GOLDEN WEST FINANCIAL CORPORATION® | 2005 Annual Report

A SPECIAL SITUATION

www.gdw.com

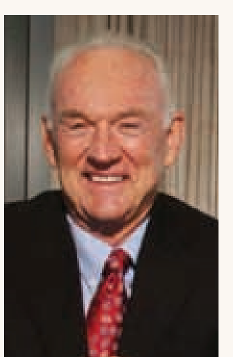
GOLDEN WEST'S HIGH-RETURN RISK-AVERSE STRATEGY ADDS TO SPECIAL SITUATION LEGACY

Special Situation Reputation Grows

OAKLAND, Ca. — Golden West's ability to generate "a high return using a risk-averse strategy" is one of nine factors that together distinguish the Company from other established public U.S. companies

News Summary

INSIDE



14 LOAN OPERATIONS

GARDENING ▪ Golden West Reaps Record Mortgage Volume

James T. Judd, Senior Executive Vice President of Golden West, explains the Company's green thumb when it comes to growing loan volume.

20 SOURCES OF FUNDS

MUSIC ▪ Golden West Conducts Three-Part Symphony To Raise Funds

Marion O. Sandler, Chairman of the Board and Chief Executive Officer of Golden West, reviews the Company's sources of funds.

23 CAPITAL

ARCHITECTURE ▪ Capital: Golden West's Solid Foundation

Russell W. Kettell, President and Chief Financial Officer of Golden West, discusses why capital is so important to the success of the Company.

26 EARNINGS

AUTOMOTIVE ▪ A Special Situation By Design: The Golden West Earnings Engine

Herbert M. Sandler, Chairman of the Board and Chief Executive Officer of Golden West, provides an in-depth look at the Company's high-performance design and earnings engine.

TABLE of CONTENTS

Financial Highlights 3
Profile: *The Company* 4
Editorial: *Inside a Special Situation: Golden West and the Art of Risk Management* 5
Special Report: *From the Office of the Chairman* 10
Weather: *2005 Business Climate* 11
Loan Operations: *Gardening* 14
Sources of Funds: *Music* 20
Capital: *Architecture* 23
Earnings: *Automotive* 26
Community News 32
Design Review 33
Financial Funnies 34
Puzzles 35
Glossary: *Classifieds* 36
Summary of Operations 38
Consolidated Statements 40
Auditor's Report 60
Management's Discussion 62
Corporate Information 86
Board of Directors 87

FROM THE EDITORS

Read the details of the Company's many accomplishments in this 2005 Annual Report, formatted as sections of the *Golden West Financial Times*, a fictitious newspaper created for your reading pleasure. Don't miss our editorial "*Inside a Special Situation: Golden West and the Art of Risk Management*" starting on page 5.

Financial Highlights

(Dollars in thousands except per share figures)

At Yearend	2005	2004
Assets	$124,615,163	$106,888,541
Loans receivable and mortgage-backed securities (MBS)	$119,365,929	$102,669,231
Adjustable rate mortgages and MBS	$116,369,564	$ 99,730,701
Deposits	$ 60,158,319	$ 52,965,311
Stockholders' equity	$ 8,670,965	$ 7,274,876
Stockholders' equity/total assets	6.96%	6.81%
Common shares outstanding	308,041,776	306,524,716
Book value per common share	$ 28.15	$ 23.73
Yield on interest-earning assets	6.03%	4.73%
Cost of funds	3.78%	2.22%
Yield on interest-earning assets less cost of funds	2.25%	2.51%
Nonperforming assets and troubled debt restructured/total assets	.31%	.33%
For the Year	**2005**	**2004**
Earnings before taxes on income	$ 2,426,502	$ 2,069,001
Net earnings	$ 1,486,164	$ 1,279,721
Basic earnings per share	$ 4.83	$ 4.19
Diluted earnings per share	$ 4.77	$ 4.13
Cash dividends on common stock	$ .26	$ .21
Average common shares outstanding	307,388,071	305,470,587
Average diluted common shares outstanding	311,790,191	310,119,746
Ratios:		
• Net earnings/average stockholders' equity (ROE)	18.72%	19.45%
• Net earnings/average assets (ROA)	1.27%	1.37%
• Net interest income/average earning assets	2.54%	2.83%
• General and administrative expense/ net interest income plus other income (Efficiency ratio)	28.33%	28.85%
• General and administrative expense/average assets	.82%	.90%

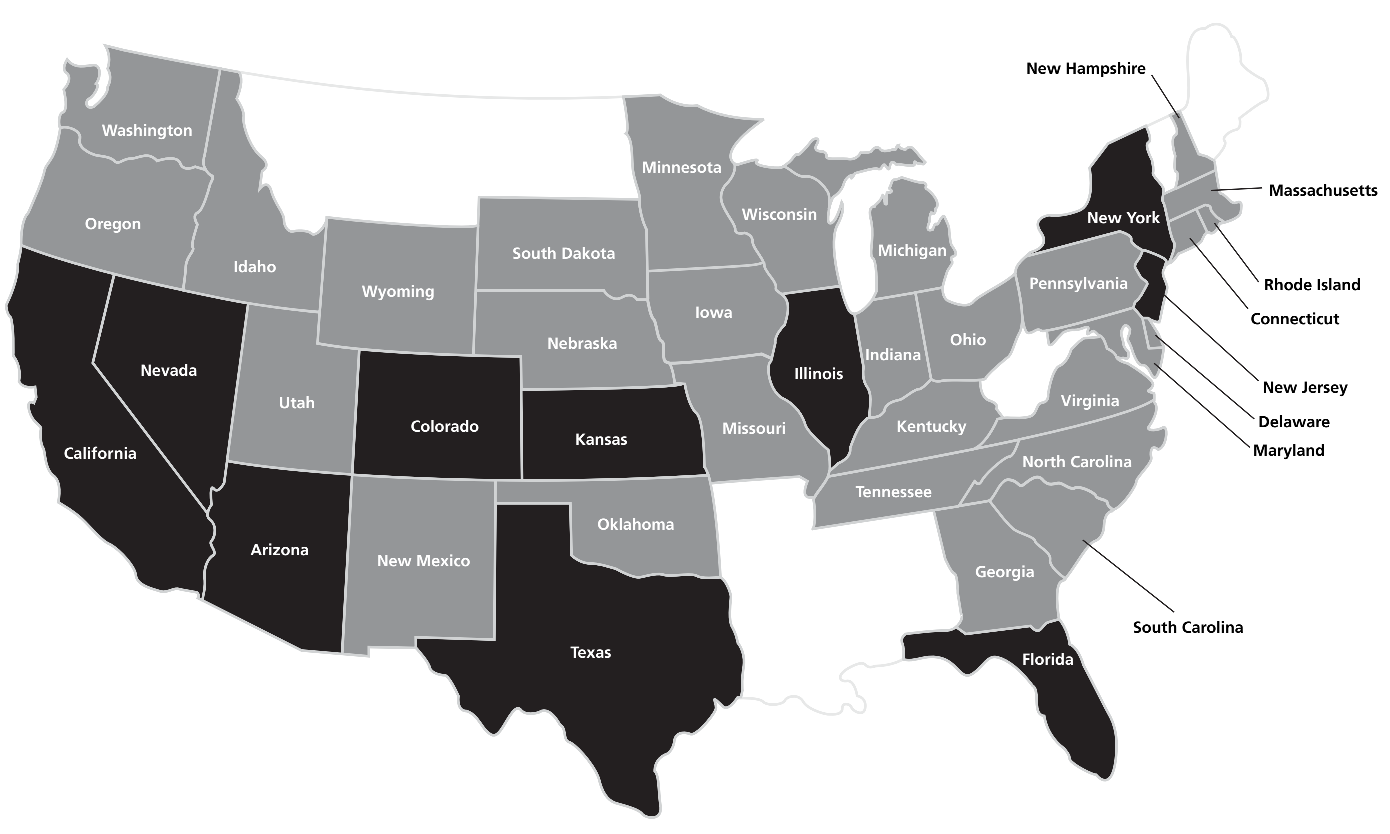
Information in this report may contain various forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include projections, statements of the plans and objectives of management for future operations, statements of future economic performance, assumptions underlying these statements and other statements that are not statements of historical facts. Forward-looking statements are subject to significant business, economic and competitive risks, uncertainties and contingencies, many of which are beyond Golden West's control. Should one or more of these risks, uncertainties or contingencies materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated. Among the key risk factors that may have a direct bearing on Golden West's results of operations and financial condition are competitive practices in the financial services industries; operational and systems risks; general economic and capital market conditions, including fluctuations in interest rates; economic conditions in certain geographic areas; and the impact of current and future laws, governmental regulations, and accounting and other rulings and guidelines affecting the financial services industry in general and Golden West's operations in particular. In addition, actual results may differ materially from the results discussed in any forward-looking statements.

Profile

The Company

Golden West is a holding company that has as its principal asset World Savings Bank, a federally chartered savings bank, which is one of the nation's largest savings institutions and mortgage lenders. Additionally, Golden West owns Atlas Advisers, an investment adviser to our Atlas family of mutual funds and annuities.

Golden West conducts its deposit-gathering, loan, and mutual fund activities through an extensive network of World Savings retail branches. In addition, the Company originates residential real estate mortgages through a sizable field organization housed in specialized lending centers. Internet-based services for deposit and home loan products are available at www.worldsavings.com and for mutual funds and annuities at www.atlasfunds.com. To develop and retain long-term relationships with its customers, Golden West emphasizes high-quality, personal customer service, characterized by courtesy, efficiency, accuracy, and the ability to understand and respond to individual needs.



states with savings and lending operations

states with lending operations only

520 offices • 39 states

Editorial

Inside a Special Situation: Golden West and the Art of Risk Management

Editor-in-Chief and Senior Art Critic, **Ellen Reintjes** is a Group Senior Vice President and head of the Financial Planning Department. "In this year's editorial, I will punctuate my message using tapestries selected from the Golden West Corporate Art Collection assembled for the enjoyment of our customers and employees. Since the collection itself consists mainly of reproductions and posters as well as items acquired at auction, the risk of depreciation in value is low while the psychic returns are high."

We begin our 2005 Annual Report by again asking and answering the question we have posed for the past three years: "Why is Golden West a Special Situation?" This year, we will answer this query by spotlighting the third of nine factors that together set Golden West apart from other large, seasoned, public U.S. companies and substantiate our contention that the Company has no comparables, fits no mold, and has no peers. In particular, we will examine our assertion that Golden West generates *"a high return using a risk-averse strategy."*

Nine Reasons Why Golden West Is a Special Situation

1. A unique business model
2. A long-term earnings record that has outperformed most of the country's leading corporations for 35 years, through all phases of the economic cycle
3. A high return using a risk-averse strategy
4. The ability to grow earning assets in virtually all environments
5. Unusual success in generating consumer deposits
6. High credit ratings
7. A low-cost expense structure
8. Strong shareholder identification
9. Easily understood, transparent financial statements

The Risk-Return Tapestry

A generally accepted, commonsense principle of investment states that the lower the risk the lower the return and the higher the risk the higher the return. Golden West has historically stood out as an exception to the risk-return tradeoff. To be sure, we are a low-risk operation, yet we have produced exceptional returns. We will explain this paradox in the ensuing narrative.

Ivan Chermayeff, *Flower Garden*

Crafting Risk-Management: Five Strategies

1 **The Risk:** *Interest rate risk* exists because the yield on assets and the cost of liabilities may not respond in tandem to changes in interest rates. The downside for mortgage portfolio lenders is that the cost of funds may rise much more rapidly than the yield on loans.

The Golden West Risk-Averse Strategy: We manage interest rate risk by focusing on originating and retaining in portfolio adjustable rate mortgages (ARMs), which are loans tied to indexes that react to interest rate movements. The reason: Golden West funds loans with savings and borrowings that respond relatively quickly to changes in market rates. Therefore, it is incumbent on us to find a way to provide our assets with similar rate sensitivity in order to prevent rising interest rates from having a significant adverse impact on earnings.

The High Return: Our net interest margin (which is computed as net interest income divided by average earning assets) provides a good portrait of Golden West's ability to manage interest rate sensitivity. Over the ups and downs of interest rates during the past ten years, the Company's net interest margin has ranged between 2.36% and 3.17%, and has averaged 2.69%, thereby insulating earnings through all parts of the interest rate cycle.

2 The Risk: *Cash flow risk* involves the possibility that an institution cannot raise the funds needed to support earning asset expansion, a situation that could hold back the growth of future earnings.

