Bank loan securitization	--	242,688	7,261	--
Guarantee credit enhancements on multi-family bond issues and loans securitized by FNMA and FHLMC	1,018	143,072	32,221	--
Guarantee credit enhancements on loans transferred as part of securitization transactions by the Bank	--	--	--	17,379
Guarantee state and local agency deposits, and certain deposits with the Federal Reserve Bank	2,759	358,313	45,169	--
Secure various other obligations	--	1,715,610	731,181	--

At September 30, 2002, $23.9 billion in residential loans, $4.0 billion in multifamily loans and $1.5 billion in commercial real estate loans were pledged as collateral for FHLB advances.

At September 30, 2002, loans receivable included approximately $4.3 billion of loans that had the potential to experience negative amortization.

(16) On-Balance Sheet Derivative Instruments and Hedging Activities

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

The Company monitors the sensitivity of its NPV and net income under various interest rate scenarios and manages this risk. Quarterly, the Company simulates the NPV and net income expected to be earned over the next twelve months. Market interest rates are projected at various levels to estimate the impact on interest-earning assets, interest-bearing liabilities and mortgage prepayment speeds (which affect the MSR asset). The Company may use derivatives to reduce the volatility of NPV and net income within certain ranges of projected changes in interest rates. The Company evaluates the effectiveness of a derivative by measuring the cost of such an agreement in relation to the reduction in NPV 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 including FHLB advances and Repos as a source of funds for lending and investment activities and other general business purposes. Interest payments on this debt may change if interest rates change. If interest rates increase, interest expense increases. Conversely, if interest rates decrease, interest expense decreases.

Management hedges a significant portion of its variable-rate interest payments to limit the effect of changing interest rates.

Strategies

Management enters into derivative instruments 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

Hedges of FHLB advances and Repos were 100% effective for the three and nine months ended September 30, 2002. The Company hedges the entire amount of the change in fair value of the liabilities with the entire amount of the change in fair value of the derivative instruments.

Fair value changes in interest rate swap hedging instruments relating to cash flows associated with FHLB advances and Repos are reported in OCI. These amounts are then reclassified into interest expense as a yield adjustment in the same period in which the related interest on the FHLB advances and Repos affects earnings. The net amount of OCI reclassified into interest expense during the three and nine months ended September 30, 2002 was $42.8 million and $129.7 million, respectively, while $22.8 million and $43.0 million was reclassified during the three and nine months ended September 30, 2001, respectively.

As of September 30, 2002 and 2001, approximately $147.2 million and $82.0 million of losses reported in OCI related to the interest rate swaps were expected to be reclassified into interest expense as a yield adjustment of the hedged FHLB advances and Repos during the twelve month periods ending September 30, 2003 and 2002, respectively.

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

Objectives and Context

The Company purchases and originates MSRs as a source of fee income. MSRs expose the Company to the variability of their fair value due to changes in the assumed level of prepayments and other variables. The carrying value of MSRs are first adjusted 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.

Management limits the variability in the fair value of a portion of its MSR asset by hedging the change in fair value of the servicing rights asset associated with fixed-rate, non-prepayment penalty loans for which it has recorded MSRs. The Company determines appropriate coverage levels, 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.

<u>Strategies</u>

The Company utilizes interest rate swaps, PO swaps, interest rate floors, and swaptions 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 always equal 100%. The Company keeps hedge coverage ratios at acceptable risk levels, which may vary depending on current and expected interest rate movement and other assets of the Company.

Interest rate swap agreements are contracts to exchange quarterly or semi-annual floating rate payments for fixed-rate payments. 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.

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 a PO swap agreement, 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 its 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.

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 2002 and 2001) 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.

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.

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 (in thousands). The net gain or loss represents the ineffectiveness of the hedges.

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2002	2001	2002	2001
Gain on designated derivative contracts	$ 780,382	$ 214,708	$ 588,817	$ 289,309
Decrease in value of designated MSRs	(746,527)	(185,217)	(558,901)	(268,775)
Net gain on derivatives used to hedge MSRs	$ 33,855	$ 29,491	$ 29,916	$ 20,534

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

Objectives and Context

The Company, as part of its traditional real estate lending activities, originates fixed-rate 1-4 unit residential loans for sale in the secondary market. At the time of origination, management identifies loans it plans to sell. 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 are hedged) or at the lower of aggregate amortized cost or fair market value (for those loans which are not hedged). These loans expose the Company to the variability of 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 limits the variability of a major portion of the change in fair value of its loans held for sale by hedging substantially all of its warehoused loans held for sale to third parties.

Strategies

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 specific loans held for sale or a generic group of loans held for sale.

Results

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

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2002	2001	2002	2001
Transition adjustment upon adoption of SFAS No. 133	$ --	$ 3,834	$ --	$ --
Unrealized loss on designated forward loan sale commitments recognized	(52,744)	(18,141)	(14,206)	(28,541)
Increase in value of warehouse loans	58,945	19,203	15,564	28,241
Net gain (loss) on derivatives used to hedge warehouse loans	$ 6,201	$ 4,896	$ 1,358	$ (300)

Derivative Instruments Not Designated as Hedging Instruments

Purpose - Interest Rate Lock Commitments and Forward Loan Sale Commitments

The Company enters into rate lock commitments to extend credit to borrowers for generally a 30-day period 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 (in thousands):

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2002	2001	2002	2001
Transition adjustment upon adoption of SFAS No. 133	$ --	$ (2,785)	$ --	$ --
Unrealized loss on undesignated forward loan sale commitments recognized to income	(34,405)	(10,394)	(15,357)	(20,514)
Gain on undesignated interest rate loan commitments recognized to income	38,887	10,648	17,423	19,628
Net gain (loss) on derivatives	$ 4,482	$ (2,531)	$ 2,066	$ (886)

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). The fair values of these derivative financial instruments were recorded in the Company's balance sheet in accordance with SFAS No. 133.

	September 30, 2002		December 31, 2001	
	Notional Amount	Credit Risk (1)	Notional Amount	Credit Risk (1)
Interest rate swaps - borrowings	$ 4,159,670	$ --	$ 4,089,670	$ --
Interest rate swaps hedging MSRs	5,495,000	114,626	2,462,000	7,561
PO swaps	396,960	5,076	378,928	6,411
Interest rate floors	250,000	9,062	3,054,000	78,917
Interest rate swaptions	1,704,000	76,367	4,111,000	183,641
Forward loan sale commitments	3,719,857	--	3,980,863	36,879
Interest rate lock commitments	2,369,136	--	1,870,852	--
Other	400,000	2,336	--	--
Total	$18,494,623	$207,467	$19,947,313	$313,409

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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 $113.5 million and $95.2 million cash collateral held by the Bank at September 30, 2002 and December 31, 2001, respectively.

Derivative financial instruments used for other-than-trading purposes at September 30, 2002 are scheduled to mature as follows (in thousands):

	Notional Amounts						
	Three Months Ending December 31, 2002	2003	2004	2005	2006	Thereafter	Total
Interest rate swaps - borrowings	$ 300,000	$500,000	$1,520,000	$819,670	$900,000	$ 120,000	$ 4,159,670
Interest rate swaps hedging MSRs	--	--	--	950,000	--	4,545,000	5,495,000
PO swaps	74,052	163,590	149,077	--	--	10,241	396,960
Interest rate floors	--	--	--	--	--	250,000	250,000
Interest rate swaptions	--	625,000	1,079,000	--	--	--	1,704,000
Forward loan sale commitments	3,719,857	--	--	--	--	--	3,719,857
Interest rate lock commitments	2,369,136	--	--	--	--	--	2,369,136
Other	400,000	--	--	--	--	--	400,000
Total	$6,863,045	$1,288,590	$2,748,077	$1,769,670	$900,000	$4,925,241	$18,494,623

(17) Recent Accounting Pronouncements

Goodwill and Other Intangible Assets

On January 1, 2002, the Company adopted 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 requires recognition of goodwill as an asset but does not permit amortization of goodwill as previously required by APB Opinion No. 17. Instead, goodwill is 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 is 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 is 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.

Acquired intangible assets other than goodwill are amortized over their useful economic life and reviewed for impairment in accordance with SFAS No. 144.

The impact of the adoption of SFAS No. 142 increases GAAP earnings by $13.5 million per quarter in 2002.

Accounting by Certain Entities (Including Entities With Trade Receivables) That Lend to or Finance the Activities of Others

In December 2001, the AICPA issued SOP 01-6. SOP 01-6 is effective for annual and interim financial statements issued for fiscal years beginning after December 15, 2001. SOP 01-6 reconciles the specialized accounting and financial reporting guidance established in the existing Banks and Savings Institutions Guide, Audits of Credit Unions Guide, and Audits of Finance Companies Guide. The SOP eliminates differences in accounting and disclosure established by the respective guides and carries forward accounting guidance for transactions determined to be unique to certain financial institutions. The adoption of this pronouncement has not had a material impact on the Company's results of operations or financial condition.

Rescission of SFAS No. 4, 44, and 64, Amendment of SFAS No. 13, and Technical Corrections

SFAS No. 145 rescinds SFAS No. 4, which required all gains and losses from extinguishment of debt to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. As a result, the criteria in Opinion No. 30 will now be used to classify those gains and losses. SFAS No. 64 amended SFAS No. 4, and is no longer necessary because SFAS No. 4 has been rescinded.

The accounting, disclosure and financial statement provisions of SFAS No. 145 are effective for financial statements in fiscal years beginning after May 15, 2002. Any gain or loss on extinguishment of debt that was classified as an extraordinary item in prior periods presented that does not meet the criteria in Opinion No. 30 for classification as an extraordinary item shall be reclassified.

The implementation of SFAS No. 145 is not expected to impact the Company's financial condition or operating results.

Accounting for Costs Associated with Exit or Disposal Activities

In June of 2002, the FASB issued SFAS No. 146. SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies EITF No. 94-3. The principal difference between SFAS No. 146 and EITF No. 94-3 is that SFAS No. 146 requires that a liability be recognized for a cost associated with an exit or disposal activity only when the liability is incurred. Under EITF No. 94-3, a liability for an exit cost was recognized at the date of an entity's commitment to an exit plan. The Board concluded that an entity's commitment to a plan, by itself, does not create a present obligation to others that meets the definition of a liability. SFAS No. 146 also establishes that fair value is the objective for the initial measurement of the liability.

The provisions of SFAS No. 146 are effective for exit or disposal activities initiated after December 31, 2002. The implementation of SFAS No. 146 is not expected to materially impact the Company's financial condition or operating results.

Acquisitions of Certain Financial Institutions

In October of 2002, the FASB issued SFAS No. 147, which addresses the accounting for the acquisition of certain financial institutions.

The provisions of SFAS No. 147 rescind the specialized accounting guidance in paragraph 5 of SFAS No. 72 and would require unidentifiable intangible assets to be reclassified to goodwill if certain criteria are met. Financial institutions meeting the conditions outlined in SFAS No. 147 will be required to restate previously issued financial statements back to the date SFAS No. 142 was initially applied.

The provisions of SFAS No. 147 are effective for financial statements after September 30, 2002. Given that all goodwill and unidentifiable intangible assets will be eliminated in purchase accounting in connection with the Merger during the quarter ended December 31, 2002, there will be no impact to the Company as a result of the issuance of SFAS No. 147.

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

Forward-Looking Statements. This quarterly report contains forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, that pertain to our future operating results. Words such as "anticipate," "believe," "expect," "intend" and other similar expressions are intended to identify these statements. Forward-looking statements are not historical facts and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. Our actual results could differ materially from those in the forward-looking statements due to such factors as (i) portfolio concentrations; (ii) interest rate changes, including changes in short-term interest rates, the shape of the yield curve and the Treasury-Eurodollar spread; (iii) changes in asset prepayment speeds; (iv) changes in our competitive and regulatory environments; and (v) changes in the availability of net operating loss carryovers and deferred tax liabilities. See "Business--Factors That May Affect Future Results" in the Company's Annual Report on Form 10-K for the year ended December 31, 2001 for a discussion of these factors in greater detail. We assume no obligation to update any of our forward-looking statements.

Critical Accounting Policies

In preparing its consolidated financial statements, the Company is required to make judgments and estimates that may have a significant impact upon its financial results. The Company's valuation of its MSRs and its determination of the adequacy of its allowance for loan losses are particularly subject to management's judgment and estimates. The accounting policies for these two areas are discussed at length in notes 2(m) and 2(e) of the Company's Notes to Consolidated Financial Statements, as well as in the "Mortgage Banking Activities" and "Allowance for Loan Losses" sections of the Company's Annual Report on Form 10-K for the year ended December 31, 2001.

Overview

GS Holdings, formerly FN Holdings, a wholly owned subsidiary of Golden State, is a holding company whose only significant asset is 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.

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.

Citigroup Merger

On May 21, 2002, Citigroup and Mercury Merger Sub, a wholly owned subsidiary of Citigroup, entered into a merger agreement with Golden State whereby Golden State will be merged with and into Mercury Merger Sub, with Mercury Merger Sub as the surviving company. On October 28, 2002, Citigroup received Federal Reserve Board approval for the Merger. On October 29, 2002, the OTS approved the related merger of the Bank with and into Citibank (West), FSB (in formation). The Merger is anticipated to close during the fourth quarter of 2002. See note 2 of the Company's Notes to Unaudited Consolidated Financial Statements.

Net Income

GS Holdings reported net income of $373.6 million for the nine months ended September 30, 2002, compared with net income of $316.0 million for the corresponding period in 2001. Net income for the nine months ended September 30, 2001 includes a loss of $1.6 million, net of tax, from the cumulative effect of change in accounting principle. Net income before the cumulative effect of change in accounting principle for the nine months ended September 30, 2001 was $317.6 million. The Bank's efficiency ratio was 47.74% for the nine months ended September 30, 2002, compared to 48.73% for the comparable period in 2001.

Net interest income increased $71.9 million during the first nine months of 2002 as compared to the year-ago period, primarily as a result of declining market interest rates reducing the 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. In addition, during the nine months ended September 30, 2002, $11.2 million of interest income was received in connection with California and federal income tax refunds. Total noninterest income declined by $52.4 million, primarily as a result of $30.0 million in gains on the non-monetary exchange and subsequent sale of Star Systems common stock for Concord EFS common stock in 2001 and the decline in loan servicing fees, net, primarily due to higher MSR amortization. Total noninterest expense declined $20.1 million and includes a $41.3 million decrease due to the adoption of SFAS No. 142 on January 1, 2002.

GS Holdings reported net income of $131.8 million for the three months ended September 30, 2002, compared with net income of $106.9 million for the corresponding period in 2001. The Bank's efficiency ratio was 48.52% for the three months ended September 30, 2002, compared to 47.66% for the comparable period in 2001.

Net interest income decreased $19.3 million during the three months ended September 30, 2002 as compared to the same period in 2001, primarily as a result of reduced average earning assets more than offsetting a higher net interest margin. Average interest-earning assets were $47.1 billion for the third quarter of 2002, down from $56.5 billion during the same period in 2001. The net interest margin for the current quarter was 2.88%, up 32 bps from 2.56% in the third quarter of 2001. The improvement in net interest margin was mainly due to declining market interest rates reducing the costs of liabilities at a faster rate than the decline in the yield on assets. Total noninterest income increased by $33.1 million, primarily in loan servicing fees, net due to an $87.4 million improvement in the valuation provision on MSRs related to SFAS No. 140, partially offset by $40.9 million in higher MSR amortization and a $24.5 million reduction in the Company's recourse liability during the year-ago quarter which did not recur. Total noninterest expense declined $4.7 million and includes a $13.8 million decrease due to the cessation of goodwill amortization as required by SFAS No. 142.

As noted above, the Company adopted SFAS No. 142 effective January 1, 2002, which requires that goodwill no longer be amortized. The effect of the adoption was to reduce goodwill amortization by $13.8 million and $41.3 million for the three and nine months ended September 30, 2002, respectively, compared to the same period a year ago. Excluding the effect of the adoption of SFAS No. 142, net income for the three and nine months ended September 30, 2001 was $120.4 million and $356.6 million, respectively. Excluding the effect of the adoption of SFAS No. 142, income before the cumulative effect of change in accounting principle for the three and nine months ended September 30, 2001 was $120.4 million and $358.1 million, respectively.

Financial Condition

During the nine months ended September 30, 2002, consolidated total assets decreased to $50.4 billion from $56.5 billion and total liabilities decreased to $47.1 billion from $53.4 billion at December 31, 2001. Mortgage-backed securities, loans receivable and loans held for sale declined $3.5 billion, $2.5 billion and $0.7 billion, respectively, during the nine months ended September 30, 2002. This shift in mortgage-backed securities and loans is primarily due to high repayment rates in light of the declining interest rate environment. Deposits decreased $46.6 million during the nine months ended September 30, 2002, including decreases of $1.3 billion in CDs and $121.3 million in Brokered Deposits, offset by a $1.1 billion increase in transaction accounts and $325.0 million in custodial accounts. Total borrowings, including securities sold under agreements to repurchase, FHLB advances and other borrowings, declined $6.4 billion during the nine months ended September 30, 2002.

During the nine months ended September 30, 2002, stockholder’s equity increased $224.4 million to $2.8 billion. The increase in stockholder’s equity is principally the result of $373.6 million in net income for the period, $3.4 million from the exercise of Golden State common stock options and $3.0 million due to the impact of Golden State restricted common stock. These amounts were partially offset by $80.0 million of common stock dividends, $71.1 million in net unrealized losses, after tax, on derivatives and $4.6 million in net unrealized losses, after tax, on securities available for sale.

GS Holdings’ non-performing assets, consisting of non-performing loans, net of purchase accounting adjustments, foreclosed real estate, net, and repossessed assets, decreased to $107.5 million at September 30, 2002 compared with $124.1 million at December 31, 2001. Total non-performing assets as a percentage of the Bank’s total assets was 0.21% at September 30, 2002 compared with 0.22% at December 31, 2001.

Results of Operations

Nine months ended September 30, 2002 versus nine months ended September 30, 2001

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

	Nine Months Ended September 30, 2002		
	Average Balance	Interest	Average Rate
	(dollars in millions)		
ASSETS			
Interest-earning assets (1):			
Securities, interest-bearing deposits in banks and other (2)	$ 602	$ 23	4.98%
Mortgage-backed securities available for sale	5,123	230	5.97
Mortgage-backed securities held to maturity	1,217	56	6.15
Loans held for sale, net	1,986	95	6.36
Loans receivable, net:			
Residential	28,267	1,284	6.06
Commercial real estate	6,578	347	7.03
Consumer	1,015	46	6.07
Automobile	2,041	194	12.71
Commercial banking	751	32	5.75
Loans receivable, net	38,652	1,903	6.57
FHLB stock	1,255	56	6.05
Total interest-earning assets	48,835	2,363	6.45%
Noninterest-earning assets	3,999		
Total assets	$52,834		
LIABILITIES, MINORITY INTEREST AND STOCKHOLDER'S EQUITY			
Interest-bearing liabilities:			
Deposits	$24,791	377	2.04%
Securities sold under agreements to repurchase (3)	2,108	61	3.80
Borrowings (3)	21,392	848	5.28
Other	179	2	1.76
Total interest-bearing liabilities	48,470	1,288	3.54%
Noninterest-bearing liabilities	1,179		
Minority interest	496		
Stockholder's equity	2,689		
Total liabilities, minority interest and stockholder's equity	$52,834		
Net interest income		$1,075	
Interest rate spread (4)			2.91%
Net interest margin			2.94%
Return on average assets			0.94%
Return on average common equity			18.53%
Return on tangible common equity			24.38%
Average equity to average assets			5.09%

	Nine Months Ended September 30, 2001		
	Average Balance	Interest	Average Rate
	(dollars in millions)		
ASSETS			
Interest-earning assets (1):			
Securities, interest-bearing deposits in banks and other (2)	$ 890	$ 40	5.96%
Mortgage-backed securities available-for-sale	9,887	487	6.57
Mortgage-backed securities held-to-maturity	1,626	99	8.15
Loans held for sale, net	1,921	99	6.89
Loans receivable, net:			
Residential	31,725	1,655	6.95
Commercial real estate	6,221	384	8.23
Consumer	886	59	8.86
Automobile	1,758	152	11.58
Commercial banking	596	37	8.22
Total loans receivable, net	41,186	2,287	7.40
FHLB stock	1,402	63	6.05
Total interest-earning assets	56,912	3,075	7.21%
Noninterest-earning assets	3,717		
Total assets	$60,629		
LIABILITIES, MINORITY INTEREST AND STOCKHOLDER'S EQUITY			
Interest-bearing liabilities:			
Deposits	$24,198	667	3.68%
Securities sold under agreements to repurchase (3)	3,872	167	5.69
Borrowings (3)	28,513	1,238	5.79
Total interest-bearing liabilities	56,583	2,072	4.88%
Noninterest-bearing liabilities	1,198		
Minority interest	496		
Stockholder's equity	2,352		
Total liabilities, minority interest and stockholder's equity	$60,629		
Net interest income		$1,003	
Interest rate spread (4)			2.33%
Net interest margin			2.35%
Return on average assets			0.70%
Return on average common equity			17.91%
Return on tangible common equity			28.57%
Average equity to average assets			3.88%

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

(2) Includes securities, interest-bearing deposits in other banks, securities purchased under agreements to resell, interest income on California income tax refund and other interest income.

(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 period's rate) and rate (change in average interest rate multiplied by the prior period's volume). Changes attributable to both volume and rate have been allocated proportionately.

	Nine Months Ended September 30, 2002 vs. 2001 Increase (Decrease) Due to		
	Volume	Rate (in millions)	Net
INTEREST INCOME:			
Securities, interest-bearing deposits in banks and other	$ --	$ (17)	$ (17)
Mortgage-backed securities available for sale	(217)	(40)	(257)
Mortgage-backed securities held to maturity	(22)	(21)	(43)
Loans held for sale, net	3	(8)	(5)
Loans receivable, net	(106)	(277)	(383)
FHLB stock	(7)	--	(7)
Total	(349)	(363)	(712)
INTEREST EXPENSE:			
Deposits	(36)	(253)	(289)
Securities sold under agreements to repurchase	(63)	(43)	(106)
Borrowings	(278)	(113)	(391)
Other	--	2	2
Total	(377)	(407)	(784)
Change in net interest income	$ 28	$ 44	$ 72

Interest Income. Total interest income was $2.4 billion for the nine months ended September 30, 2002, a decrease of $711.7 million from the nine months ended September 30, 2001. Total interest-earning assets for the nine months ended September 30, 2002 averaged $48.8 billion, compared to $56.9 billion for the corresponding period in 2001. 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, and net loan run off. These decreases were partially offset by a slight increase in loans held for sale due to heightened borrower refinancing activity in the declining interest rate environment. The yield on total interest-earning assets during the nine months ended September 30, 2002 decreased to 6.45% from 7.21% for the nine months ended September 30, 2001, primarily due to the repricing of loans and mortgage-backed securities at lower rates. At September 30, 2002, 11% of the Company's portfolio loans were tied to COFI indices, 11% to Treasury-based indices and 49% were "hybrid" ARMs - fixed for three to ten years and then adjusting annually. Twenty-three percent of the portfolio was fixed. The remaining 6% of the portfolio was in other adjustable-rate products.

GS Holdings earned $1.9 billion of interest income on loans receivable for the nine months ended September 30, 2002, a decrease of $382.9 million from the nine months ended September 30, 2001. The average balance of loans receivable was $38.7 billion for the nine months ended September 30, 2002, compared to $41.2 billion for the same period in 2001. The weighted average yield on loans receivable decreased to 6.57% for the nine months ended September 30, 2002 from 7.40% for the nine months ended September 30, 2001. The decrease in the average balance reflects the sharp run off of residential loans during a period of high refinancing activity. 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 during the nine months ended September 30, 2002, 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 nine months ended September 30, 2002 was to increase interest income by $35.5 million. (See "—Allowance for Loan Losses.")