The Golden West Risk-Averse Strategy: To support our mortgage originations, which drive the growth of our earning assets, we use a combination of retail and wholesale sources. Our retail strategy involves attracting consumer deposits through our 283-branch system and the Internet. Because of our marketing skills, the compound annual growth rate of our deposits amounted to 11% over the past ten years compared to 6.5% for all institutions insured by the Federal Deposit Insurance Corporation.[1]

Our wholesale approach involves raising money on both a secured and an unsecured basis in the capital markets. Golden West's high-quality mortgage portfolio can be used as collateral to secure debt. Our high credit ratings facilitate borrowing at attractive rates on an unsecured basis. Because of the superior execution of our business model, both Moody's Investors Service and Standard & Poor's, two of the nation's leading credit evaluation agencies, have awarded Golden West's World Savings subsidiary a "Double A" rating, the highest ever earned by an independent thrift.

The High Return: Golden West has been highly successful at obtaining the funds to grow loan originations from $5.9 billion in 1995 to $51.5 billion in 2005, while our loan portfolio almost quadrupled from $32 billion at December 31, 1995, to $119 billion at yearend 2005.

3 The Risk: *Growth risk* contemplates a situation in which an institution does not have resources available to take advantage of expansion opportunities.

The Golden West Risk-Averse Strategy: To be able to make the most of expansion opportunities, we need to have two important resources in place:

- Capital, especially stockholders' equity, to support growth, because federal regulations require insured depository institutions to back assets with specified levels of capital.
- Organizational architecture, meaning the people, processes, technology, and facilities that enable us to originate increasing volumes of loans and to acquire and service larger volumes of retail deposit accounts.

The High Return: A ten-year retrospective for Golden West shows that our loans receivable, including mortgage-backed securities, increased at an average annual compound rate of 14%, because we had both the supporting capital and the organizational capacity.

Carole Bayer, *Ordered Amassment*

[1]Based on data from December 31, 1995, through September 30, 2005. Yearend 2005 data unavailable for this report.

4 **The Risk:** *Credit risk* involves the possibility that borrowers will default on their loans.

The Golden West Risk-Averse Strategy: In our battle against the assault on profits presented by problem assets, Golden West's acquisition program has taken the offensive by emphasizing creditworthy borrowers and high-quality mortgages that are secured by carefully appraised, moderately priced residential real estate.

The High Return: The wisdom of our risk avoidance can be seen in the Company's ratio of chargeoffs to total loans: zero for the past eight years. Additionally, nonperforming assets and troubled debt restructured reached an extraordinarily low .31% of total assets at December 31, 2005.

Richard Diebenkorn, *Street Scene*

5 **The Risk:** *Expense risk* involves high or unproductive costs that consume profits and lead to mediocre, poor, or even no earnings.

The Golden West Risk-Averse Strategy: To keep costs down, we have raised general and administrative expense (G&A) control to an art form. A major theme of our design is close monitoring of expenditures. We also make sure we are spending money on activities that are not mere abstractions, but rather that tangibly improve productivity, enhance customer service, and enable us to service increasing volumes of loans and deposits.

The High Return: As a result of our focused and disciplined approach to controlling G&A, Golden West's ratio of general and administrative expenses to average assets has averaged .90% over the past ten years, making us the low-cost producer among depository institutions of size.

To keep costs down, we have raised general and administrative expense (G&A) control to an art form.

High Return:
A Retrospective

Now that we have established the pattern of Golden West's low-risk design, let's examine the composition from three different perspectives, represented by the following standard financial measures:

- Compound Average Annual Growth Rate of Diluted Earnings per Share (EPS)
- Return on Average Assets (ROA)
- Return on Average Equity (ROE)

As the table below illustrates, over the past 35 years, Golden West has mastered the art of producing profits: The compound average annual growth rate of diluted earnings per share has equaled 19%, a record matched by few, if any, large U.S. companies. The consistency in the Company's earning power is depicted in the growth rates of other periods as well.

Compound Average Annual Growth Rate
Diluted Earnings Per Share
35, 25, 20, 15, 10, and 5 Years

	35 Years	25 Years	20 Years	15 Years	10 Years	5 Years
Compound average annual growth rate of diluted earnings per share	19%	17%	13%	17%	22%	23%

Turning to the return on assets, we'd like to discuss the dimensions of the ROA image: quite simply, the larger, the better. In 2005, Golden West earned nearly $1.5 billion and our average assets amounted to $117 billion, resulting in an ROA of 1.27%. Over the past ten years, which have included periods of increasing and decreasing interest rates, strong and weak economic conditions, and rising and falling mortgage demand and art prices, our ROA has averaged 1.24%, an excellent showing among mortgage portfolio lenders.

Mark Adams, *Cabbage Roses*

As with the ROA, a higher return on equity shows an expertly executed picture. Golden West's ROE for 2005 amounted to 18.7%, while, over the past ten years, the implementation of our business model has generated a return on equity averaging 17.4%. These numbers represent excellent performances, not only because the percentages are above the national average, but also because the Company produced this superior return while maintaining a high level of equity.

Concluding my critique of Golden West's artful business strategy, I would like to leave you with a provocative question, as well as the obvious response:

"What do you call a Company whose execution of its unique business model has produced a high return using a risk-averse strategy?"

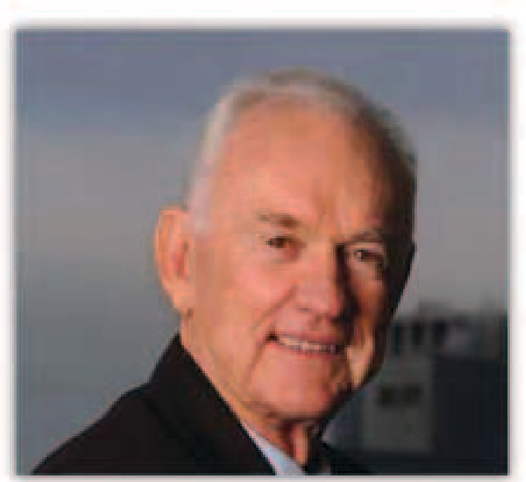
Answer: *A Special Situation*

Special Report

From the Office of the Chairman

Herbert M. Sandler

Marion O. Sandler



James T. Judd

Russell W. Kettell

The 2005 edition of the *Golden West Financial Times* contains several newsworthy articles that discuss our continued ability to produce high returns through careful execution of our risk-averse strategy. Four major 2005 records highlight the year's outcomes that contribute to our undisputed special situation status:

- Diluted earnings per share amounted to $4.77, a 15% increase over the previous all-time high of $4.13 set in 2004.

- Loan origination volume reached $51.5 billion, or 5% higher than the prior record of $49.0 billion in 2004.
- Savings deposits expanded by $7.2 billion, exceeding the prior all-time high of $6.6 billion set in 2002, and 15% more than 2004's $6.2 billion increase.
- Capital passed the $8.5 billion level for the first time in the Company's history.

Golden West's 2005 story also includes several other significant accomplishments. Loan quality measures continued to be excellent: The ratio of nonperforming assets and troubled debt restructured to total assets fell to a nominal .31%, down from the already low .33% at December 31, 2004, and we recorded virtually no loan losses for the eighth year in a row. We also reported exceptional general and administrative (G&A) results, with the ratio of G&A to average assets declining to a mere .82%, the lowest level in 25 years. Even though it almost goes without saying, we must pay tribute to the Company's dedicated and talented employees who contributed to these successes in 2005.

Every year seems to have a unique operating environment, and 2005 proved to be no exception. The "Weather Report" which follows contains important background information on the interest rate, economic, and mortgage market conditions we encountered as we executed our risk-averse strategy in 2005.

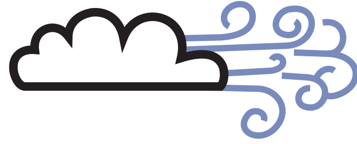
Weather Report

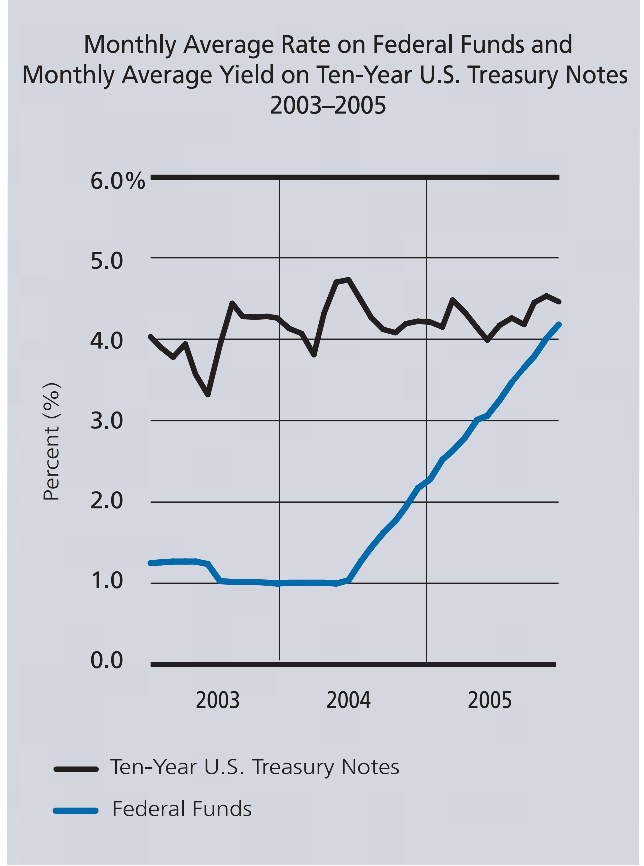
Pattern of Rising Short-Term Interest Rates

Short-term interest rates, which started to rise in the middle of 2004, continued to climb throughout 2005. In a flurry of activity, the Federal Reserve's Open Market Committee (FOMC) hiked the Federal Funds (Fed Funds) rate five times in the second half of 2004 and eight in 2005. As a result, Fed Funds moved from the very low level of 1.00% in mid-2004 to 2.25% at December 31, 2004, reaching 4.25% by December 31, 2005. These increases in the Fed Funds rate led to significantly higher yields on short-term instruments.

Long-Term Rates Encounter Headwinds

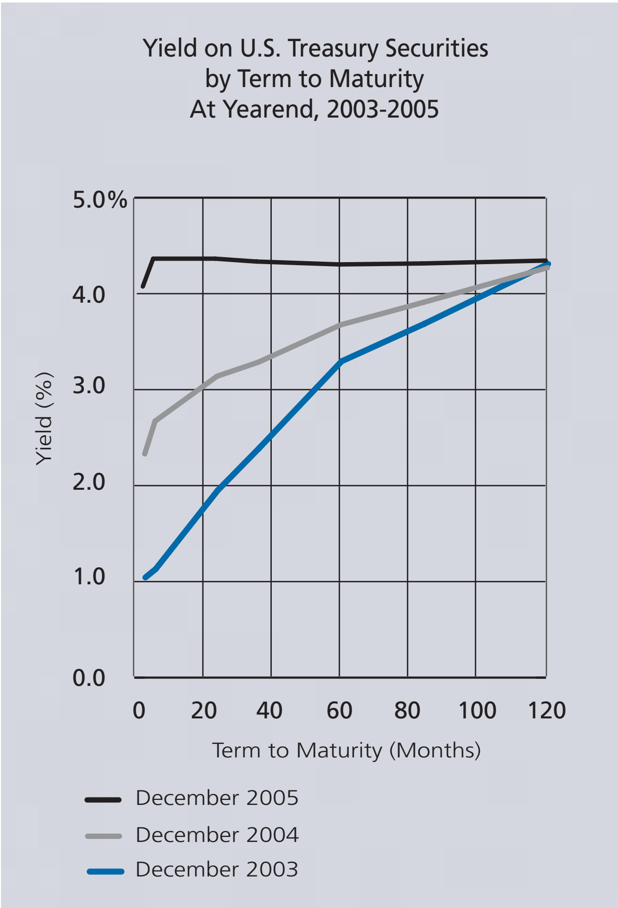
Over the same time period, long-term yields, determined primarily by investor expectations about inflation and worldwide demand for U.S. Treasury bonds, were almost becalmed. As illustrated in the accompanying graph, the Ten-Year U.S. Treasury Note, which heavily influences the cost of traditional fixed-rate mortgages, fluctuated narrowly in a tight band between 3.89% and 4.66% over the past 18 months, ending 2005 at 4.39%.





Atmospheric Pressure Flattens Yield Curve

The graph below shows yields on U.S. Treasury instruments with terms to maturity ranging from three months to ten years, for the years ended December 31, 2003, 2004, and 2005. Each line represents a “yield curve,” which charts returns based on the term to maturity.



In a normal or upwardly sloped yield curve, rates on short-term obligations, such as U.S. Treasury Bills, are typically well below yields on long-term bonds, because investors require compensation in the form of a higher return for the interest rate risk of holding fixed-rate instruments for extended periods. From time to time, this expected pattern is interrupted, and the yield curve becomes relatively flat, meaning that short- and long-term securities offer virtually equivalent yields. In 2005, short-term rates rose sharply while long-term yields were comparatively static, resulting in a yield curve with little positive slope.