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

	Nine Months Ended September 30, 2002	2001
Loans funded:		
Residential real estate loans:		
Adjustable-rate	$ 5,206,053	$ 5,476,707
Fixed-rate	14,491,315	12,838,798
Total residential real estate loans	19,697,368	18,315,505
Commercial real estate loans	1,251,279	1,302,697
Commercial loans	973,083	764,795
Consumer nonmortgage loans	806,828	597,943
Auto loans (a)	944,804	954,862
Total loans funded	$23,673,362	$21,935,802
Residential real estate loans purchased	$ 2,392,869	$ 2,198,742

(a) Approximately 47% and 41% of this volume was in prime product; 53% and 59% in sub-prime product for the nine months ended September 30, 2002 and 2001, respectively.

GS Holdings earned $94.7 million of interest income on loans held for sale for the nine months ended September 30, 2002, a decrease of $4.5 million from the nine months ended September 30, 2001. The average balance of loans held for sale was $2.0 billion for the nine months ended September 30, 2002, an increase of $65.0 million from the comparable period in 2001, primarily attributed to increased originations of residential fixed-rate loans as a result of heightened borrower refinancing activity in the declining interest rate environment. Fixed-rate production for sale totalled $14.2 billion during the nine months ended September 30, 2002, an increase of 18% over the $12.0 billion originated during the comparable period in 2001. The weighted average yield on loans held for sale decreased to 6.36% for the nine months ended September 30, 2002 from 6.89% for the nine months ended September 30, 2001, primarily due to declining market interest rates.

Interest income on mortgage-backed securities available for sale was $229.6 million for the nine months ended September 30, 2002, a decrease of $257.3 million from the nine months ended September 30, 2001. The average portfolio balance decreased $4.8 billion, to $5.1 billion for the nine months ended September 30, 2002 compared to the same period in 2001. The weighted average yield on these assets decreased from 6.57% for the nine months ended September 30, 2001 to 5.97% for the nine months ended September 30, 2002. 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. 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 $56.1 million for the nine months ended September 30, 2002, a decrease of $43.3 million from the nine months ended September 30, 2001. The average portfolio balance decreased $0.4 billion, to $1.2 billion for the nine months ended September 30, 2002 compared to the same period in 2001, primarily due to repayments. The weighted average yields for the nine months ended September 30, 2002 and 2001 were 6.15% and 8.15%, respectively. The decrease in the weighted average yield is primarily the result of the repricing of variable-rate securities at lower rates.

Interest income on securities, interest-bearing deposits in banks and other was $22.6 million for the nine months ended September 30, 2002, a decrease of $17.1 million from the nine months ended September 30, 2001. The average portfolio balance was $0.6 billion and $0.9 billion for the nine months ended September 30, 2002 and 2001, respectively. The weighted average yield was 4.98% for the nine months ended September 30, 2002 compared to 5.96% for the nine months ended September 30, 2001. The decrease in the volume is primarily attributed to payments and maturities of securities. The lower weighted average yield reflects a shift in the mix of securities, with lower average balances of higher rate securities and the repricing of securities at lower rates during the nine months of 2002. The weighted average yield also reflects $11.2 million of interest income related to income tax refunds for which there is no corresponding earning asset; if this amount is excluded, the weighted average yield for the nine months ended September 30, 2002 would be 2.52%.

Dividends on FHLB stock were $56.8 million for the nine months ended September 30, 2002, a decrease of $6.6 million from the nine months ended September 30, 2001. The average balance outstanding was $1.3 billion and $1.4 billion for the nine months ended September 30, 2002 and 2001, respectively. The weighted average dividend on FHLB stock was 6.05% for the nine months ended September 30, 2002 and 2001.

Interest Expense. Total interest expense was $1.3 billion for the nine months ended September 30, 2002, a decrease of $783.6 million from the nine months ended September 30, 2001. The decrease is primarily due to declining market interest rates and a reduction in borrowings under FHLB advances and securities sold under agreements to repurchase.

Interest expense on deposits, including Brokered Deposits, was $377.6 million for the nine months ended September 30, 2002, a decrease of $288.8 million from the nine months ended September 30, 2001. The average balance of deposits outstanding increased from $24.2 billion for the nine months ended September 30, 2001 to $24.8 billion for the nine months ended September 30, 2002. 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 and savings accounts, partially offset by a decline in CDs. The overall weighted average cost of deposits decreased to 2.04% for the nine months ended September 30, 2002 from 3.68% for the nine months ended September 30, 2001, primarily due to declining market interest rates and a shift in the mix of deposits, with higher average balances of lower rate money market, custodial, checking and savings accounts, and a lower average balance of higher rate CDs during the first nine months of 2002.

Interest expense on securities sold under agreements to repurchase totalled $60.6 million for the nine months ended September 30, 2002, a decrease of $106.2 million from the nine months ended September 30, 2001. The average balance of such borrowings for the nine months ended September 30, 2002 and 2001 was $2.1 billion and $3.9 billion, respectively. The decrease in the average balance is primarily the result of maturities, which were not renewed in light of the decline in interest-earning assets. The weighted average interest rate on these instruments decreased to 3.80% for the nine months ended September 30, 2002 from 5.69% for the nine months ended September 30, 2001, primarily due to maturities of higher fixed-rate borrowings and the repricing of variable-rate borrowings at lower rates.

Interest expense on borrowings totalled $847.6 million for the nine months ended September 30, 2002, a decrease of $391.0 million from the nine months ended September 30, 2001. The average balance outstanding for the nine months ended September 30, 2002 and 2001 was $21.4 billion and $28.5 billion, respectively. The weighted average interest rate on these instruments decreased to 5.28% for the nine months ended September 30, 2002 from 5.79% for the nine months ended September 30, 2001. The decrease in the average volume is primarily the result of maturities, which were not renewed in light of the decline in interest-earning assets, while the decrease in the weighted average rate is primarily due to declining market interest rates.

Net Interest Income. Net interest income was $1.1 billion for the nine months ended September 30, 2002, an increase of $71.9 million from the nine months ended September 30, 2001. The interest rate spread increased to 2.91% for the nine months ended September 30, 2002 from 2.33% for the nine months ended September 30, 2001, 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 2.94% for the nine months ended September 30, 2002, up 59 bps from the 2.35% reported during the nine months of 2001. Excluding the $11.2 million interest on the California income tax refund, the interest rate spread and net interest margin for the nine months ended September 30, 2002 would have been 2.88% and 2.91%, respectively.

Noninterest Income. Total noninterest income, consisting primarily of loan servicing fees, customer banking fees, gain on sale, settlement and transfer of loans, net, (loss) gain on sale of assets, net and other income, was $207.9 million for the nine months ended September 30, 2002, representing a decrease of $52.4 million from the nine months ended September 30, 2001.

Loan servicing fees for the Company, were $(62.9) million for the nine months ended September 30, 2002, compared to $(35.7) million the nine months ended September 30, 2001. The following table details the components of loan servicing fees, net (in thousands):

	Nine Months Ended September 30,	
	2002	2001
Components of loan servicing fees, net:		
Loan servicing fees	$ 383,516	$ 337,026
Amortization of MSRs	(326,269)	(219,793)
Pass-through Interest Expense	(33,268)	(24,376)
Net gain on MSRs/MSR derivatives (SFAS No. 133)	33,855	29,491
MSR valuation provision	(120,735)	(158,000)
Total loan servicing fees, net	$ (62,901)	$ (35,652)
Portfolio run off rate (residential portfolio only)	32.9%	26.1%
MSR value run off rate (residential portfolio only)	23.5	22.3
MSR amortization rate (residential portfolio only)	24.8	19.9

As the table reflects, gross loan servicing fees increased $46.5 million from year-ago levels, which is primarily attributable to the growth of the Company's servicing portfolio and higher ancillary fees. The single-family residential loan servicing portfolio, excluding loans serviced for the Bank, increased from $86.3 billion at September 30, 2001 to $87.3 billion at September 30, 2002. The portfolio runoff rate, representing the percentage of the residential portfolio that has been paid off during the year, influences MSR amortization, which increased $106.5 million in the nine months ended September 30, 2002 over the same period in 2001. Pass-through Interest Expense increased $8.9 million or 36% year over year, also influenced by higher runoff rates. Total loan servicing fees, net for the nine months ended September 30, 2002 and 2001 includes net pre-tax gains of $33.9 million and $29.5 million, respectively, from the impact of SFAS No. 133 pertaining to the MSR fair value hedges. After recording these gains in accordance with SFAS No. 133, the Company determined that the fair value of the MSR asset was less than its carrying value and recorded pre-tax valuation provisions on the MSRs of $120.7 million and $158.0 million during the nine months ended September 30, 2002 and 2001, respectively. See "—Impact of SFAS No. 133" and "—Mortgage Banking Risk Management" for further discussion.

Customer banking fees were $181.6 million for the nine months ended September 30, 2002 compared to $161.0 million for the nine months ended September 30, 2001. The following table details the components of customer banking fees and service charges (in thousands):

	Nine Months Ended September 30,	
	2002	2001
Components of customer banking fees and service charges:		
Customer and electronic banking fees	$119,234	$104,876
Other customer fees	2,438	1,903
Investment sales income	52,674	46,424
Insurance commissions	7,257	7,788
Total customer banking fees and service charges	$181,603	$160,991

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 CFI. 2002 also includes a $2.4 million reclassification to reflect gross revenues from customer check printing fees rather than net revenues. The offset is included in the "other expense" line of the income statement. Transaction accounts (including custodial accounts) as a percentage of retail deposits increased to 62.7% at September 30, 2002, from 53.7% at September 30, 2001.

Gain on sale, settlement and transfer of loans, net totalled $74.9 million for the nine months ended September 30, 2002, an increase of $5.9 million from the nine months ended September 30, 2001. During the nine months ended September 30, 2002, the Company sold $15.4 billion in single-family mortgage loans with servicing rights retained as part of its ongoing mortgage banking operations at gains of $58.6 million compared to $11.2 billion of such sales at gains of $33.8 million for the corresponding period in 2001, which included a $4.2 million gain on the 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 due to the overall decline in market interest rates and increased mortgage refinancing. The results in 2002 and 2001 include unrealized gains of $10.7 million and $2.4 million, respectively, on the derivative rate locks, forward loan sale commitments and closed loan inventory from the application of SFAS No. 133.

Net loss on sale of assets totalled $0.5 million for the nine months ended September 30, 2002, compared to a net gain of $22.0 million for the nine months ended September 30, 2001. The loss during the first nine months of 2002 includes a $20.2 million loss on the mark-to-market of the Company's portfolio of IO strip and "B" tranche mortgage securities, partially offset by a $14.2 million gain on the sale of a real estate partnership interest, a $3.4 million gain on the sale of the Santa Barbara branch and a $2.0 million gain on the sale of $62.3 million in mortgage-backed securities. The gain during 2001 is primarily attributed to a $16.6 million gain on the sale of $761.8 million in mortgage-backed securities and a $9.3 million gain on the sale of the Company's Concord EFS stock, partially offset by a $4.1 million loss on the mark-to-market of the Company's portfolio of IO strip securities.

Other noninterest income totalled $14.8 million for the nine months ended September 30, 2002, a decrease of $29.2 million from the same period in 2001. The decrease relates to a gain of $20.7 million on the non-monetary exchange of Star Systems common stock for 634,520 shares of Concord EFS common stock as a result of Concord's acquisition of Star Systems in February 2001 and $5.4 million in higher float commissions for check disbursements during the first nine months of 2001.

Noninterest Expense. Total noninterest expense was $694.6 million for the nine months ended September 30, 2002, a decrease of $20.1 million compared to the nine months ended September 30, 2001. Excluding the amortization of goodwill and other intangible assets, noninterest expense for the nine months ended September 30, 2002 was $691.1 million, an increase of $21.3 million over the same period in the prior year. Noninterest expense for the nine months ended September 30, 2002 included decreases of $41.3 million in amortization of intangible assets, $1.7 million in loan expense and $1.2 million in professional fees. These decreases were partially offset by increases of $19.5 million in compensation and employee benefits, $4.1 million in occupancy and equipment and $0.7 million in other noninterest expense.