Economic Conditions Mainly Pleasant and Mild, With a Few Scattered Clouds

The business climate in 2005 was benign, with the lowest unemployment rate since 2001 and moderate growth of the Gross Domestic Product. In the last quarter of the year, however, clouds began to form due to surging energy prices, an historically high trade deficit, and a continued large federal deficit, all of which contributed to concern about future inflationary pressures.

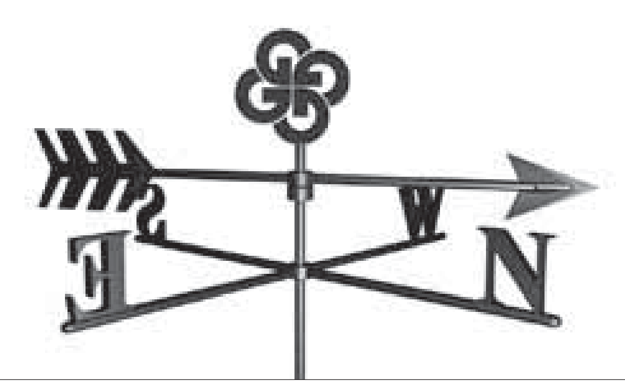
Gross Domestic Product Growth Rate
and Unemployment Rate
by Quarter 2005

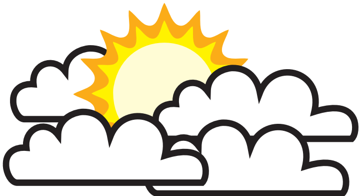
	For the Quarter Ended			
	March 31	June 30	September 30	December 31
Gross Domestic Product growth rate[(a)]	3.8%	3.3%	4.1%	1.1%[(c)]
Unemployment rate[(b)]	5.3%	5.1%	5.0%	4.9%

(a) U.S. Department of Commerce, Bureau of Economic Analysis (BEA).
(b) U.S. Department of Labor, Bureau of Labor Statistics; average unemployment rate for the quarter.
(c) January 27, 2006, BEA estimate for the fourth quarter.

North, south, east, or west, enjoy 24-hour access to Golden West.

www.gdw.com





National Mortgage Market Temperature Rises, Then Falls

While the total nationwide market for one- to four-family mortgage originations in 2005 was similar to the robust level of the prior year, the pattern of home loan demand differed. By way of background, mortgage originations are usually seasonal, with the largest volumes produced in the warm weather of the second and third quarters. During the hot mortgage market in 2004, however, demand remained high into the final three months, setting up favorable conditions that continued well into 2005. As the year came to a close, rising interest rates dampened mortgage demand, leading to a cooling off of the home loan market. The interest rate climate for adjustable rate mortgages also changed during 2005. Specifically, rising ARM rates diminished the advantage adjustables enjoyed over fixed-rate mortgages during the past few years, and, as a result, ARMs captured a smaller share of the overall market.

U.S. Single-Family Mortgage Originations 2004, 2005, and Percentage Change (Dollars in Billions)

	2005	2004	Percentage Change
Total one- to four-family U.S. mortgage originations	$2,787	$2,772	1%
Purchase transactions	$1,492	$1,309	14%
Refinance transactions	$1,295	$1,463	(11%)
Refinances as a % of total originations	47%	53%	
Home sales (thousands of units sold)	8,341	7,987	4%
Adjustable Rate Mortgage (ARM) volume as a % of total purchase volume[a]	31%	34%	

(a) Consists of several kinds of adjustable rate mortgages, including hybrid ARMs with initial rates fixed for several years; mortgages with rates that change once every six months or once a year; and loans with rates that change monthly.

Source: Mortgage Bankers Association of America, January 10, 2006

February 14, 2006

Herbert M. Sandler
Chairman of the Board and
Chief Executive Officer

Marion O. Sandler
Chairman of the Board and
Chief Executive Officer

James T. Judd
Senior Executive Vice President, Golden West
President and Chief Operating Officer,
World Savings

Russell W. Kettell
President and Chief Financial Officer

LOAN OPERATIONS GARDENING

GOLDEN WEST FINANCIAL TIMES

Golden West Reaps Record Mortgage Volume

Here's a gardening tip: The way to maximize the yield on mortgage originations is to retain high-quality, long-term loans in portfolio.

Gardening editor, **James T. Judd**, is the President and Chief Operating Officer of Golden West Financial Corporation's World Savings Bank subsidiary. One of his favorite sayings is *"As you sow, so shall you reap,"* and he has used this adage as a jumping-off point in his current column.

Sowing the Seeds

In 2005, Golden West's lending team originated a record mortgage volume of $51.5 billion, which represented a 5% increase over our previous all-time high loan production of $49.0 billion set just a year earlier in 2004. Our strong 2005 lending results contributed to the $16.7 billion, or 16%, organic growth of our mortgage portfolio, our principal earning asset, to $119.4 billion at yearend from $102.7 billion at December 31, 2004.

Here's a gardening tip: The way to maximize the yield on mortgage originations is to retain these high-quality, long-term loans in portfolio. It is simply the case that Golden West reaps large profits by harvesting the income generated by these mortgages. If instead we sold our production, we would be left with only a one-time gain and a small stream of servicing revenue. But, you might ask, why don't other companies follow our landscape plan? A major reason is that the scheme works only if you can gather bumper crops of funds and capital to support the portfolio—requirements not easily met.

New Loan Originations by Type and by Purpose
2004–2005
(Dollars in Thousands)

For the Year Ended December 31

By Type	2005 No. of Loans	2005 Amount	2005 % of Total	2004 No. of Loans	2004 Amount	2004 % of Total
Residential (one unit)	201,671	$48,908,517	94.9%	218,575	$46,130,614	94.1%
Residential (two to four units)	6,523	1,758,539	3.4	7,482	1,794,050	3.7
Residential (five or more units)	1,183	849,343	1.7	1,516	1,064,413	2.2
Total	209,377	$51,516,399	100.0%	227,573	$48,989,077	100.0%

By Purpose	2005 No. of Loans	2005 Amount	2005 % of Total	2004 No. of Loans	2004 Amount	2004 % of Total
Purchase	44,674	$11,676,045	22.7%	59,893	$13,845,483	28.3%
Refinance	164,703	39,840,354	77.3	167,680	35,143,594	71.7
Total	209,377	$51,516,399	100.0%	227,573	$48,989,077	100.0%

Here's another gardening tip: Be alert to the interest rate risk that may accompany a loan retention strategy. We confront that risk by focusing on adjustable rate mortgages (ARMs). Because of their responsiveness to rate changes, these loans provide the needed sensitivity to offset swings in rates. Golden West was again very successful in accumulating ARMs in 2005, with adjustable loans comprising 99% of our new volume, the same proportion as in the prior year.

The success of our loan origination program in 2005 must be understood in the context of the single-family home loan market. Although overall residential mortgage activity remained high, interest rate changes rendered the climate

Here's another gardening tip: Be alert to the interest rate risk that may accompany a loan retention strategy.

Editor's Notes

Golden West's Monthly Adjustable ARM

In order to manage interest rate risk, Golden West specializes in originating an adjustable rate mortgage (ARM) on which the rate changes monthly, based on the movement of one of two principal indexes:

- The Golden West Cost of Savings Index is equal to the monthend weighted average rate paid on the Company's deposits.
- The Certificate of Deposit (CD) Index is based on the monthly yield of the three-month certificates of deposit (secondary market), as published by the Federal Reserve Board. Golden West's ARM index uses a 12-month rolling average of these CD yields.

somewhat unfriendly for ARM propagation. By way of background, rates on Golden West's ARMs are related to short-term market yields. Consequently, due to the increase in short-term interest rates that began in mid-2004, the indexes to which our adjustables are tied rose throughout 2005, causing ARMs to lose some of the competitive advantage they enjoyed in other years. We, nevertheless, cultivated adjustables successfully during the year, because our ARMs appeal to a portion of the mortgage market in all seasons, due to the flexible terms of these loans.

Despite facing a less-than-favorable environment, Golden West originated record loan and ARM volumes in 2005 because:

- We have a well-trained sales force that successfully communicated the many benefits of our products.
- We continued to provide outstanding service to our customers to facilitate speedy loan closings.
- The average size of our loans increased by 14%, because property values in our major markets continued to rise, thereby enabling our volume to grow despite a small decrease in the number of new mortgages.

While we were successful in reaping many new mortgages in 2005, we also experienced some attrition of our existing portfolio, primarily through premature payoffs. In 2005, total repayments remained elevated, which has been typical of the low interest rate climate that has prevailed for five years. Historically, portfolio turnover is inversely related to interest rates: Payoffs are on the high side when rates are low, but slow down when rates move up. Three specific factors behind 2005 repayment activity included:

- Continued mortgage refinances as many customers pulled equity from their homes as real estate values in many markets appreciated rapidly
- Customers paying off loans in connection with the sales of their homes
- Borrowers opting to switch from an ARM to a fixed-rate mortgage (FRM) in order to lock in the favorable rates and payments available on comparatively low-cost FRMs

The following table shows our mortgage repayments for the past five years.

Total Mortgage Repayments and
Mortgage Repayments as a Percentage
of Beginning-of-Year Loan Portfolio Balance
2001–2005
(Dollars in Millions)

	For the Year Ended December 31				
	2005	2004	2003	2002	2001
Mortgage repayments(a)(b)	$33,822	$24,155	$20,043	$15,551	$15,570
Percentage of beginning-of-year loan portfolio balance(b)	33%	31%	31%	28%	30%

(a) Includes the early payoff of mortgages and monthly loan payment amortization.
(b) Includes mortgage-backed securities.

Controlling the Weeds

An important part of maintaining a healthy garden is controlling weeds. Similarly, in order to have a strong mortgage portfolio that propagates plentiful profits, we focus on high asset quality to limit the harmful effects that nonperforming assets (NPAs) can have on earnings. And, in fact, successfully limiting credit problems has been one of the hallmarks of our risk-averse business strategy that has helped make Golden West a special situation.

Master gardeners know that keeping weeds in check requires an aggressive prevention program including mulching to hold down unwelcome

Now 'tis the spring,
and weeds are
shallow-rooted;

Suffer them now and
they'll o'ergrow
the garden.

William Shakespeare
The Second Part of King Henry the Sixth
(III.i.33-34)

vegetation and cultivating to remove those weeds that do manage to sprout. Through the years, Golden West has had a similar viewpoint regarding control of nonperforming assets, which are the portfolio equivalent of weeds. The best way to avoid problems is to build quality and prevention into every step of the processes for originating and servicing mortgages. Our methodology is described in the boxed sidebar (see page 19).

By using two important ratios to quantify loan quality, we can show that Golden West's mortgage portfolio produced excellent results in 2005:

- Nonperforming assets divided by total assets, a gauge of overall problems within a portfolio, fell to a nominal .31%.
- Chargeoffs divided by average total mortgage balances, a measure of the impact of non-performers on profitability, amounted to zero basis points for the eighth year in a row.

Golden West's outstanding asset quality was due, in part, to our ongoing focus on excellence in our lending program and, in part, to the continued strong economy. Of course, we are well aware that problem assets are likely to increase in less favorable climates.

Editor's Notes

Problem Asset Nomenclature:

- **Nonperforming assets:** loans 90 days or more delinquent plus foreclosed real estate
- **Troubled debt restructured:** loans modified to assist borrowers who are having temporary financial difficulties
- **Chargeoffs:** losses recognized on the disposition of nonperforming assets

As part of our risk avoidance strategy, we have been closely monitoring the double-digit price increases in many major metropolitan areas, particularly on the east and west coasts. Recognizing that no tree grows to the sky, we remain concerned about the substantial house price increases that have occurred in many of our markets in recent years. Historically, unusually rapid property appreciation has often been followed by stagnant or falling values. But, unlike

Nonperforming Assets[(a)], Troubled Debt Restructured[(a)], and Ratio of Nonperforming Assets and Troubled Debt Restructured to Total Assets 2001–2005 (Dollars in Millions)

	December 31				
	2005	2004	2003	2002	2001
Nonperforming Assets (NPAs)	$382	$344	$424	$424	$394
Troubled Debt Restructured (TDRs)	-0-	4	3	-0-	1
Total NPAs and TDRs	$382	$348	$427	$424	$395
Ratio of NPAs and TDRs to total assets	.31%	.33%	.51%	.62%	.67%

(a) For definitions of nonperforming assets and troubled debt restructured, see the Glossary on pages 36 and 37.

Golden West's outstanding asset quality was due, in part, to our ongoing focus on excellence in our lending program.