Compensation and employee benefits expense was $365.4 million for the nine months ended September 30, 2002, an increase of $19.5 million from the nine months ended September 30, 2001. The increase is primarily attributed to normal salary adjustments, and increases in incentive compensation and commissions, primarily in volume-related operating groups.

Professional fees were $24.0 million for the nine months ended September 30, 2002, a decrease of $1.2 million from the nine months ended September 30, 2001, primarily due to an overall decrease in legal fees related to various legal cases.

Amortization of intangible assets was $3.5 million for the nine months ended September 30, 2002, a decrease of $41.3 million from the nine months ended September 30, 2001, due to the adoption of SFAS No. 142 on January 1, 2002, which requires that goodwill no longer be amortized.

Other noninterest expense was $168.8 million for the nine months ended September 30, 2002 compared to $168.1 million in the same period of 2001. The increase in expenses relates to increases in a number of operating expense categories, including data processing systems, clerical and other losses, insurance, bank charges, charitable contributions, postage, back office operations and courier service.

Provision for Income Tax. During the nine months ended September 30, 2002, GS Holdings recorded gross income tax expense of $240.5 million, which was offset by a tax benefit of $45.8 million, for net income tax expense of $194.7 million. Based on the current status of Mafco Holdings' audits for the years 1991 through 1995 and anticipated reversal of deferred tax assets with established valuation allowance, management changed its judgment about the realizability of the Company's deferred tax assets and reduced its valuation allowance by $44 million in the second quarter. As a result of reducing the valuation allowance, income tax expense was reduced by $31.4 million and goodwill was reduced by $12.6 million.

On September 11, 2002, California enacted a law requiring large banks (those with average assets in excess of $500 million) to conform to federal law with respect to accounting for bad debts. Prior to the law change, all banks, regardless of size, were eligible to use the reserve method of accounting for bad debts which enabled them to take deductions for anticipated bad debt losses prior to the losses being incurred for California tax purposes. With the change, large banks may now only deduct actual charge-offs net of recoveries in determining their California taxable income. Banks that are required to conform to the new law must include in current year taxable income 50 percent of the bad debt reserves that existed as of the end of the prior tax year. As a concession for requiring large banks to comply with the new law, recapture of the remaining 50 percent of the reserve is waived thereby creating a permanent tax benefit. The Company's tax benefit resulting from the law change was $8.7 million and has been reflected in the Company's income tax expense for the quarter ended September 30, 2002.

In addition, an accrued liability had been established in prior years 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 of the California audit of Glendale Federal Bank for the years 1991 through 1997, management reduced its accrued state tax liability by $8.7 million during the nine months ended September 30, 2002. Goodwill was reduced by $0.6 million in connection with this transaction. The Company also recorded additional Federal tax expense of $3.1 million due to the reduction of the state tax expense.

During the nine months ended September 30, 2001, GS Holdings recorded net income tax expense of $211.3 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 the nine months ended September 30, 2001, an income tax benefit was recorded for $3.2 million due to the utilization of net operating losses of a subsidiary made available as a result of the subsidiary's liquidation into California Federal Bank.

GS Holdings' effective gross federal tax rate was 30% during the nine months ended September 30, 2002 and 39% during the nine months ended September 30, 2001, while its federal statutory tax rate was 35% during both periods. In 2002, the difference between the effective and statutory rates was the result of a reduction of the deferred tax asset valuation allowance. In 2001, the difference between the effective and statutory rates was primarily the result of non-deductible goodwill amortization and additional federal tax liability recorded in conjunction with a reduction in the accrued state tax liability. GS Holdings' effective state tax rate was 3.4% and (1)% during the nine months ended September 30, 2002 and 2001, respectively. The low effective state tax rate during 2002 was the result of previously discussed reversal of the California bad debt reserves and reduction in the accrued state tax liability. The low effective state tax rate during 2001 was the result of the previously discussed reduction in the accrued state tax liability.

Minority Interest. During each of the nine months ended September 30, 2002 and 2001, dividends on the REIT Preferred Stock were recorded totalling $20.2 million, net of income tax benefit, which will inure to the Company as a result of the deductibility of such dividends for income tax purposes.

Cumulative Effect of Change in Accounting Principle. Cumulative effect of change in accounting principle for the nine months ended September 30, 2001 includes a write-down of $1.6 million, net of income taxes of $1.1 million, on certain securities as a result of the Company's implementation of EITF No. 99-20 on April 1, 2001. See note 14 of the Company's Notes to Unaudited Consolidated Financial Statements.

Impact of SFAS No. 133. On January 1, 2001, the Company adopted SFAS No. 133. The pronouncement impacted several other areas of the financial statements. The table summarizes the activity during the nine months ended September 30, 2002 below (debit/(credit); in thousands):

	Assets			Liabilities and Equity			Pre-tax Earnings	
	Loans Held for Sale	Residential MSRs	Derivative Assets	Derivative Liabilities	Taxes– Other Liabilities	OCI	Loan Servicing Fees, net	(Gain)/Loss on Sale of Loans
Fair value adjustments:								
MSRs and MSR hedges	$ --	$(746,527)	$ 739,883	$ 40,499	$ --	$ --	$(33,855)	$ --
Warehouse loans and pipeline hedges	58,945	--	(11,262)	(37,000)	--	--	--	(10,683)
Cash flow (balance sheet) hedges – swaps	--	–	--	(120,278)	49,133	71,145	--	--
Fair Value Adjustments – Nine Months Ended September 30, 2002	58,945	(746,527)	728,621	(116,779)	49,133	71,145	(33,855)	(10,683)
Other Activity – Nine Months Ended September 30, 2002:								
MSR hedge additions	--	--	1,230,598	--	--	--	--	--
MSR hedge sales and maturities	--	--	(2,025,869)	32,490	--	--	--	--
MSR hedge receipts and payments	--	–	(48,753)	(37,910)	--	--	--	--
Total Other Activity – Nine Months Ended September 30, 2002	--	–	(844,024)	(5,420)	--	--	--	--
Total Impact from SFAS No. 133 – Nine Months Ended September 30, 2002	$58,945	$(746,527)	$ (115,403)	$(122,199)	$ 49,133	$ 71,145	$(33,855)	$(10,683)
Total Impact from SFAS No. 133 – Nine Months Ended September 30, 2001	$23,037	$(350,105)	$ 326,296	$(284,224)	$101,237	$146,590	$(29,491)	$ (2,365)

Results of Operations

Three months ended September 30, 2002 versus three months ended September 30, 2001

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

	Three Months Ended September 30, 2002		
	Average Balance	Interest	Average Rate
	(dollars in millions)		
ASSETS			
Interest-earning assets (1):			
Securities, interest-bearing deposits in banks and other (2)	$ 1,094	$ 7	2.46%
Mortgage-backed securities available for-sale	4,190	61	5.83
Mortgage-backed securities held-to-maturity	1,122	16	5.85
Loans held for sale, net	1,516	24	6.33
Loans receivable, net:			
Residential	27,352	402	5.87
Commercial real estate	6,628	114	6.89
Consumer	1,086	16	5.88
Automobile	2,150	70	12.83
Commercial banking	786	11	5.77
Total loans receivable, net	38,002	613	6.44
FHLB stock	1,131	16	5.62
Total interest-earning assets	47,055	737	6.26%
Noninterest-earning assets	3,705		
Total assets	$50,760		
LIABILITIES, MINORITY INTEREST AND STOCKHOLDER'S EQUITY			
Interest-bearing liabilities:			
Deposits	$24,860	117	1.86%
Securities sold under agreements to repurchase (3)	1,950	18	3.69
Borrowings (3)	19,263	264	5.44
Other	207	1	1.76
Total interest-bearing liabilities	46,280	400	3.43%
Noninterest-bearing liabilities	1,233		
Minority interest	494		
Stockholder's equity	2,753		
Total liabilities, minority interest and stockholder's equity	$50,760		
Net interest income		$337	
Interest rate spread (4)			2.83%
Net interest margin			2.88%
Return on average assets			1.04%
Return on average common equity			19.15%
Return on tangible common equity			24.84%
Average equity to average assets			5.42%

	Three Months Ended September 30, 2001		
	Average Balance	Interest	Average Rate
	(dollars in millions)		
ASSETS			
Interest-earning assets (1):			
Securities, interest-bearing deposits in banks and other (2)	$ 571	$ 8	5.73%
Mortgage-backed securities available-for-sale	8,909	142	6.37
Mortgage-backed securities held-to-maturity	1,510	28	7.53
Loans held for sale, net	2,707	46	6.88
Loans receivable, net:			
Residential	31,571	531	6.73
Commercial real estate	6,399	128	7.98
Consumer	908	19	7.99
Automobile	1,871	56	11.95
Commercial banking	647	12	7.41
Total loans receivable, net	41,396	746	7.20
FHLB stock	1,423	18	5.04
Total interest-earning assets	56,516	988	6.99%
Noninterest-earning assets	3,962		
Total assets	$60,478		
LIABILITIES, MINORITY INTEREST AND STOCKHOLDER'S EQUITY			
Interest-bearing liabilities:			
Deposits	$24,596	202	3.26%
Securities sold under agreements to repurchase (3)	3,635	46	4.91
Borrowings (3)	27,980	384	5.45
Total interest-bearing liabilities	56,211	632	4.45%
Noninterest-bearing liabilities	1,344		
Minority interest	495		
Stockholder's equity	2,428		
Total liabilities, minority interest and stockholder's equity	$60,478		
Net interest income		$356	
Interest rate spread (4)			2.53%
Net interest margin			2.56%
Return on average assets			0.71%
Return on average common equity			17.61%
Return on tangible common equity			27.46%
Average equity to average assets			4.01%

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

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

	Three Months Ended September 30, 2002 vs. 2001 Increase (Decrease) Due to		
	Volume	Rate (in millions)	Net
INTEREST INCOME:			
Securities, interest-bearing deposits in banks and other	$ 2	$ (3)	$ (1)
Mortgage-backed securities available for sale	(70)	(11)	(81)
Mortgage-backed securities held to maturity	(6)	(6)	(12)
Loans held for sale, net	(19)	(3)	(22)
Loans receivable, net	(47)	(86)	(133)
FHLB stock	(4)	2	(2)
Total	(144)	(107)	(251)
INTEREST EXPENSE:			
Deposits	(13)	(72)	(85)
Securities sold under agreements to repurchase	(18)	(9)	(27)
Borrowings	(103)	(18)	(121)
Other	--	1	1
Total	(134)	(98)	(232)
Change in net interest income	$ (10)	$ (9)	$ (19)

Interest Income. Total interest income was $736.9 million for the three months ended September 30, 2002, a decrease of $251.7 million from the three months ended September 30, 2001. Total interest-earning assets for the three months ended September 30, 2002 averaged $47.1 billion, compared to $56.5 billion for the corresponding period in 2001. 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, and net loan run off. The yield on total interest-earning assets during the three months ended September 30, 2002 decreased to 6.26% from 6.99% for the three months ended September 30, 2001, primarily due to the repricing of loans and mortgage-backed securities at lower rates.

GS Holdings earned $612.6 million of interest income on loans receivable for the three months ended September 30, 2002, a decrease of $132.9 million from the three months ended September 30, 2001. The average balance of loans receivable was $38.0 billion for the three months ended September 30, 2002, compared to $41.4 billion for the same period in 2001. The weighted average yield on loans receivable decreased to 6.44% for the three months ended September 30, 2002 from 7.20% for the three months ended September 30, 2001. The decrease in the average balance reflects the sharp run off of residential loans during a period of high refinancing activity. The decrease in the weighted average yield primarily reflects the repricing of variable-rate loans, a decrease in the prime rate on commercial banking loans and comparatively lower market interest rates during the three months ended September 30, 2002, 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 three months ended September 30, 2002 was to increase interest income by $14.8 million. (See "—Allowance for Loan Losses.")

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

	Three Months Ended September 30, 2002	2001
Loans funded:		
Residential real estate loans:		
Adjustable-rate	$1,750,876	$1,622,486
Fixed-rate	4,121,746	5,379,189
Total residential real estate loans	5,872,622	7,001,675
Commercial real estate loans	348,110	415,861
Commercial loans	324,796	241,541
Consumer nonmortgage loans	280,582	204,295
Auto loans (a)	325,110	319,396
Total loans funded	$7,151,220	$8,182,768
Residential real estate loans purchased	$ 184,923	$ 475,166

(a) Approximately 42% and 40% of this volume was in prime product; 58% and 60% in sub-prime product for the three months ended September 30, 2002 and 2001, respectively.

GS Holdings earned $24.0 million of interest income on loans held for sale for the three months ended September 30, 2002, a decrease of $22.6 million from the three months ended September 30, 2001. The average balance of loans held for sale was $1.5 billion for the three months ended September 30, 2002, a decrease of $1.2 billion from the comparable period in 2001, primarily related to decreased originations of residential fixed-rate loans. Fixed-rate production for sale totalled $4.0 billion during the three months ended September 30, 2002, a decline of 20% over the $5.1 billion originated during the comparable period in 2001. The weighted average yield on loans held for sale decreased to 6.33% for the three months ended September 30, 2002 from 6.88% for the three months ended September 30, 2001, primarily due to declining market interest rates.

Interest income on mortgage-backed securities available for sale was $61.1 million for the three months ended September 30, 2002, a decrease of $80.8 million from the three months ended September 30, 2001. The average portfolio balance decreased $4.7 billion, to $4.2 billion for the three months ended September 30, 2002 compared to the same period in 2001. The weighted average yield on these assets decreased from 6.37% for the three months ended September 30, 2001 to 5.83% for the three months ended September 30, 2002. 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. 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 $16.4 million for the three months ended September 30, 2002, a decrease of $12.0 million from the three months ended September 30, 2001. The average portfolio balance decreased $0.4 billion, to $1.1 billion for the three months ended September 30, 2002 compared to the same period in 2001, primarily due to repayments. The weighted average yields for the three months ended September 30, 2002 and 2001 were 5.85% and 7.53%, respectively. The decrease in the weighted average yield is primarily the result of the repricing of variable-rate securities at lower rates.

Interest income on securities, interest-bearing deposits in banks and other was $6.9 million for the three months ended September 30, 2002, a decrease of $1.3 million from the three months ended September 30, 2001. The average portfolio balance was $1.1 billion and $0.6 billion for the three months ended September 30, 2002 and 2001, respectively. The weighted average yield for the three months ended September 30, 2002 was 2.46% compared to 5.73% for the three months ended September 30, 2001. The increase in the volume is primarily due to the impact of additional issuances of repurchase agreements and federal funds sold during the third quarter of 2002. The decrease in the weighted average yield reflects a shift in the mix of securities, with lower average balances of higher rate securities held to maturity during the third quarter of 2002.

Dividends on FHLB stock were $16.0 million for the three months ended September 30, 2002, a decrease of $2.1 million from the three months ended September 30, 2001. The average balance outstanding was $1.1 billion and $1.4 billion for the three months ended September 30, 2002 and 2001, respectively. The weighted average dividend on FHLB stock increased to 5.62% for the three months ended September 30, 2002 from 5.04% for the three months ended September 30, 2001.

Interest Expense. Total interest expense was $399.7 million for the three months ended September 30, 2002, a decrease of $232.4 million from the three months ended September 30, 2001. The decrease is primarily due to declining market interest rates and a reduction in borrowings under FHLB advances and securities sold under agreements to repurchase.

Interest expense on deposits, including Brokered Deposits, was $116.7 million for the three months ended September 30, 2002, a decrease of $85.1 million from the three months ended September 30, 2001. The average balance of deposits outstanding increased from $24.6 billion for the three months ended September 30, 2001 to $24.9 billion for the three months ended September 30, 2002. 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 and savings accounts, partially offset by a decline in CDs. The overall weighted average cost of deposits decreased to 1.86% for the three months ended September 30, 2002 from 3.26% for the three months ended September 30, 2001, primarily due to declining market interest rates and a shift in the mix of deposits, with higher average balances of lower rate money market, custodial, checking and savings accounts, and a lower average balance of higher rate CDs during the third quarter of 2002.

Interest expense on securities sold under agreements to repurchase totalled $18.3 million for the three months ended September 30, 2002, a decrease of $27.2 million from the three months ended September 30, 2001. The average balance of such borrowings for the three months ended September 30, 2002 and 2001 was $2.0 billion and $3.6 billion, respectively. The decrease in the average balance is primarily the result of maturities, which were not renewed in light of the decline in interest-earning assets. The weighted average interest rate on these instruments decreased to 3.69% for the three months ended September 30, 2002 from 4.91% for the three months ended September 30, 2001, primarily due to maturities of higher fixed-rate borrowings and the repricing of variable-rate borrowings at lower rates.

Interest expense on borrowings totalled $263.8 million for the three months ended September 30, 2002, a decrease of $121.0 million from the three months ended September 30, 2001. The average balance outstanding for the three months ended September 30, 2002 and 2001 was $19.3 billion and $28.0 billion, respectively. The weighted average interest rate on these instruments decreased to 5.44% for the three months ended September 30, 2002 from 5.45% for the three months ended September 30, 2001. The decrease in the average volume is primarily the result of maturities, which were not renewed in light of the decline in interest-earning assets, while the slight decrease in the weighted average rate is primarily due to declining market interest rates, offset by the impact of maturity extensions.

Net Interest Income. Net interest income was $337.2 million for the three months ended September 30, 2002, a decrease of $19.3 million from the three months ended September 30, 2001. The decline was the result of reduced average earning assets more than offsetting a higher net interest margin. Average interest-earning assets were $47.1 billion for the third quarter of 2002, down from $56.5 billion during the same period in 2001. The interest rate spread increased to 2.83% for the three months ended September 30, 2002 from 2.53% for the three months ended September 30, 2001, 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 2.88% for the three months ended September 30, 2002, up 32 bps from the 2.56% reported during the third quarter of 2001.

Noninterest Income. Total noninterest income, consisting primarily of loan servicing fees, customer banking fees, gain on sale, settlement and transfer of loans, net, (loss) gain on sale of assets, net and other income, was $120.0 million for the three months ended September 30, 2002, representing an increase of $33.1 million from the three months ended September 30, 2001.

Loan servicing fees for the Company, were $43.7 million for the three months ended September 30, 2002, compared to $(28.7) million the three months ended September 30, 2001. The following table details the components of loan servicing fees, net (in thousands):

	Three Months Ended September 30,	
	2002	2001
Components of loan servicing fees, net:		
Loan servicing fees	$ 133,840	$112,734
Amortization of MSRs	(113,673)	(72,780)
Pass-through Interest Expense	(12,770)	(8,234)
Net gain on MSRs/MSR derivatives (SFAS No. 133)	29,916	20,534
MSR valuation recovery/(provision)	6,372	(81,000)
Total loan servicing fees, net	$ 43,685	$(28,746)
Portfolio run off rate (residential portfolio only)	38.7%	27.2%
MSR value run off rate (residential portfolio only)	27.5	24.3
MSR amortization rate (residential portfolio only)	29.3	19.1

As the table reflects, gross loan servicing fees increased $21.1 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, decreased to $87.3 billion at September 30, 2002 from $90.7 billion at June 30, 2002 and increased from $86.3 billion at September 30, 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 $40.9 million in the third quarter of 2002 over the same period in 2001. Pass-through Interest Expense, which increased $4.5 million or 55% year over year, was also influenced by higher runoff rates. Total loan servicing fees, net for the third quarter of 2002 and 2001 includes net pre-tax gains of $29.9 million and $20.5 million, respectively, from the impact of SFAS No. 133 pertaining to the MSR fair value hedges. After recording these gains in accordance with SFAS No. 133, the Company determined that the fair value of the MSR asset differed from its carrying value. As a result, in the third quarter of 2002, after determining the fair value of the MSR asset was more than its carrying value, the Company recovered $6.4 million of the previously recorded valuation provision. During the three months ended September 30, 2001, the Company recorded a pre-tax valuation provision on the MSRs of $81.0 million after determining that the fair value of the MSR asset was less than its carrying value. See "—Impact of SFAS No. 133" and "—Mortgage Banking Risk Management" for further discussion.

Customer banking fees were $62.6 million for the three months ended September 30, 2002 compared to $55.2 million for the three months ended September 30, 2001. The following table details the components of customer banking fees and service charges (in thousands):

	Three Months Ended September 30,	
	2002	2001
Components of customer banking fees and service charges:		
Customer and electronic banking fees	$41,632	$36,375
Other customer fees	921	605
Investment sales income	17,475	15,694
Insurance commissions	2,555	2,497
Total customer banking fees and service charges	$62,583	$55,171

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 CFI. Third quarter 2002 also includes a $0.8 million reclassification to reflect gross revenues from customer check printing fees rather than net revenues. The offset is included in the "other expense" line of the income statement.

Gain on sale, settlement and transfer of loans, net totalled $19.4 million for the three months ended September 30, 2002, a decrease of $27.8 million from the three months ended September 30, 2001. During the three months ended September 30, 2002, the Company sold $3.5 billion in single-family mortgage loans with servicing rights retained as part of its ongoing mortgage banking operations at gains of $14.9 million compared to $5.5 billion of such sales at gains of $19.7 million for the corresponding period in 2001, which included a $4.2 million gain on the sale of $136.2 million in government-insured loans that were previously seriously delinquent and had become performing (GNMA reperformers). The overall decrease in the volume of loans sold and the related gain is a result of a reduction in fixed-rate loan originations during the third quarter of 2002. Gain on sale of loans during the third quarter of 2001 included $24.5 million related to a reduction in the Company's recourse liability, which did not recur. The results in 2002 and 2001 include an unrealized gain of $3.4 million and an unrealized loss of $1.2 million, respectively, on the derivative rate locks, forward loan sale commitments and closed loan inventory from the application of SFAS No. 133.

Net loss on sale of assets totalled $8.9 million for the three months ended September 30, 2002, compared to a net gain of $5.8 million for the three months ended September 30, 2001. The loss during the third quarter of 2002 is due to the loss on the mark-to-market of the Company's portfolio of IO strip and "B" tranche mortgage securities. The gain during 2001 is primarily attributed to a $10.0 million gain on the sale of $464.0 million in mortgage-backed securities, partially offset by a $4.1 million loss on the mark-to-market of the Company's portfolio of IO strip securities.

Other noninterest income totalled $3.2 million for the three months ended September 30, 2002, a decrease of $4.4 million from the three months ended September 30, 2001, primarily attributed to the receipts in the prior year related to an eminent domain settlement on real estate property and a CRA award, and lower float commissions for check disbursements in 2002.

Noninterest Expense. Total noninterest expense was $237.5 million for the three months ended September 30, 2002, a decrease of $4.7 million compared to the three months ended September 30, 2001. Excluding the amortization of goodwill and other intangible assets, noninterest expense for the three months ended September 30, 2002 was $236.4 million, an increase of $9.1 million over the same period in the prior year. Noninterest expense for the three months ended September 30, 2002 included decreases of $13.8 million in amortization of intangible assets, $2.6 million in professional fees and $0.7 million in loan expense. These decreases were partially offset by increases of $8.1 million in compensation and employee benefits, $3.7 million in other expense and $0.9 million in occupancy and equipment.

Compensation and employee benefits expense was $122.9 million for the three months ended September 30, 2002, an increase of $8.1 million from the three months ended September 30, 2001. The increase is primarily attributed to an increase in incentive compensation and commissions, primarily in volume-related operating groups, and normal salary adjustments.

Professional fees were $7.9 million for the three months ended September 30, 2002, a decrease of $2.6 million from the three months ended September 30, 2001, primarily due to an overall decrease in legal fees related to various legal cases.

Amortization of intangible assets was $1.2 million for the three months ended September 30, 2002, a decrease of $13.8 million from the three months ended September 30, 2001, due to the adoption of SFAS No. 142 on January 1, 2002, which requires that goodwill no longer be amortized.

Other noninterest expense was $60.6 million for the three months ended September 30, 2002 compared to $56.9 million for the same period in 2001. The increase in expenses relates to increases in a number of operating expense categories, including insurance, data processing systems, bank charges, clerical and other losses, charitable contributions, postage and retail back office operations.