Editor's Notes

Golden West's Nine Pre-Emergent Directives to Prevent the Sprouting of Nonperforming Assets

1. Lend primarily on affordably priced one- to four-family homes, because these properties tend to hold their values even in weak housing markets.
2. Require loan-to-value ratios that provide a cushion should home prices decline.
3. Appraise real estate values carefully using staff appraisers to provide a realistic assessment of value and marketability.
4. Evaluate borrowers' ability to repay the loans using internally developed systems that are based on our years of credit risk experience.
5. Use technology as a supplementary tool, not as a decision-maker, in the appraisal and underwriting processes.
6. Separate sales, appraising, and underwriting groups to ensure independence and accountability, so that the lending process incorporates quality at every step and is not driven by volume aspirations.
7. Analyze market trends in lending territories and appropriately adjust loan terms, such as required loan-to-value ratios.
8. Study credit trends within the mortgage portfolio to identify potential weaknesses that can be nipped in the bud.
9. Work with delinquent borrowers when problems first appear and implement plans to avoid foreclosure.

the "Old Farmer's Almanac" that attempts to predict the weather each year, we do not publish forecasts about the likelihood and timing of a possible turndown. Instead, to protect the integrity of our loan collateral, we focus on the loan-to-value ratio (LTV), which measures the size of the mortgage relative to the appraised value of the property. The lower the LTV, the greater the lender's protection against losses.

In 2005, the average loan-to-value ratio for our new originations amounted to 71%, while the average LTV for all mortgages on the books was 68%. These statistics do not take into consideration price appreciation of properties backing older loans. We also know that mortgages with high LTVs, especially those over 90%, typically pose the greatest risk of loss. At the end of 2005 only 2% of our mortgage balances had LTVs over 90%, and almost all were covered by mortgage insurance, which we purchase to limit our exposure.

Golden West Conducts Three-Part Symphony to Raise Funds

Golden West's *Sources of Funds Symphony No. 2005* began on a high note by orchestrating a marketing plan that was a real audience pleaser.

Chief Music Critic,
Marion O. Sandler, Chairman of the Board and Chief Executive Officer of Golden West Financial Corporation, reviews Golden West Financial's *Sources of Funds Symphony No. 2005.*

Once again, Golden West Financial worked in concert with savers, the capital markets, and loan repayments to generate substantial funds for the Company's virtuoso lending operations.

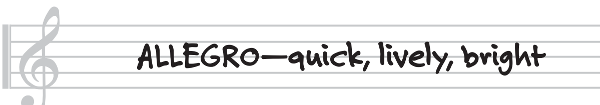
Loan Repayments, Loan Sales, Savings Growth, and Net Change in Borrowings 2001–2005 (Dollars in Millions)

	For the Year Ended December 31				
	2005	2004	2003	2002	2001
Loan repayments[a]	**$33,822**	$24,155	$20,043	$15,551	$15,570
Loan sales[a]	**792**	553	3,218	2,605	2,924
Savings growth	**7,193**	6,238	5,688	6,566	4,610
Net change in borrowings	**8,865**	16,656	7,471	2,498	(2,313)
Total sources of funds	**$50,672**	$47,602	$36,420	$27,220	$20,791

(a) Includes mortgage-backed securities.

The First Movement: Savings

In 2005, Golden West raised a record volume of new deposits, $7.2 billion, which represented a 14% increase in the Company's savings balances. The tempo of deposit gathering changed during the year, as Golden West artfully responded to variations in the interest rate and competitive environments.



Golden West's *Sources of Funds Symphony No. 2005* began on a high note by orchestrating a marketing plan that was a real audience pleaser. Since management believed that rates were on an upward trajectory, the Company seized the opportunity to aggressively price deposits ahead of the curve. Savers, interested in taking advantage of the rising rate environment, wanted to hear a duet by investment instruments that could offer both above-market returns and liquidity. Responding quickly to the consumer need, Golden West promoted attractive products that were priced in anticipation of future increases in short-term rates. Golden West's announcement of net inflows of $6.3 billion—its best-ever first half—was greeted with resounding applause.

Savings changes to a moderate tempo

By the second half of the year, competitors began composing their own higher-rate savings pieces.

Instead of responding, Golden West paused briefly in its pursuit of deposits, but later accelerated its savings-gathering momentum to *vivace* in the fourth quarter with a new round of attractive offerings.

In 2005, World Savings, Golden West's primary operating subsidiary, ran newspaper ads featuring attractive savings accounts that were priced in anticipation of future increases in short-term rates.

The Second Movement: Loan Repayments

Again, as in most of the Company's past performances, cash generated by Golden West's own loan portfolio in the form of repayments provided the largest source of funds in 2005.

The amount of repayments is a shifting syncopation that varies from one year to the next, depending on the size of the mortgage portfolio and conditions in the mortgage market. In 2005, home loan rates remained low, a *basso continuo,* and thus continued to fuel high consumer demand for new mortgages for both refinances and home purchases. Consequently, a significant number of our own borrowers paid off their existing mortgages when they obtained new loans.

The Third Movement: Borrowings

In this movement, the score details the last theme and variations of the *Sources of Funds Symphony.* Borrowings are used in Golden West's composition to supplement other sources of funds, namely savings deposits and loan repayments. The Company obtains funds on a secured basis from the Federal Home Loan Banks and Wall Street using its high-quality loan portfolio as collateral. Secured debt increased by $6.3 billion. Additionally, Golden West's subsidiary World Savings enjoys a special situation "Double A" credit rating and can therefore borrow on an unsecured basis at advantageous rates. Total unsecured borrowings increased by $2.6 billion in 2005. Because net savings inflows and loan repayments provided more cash to the Company in 2005 than in 2004, Golden West did not need to grow the balance of borrowings as much as in the prior year.

Overall, the Golden West orchestra played with an energy and precision that convincingly captured the symphony's driving power. But the depth of this composition is in the beautifully sustained performance, long-breathed and *legato*, a performance of understanding and richness. We applaud the year of inspired music making.

A touch of Hollywood. Marketing materials use a movie-premiere theme to promote branch grand openings and attract new customers and deposits.

GOLDEN WEST FINANCIAL TIMES

Capital: Golden West's Solid Foundation

Golden West's capital base is the foundation that supported the 17% growth in our assets in 2005.

Architecture Critic,
Russell W. Kettell, President and Chief Financial Officer, has been designing Golden West's financial strategy for more than 30 years.

Every home that is built to last needs a strong foundation. For Golden West, capital, or net worth, is the base upon which we continue to build our custom-made company. In particular, we have engineered the Company's financial structure so that high capital enables us to grow and produce strong returns while also providing protection from risk.

Our capital base provided a sturdy platform to support the 17% growth in our assets in 2005. As in prior years, we recycled most of our profits into the business. By doing so, the Company was able to reinforce its capital, or stockholders' equity, by 19% to a record $8.7 billion by yearend from $7.3 billion at December 31, 2004. Our high net worth puts Golden West's financial house in a secure position for 2006 and beyond to support the Company's expansion, profitability, and credit ratings.

As seen in the table below, we more than doubled our stockholders' equity in the past five years, which in turn facilitated the Company's substantial asset growth during that time.

Stockholders' Equity, Total Assets, Ratio of Stockholders' Equity to Total Assets, and Return on Equity 2001–2005 (Dollars in Millions)

	December 31				
	2005	2004	2003	2002	2001
Stockholders' equity	$ 8,671	$ 7,275	$ 5,947	$ 5,025	$ 4,284
Total assets	124,615	106,889	82,550	68,406	58,586
Ratio of stock-holders' equity to total assets	7.0%	6.8%	7.2%	7.3%	7.3%
Return on equity[a][b]	18.7%	19.5%	20.3%	20.6%	20.4%

(a) Earnings divided by average equity.
(b) For 2001, see footnote (b) on page 38.

Structurally Sound

We have a strong capital base by design. Specifically, Golden West's blueprint is to maintain abundant net worth to:

- Support expansion of the mortgage portfolio. As in prior years, our net worth allowed us to fortify the Company's balance sheet in 2005. Using capital to facilitate the increase in Golden West's earning assets is a key feature of our master plan because expansion of the loan portfolio is the best way for the Company to build high returns over time.
- Repurchase Golden West stock when market opportunities arise. The Company's record earnings in 2005 generated more net worth than was needed to support asset growth. We chose to use some of this surplus capital to repurchase 985,000 shares of the Company's stock when prices seemed attractive.

Editor's Notes

Stock Repurchase

Stock repurchase is an attractive use of capital which enhances financial performance. When Company stock is purchased, there are fewer shares outstanding. As a result, our earnings are divided by a smaller number of shares, producing higher per share profits.

- Enhance profits by investing our capital. In 2005, we were again able to upgrade Golden West's earnings by investing our net worth to build the Company's earning assets. Since we pay no interest on capital, these funds are "free" of any cost. In 2005, our net worth contributed an estimated $248 million

We were again able to upgrade Golden West's earnings by investing our net worth to build the Company's earning assets.

or $.80 per share to our bottom line, compared to $170 million or $.55 per share in 2004. The increase in 2005 was due primarily to the higher rates we earned on our assets.

- Achieve high credit ratings to fund growth in a cost-effective manner. Because we have a solid financial structure, our World Savings operating subsidiary has earned a coveted "Double A" rating, the highest ever awarded to an independent savings institution by Moody's Investors Service and Standard & Poor's. These ratings allowed the Company to borrow from Wall Street at favorable rates in 2005.
- Exceed regulatory capital requirements. World Savings continued to maintain capital levels that far exceeded the requirements of our subsidiary's primary regulator, the Office of Thrift Supervision. Keeping regulatory capital ratios high provides World many benefits including facilitating the growth of earning assets, qualifying for the lowest federal deposit insurance rates, and avoiding expensive and time-consuming regulatory burdens.

Golden West has long believed that a well-crafted financial house needs to be built on a strong capital base as a safeguard against risk.

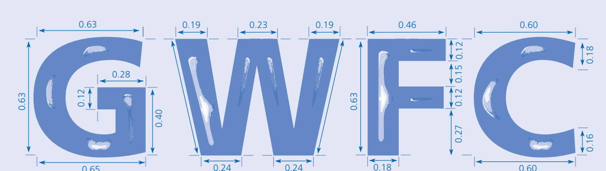
A Risk-Averse and Profitable Design

A final word before the cement dries on our discussion of net worth. Golden West has long believed that a well-crafted financial house needs to be built on a strong capital base as a safeguard against risk. Consequently, the Company continues to stockpile substantial net worth and to strongly support regulations that require banks to maintain a stable and secure underpinning of capital. But, as discussed above, our high net worth does much more than simply provide a safe and sound shelter. The Company also uses capital to support Golden West's asset expansion and to take advantage of opportunities to enhance current and future earnings. We believe a design that is both risk averse and highly profitable is one of the many reasons Golden West is a special situation.

Editor's Notes

Tangible Common Equity: the Strongest Form of Capital

When constructing our capital foundation, we use the highest quality materials, in particular stockholders' equity, which is the difference between assets and liabilities. Furthermore, all of Golden West's capital consists of "tangible common equity," which is more reliable and concrete than intangible assets like goodwill and intellectual property.



The Company's blueprint lays out a plan that is both risk averse and highly profitable, one of the many reasons why Golden West is a special situation.

A Special Situation By Design: The Golden West Earnings Engine

For 35 years, Golden West's compound annual growth rate of earnings per share has averaged 19%, confirming that a well-maintained engine can provide dependable performance year after year.

Automotive columnist,
Herbert M. Sandler, Chairman of the Board and Chief Executive Officer of Golden West Financial Corporation, writes periodically for *The Golden West Financial Times.*

Superior performance starts with superior design. So it's fitting that my review of Golden West's 2005 financial results includes an explanation of the technology behind the Company's finely tuned earnings engine.

While the automotive world measures output in horsepower, the financial arena gauges performance by diluted earnings per share (EPS) growth. By applying this measurement, we can show that Golden West has a proven track record of producing consistent, quality profits through all phases of the interest rate cycle. And our latest results demonstrate that the Company's motor is still purring. In 2005, Golden West's diluted EPS reached an all-time high of $4.77, a 15% increase from the previous record of $4.13 set in 2004. In fact, for 35 years we've had a consistent history of superior earnings growth. Over that time frame, Golden West's compound annual growth rate of diluted earnings per share has averaged 19%, confirming that a well-maintained engine can provide dependable performance year after year.

Our impressive returns are the result of our careful attention to net interest income, which provides the spark that keeps Golden West profits firing on all cylinders. But what is the blueprint

behind the engine design that has produced a long-term earnings record unmatched by most of the country's leading corporations? Let's take a look under the hood and see what makes us a special situation.