Provision for Income Tax. During the three months ended September 30, 2002 and 2001, GS Holdings recorded net income tax expense of $81.1 million and $87.5 million, respectively. The expense recorded during the three months ended September 30, 2002 is net of an income tax benefit of $8.7 million due to legislation passed in the third quarter of 2002. The legislation precludes banks from using the reserve method for bad debts, and requires recognition of fifty percent of bad debt reserves as income. As a concession for this additional taxable income, the recapture of the remaining fifty percent of the reserve is waived thereby creating a permanent tax benefit.

GS Holdings' effective gross federal tax rate was 35% and 37% during the three months ended September 30, 2002 and 2001, respectively, while its federal statutory tax rate was 35% during both periods. In 2001, the difference between the effective and statutory rates was primarily the result of nondeductible goodwill amortization. GS Holdings' effective state tax rate was 2% and 6% during the three months ended September 30, 2002 and 2001, respectively. The low effective state tax rate during 2002 was the result of previously discussed reversal of the California bad debt reserves.

Minority Interest. During each of the three months ended September 30, 2002 and 2001, dividends on the REIT Preferred Stock were recorded totalling $6.7 million, net of income tax benefit, which will inure to the Company as a result of the deductibility of such dividends for income tax purposes.

Impact of SFAS No. 133. On January 1, 2001, the Company adopted SFAS No. 133. The pronouncement impacted several other areas of the financial statements for the three months ended September 30, 2002, as summarized below (debit/(credit); in thousands):

	Assets			Liabilities and Equity			Pre-tax Earnings	
	Loans Held for Sale	Residential MSRs	Derivative Assets	Derivative Liabilities	Taxes– Other Liabilities	OCI	Loan Servicing Fees, net	(Gain)/Loss on Sale of Loans
Fair value adjustments:								
MSRs and MSR hedges	$ --	$(558,901)	$ 559,425	$ 29,392	$ --	$ --	$(29,916)	$ --
Warehouse loans and pipeline hedges	15,564	--	17,423	(29,563)	--	--	--	(3,424)
Cash flow (balance sheet) hedges – swaps	--	–	--	(91,778)	37,491	54,287	--	--
Fair Value Adjustments – Three Months Ended September 30, 2002	15,564	(558,901)	576,848	(91,949)	37,491	54,287	(29,916)	(3,424)
Other Activity – Three Months Ended September 30, 2002:								
MSR hedge additions	--	--	397,213	--	--	--	--	--
MSR hedge sales and maturities	--	--	(947,738)	97	--	--	--	--
MSR hedge receipts and payments	--	–	(16,700)	(18,896)	--	--	--	--
Total Other Activity – Three Months Ended September 30, 2002	--	–	(567,225)	(18,799)	--	--	--	--
Total Impact from SFAS No. 133 – Three Months Ended September 30, 2002	$15,564	$(558,901)	$ 9,623	$(110,748)	$37,491	$54,287	$(29,916)	$(3,424)
Total Impact from SFAS No. 133 – Three Months Ended September 30, 2001	$28,241	$(268,775)	$ 132,866	$(157,600)	$58,828	$85,183	$(20,534)	$ 1,186

Problem and Potential Problem Assets

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

The measurement of impairment may be based on:

(a) the present value of the expected future cash flows of the impaired loan discounted at the loan's original effective interest rate;

(b) the observable market price of the impaired loan; or

(c) the fair value of the collateral (less disposal costs) of a collateral-dependent loan.

The excess of the recorded investment of the loan over the impaired loan's value is recognized by recording a valuation allowance.

Cash receipts on non-performing impaired loans are generally used to reduce the carrying value of the loan, unless the Company expects to recover the remaining principal balance of the loan. Impairment losses are included in the allowance for loan losses. Any loss of principal upon disposition is recorded through a charge-off to the allowance for loan losses.

At September 30, 2002, loans that were considered to be impaired totalled $48.6 million (of which $15.3 million were on nonaccrual status). The average recorded investment in impaired loans during the three and nine-month periods ended September 30, 2002 was approximately $54.2 million and $54.6 million, respectively. For the three and nine-month periods ended September 30, 2002, GS Holdings recognized interest income on those impaired loans of $1.0 million and $3.0 million, respectively, which included $0.2 million and $0.5 million, respectively, of interest income recognized using the cash basis method of income recognition.

The following table presents the Company's non-performing loans 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.

	September 30, 2002	
	Non-performing	Impaired
	(in millions)	
Real Estate:		
1-4 unit residential	$ 61	$ 1
Multi-family residential	--	2
Commercial and other	5	31
Total real estate	66	34
Non-real estate	22	15
Total loans	88 (a)	$49 (b)
Foreclosed real estate, net	12	
Repossessed assets	8	
Total non-performing assets	$108	

	December 31, 2001			
	Non-performing		Impaired	
	(in millions)			
Real Estate:				
1-4 unit residential	$ 75		$ 1	
Multi-family residential	--		9	
Commercial and other	4		32	
Total real estate	79		42	
Non-real estate	22		17	
Total loans	101	(a)	$59	(b)
Foreclosed real estate, net	19			
Repossessed assets	4			
Total non-performing assets	$124			

(a) There were no loans securitized with recourse on non-performing status at September 30, 2002 or December 31, 2001.

(b) Includes $15.3 million and $14.1 million of non-performing loans at September 30, 2002 and December 31, 2001, respectively.

There were no accruing loans contractually past due 90 days or more at September 30, 2002 or December 31, 2001.

The Company's and the Bank's non-performing assets, consisting of nonaccrual loans, repossessed assets and foreclosed real estate, net, decreased to $108 million at September 30, 2002, from $124 million at December 31, 2001. Non-performing assets as a percentage of the Bank's total assets was 0.21% at September 30, 2002 and 0.22% at December 31, 2001.

The following table presents non-performing real estate assets by geographic region of the country as of September 30, 2002:

	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)	$ 7	$ 1	$ 8	10.26%
California	37	6	43	55.13
Other regions	22	5	27	34.61
Total	$66	$12	$78	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 September 30, 2002, the Bank had two non-performing assets over $2 million in size with an average balance of $2.3 million and 4,195 non-performing assets below $2 million in size, including 806 non-performing 1-4 unit residential assets.

Allowance for Loan Losses

The Company's allowance absorbs losses inherent in the loan portfolio. Management periodically evaluates the adequacy of the allowance. 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 nine months ended September 30, 2002 and 2001, respectively. Management believes that its present allowance for loan losses is adequate and it will continue to review its loan portfolio to determine the extent to which any changes in economic conditions and loss experience may require further provisions in the future.

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

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2002	2001	2002	2001
Balance – beginning of period	$497,298	$526,308	$469,047	$515,979
Provision for loan losses	--	--	--	--
Net charge-offs:				
1-4 unit residential	(1,471)	(2,735)	(401)	(753)
Multi-family residential and commercial real estate	260	(109)	(13)	(52)
Auto loans	(39,090)	(7,457)	(17,622)	(2,368)
Consumer and other	(8,931)	(4,992)	(2,969)	(1,791)
Subtotal – net charge-offs	(49,232)	(15,293)	(21,005)	(4,964)
Reclassification	(24)	(130)	--	(130)
Balance – end of period	$448,042	$510,885	$448,042	$510,885

The current period reclassification relates to loans transferred to the held-for-sale portfolio. Net charge-offs for the nine months ended September 30, 2002 totalled $49.2 million, up $33.9 million from the nine months ended September 30, 2001. This level of charge-offs represents 13 bps on average loans in the nine months ended September 30, 2002, compared to 4 bps of net charge-offs in the nine months ended September 30, 2001. The increase was related to the Company's auto loan portfolio, but does not represent a significant increase in portfolio delinquency rates. Total delinquency rates on the portfolio were 6.67% at September 30, 2001 compared to 6.48% at September 30, 2002. The higher charge-offs resulted primarily from two other issues.

The Company experienced higher losses in the current quarter compared to the previous quarter for two reasons. First, both seasonal and general economic trends resulted in a greater number of defaults, and consequently repossessions of vehicles. Historically, seasonal factors tend to improve beginning in the first quarter and continuing into the second quarter. Second, prices received for repossessed vehicles weakened. This was due to the prevalence of auto manufacturer incentives, including zero percent financing and cash options, that attracted buyers to new cars rather than used cars. This in turn depressed the values of used cars due both to lessened demand and excess supply from trade-ins. Management believes that such incentives will not be sustainable over a long period of time, and that used car markets will return to normal conditions in the near future.

In addition, interest income on all auto loans originated after July 1, 2001 is recorded at the gross coupon vs. an effective (or credit adjusted) yield. Credit losses on these loans are no longer being amortized through the net interest margin but are charged to the loan loss allowance, resulting in higher net charge-offs. During the nine months ended September 30, 2002, net charge-offs were $22.2 million higher as a result of this treatment. See "—Interest Income."

The adequacy of the allowance is based on past loan loss experience, known and inherent risks in the loan portfolio, adverse unknown situations that have occurred 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 embedded within the portfolios, but which 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.

The Company has determined that borrowers are impacted by events that result in loan default and eventual loss which occur well in advance of a lender's knowledge of those events, and that the time-frame between the occurrence of such events and the resulting default and loss realization is between one and 2.5 years, depending upon the loan type. Examples of such loss-causing events for single family mortgage and other consumer loans would be borrower job loss, divorce, and medical crisis. An example for commercial real estate loans would be the loss of a major tenant.

The specific allowances are established against individual loans, including impaired loans, in accordance with SFAS No. 114. Specific allowances are established against individual residential 1-4 mortgage loans, commercial loans and commercial and multi-family real estate loans for which management has performed analyses and concluded that, based on current information and events, it is probable that the Bank will be unable to collect all amounts contractually due. 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 estimating collateral deficiency, including consideration of collateral disposal costs. If the net book value exceeds the fair value, a specific allowance is established 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 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 at September 30, 2002 are summarized below:

	% of Total Portfolio Concentration in		
	California	Northern CA	Southern CA
Residential	76%	37%	39%
Commercial Real Estate	88	28	60
Consumer (primarily Home Equity)	92	42	50

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

At September 30, 2002, the allowance for loan losses was $448 million, consisting of a $355 million formula allowance, a $16 million specific allowance and an $77 million unallocated allowance. Although the loan loss allowance has been allocated by type of loan for internal valuation purposes, $432 million of the allowance is general in nature and is available to support any losses which may occur, regardless of type, in the Company's loan portfolio.

A summary of the activity in the total allowance for loan losses by loan type is as follows:

	1 – 4 Unit Residential	Multi-family Residential and Commercial Real Estate	Auto	Consumer and Other	Total
			(in millions)		
Balance – December 31, 2001	$224	$159	$ 10	$104	$497
Provision for loan losses	--	(13)	13	--	--
Charge-offs	--	--	(12)	(3)	(15)
Recoveries	--	--	--	1	1
Reclassification	(4)	--	--	4	--
Balance – March 31, 2002	220	146	11	106	483
Provision for loan losses	--	(17)	17	--	--
Charge-offs	(1)	--	(10)	(5)	(16)
Recoveries	--	--	1	1	2
Balance – June 30, 2002	219	129	19	102	469
Provision for loan losses	--	(22)	22	--	--
Charge-offs	--	--	(18)	(4)	(22)
Recoveries	--	--	--	1	1
Balance – September 30, 2002	$219	$107	$ 23	$ 99	$448

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 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.

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.

Asset and Liability Management

GS Holdings, 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 gap and duration analysis, as well as net interest income and market value simulation. After taking into consideration both the variability of rates and the maturities of various instruments, it evaluates strategies which 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 continues to emphasize 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 September 30, 2002, 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.

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 contractual maturities adjusted for projected prepayments and "repricing mechanisms" (provisions for changes in the interest rates of assets and liabilities). Prepayment rates are assumed on substantially all of the Company's loan portfolio based upon expected loan prepayments. Repricing mechanisms on the Company's assets are subject to limitations, such as caps on the amount that interest rates and payments on its loans may adjust. Accordingly, such assets may not respond in the same manner or to the same extent to changes in interest rates as the Company's liabilities. In addition, the interest rate sensitivity of the assets and liabilities illustrated in the table would vary substantially if different assumptions were used or if actual experience differed from the assumptions set forth. The Company's estimated interest rate sensitivity gap at September 30, 2002 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)	$ 1,392	$ --	$ --	$ --	$ 1,392
Securities held to maturity (1)	17	--	--	--	17
Securities available for sale (3)	110	--	--	--	110
Mortgage-backed securities available for sale (3)	3,880	--	--	--	3,880
Mortgage-backed securities held to maturity (1) (4)	1,085	14	1	--	1,100
Loans held for sale, net (3)	1,955	--	--	--	1,955
Loans receivable, net (1) (5)	22,925	12,348	1,950	--	37,223
Investment in FHLB	1,105	--	--	--	1,105
Total interest-earning assets	32,469	12,362	1,951	--	46,782
Noninterest-earning assets	--	--	--	3,647	3,647
	$32,469	$12,362	$1,951	$3,647	$50,429
INTEREST-BEARING LIABILITIES:					
Deposits (6)	$22,603	$ 2,496	$ 1	$ --	$25,100
Securities sold under agreements to repurchase (1)	1,888	73	--	--	1,961
FHLB advances (1)	11,733	4,919	--	--	16,652
Other borrowings (1)	871	891	--	--	1,762
Total interest-bearing liabilities	37,095	8,379	1	--	45,475
Noninterest-bearing liabilities	--	--	--	1,605	1,605
Minority interest	--	--	--	500	500
Stockholder's equity	--	--	--	2,849	2,849
	$37,095	$ 8,379	$ 1	$4,954	$50,429
Gap before interest rate swap agreements	$(4,626)	$ 3,983	$1,950		$ 1,307
Interest rate swap agreements	3,510	(3,440)	(70)		--
Gap	(1,116)	543	1,880		$ 1,307
Cumulative gap	$(1,116)	$ (573)	$1,307		
Gap as a percentage of total assets	(2.2)%	1.1%	3.7%		2.6%
Cumulative gap as a percentage of total assets	(2.2)%	(1.1)%	2.6%		2.6%

(Continued)

(1) Based upon:

(a) contractual maturity,
(b) instrument repricing date, if applicable, and
(c) projected repayments and prepayments of principal, if applicable.

Prepayments were estimated generally by using the prepayment rates forecast by various large brokerage firms as of September 30, 2002. The actual maturity and rate sensitivity of these assets could vary substantially if future prepayments differ from prepayment estimates.

(2) Consists of $89.4 million of short-term investment securities and $1.3 billion of interest-bearing deposits in other banks.

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

(4) Excludes underlying non-performing securities of $0.8 million.

(5) Excludes allowance for loan losses of $448 million and non-performing loans of $88 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 September 30, 2002, GS Holdings' cumulative gap totalled $1.3 billion. At December 31, 2001, GS Holdings' cumulative gap totalled $518 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):

	September 30, 2002	December 31, 2001
Balance Sheet Composition by Index:		
Securities		
Fixed	$ 2,725,829	$ 5,348,504
COFI	848,569	1,140,414
Treasury	1,231,291	1,516,419
Other ARMs	212,364	483,136
Unrealized gain/(loss)	89,639	97,070
Purchase accounting	(349)	4,129
Total securities	5,107,343	8,589,672
Loans		
Fixed	8,617,795	9,149,482
Hybrid ARMs	18,120,000	18,649,980
COFI	4,153,266	5,092,248
Treasury	4,271,674	5,340,633
Other ARMs	2,141,921	1,592,005
Purchase accounting	6,106	8,573
Allowance for loan losses	(448,042)	(497,298)
Total loans	36,862,720	39,335,623
Other interest-earning assets	4,452,626	4,151,004
Noninterest-earning assets	4,005,996	4,442,519
Total assets	$50,428,685	$56,518,818
Deposits	$25,100,210	$25,146,827
Borrowings:		
Fixed with maturities < 1 year	8,230,256	9,416,480
Fixed with maturities > 1 year	6,482,839	10,155,390
Adjustable	5,557,000	7,063,000
Purchase accounting	72	2,524
Accrued interest payable	104,723	171,092
Total borrowings	20,374,890	26,808,486
Noninterest-bearing liabilities	1,604,404	1,438,716
Minority interest and stockholder's equity	3,349,181	3,124,789
Total liabilities and equity	$50,428,685	$56,518,818

Mortgage Banking Activities

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

	September 30, 2002	December 31, 2001
	(dollars in thousands)	
Residential Mortgage Servicing Portfolio:		
Total UPB residential loans serviced	$110,489,364	$112,262,916
Total number of residential loans serviced	959,625	997,276
Total UPB residential loans serviced for others	$ 87,268,885	$ 85,218,280
Total number of residential loans serviced for others	819,999	838,234
Portfolio Characteristics:		
Weighted average contractual servicing fee earned	42bps	42bps
Average loan balance	$ 106	$ 102
Weighted average note rate	7.11%	7.36%
Per loan servicing cost (in whole dollars)	$ 49	$ 47
Secured by California properties	42.08%	45.67%

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2002	2001	2002	2001
	(in thousands)			
Mortgage loans sold	$15,385,092	$11,191,653	$3,464,789	$5,548,272
Mortgage loans sold (servicing retained)	$15,364,620	$11,191,080	$3,464,789	$5,548,169

	Number of Loans	Loan Principal	MSR Basis
	(whole numbers)	(in thousands)	
Residential Mortgage Servicing Portfolio:			
Balance – December 31, 2001 (a)	838,234	$ 85,218,280	$1,620,916
Originated servicing	205,331	14,450,666	349,260
Flow purchases	47,017	6,949,539	185,277
Bulk purchases	15,184	2,252,897	37,797
Runoff	(285,767)	(21,602,497)	(324,808)
Fair value adjustment (SFAS No. 133)	--	--	(746,527)
Valuation provision	--	--	(120,735)
Balance – September 30, 2002 (a)	819,999	$ 87,268,885	$1,001,180

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(a) Excludes $1.6 million at September 30, 2002 and $3.0 million at December 31, 2001 of MSRs on non-single family residential portfolios.

The table below summarizes mortgage servicing acquisitions during the nine and three months ended September 30, 2002 and 2001:

	Number of loans		Loan Principal		MSR Basis	
	Nine Months Ended September 30,					
	2002	2001	2002	2001	2002	2001
	(whole numbers)		(in millions)		(in millions)	
Residential Mortgage Servicing portfolio:						
Purchased servicing rights	62,201	62,803	$9,202.4	$8,709.1	$223.1	$231.6

	Number of loans		Loan Principal		MSR Basis	
	Three Months Ended September 30,					
	2002	2001	2002	2001	2002	2001
	(whole numbers)		(in millions)		(in millions)	
Residential Mortgage Servicing portfolio:						
Purchased servicing rights	12,564	27,612	$1,850.8	$3,892.8	$45.6	$105.2

Mortgage Banking Risk Management

In 2002, mortgage rates have declined to levels not seen in over thirty-five years. As a result, prepayments of mortgages are occurring at an unprecedented level. This results in reduced servicing fee income due to increased amortization and also results in lower market value of MSRs. 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, LIBOR. However, its hedge coverage ratio does not always equate to 100%. The Company does not hedge certain components of its portfolio, primarily 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 works to reduce its exposure to changes between mortgage and LIBOR rates in a variety of ways, including changing the hedge ratio and the mix of the instruments used to hedge its MSRs. However, because its instruments are predominantly based on LIBOR rates, there is significant exposure to future spread changes.

The Company owned several derivative instruments at September 30, 2002, which were used to hedge the change in value of the mortgage servicing portfolio due to expected prepayment risk assumption changes caused by changes in rates. These derivative instruments included interest rate swap agreements, Constant Maturity Swap interest rate floor contracts, swaptions and PO swaps. MSR derivatives used to hedge the change in value due to prepayment risk are comprised of the following (dollars in thousands):

Derivative	Notional Amount	Contract Provisions	Maturity	Fair Value at September 30, 2002 Assets	Fair Value at September 30, 2002 Liabilities
Interest rate swap agreements	$5,495,000	Weighted average pay rate of 1.80% Receive rates between 2.97% and 4.73%	2005 - 2012	$114,767	$(141)
Interest rate floor contracts (a)	250,000	Strike rates between 5.96% and 6.19%	2007	9,062	--
Swaption contracts (b)	1,704,000	Strike rates between 4.40% and 4.85%	2003 - 2004	76,367	--
PO swap agreements	396,960	Index tied to LIBOR based on cash flow from a PO strip	2002 - 2028	5,473	(397)
Other	400,000	Strike rate between 5.50% and 6.00%	2002	2,336	--
Total	$8,245,960			$208,005	$(538)

(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.

Servicing fee income for the nine months ended September 30, 2002 included a $120.7 million charge to increase the valuation allowance on MSRs. During the nine-month period, mortgage rates declined significantly (approximately 130 bps) and estimates of future prepayment speeds accelerated substantially. In addition, the relationship between mortgage rates and the LIBOR rates on the instruments most commonly used to hedge MSRs moved in a manner that increased the effective hedge ratio and reduced the amount of impairment required to be recorded. Based on the benchmark mortgage rate the Bank uses for its internal estimates, the spread between mortgage and LIBOR rates widened from approximately 114 bps at December 31, 2001 to approximately 140 bps at September 30, 2002. These spread levels represent historically wide spreads. All of the widening occurred in the three months ended September 30, 2002, when mortgage rates declined approximately 81 bps and LIBOR rates declined approximately 110 bps. As a result, during the three months ended September 30, 2002, the Company was effectively 100% hedged and recorded a small recovery (approximately $6.4 million) of its previously recorded valuation allowance. The Company estimates that the spread widening increased the gain in the value of the hedges and the offsetting writedown of the MSRs by approximately $100 million. The hedge ratio during the nine-month period ranged from approximately 60% to approximately 100%.

If mortgage rates were to remain constant and LIBOR rates were to increase such that the spread to mortgage rates was similar to that at June 30, 2002, the hedges at September 30, 2002 would lose an estimated $100 million and the servicing would only gain an estimated $30 million, resulting in a net pre-tax loss of $70 million. To the extent that mortgage rates also increase, but not as much as LIBOR rates, recorded losses may be reduced because estimated hedge ratios are less than 100% or because other factors used in the valuation change in a manner that increases the value of the servicing.

Because mortgage rates have decreased in 2002 to lows not seen in over thirty-five years, prepayments of mortgages are occurring at an unprecedented level despite significant opportunities to refinance in 2001. These unprecedented prepayments could exceed estimates of prepayments used in the valuation of the servicing resulting in additional recorded losses in the future.

When developing MSR values, there is no demonstrable liquid market for MSRs with the same size and other characteristics as the Company's MSR asset. Management must therefore turn to other methods to estimate fair value. Management regularly reviews its process for determining MSR fair value and believes that the process it has been using has led to reasonable estimates of value.

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%. California Federal has been in compliance with the liquidity regulations during the nine months ended September 30, 2002 and the year ended December 31, 2001.

The major source of funding for GS Holdings on an unconsolidated basis is distributions of the Bank's earnings and tax sharing payments. Net income generated by the Bank is used to meet its own cash flow needs, including paying dividends on its preferred stock owned by GS Holdings, and may be distributed, subject to certain restrictions, to the Company. In turn, GS Holdings uses distributions received from the Bank primarily to meet debt service requirements, pay any expenses it may incur and make distributions to Golden State, subject to certain restrictions. For more information on dividend restrictions for the Bank and GS Holdings, refer to "Business – Regulation and Supervision" and note 24 of the "Notes to Consolidated Financial Statements" in the Company's 2001 Annual Report on Form 10-K.

On a consolidated basis, a major source of the Company's funding is expected to be the Bank's retail deposit branch network, which management believes will be sufficient to meet its long-term liquidity needs. The 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, 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, 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 September 30, 2003 aggregate $6.9 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. In addition, at September 30, 2002, the Company had FHLB advances, securities sold under agreements to repurchase and other borrowings aggregating $9.2 billion and $14.5 billion maturing or repricing within the next three and twelve months, respectively. The Company may elect to pay off such debt or to replace such borrowings with additional FHLB advances, securities sold under agreements to repurchase or other borrowings at prevailing rates.