Net Interest Income Drives Profits

To keep our profits in high gear, we utilize a risk-averse strategy of originating residential home mortgages that we retain in our portfolio. These loans are the Company's largest earning asset and provide the fuel to generate net interest income. As the table below shows, the Company's net interest income reached an all-time high of $2.9 billion in 2005, or 12% more than the prior record of $2.6 billion set in 2004.

Interest Income, Interest Expense, Net Interest Income, and Annual Percentage Change 2001–2005 (Dollars in Millions)

	For the Year Ended December 31				
	2005	2004	2003	2002	2001
Interest income	**$6,200**	$4,178	$3,529	$3,497	$4,209
Interest expense	**3,265**	1,560	1,320	1,567	2,578
Net interest income	**$2,935**	$2,618	$2,209	$1,930	$1,631
Annual percentage change	**12%**	19%	14%	18%	42%

Editor's Notes

Net Interest Income Defined

Net interest income measures the difference **in dollars** between the interest and dividends earned on loans and investments and the interest paid on deposits and borrowings. At Golden West, increasing earnings over the long term largely depends on being able to expand net interest income, the Company's largest source of revenue.

Editor's Notes

Retaining vs. Selling Earning Assets

At Golden West, we are a portfolio lender, meaning we retain the loans we originate. This approach is profitable, because we earn the interest income our loans generate for as long as they are on our books. This strategy differs from many of our competitors, who sell their loans in the secondary market, recognizing only an initial gain on sale and a small amount of income from the future servicing of the loan.

We can follow this portfolio approach because we have the capacity to fund loans with savings and borrowings, and the capital necessary to support growth.

The Expansion of Earning Assets Powers Net Interest Income Growth

To increase the output of our engine over time, the Company's loans receivable balance needs to grow, as it did in 2005. But expanding the loan portfolio significantly is nothing new. Over the past five years, the compound annual growth rate of the Company's loans and mortgage-backed security (MBS) balances has amounted to 18%.

Loans Receivable and Mortgage-Backed Securities (MBS) and Change in Balances 2001–2005 (Dollars in Billions)

	For the Year Ended December 31				
	2005	2004	2003	2002	2001
Loans receivable and MBS	**$119.4**	$102.7	$78.3	$65.0	$55.7
Change	**16.7**	24.4	13.3	9.3	3.0
Percentage change	**16%**	31%	20%	17%	6%

The Primary Spread Also Fuels Our Earnings Engine

Another component that impacts Golden West's earnings performance is our primary spread, or profit margin. The primary spread measures the difference between the yield earned on loans and investments, and the rate paid on deposits and borrowings.

If there were an owner's manual describing the Company's profit margin, the chapter dealing with the 2005 model would focus on why this past year posed a challenge. As the table below indicates, both the Company's average and ending primary spread reached five-year lows, as a result of pressure from continued increases in short-term interest rates.

Average[a] Annual Yield on Interest-Earning Assets, Cost of Funds, and Primary Spread, and Primary Spread at Yearend 2001–2005

	For the Year Ended December 31				
	2005	2004	2003	2002	2001
Average annual: Yield on interest-earning assets	**5.37%**	4.56%	4.88%	5.68%	7.43%
Cost of funds	**2.99**	1.80	1.94	2.69	4.73
Primary spread	**2.38%**	2.76%	2.94%	2.99%	2.70%
Primary spread at yearend	**2.25%**	2.51%	2.87%	2.93%	3.21%

(a) Computed by adding the prior yearend number to the numbers at each monthend and dividing by 13.

The principal reason behind the variability shown in the foregoing table is the inverse relationship that usually exists between the

The primary spread fuels Golden West's earnings engine, and measures the difference between the yield earned on loans and investments, and the rate paid on deposits and borrowings.

Editor's Notes

Variability of the Primary Spread

The composition of Golden West's assets and liabilities can cause the Company's primary spread to vary from year to year.

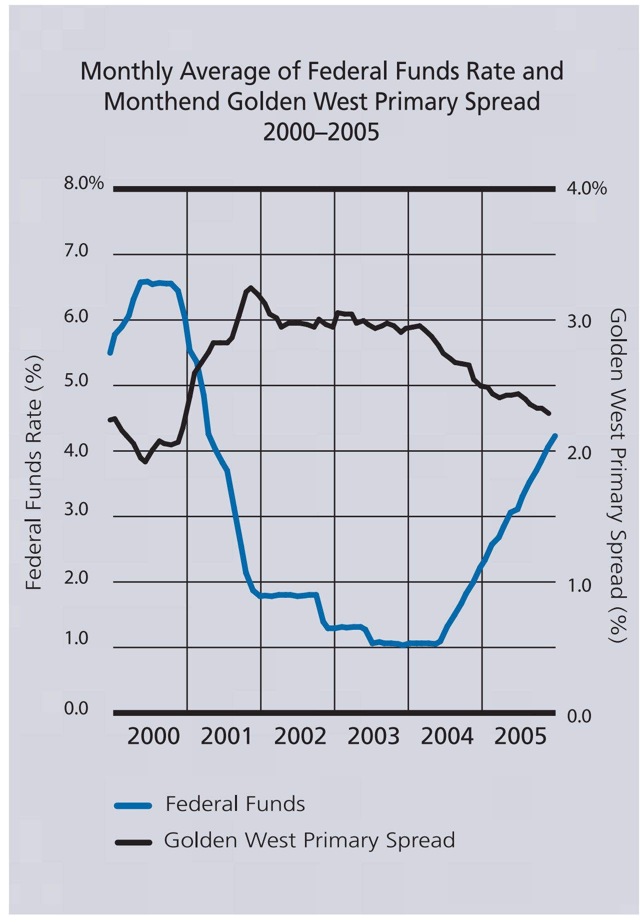
On the one hand, to support the mortgage portfolio, Golden West uses liabilities consisting of retail deposits and capital market borrowings, both of which respond relatively rapidly to changes in the interest environment.

On the other hand, the Company's assets are composed primarily of adjustable rate mortgages, which are tied to one of three indexes. Each index has two built-in lags. First is the repricing lag, which results from the timing difference between changes in market interest rates and the length of time our indexes take to respond to those changes. The repricing lags occur either because the components that make up our index do not react immediately to rate changes or because the index is computed as a 12-month rolling average. Second is the reporting lag, which is caused by the time it takes to gather and report the data needed to compute the index.

Because of these lags, the yield on Golden West's mortgages responds more slowly than the cost of the Company's liabilities to market rate changes, causing the primary spread to narrow when rates rise and widen when rates fall. The good news is that the variability evens out over the interest rate cycle.

Company's spreads and movements in short-term interest rates: When rates rise, our spreads decline, and when rates fall, the opposite occurs.

To demonstrate this proposition, the graph below correlates our primary spread with short-term rates, using the monthly average rate for Federal Funds (Fed Funds) as a proxy for the latter. Note specifically that the Company's primary spread peaked at the end of 2001, after the Federal Reserve's Open Market Committee (FOMC) initiated a steep drop in short-term rates. Then, in 2004, when the actions of the FOMC pushed rates higher, our spread began to decline. The continued sharp rise in the Fed Funds rate in 2005 caused Golden West's profit margin to compress even further.



Careful Design Handles Bumps in the Road

As we've just discussed, there are two inputs that power Golden West's earnings engine: asset growth and a strong primary spread. But the thrust of each can vary from one year to the next and in 2005, in particular, these were pulling in opposite directions.

The "good" news is that the Company expanded the size of its earning asset base, with the loan portfolio growing by over 16%. The "bad" news is that our average primary spread dropped 38 basis points from the prior year. But "good" news again... earning asset growth was enough to compensate for the spread decline, and diluted earnings per share increased by a gratifying 15%.

Through years of focus and discipline, analysis and planning, and exacting road testing, Golden West's model has been designed to deal with the bumps and curves presented by the mortgage and interest rate environments. And as the table below indicates, results have been impressive. Just look at what's been accomplished in the past five years. Achieving unmatched profitability over the long term (see page 9) through all phases of the economic cycle is just one of the nine reasons Golden West is a special situation.

Average Primary Spread,
Change in Average Primary Spread,
Average Earning Assets,
Percentage Growth of Average Earning Assets, and
Percentage Growth of Diluted Earnings per Share (EPS)
2001–2005
(Dollars in Billions)

	For the Year Ended December 31				
	2005	2004	2003	2002	2001
Average primary spread	2.38%	2.76%	2.94%	2.99%	2.70%
Change in average primary spread	(.38%)	(.18%)	(.05%)	.29%	.65%
Average earning assets	$115	$92	$72	$62	$56
Percentage growth of average earning assets	25%	28%	18%	9%	17%
Percentage growth of diluted EPS	15%	16%	17%	20%	50%

Noninterest Income Gives Revenues an Added Boost

While net interest income supplies most of the horsepower that drives Golden West's earnings engine, noninterest income also provides a boost. Reviewing the Company's financial statements shows that in 2005 noninterest income totaled $462 million, or 14% of revenues, up from $294 million, or 10% of revenues, one year earlier. This increase was due primarily to a higher level of fees associated with the greater volume of loans that prepaid in 2005 compared with the prior year.

Editor's Notes

Noninterest Income

At Golden West, noninterest income is primarily composed of the following four components:

- Fees associated with servicing the loan portfolio, such as prepayment fees and late charges
- Income from the family of Atlas mutual funds and annuities
- Gains on the sale of fixed-rate mortgages
- Checking and savings account charges

An Efficient Engine Helps Preserve Profits

In these days of high gasoline prices, consumers are well advised to invest in vehicles that provide outstanding fuel efficiency. At Golden West, our minds are on efficiency, too, because we want revenues to flow through to the bottom line with a minimum of leakage. Managing costs helps fine-tune the Company's earnings engine, thereby eliminating wasted fuel. Our intense focus on the mechanics of spending is an important part of our profitability strategy, one of the many reasons we are a special situation.

At Golden West, we review two diagnostics to monitor the smooth running of our engine: the ratio of general and administrative (G&A) expense to average assets and the efficiency ratio. In 2005, our G&A ratio declined to the lowest point in 25 years, .82%, from .90% in 2004. The Company was able to slow expense growth, while at the same time increasing average assets by an impressive 25%, leading to a significant decline in this ratio. In addition, as the table on the following page indicates, we were successful in keeping our already low efficiency ratio at approximately 28%.

Editor's Notes

Calculating Expense Ratios

There are two key ratios financial institutions use to measure how well expenses are being managed:

- **G&A Ratio –** General and Administrative Expense divided by Average Assets illustrates how much a bank or thrift spends to manage the company's assets.
- **Efficiency Ratio –** General and Administrative Expense divided by Net Interest Income plus Noninterest Income measures how much pre-tax income is eaten up by costs, or, said another way, how efficiently a firm generates revenues.

In 2005, our G&A ratio declined to the lowest point in 25 years...

Total General and Administrative Expense (G&A),
Percentage Change from Prior Year,
Average Assets,
Percentage Change from Prior Year,
G&A as a Percentage of Average Assets, and
the Efficiency Ratio
2001–2005

	For the Year Ended December 31				
	2005	2004	2003	2002	2001
G&A (millions)	$963	$840	$721	$601	$514
Percentage change	15%	17%	20%	17%	21%
Average assets (billions)	$117	$ 94	$ 74	$ 63	$ 57
Percentage change	25%	27%	17%	9%	17%
G&A as a percentage of average assets	.82%	.90%	.98%	.96%	.90%
Efficiency ratio[(a)]	28.3%	28.9%	28.6%	27.6%	27.5%

(a) G&A as a percentage of net interest income plus noninterest income.

So how are we able to manage our expenses so well? We don't have any revolutionary engineering secrets when it comes to controlling G&A—just careful planning, focus, discipline, hard work, and an unrelenting devotion to enhancing productivity. By spending carefully and investing wisely in people, processes, technology, and facilities, we keep our engine well-lubricated, allowing us to accumulate and service a large volume of both earning assets and supporting liabilities.

Much of the Company's outstanding track record in controlling expenses over the years has been the result of our long-term focus. In fact, the significant drop in our G&A ratio from 2004 to 2005 was the culmination of years of making prudent spending choices. For example, we invested heavily in our mortgage production organization by expanding into new markets, growing our loan support facilities, conducting intensive training, and installing updated telecommunications and computer systems. Our years of judicious investments were rewarded in 2005, when we originated a record volume of new loans. Because we had the appropriate resources in place, we were able to grow our average assets by 25% while expenses increased by only 15%, leading to a significant decrease in our G&A ratio.

It may seem paradoxical, but expense management also involves foregoing opportunities to cut expenses. That's right. Recently, we decided not to install the latest bells, whistles, and hubcaps even though doing so would have meant lower costs. Specifically, in recent years, many lenders have shifted to fully automated procedures to underwrite loans and appraise properties. If our objective were simply to avoid expenses, we would have followed this approach as well. But we chose instead to keep operating the old-fashioned way: with experienced, well-qualified staff performing due diligence on each loan. That's not to say we don't utilize loan technology. We do indeed, and we plan to use more in the future if this approach is validated. But we will also continue to involve real people in evaluating the borrower's ability to repay the loan, the intrinsic value of the property, and whether there may be any latent fraud. We feel processing a loan entirely the "new" way would be pennywise and could compromise the quality of the Company's loan portfolio.

We keep our engine well-lubricated, allowing us to accumulate and service a large volume of both earning assets and supporting liabilities.

But even with the additional expense of depending on our staff rather than on computers to make important decisions, our cost control performance remains among the best in the industry. How do we do it? We continually ask ourselves WTGBRFDT?[1] which stands for "What's the good business reason for doing this?" Requiring that all expenditures pass this test ensures that when the rubber meets the road we retain our trophy as the low-cost producer among large depository institutions, one of the nine reasons Golden West is a special situation.

[1] "WTGBRFDT?" is the title of a chapter featuring Golden West's productivity strategy in the book *Less Is More* (New York: Portfolio, 2002) by Jason Jennings.

Community News

In 2005, more than 1,300 Company employees volunteered to restore and refurbish homes for low-income seniors across the country through the *Rebuilding Together* program.

Community Reinvestment: Reaching Out to Help Others

OAKLAND, CALIFORNIA — Golden West continued its long history of helping to meet the housing needs in low- and moderate-income areas and minority neighborhoods by providing more than $20 billion for home loans. The Company also aided homebuyers living on limited incomes around the country with favorable financing including down-payment and closing-cost assistance. In addition, Golden West funded grants to support housing-related programs created to help more and more homebuyers achieve the American dream of homeownership.

Holiday Auction Raises Funds for Charities

Employees at corporate headquarters in Oakland offered homemade baked goods and crafts for coworkers to buy at the 9th Annual Holiday Charity Silent Auction. In 2005, proceeds benefited the Alzheimer's Association for seniors and the Bay Area Crisis Nursery for children.

Adorable handmade monkey and other crafts attract smiles and bids to help those in need.

Design Review

San Jose, California

Viera, Florida

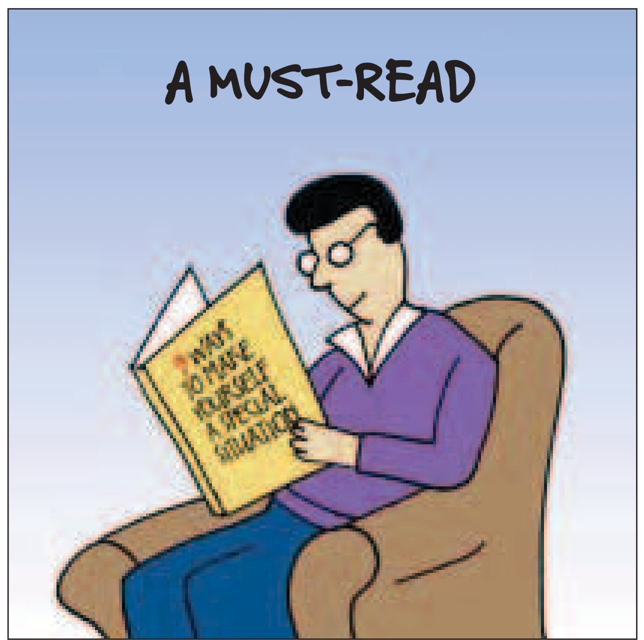
Summerlin, Nevada

Dramatic New Branches Draw in Customers and Deposits

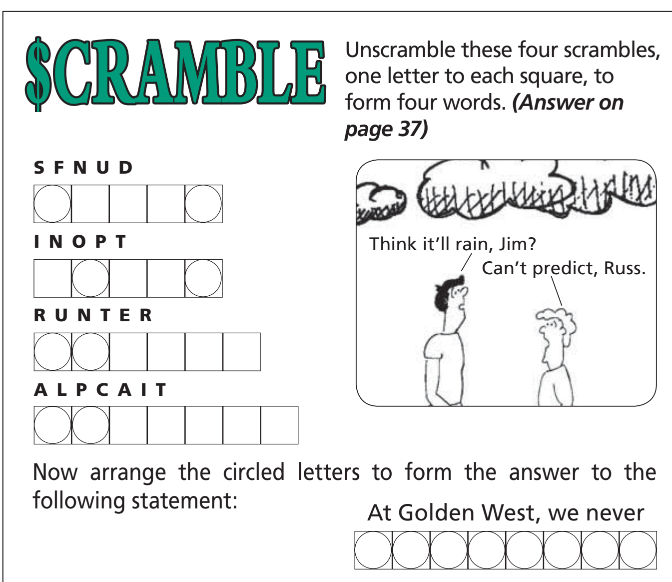
OAKLAND, CALIFORNIA — Golden West lived up to its reputation for architectural excellence in 2005 by opening several stunning new facilities including the ones pictured on this page.

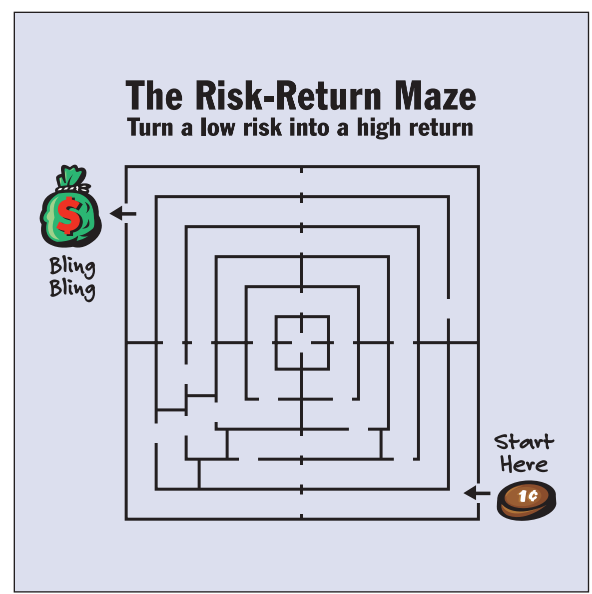
Top-caliber architects design contemporary retail spaces that harmoniously blend dynamic exteriors and showroom imagination with business functionality. The inspired use of bold colors, atriums, and distinctive lighting combines to create bright atmospheres that welcome customers.

Financial FUNNIES



Puzzles





Crossword | Golden West, A Special Situation

(Answer on page 37)

ACROSS

1. Last name of Golden West's Co-CEOs
7. Diluted per share ________
8. Golden West produces ______ returns with a risk-averse strategy
9. Golden West Officer (last name)
11. Golden West Officer (last name)
12. Net ________ income
14. Acronym for adjustable rate mortgage
16. Number of reasons why Golden West is a Special Situation
18. Something interest rates do
19. Golden West makes residential real ________ mortgages
20. Golden West maintains loan quality with in-house __________

DOWN

2. One of America's Most __________ Companies
3. Acronym for return on assets
4. Golden West operates a __________ business model
5. What Golden West is averse to
6. The risk-return __________ principle
10. Many people save for this
13. On the New York Stock Exchange GDW stands for ____________________________
15. COSI, CODI, and COFI are all ___________________
17. Also known as net worth

Classifieds

GLOSSARY of SELECTED FINANCIAL TERMS

ADJUSTABLE RATE MORTGAGE (ARM)

A loan with an interest rate that is calculated as a spread, or margin, over an index. As the value of the index changes over time, the rate on the mortgage adjusts accordingly. For example, if the index value is 3.0% and the margin is 2.5%, the interest rate on the mortgage is 5.5%; if the index value rises by .5% to 3.5%, the mortgage rate increases by the same amount to 6.0%.

ADJUSTABLE RATE MORTGAGE INDEX

A reference number that serves as the foundation for computing the rate on an adjustable rate mortgage*. The ARM rate is recalculated periodically as specified in the mortgage contract, based on changes in the index value. Although they provide ARMs with a measure of interest rate sensitivity, indexes usually trail changes in market yields because of two built-in lags. The first is the "reporting lag," caused by the time it takes to compute and to report the index value. The second is the "repricing lag," which occurs either because the components of the index do not respond immediately to rate changes or because the index is computed as a moving average. Index lags usually have a beneficial impact on Golden West's earnings when interest rates are declining, and a negative effect when rates are rising. However, the effect of the index lags on profits is mostly a matter of timing, since increases and decreases in net income caused by the index lags are temporary and tend to offset each other over the course of the interest rate cycle.

Most of Golden West's ARMs are tied to one of the following indexes: ***The Certificate of Deposit Index (CODI), the Cost of Savings Index (COSI), or the Eleventh District Cost of Funds Index (COFI):***

•*Certificate of Deposit Index (CODI)*

An index based on the monthly yield of three-month certificates of deposit (secondary market), as published by the Federal Reserve Board. CODI is calculated by adding the twelve most recently published monthly yields together and dividing the result by twelve. Because CODI is based on a short-term market rate, this index is a good match for the portion of Golden West's ARM portfolio that is funded by adjustable rate borrowings indexed to LIBOR*. CODI has a one-month reporting lag. There is also a repricing lag, because the index is a 12-month moving average and consequently trails changes in short-term market interest rates.

•*Cost of Savings Index (COSI)*

An index equal to the monthend weighted average rate paid on the Company's deposits. Because COSI mirrors the deposit portion of Golden West's liabilities, this index is a good match for the part of the Company's ARM portfolio that is funded by savings. COSI has a one-month reporting lag. COSI also has a repricing lag, because the rates paid on many of Golden West's deposits do not respond immediately or fully to a change in market interest rates.

•*Eleventh District Cost of Funds Index (COFI)*

An index equal to the monthly average cost of deposits and borrowings of savings institution members of the Federal Home Loan Bank System's* Eleventh District, which is composed of California, Arizona, and Nevada. COFI has a two-month reporting lag. Additionally, there is a repricing lag, which occurs because the liabilities held by institutions in the Eleventh District are composed of instruments with a variety of maturity and repricing characteristics. For example, there are checking and money market accounts, certificates of deposit, and adjustable and fixed-rate borrowings. Since only a portion of the District's liabilities matures or assumes market rates each month, COFI responds only gradually to changes in the interest environment.

*Defined elsewhere in Glossary.

Basic Earnings Per Share

Net income available to common shareholders divided by the weighted average number of common shares outstanding for the period.

Basis Point

One one-hundredth of a percent, i.e., .01%.

Chargeoff

The recognition of the reduction in value of an asset, usually a loan or property acquired upon foreclosure.

Diluted Earnings Per Share

Net income available to common shareholders divided by the weighted average number of common shares outstanding for the period plus the number of additional common shares that would have been outstanding if potentially dilutive common shares had been issued, such as through the exercise of stock options.

Federal Funds Rate

The rate that U.S. banks charge each other for borrowings on an overnight basis. The price level of Federal Funds is influenced by actions of the Federal Reserve's Open Market Committee.

Federal Home Loan Bank System

The 12 Federal Home Loan Banks that provide credit and other financial services to member institutions.

LIBOR

London Inter-Bank Offered Rate, a sensitive, short-term market rate often used as an index for adjustable rate borrowings.

Mortgage-Backed Security (MBS)

A financial instrument that has a pool of residential mortgages as the underlying collateral.

Net Interest Margin

Net interest income divided by average earning assets, expressed as a percentage.

Nonperforming Assets (NPAs)

Loans 90 days or more delinquent, with balances not reduced for loan loss reserves, and real estate acquired through foreclosure.

Recourse

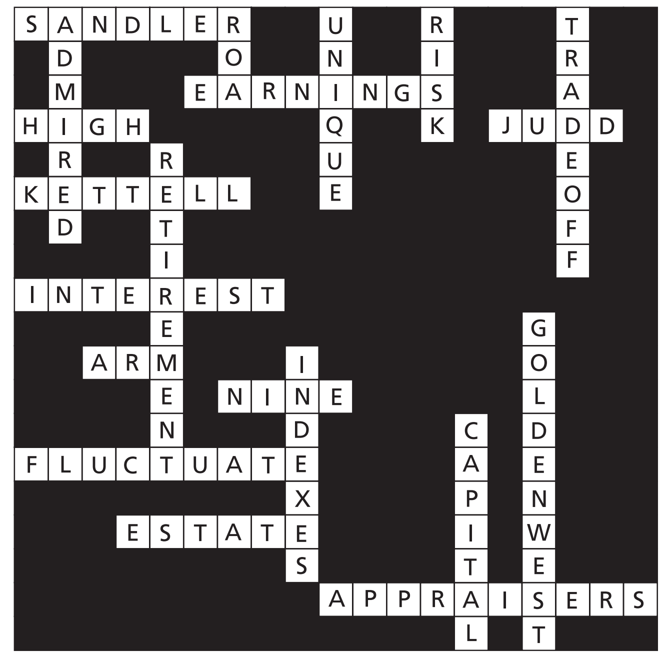
A commitment by a party who sells or securitizes loans to pay for losses if the loans default. The extent of the liability is negotiated by contract.