Interest expense on the GS Holdings Notes approximates $107.3 million per year. The Company expects the GS Holdings Notes to be redeemed within 30 days after the consummation of the Citigroup Merger. 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. In addition to cash and cash equivalents of $2.2 billion at September 30, 2002, the Company has substantial additional borrowing capacity with the FHLB and other sources amounting to $8.9 billion.

As presented in the accompanying unaudited consolidated statements of cash flows, the sources of liquidity vary between periods. The primary sources of funds during the nine months ended September 30, 2002 were $59.6 billion in proceeds from additional borrowings, $15.0 billion in proceeds from sales of loans held for sale, $5.6 billion in net loan originations and principal collections, $3.4 billion in principal payments on mortgage-backed securities available for sale and held to maturity and $2.0 billion in proceeds from sales and settlements of derivatives. The primary uses of funds were $65.6 billion in principal payments on borrowings, $14.7 billion in purchases and originations of loans held for sale, $3.3 billion in purchases of loans receivable and $1.2 billion in purchases of derivatives.

Capital Management

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 the Bank's common stockholder's 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 GS Holdings.

At September 30, 2002, the Bank's tangible, core and risk-based capital ratios of 8.18%, 8.18% and 15.23%, respectively, exceeded the minimum regulatory capital requirements. The following is a reconciliation of the Bank's stockholder's equity to regulatory capital as of September 30, 2002:

	Tangible Capital	Core Capital	Risk-based Capital
		(dollars in millions)	
Stockholder's equity of the Bank	$4,356	$4,356	$4,356
Minority interest – REIT Preferred Stock	500	500	500
Unrealized holding gain on securities, net	(53)	(53)	(53)
Unrealized holding loss on derivative instruments, net	191	191	191
Non-allowable capital:			
Non-qualifying loan servicing rights	(94)	(94)	(94)
Intangible assets	(611)	(611)	(611)
Goodwill Litigation Assets	(159)	(159)	(159)
Investment in non-includable subsidiaries	(68)	(68)	(68)
Supplemental capital:			
Qualifying subordinated debentures	--	--	55
General loan loss allowance	--	--	367
Assets required to be deducted:			
Equity in subsidiaries	--	--	(7)
Low-level recourse deduction	--	--	(9)
Regulatory capital of the Bank	4,062	4,062	4,468
Minimum regulatory capital requirement	745	1,987	2,347
Excess above minimum capital requirement	$3,317	$2,075	$2,121
Regulatory capital of the Bank	8.18%	8.18%	15.23%
Minimum regulatory capital requirement	1.50%	4.00%	8.00%
Excess above minimum capital requirement	6.68%	4.18%	7.23%

The amount of adjusted total assets used for the tangible and leverage capital ratios is $49.7 billion. Risk-weighted assets used for the risk-based capital ratio amounted to $29.3 billion.

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.

The Bank met the capital requirements of a "well capitalized" institution under the FDICIA prompt corrective action standards as of September 30, 2002. The Bank is not subject to any enforcement action or other regulatory proceedings with respect to the prompt corrective action regulation. Management believes there have been no conditions or events since September 30, 2002 that would change the Bank's capital classification.

At September 30, 2002, 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	8.18%	13.82%	15.23%
"Well capitalized" ratio	5.00%	6.00%	10.00%
Excess above "well capitalized" ratio	3.18%	7.82%	5.23%

OTS capital regulations allow a savings association to include a net deferred tax asset in regulatory capital, subject to certain limitations. To the extent that the realization of a deferred tax asset depends on a savings association's future taxable income, such deferred tax asset is limited for regulatory capital purposes to the lesser of the amount that can be realized within one year or 10 percent of core capital. At September 30, 2002, none of the net tax benefit was determined to be attributable to the amount of taxable income that may be realized in periods beyond one year. Accordingly, no amount has been excluded from the Bank's regulatory capital at September 30, 2002.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in reported market risks faced by GS Holdings since the Company's report in Item 7A of its Form 10-K for the year ended December 31, 2001.

Item 4. Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Within 90 days prior to the date of this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer along with the Company's Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based upon the foregoing, the Company's Chief Executive Officer along with the Company's Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to the date the Company completed its evaluation.

PART II - OTHER INFORMATION

ITEM 1. Legal Proceedings.

California Federal Goodwill Litigation

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

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

On April 16, 1999, the Claims Court issued its decision on the damages claim against the Government in the California Federal Goodwill Litigation, ruling that the Government must compensate the Bank in the sum of approximately $23 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 the approximately $23 million damage award, but it also ruled that the Bank be allowed to present evidence regarding damages incurred under the lost profits theory. The case was remanded back to the Claims Court for a damages trial under the lost profits theory, and the trial concluded on October 22, 2002, with post-trial briefing to end on November 15, 2002, sometime after which the Claims Court will issue its ruling. In preparation for this trial, the Bank has had prepared a supplemental expert report, which contains alternate damage calculations based upon different assumptions, with the higher calculation being $587 million in lost profits and the lower calculation being $288 million in lost profits. The Government has had prepared reports from four different experts, all of which challenge, for a variety of reasons, the calculations in the Bank's expert report and which essentially contend that the Bank is not entitled to any damages other than the approximately $23 million previously awarded by the Claims Court and affirmed by the Federal Circuit.

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. On August 2, 2002, the Claims Court determined that the Bank's total reliance damages were $380.8 million. On August 19, 2002, the Government filed with the Claims Court a motion for reconsideration of this damage award, which the Claims Court has not yet acted upon.

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 California Court of Appeal denied plaintiff's petition for review of the trial court's decision.

An agreement to settle all claims on a California class basis has been reached with the plaintiffs' counsel. The trial court granted preliminary approval of the settlement and the final hearing on the settlement is scheduled for February 2003. It is anticipated that the cost of the settlement will not be material.

Other Litigation

In addition to the matters described above, GS Holdings 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 GS Holdings or the Bank.

ITEM 2. Changes in Securities.

None.

ITEM 3. Defaults Upon Senior Securities.

None.

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

None.

ITEM 5. Other Information.

None.

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

(a) Exhibits:

3.1 Certificate of Incorporation of the Registrant, as amended. (Incorporated by reference to Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998.)

3.2 By-laws of the Registrant, as amended. (Incorporated by reference to Exhibit 3.2 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998.)

99.1 Certification of Periodic Report by Principal Executive Officer.

99.2 Certification of Periodic Report by Principal Financial Officer.

(b) Reports on Form 8-K:

None.

GLOSSARY OF DEFINED TERMS

AICPA – American Institute of Certified Public Accountants
ALCO – Asset/Liability Management Committee
APB – Accounting Principles Board
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
Bank – California Federal Bank
bps – basis points
Brokered Deposits – Issued CDs through direct placement programs and national investment banking firms
Cal Fed Acquisition – Agreement and Plan of Merger among FN Holdings, Cal Fed Bancorp Inc. and California Federal Bank, A Federal Savings Bank. FN Holdings acquired 100% of the outstanding stock of Cal Fed and Old California Federal, and First Nationwide merged with and into Old California Federal in January 1997.
California Federal – California Federal Bank
California Federal Goodwill Litigation – California Federal Bank v. United States, Civil Action 92-138
California Federal Goodwill Litigation Asset – an asset, related to California Federal Goodwill Litigation, arising out of the purchase of the Old California Federal.
CD – Certificate of deposit
CFI – Cal Fed Investments
Citigroup – Citigroup Inc.
Claims Court – United States Court of Federal Claims
COFI – Cost of Funds Index (tied to the FHLB's 11^{th} District cost of funds)
Company – Golden State Holdings Inc.
CRA – Community Reinvestment Act
EITF – Emerging Issues Task Force
EITF No. 94-3 – Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)
EITF No. 99-20 – Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets
EPS – earnings per share
FASB – Financial Accounting Standards Board
FDICIA – Federal Deposit Insurance Corporation Improvement Act
Federal Circuit – U.S. Court of Appeals for the Federal Circuit
FHLB – Federal Home Loan Bank of San Francisco
FHLB System – Federal Home Loan Bank System
FIRREA – Financial Institutions Reform, Recovery and Enforcement Act of 1989 and its implementing regulations.
FN Holdings – First Nationwide Holdings Inc.
FN Holdings Asset Transfer – FN Holdings contributed all of its assets (including all of the common stock of the Bank) to GS Holdings in September 1998.
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
FNMC – First Nationwide Mortgage Corporation
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.

GLOSSARY OF DEFINED TERMS (continued)

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 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

GSB – Golden State Bancorp Inc.

GSB Investments – GSB Investments 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.

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

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

IO – Interest only

IRS – Internal Revenue Service

LIBOR – London Interbank Offered Rate

LTV – Loan-to-value

LTW™ – Litigation Tracking Warrants™

Mercury Merger Sub – Mercury Merger Sub, Inc., a subsidiary of Citigroup

Merger – The merger of Golden State with and into Mercury Merger Sub, with Mercury Merger Sub as the surviving entity

Merger Agreement – the Agreement and Plan of Merger that provides for, among other things, the Merger

MSR – Mortgage servicing rights

NOL – net operating loss

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

OCI – Other comprehensive income

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

OTS – Office of Thrift Supervision

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 pays 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)

PO – Principal only

Preferred Capital Corporation – California Federal Preferred Capital Corporation

REIT – Real Estate Investment Trust

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

Repos – short-term securities sold under agreements to repurchase

SEC – United States Securities and Exchange Commission

Securityholders – consists of Mafco Holdings Inc., GSB Investments Corp., MacAndrews & Forbes Holdings Inc., Hunter's Glen/Ford, Ltd. and Gerald Ford

Securityholders Agreement – dated as of May 21, 2002, by and among Citigroup Inc., Golden State Bancorp Inc., Mafco Holdings Inc., GSB Investments Corp., MacAndrews & Forbes Holdings Inc., Hunter's Glen/Ford, Ltd. and Gerald Ford, pursuant to which the Securityholders, among other things, have agreed to vote certain shares of Company Common Stock beneficially owned by them, constituting approximately 31.5% of the outstanding shares of Golden State Common Stock, in favor of the Merger and against competing business combination proposals.

GLOSSARY OF DEFINED TERMS (continued)

SFAS – Statement of Financial Accounting Standards
SFAS No. 4 – Reporting Gains and Losses from Extinguishment of Debt
SFAS No. 13 – Accounting for Leases
SFAS No. 44 – Accounting for Intangible Assets of Motor Carriers
SFAS No. 64 – Extinguishment of Debt Made to Satisfy Sinking-Fund Requirements
SFAS No. 72 – Accounting for Certain Acquisitions of Banking or Thrift Institutions
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. 131 – Disclosures about Segments of an Enterprise and Related Information
SFAS No. 133 – Accounting for Derivative Instruments and Hedging Activities
SFAS No. 142 – Accounting for Goodwill and Intangible Assets
SFAS No. 144 – Accounting for the Impairment or Disposal of Long-Lived Assets
SFAS No. 145 – Rescission of SFAS No. 4, 44, and 64, Amendment of SFAS No. 13, and Technical Corrections
SFAS No. 146 – Accounting for Costs Associated with Exit or Disposal Activities
SFAS No. 147 – Acquisitions of Certain Financial Institutions
SOP – Statement of Position
SOP 01-6 – Accounting by Certain Entities (Including Entities With Trade Receivables) That Lend to or Finance the Activities of Others
Stock Plan – Golden State Bancorp Inc. Omnibus Stock Plan
UPB – Unpaid principal balance
Verdugo – Verdugo Trustee Service Corporation

SIGNATURES

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

Golden State Holdings Inc.

/s/ Richard H. Terzian

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

/s/ Renee Nichols Tucei

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

November 4, 2002

CERTIFICATIONS

Certification by Chairman and Chief Executive Officer

I, Gerald J. Ford, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Golden State Holdings Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weakness in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ Gerald J. Ford

By: Gerald J. Ford
Chairman and Chief Executive Officer

November 4, 2002

Certification by Chief Financial Officer

I, Richard H. Terzian, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Golden State Holdings Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weakness in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ Richard H. Terzian

By: Richard H. Terzian
Chief Financial Officer

November 4, 2002