Troubled Debt Restructured (TDR)

Loans on which delinquent payments have been added to the loan balance or on which temporary interest rate reductions have been made, primarily to customers impacted by adverse economic conditions.

ANSWER TO PUZZLE

(Crossword found on page 35)



ANSWER TO SCRAMBLE *(Scramble found on page 35)*

Funds, Point, Return, Capital

Summary of Operations

(Dollars in millions except per share figures)

		2005	2004
Operating Results	Interest income	$ 6,200	$ 4,178
	Interest expense	3,265	1,560
	Net interest income	2,935	2,618
	Provision for (recovery of) loan losses	8	3
	Net interest income after provision for (recovery of) loan losses	2,927	2,615
	Noninterest income	462	294
	General and administrative expense	963	840
	Earnings before taxes on income	2,426	2,069
	Taxes on income	940	789
	Earnings before cumulative effect of accounting change and before extraordinary item	$ 1,486	$ 1,280
	Basic earnings per share before cumulative effect of accounting change and before extraordinary item	$ 4.83	$ 4.19
	Diluted earnings per share before cumulative effect of accounting change and before extraordinary item	$ 4.77	$ 4.13
Selected Balance Sheet Items	Assets	$124,615	$106,889
	Cash and investments	2,222	1,667
	Loans receivable and mortgage-backed securities (MBS)	119,366	102,669
	Deposits	60,158	52,965
	Borrowings	54,549	45,684
	Stockholders' equity	8,671	7,275
Loan Data	Real estate loans originated	$ 51,516	$ 48,989
	Yield on loan portfolio and MBS	6.05%	4.75%
	Adjustable rate mortgages as a % of total loans receivable and MBS	99%	98%
	Number of real estate loans[a]	557,390	527,185
Deposit Data	Increase ($)	$ 7,193	$ 6,238
	Increase (%)	13.6%	13.4%
	Cost of deposits	3.24%	2.08%
	Number of accounts	1,558,844	1,260,054
Spread Data	Yield on interest-earning assets	6.03%	4.73%
	Less: cost of funds	3.78%	2.22%
	Primary spread	2.25%	2.51%
Ratios	Net interest income/average earning assets	2.54%	2.83%
	General and administrative expense/average assets	.82%	.90%
	General and administrative expense/net interest income plus other income (Efficiency ratio)	28.3%	28.9%
	Net earnings/average assets (ROA)	1.27%	1.37%
	Net earnings/average stockholders' equity (ROE)	18.7%	19.5%
	Stockholders' equity/total assets	6.96%	6.81%
	Nonperforming assets and troubled debt restructured/total assets	.31%	.33%
	Net chargeoffs (recoveries)/average loans[a]	.00%	.00%
Per Share Data	Common stock price range	$68.92-55.64	$61.90-49.33
	Price/earnings ratio on mean market price	13	13
	Cash dividends	$ .260	$ .210
	Book value	28.15	23.73

(a) Includes loans that were securitized and retained as MBS held to maturity.

(b) Excludes the cumulative effect of an accounting change resulting in a $6 million, or $.02 per basic and diluted earnings per share, one-time charge due to the adoption of SFAS 133 on January 1, 2001.

(c) Does not include an extraordinary charge of $21 million before tax, or $.04 per basic and diluted earnings per share, net of tax benefit, associated with the prepayment of FHLB advances. Includes a nonrecurring gain of $13 million before tax, or $.02 per basic and diluted earnings per share, after tax, realized when preferred stock purchased at a discount was redeemed by the issuer at par.

2003	2002	2001	2000	1999	1998	1997	1996
$ 3,529	$ 3,497	$ 4,209	$ 3,796	$ 2,826	$ 2,962	$ 2,832	$ 2,582
1,320	1,567	2,578	2,645	1,823	1,995	1,942	1,751
2,209	1,930	1,631	1,151	1,003	967	890	831
12	21	22	9	(2)	11	58	84
2,197	1,909	1,609	1,142	1,005	956	832	747
313	247	237	161	144	138	82	75
721	601	514	425	386	355	327	321[d]
1,789	1,555	1,332	878	763	739	587	501[d]
683	597	513	332	283	292	233	193[e]
$ 1,106	$ 958	$ 819[b]	$ 546	$ 480	$ 447[c]	$ 354	$ 308[f]
$ 3.63	$ 3.10	$ 2.59[b]	$ 1.72	$ 1.45	$ 1.31[c]	$ 1.04	$ .89[f]
$ 3.57	$ 3.06	$ 2.55[b]	$ 1.70	$ 1.44	$ 1.29[c]	$ 1.02	$ .87[f]
$82,550	$68,406	$58,586	$55,704	$42,142	$38,469	$39,590	$37,731
2,140	1,241	962	1,112	1,120	1,050	1,033	2,079
78,311	65,011	55,669	52,727	39,826	35,968	37,316	34,519
46,727	41,039	34,473	30,048	27,715	26,219	24,110	22,100
29,028	21,557	19,060	21,188	10,773	8,328	12,071	12,620
5,947	5,025	4,284	3,687	3,195	3,124	2,698	2,350
$35,985	$26,683	$20,763	$19,783	$12,672	$ 8,188	$ 7,483	$ 7,013
4.61%	5.28%	6.38%	8.03%	7.16%	7.32%	7.50%	7.39%
97%	96%	94%	95%	93%	92%	91%	89%
429,541	370,770	329,262	335,458	272,647	252,269	263,632	243,455
$ 5,688	$ 6,566	$ 4,425	$ 2,333	$ 1,496	$ 2,109	$ 2,010	$ 1,252
13.9%	19.0%	14.7%	8.4%	5.7%	8.7%	9.1%	6.0%
1.85%	2.56%	3.39%	5.52%	4.69%	4.67%	5.04%	4.98%
1,135,991	1,135,610	1,155,641	1,169,546	1,084,491	1,094,314	1,113,348	1,135,964
4.54%	5.25%	6.36%	8.02%	7.15%	7.30%	7.48%	7.37%
1.67%	2.32%	3.15%	5.99%	5.00%	4.96%	5.36%	5.28%
2.87%	2.93%	3.21%	2.03%	2.15%	2.34%	2.12%	2.09%
3.05%	3.17%	2.93%	2.42%	2.63%	2.53%	2.36%	2.39%
.98%	.96%	.90%	.87%	.98%	.90%	.84%	.89%[d]
28.6%	27.6%	27.5%	32.4%	33.7%	32.1%	33.6%	35.4%[d]
1.50%	1.53%	1.43%[b]	1.12%	1.22%	1.14%[c]	.91%	.86%[f]
20.3%	20.6%	20.4%[b]	16.2%	15.2%	15.4%[c]	14.1%	14.0%[f]
7.20%	7.35%	7.31%	6.62%	7.58%	8.12%	6.81%	6.23%
.51%	.62%	.67%	.43%	.59%	.85%	1.07%	1.43%
.00%	.00%	.00%	.00%	(.01%)	.00%	.06%	.10%
$51.73-34.84	$36.49-28.96	$35.00-23.58	$34.72-13.59	$19.01-14.64	$19.04-12.06	$16.30-9.98	$11.46-8.17
12	11	11[b]	14	12	12[c]	13	11[f]
$ .178	$ .151	$ .130	$ .110	$ .097	$ .086	$ .076	$ .066
19.55	16.37	13.77	11.64	9.90	9.16	7.88	6.83

(d) Excludes the one-time assessment of $133 million for 1996 to recapitalize the Savings Association Insurance Fund (SAIF).

(e) Excludes a tax benefit of $139 million for 1996 arising from an earlier acquisition.

(f) Does not include the cumulative effect of a change in accounting for goodwill of $205 million, the one-time SAIF assessment of $133 million, or the $139 million tax benefit arising from an earlier acquisition.

Consolidated Statement of Financial Condition

(Dollars in thousands except per share figures)

	December 31	
Assets	**2005**	2004
Cash	**$ 518,161**	$ 292,421
Federal funds sold and other investments	**1,321,626**	936,353
Securities available for sale, at fair value	**382,499**	438,032
Purchased mortgage-backed securities available for sale, at fair value	**11,781**	14,438
Purchased mortgage-backed securities held to maturity, at cost	**303,703**	375,632
Mortgage-backed securities with recourse held to maturity, at cost	**1,168,480**	1,719,982
Loans Receivable:		
Loans held for sale	**83,365**	52,325
Loans held for investment less allowance for loan losses of $295,859 and $290,110	**117,798,600**	100,506,854
Total Loans Receivable	**117,881,965**	100,559,179
Interest earned but uncollected	**392,303**	248,073
Investment in capital stock of Federal Home Loan Banks	**1,857,580**	1,563,276
Foreclosed real estate	**8,682**	11,461
Premises and equipment, net	**403,084**	391,523
Other assets	**365,299**	338,171
Total Assets	**$124,615,163**	$106,888,541

Liabilities and Stockholders' Equity		
Deposits	**$ 60,158,319**	$ 52,965,311
Advances from Federal Home Loan Banks	**38,961,165**	33,781,895
Securities sold under agreements to repurchase	**5,000,000**	3,900,000
Bank notes	**2,393,951**	2,709,895
Senior debt	**8,194,266**	5,291,840
Taxes on income	**547,653**	561,772
Other liabilities	**688,844**	402,952
Total Liabilities	**115,944,198**	99,613,665
Stockholders' equity:		
Preferred stock, par value $1.00:		
Authorized 20,000,000 shares		
Issued and outstanding, none		
Common stock, par value $.10:		
Authorized 600,000,000 shares		
Issued and outstanding, 308,041,776 and 306,524,716 shares	**30,804**	30,652
Additional paid-in capital	**338,997**	263,770
Retained earnings	**8,077,466**	6,728,998
	8,447,267	7,023,420
Accumulated other comprehensive income from unrealized gains on securities, net of income tax of $140,482 and $158,347	**223,698**	251,456
Total Stockholders' Equity	**8,670,965**	7,274,876
Total Liabilities and Stockholders' Equity	**$124,615,163**	$106,888,541

See notes to consolidated financial statements.

Consolidated Statement of Net Earnings

(Dollars in thousands except per share figures)

	Year Ended December 31		
	2005	2004	2003
Interest Income			
Interest on loans	**$5,969,566**	$3,976,619	$3,178,087
Interest on mortgage-backed securities	**92,746**	131,720	261,712
Interest and dividends on investments	**137,584**	70,517	88,545
	6,199,896	4,178,856	3,528,344
Interest Expense			
Interest on deposits	**1,550,517**	944,493	938,123
Interest on advances	**1,221,795**	448,535	269,793
Interest on repurchase agreements	**155,511**	49,589	9,048
Interest on other borrowings	**337,002**	117,634	102,996
	3,264,825	1,560,251	1,319,960
Net Interest Income	**2,935,071**	2,618,605	2,208,384
Provision for loan losses	**8,290**	3,401	11,864
Net Interest Income after Provision for Loan Losses	**2,926,781**	2,615,204	2,196,520
Noninterest Income			
Fees	**369,867**	210,576	163,306
Gain on sale of securities and loans	**10,514**	13,216	72,274
Other	**81,755**	70,131	77,750
	462,136	293,923	313,330
Noninterest Expense			
General and administrative:			
Personnel	**655,425**	547,432	453,476
Occupancy	**92,877**	86,117	76,649
Technology and telecommunications	**89,900**	79,453	78,701
Deposit insurance	**7,556**	7,068	6,683
Advertising	**28,633**	26,743	22,516
Other	**88,024**	93,313	82,490
	962,415	840,126	720,515
Earnings before Taxes on Income	**2,426,502**	2,069,001	1,789,335
Taxes on income	**940,338**	789,280	683,236
Net Earnings	**$1,486,164**	$1,279,721	$1,106,099
Basic Earnings Per Share	**$ 4.83**	$ 4.19	$ 3.63
Diluted Earnings Per Share	**$ 4.77**	$ 4.13	$ 3.57
Dividends declared per common share	**$ .26**	$ .21	$ .1775
Average common shares outstanding	**307,388,071**	305,470,587	305,047,184
Average diluted common shares outstanding	**311,790,191**	310,119,746	309,974,406

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

(Dollars in thousands)

	Year Ended December 31		
	2005	2004	2003
Cash Flows from Operating Activities			
Net earnings	**$ 1,486,164**	$ 1,279,721	$ 1,106,099
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Provision for loan losses	**8,290**	3,401	11,864
Amortization of net loan costs	**343,710**	189,367	100,579
Depreciation and amortization	**53,423**	48,587	42,379
Loans originated for sale	**(363,274)**	(428,526)	(2,003,352)
Sales of loans	**792,212**	552,964	3,217,876
Increase in interest earned but uncollected	**(139,507)**	(60,812)	(2,114)
Decrease (increase) in deferred interest	**(394,200)**	(34,157)	41,450
Federal Home Loan Bank stock dividends	**(71,366)**	(44,458)	(40,854)
Decrease (increase) in other assets	**(37,437)**	60,415	146,553
Increase (decrease) in other liabilities	**248,321**	117,431	(10,128)
Increase (decrease) in taxes on income	**43,928**	(3,963)	84,061
Other, net	**948**	(1,228)	(1,925)
Net cash provided by operating activities	**1,971,212**	1,678,742	2,692,488
Cash Flows from Investing Activities			
New loan activity:			
New real estate loans originated for investment portfolio	**(51,153,125)**	(48,560,551)	(33,981,369)
Real estate loans purchased	**(1,277)**	(46,769)	(2,115)
Other, net	**213,623**	(212,104)	(414,193)
	(50,940,779)	(48,819,424)	(34,397,677)
Real estate loan principal payments	**33,375,894**	23,258,098	18,034,803
Purchases of mortgage-backed securities held to maturity	**-0-**	(19,028)	(366,509)
Repayments of mortgage-backed securities	**446,322**	897,283	2,007,746
Proceeds from sales of foreclosed real estate	**43,444**	49,284	54,231
Decrease (increase) in federal funds sold, securities purchased under agreements to resell, and other investments	**(385,273)**	603,152	(1,160,667)
Decrease (increase) in securities available for sale	**10,326**	(10,511)	202,914
Purchases of Federal Home Loan Bank stock	**(227,661)**	(369,979)	(37,185)
Additions to premises and equipment	**(66,089)**	(81,396)	(53,892)
Net cash used in investing activities	**(17,743,816)**	(24,492,521)	(15,716,236)

	Year Ended December 31		
	2005	2004	2003
Cash Flows from Financing Activities			
Increase in deposits	**$ 7,193,008**	$ 6,238,346	$ 5,688,168
Additions to Federal Home Loan Bank advances	**14,239,000**	16,700,000	10,240,000
Repayments of Federal Home Loan Bank advances	**(9,059,730)**	(4,918,340)	(6,874,865)
Proceeds from agreements to repurchase securities	**9,850,000**	6,051,855	4,504,306
Repayments of agreements to repurchase securities	**(8,750,000)**	(5,173,240)	(2,005,220)
Increase (decrease) in bank notes	**(315,944)**	(305,959)	1,805,929
Net proceeds from senior debt	**2,944,509**	4,287,595	-0-
Repayments of subordinated notes	**-0-**	-0-	(200,000)
Dividends on common stock	**(79,911)**	(64,157)	(54,159)
Exercise of stock options	**35,296**	29,277	12,728
Purchase and retirement of Company stock	**(57,884)**	-0-	(151,230)
Net cash provided by financing activities	**15,998,344**	22,845,377	12,965,657
Net Increase (Decrease) in Cash	**225,740**	31,598	(58,091)
Cash at beginning of period	**292,421**	260,823	318,914
Cash at end of period	**$ 518,161**	$ 292,421	$ 260,823
Supplemental cash flow information:			
Cash paid for:			
Interest	**$ 3,121,663**	$ 1,484,231	$ 1,328,673
Income taxes	**896,413**	793,373	599,367
Cash received for interest and dividends	**5,661,466**	4,080,387	3,569,163
Noncash investing activities:			
Loans receivable and loans underlying mortgage-backed securities converted from adjustable rate to fixed rate	**521,820**	149,776	1,227,486
Loans transferred to foreclosed real estate	**40,676**	47,167	57,008
Loans securitized into mortgage-backed securities with recourse recorded as loans receivable	**34,332,574**	24,535,995	13,663,049
Mortgage-backed securities held to maturity desecuritized into adjustable rate loans and recorded as loans receivable	**163,416**	1,024,116	-0-
Transfer of loans held for investment from loans held for sale	**23,070**	69,578	144,323

See notes to consolidated financial statements.

Consolidated Statement of Stockholders' Equity

(Dollars in thousands except per share figures)

	Number of Shares	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance at January 1, 2003	307,042,206	$15,352	$198,162	$4,612,529	$199,207	$5,025,250
Net earnings		-0-	-0-	1,106,099	-0-	1,106,099
Change in unrealized gains on securities available for sale		-0-	-0-	-0-	(1,501)	(1,501)
Reclassification adjustment for gains included in income		-0-	-0-	-0-	(7)	(7)
Comprehensive income						1,104,591
Common stock issued upon exercise of stock options, including tax benefits	1,108,750	55	22,761	-0-	-0-	22,816
Purchase and retirement of shares of Company stock	(3,912,740)	(195)	-0-	(151,035)	-0-	(151,230)
Cash dividends on common stock		-0-	-0-	(54,159)	-0-	(54,159)
Balance at December 31, 2003	304,238,216	15,212	220,923	5,513,434	197,699	5,947,268
Net earnings		-0-	-0-	1,279,721	-0-	1,279,721
Change in unrealized gains on securities available for sale		-0-	-0-	-0-	53,757	53,757
Comprehensive income						1,333,478
Common stock issued upon exercise of stock options, including tax benefits	2,286,500	122	58,165	-0-	-0-	58,287
Common stock split effected by means of a two-for-one stock dividend		15,318	(15,318)	-0-	-0-	-0-
Cash dividends on common stock		-0-	-0-	(64,157)	-0-	(64,157)
Balance at December 31, 2004	306,524,716	30,652	263,770	6,728,998	251,456	7,274,876
Net earnings		-0-	-0-	1,486,164	-0-	1,486,164
Change in unrealized gains on securities available for sale		-0-	-0-	-0-	(27,758)	(27,758)
Comprehensive income						1,458,406
Common stock issued upon exercise of stock options, including tax benefits	2,502,060	251	75,227	-0-	-0-	75,478
Purchase and retirement of shares of Company stock	(985,000)	(99)	-0-	(57,785)	-0-	(57,884)
Cash dividends on common stock		-0-	-0-	(79,911)	-0-	(79,911)
Balance at December 31, 2005	**308,041,776**	**$30,804**	**$338,997**	**$8,077,466**	**$223,698**	**$8,670,965**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years ended December 31, 2005, 2004, and 2003

NOTE A - Summary of Significant Accounting Policies

BASIS OF PRESENTATION. The consolidated financial statements include the accounts of Golden West Financial Corporation, a Delaware corporation, and its subsidiaries (the Company or Golden West). All of Golden West's subsidiaries are wholly owned. Intercompany accounts and transactions have been eliminated. World Savings Bank, FSB (WSB), is a federally chartered savings bank and the Company's principal operating subsidiary with $124.4 billion in assets at December 31, 2005. The information in these notes relating to WSB includes the accounts of its subsidiaries, the largest of which is World Savings Bank, FSB (Texas) (WTX), a federally chartered savings bank with $13.3 billion of assets at December 31, 2005. Both WSB and WTX are regulated by the Office of Thrift Supervision (OTS).

Certain reclassifications have been made to prior year financial statements to conform to current year presentation.

NATURE OF OPERATIONS. Golden West, through its financial institution subsidiaries, operates 283 savings branches in 10 states and has lending operations in 39 states. The Company is a residential mortgage portfolio lender and its primary source of revenue is interest from loans and mortgage-backed securities.

USE OF ESTIMATES IN THE PREPARATION OF FINANCIAL STATEMENTS. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CASH. Cash is defined as cash on hand and amounts due from banks.

SECURITIES AVAILABLE FOR SALE. The Company classifies its investment securities as available for sale. The Company has no trading securities. Securities available for sale are reported at fair value. Fair value is based on quoted market prices. Net unrealized gains and losses are excluded from earnings and reported net of applicable income taxes in accumulated other comprehensive income and as a separate component of stockholders' equity until realized. Realized gains or losses on sales of securities are recorded in earnings at the time of sale and are determined by the difference between the net sales proceeds and the cost of the security, using specific identification, adjusted for any unamortized premium or discount. If a decline in the fair value is considered to be other-than-temporary, the cost of the asset is reduced and the loss is recorded in noninterest income.

MORTGAGE-BACKED SECURITIES. The Company has no mortgage-backed securities (MBS) classified as trading. MBS available for sale are reported at fair value, with unrealized gains and losses excluded from earnings and reported net of applicable income taxes in accumulated other comprehensive income and as a separate component of stockholders' equity until realized. Realized gains or losses on sales of MBS are recorded in earnings at the time of sale and are determined by the difference between the net sales proceeds and the cost of MBS, using specific identification, adjusted for any unamortized premium or discount. Mortgage-backed securities held to maturity are recorded at cost because the Company has the ability and intent to hold these MBS to maturity. Premiums and discounts on MBS are amortized or accreted using the interest method over the estimated life of the security. If a decline in the fair value is considered to be other-than-temporary, the cost of the asset is reduced and the loss is recorded in noninterest income.

SECURITIZED LOANS. The Company securitizes certain loans from its held for investment loan portfolio into MBS which are available to be used as collateral for borrowings. In accordance with Statement of Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" (SFAS 140), loan securitizations are not recorded as sales because 100% of the beneficial ownership interests are retained by the Company, including both the primary and subordinate retained interests.

Loans securitized after March 31, 2001 are securities included in Loans Receivable. Securities resulting from loan securitizations formed prior to April 1, 2001 are included in MBS with recourse, recorded at cost, and are evaluated for impairment based upon the characteristics of the underlying loans.

LOANS RECEIVABLE. The Company's real estate loan portfolio consists primarily of long-term loans collateralized by first deeds of trust on single-family residences and multi-family residential property. In addition to real estate loans, the Company makes loans collateralized by savings accounts.

The option adjustable rate mortgage (ARM) is the Company's primary real estate loan. Most of the Company's ARMs carry an interest rate that changes monthly, based on movements in certain indexes. Interest rate changes and

monthly payments of principal and interest may be subject to maximum increases. Negative amortization may occur if the payment amount is less than the interest accruing on the loan. A small portion of the Company's ARMs is originated with a fixed rate for an initial period, primarily 12-36 months.

The Company originates certain loans that are held for sale, primarily fixed-rate loans. These loans are recorded at the lower of cost or fair value. The fair value of loans held for sale is based on observable market prices.

Certain direct loan origination costs, net of loan origination fees, are deferred and amortized as an interest income yield adjustment over the contractual life of the related loans using the interest method. Loan origination fees, net of certain direct loan origination costs, on loans originated for sale are deferred until the loans are sold and recognized at the time of sale.

"Fees," which include fees for prepayment of loans, income for servicing loans, late charges for delinquent payments, fees from deposit accounts, and miscellaneous fees, are recorded when collected.

Nonperforming assets consist of loans 90 days or more delinquent, with balances not reduced for loan loss reserves, and foreclosed real estate. When a loan becomes nonperforming, it is placed on nonaccrual status and all interest earned but uncollected is reversed. Interest income on nonaccrual loans is only recognized when cash is received, and these cash receipts are applied in accordance with the loan's amortization schedule.

Troubled debt restructured consists of loans that have been modified by the Company to grant a concession due to the borrower's financial difficulties.

FORECLOSED REAL ESTATE. Foreclosed real estate is comprised mainly of residential property acquired through foreclosure. All foreclosed real estate is recorded at the lower of cost or fair value. Included in the fair value is the estimated selling price in the ordinary course of business less estimated costs to repair and dispose of the property. Costs relating to holding property, net of rental income, are expensed in the current period. Gains on the sale of real estate are recognized at the time of sale. Losses realized in connection with the disposition of foreclosed real estate are charged to current earnings.

ALLOWANCE FOR LOAN LOSSES. The allowance for loan losses reflects the Company's estimate of the probable credit losses inherent in the loans receivable balance. Each quarter the allowance is reviewed. Additions to or reductions from the allowance are reflected in the provision for loan losses in current earnings.

In order to evaluate the adequacy of the allowance, the Company determines an allocated component and an unallocated component. The allocated component consists of reserves on loans that are evaluated on a pool basis, primarily the large portfolio of one- to four-family loans, as well as loans that are evaluated on an individual basis, such as major multi-family and commercial real estate loans. However, the entire allowance is available to absorb credit losses inherent in the total loans receivable balance.

To evaluate the adequacy of the reserves for pooled loans, a model is used that is based on the Company's historical repayment rates, foreclosure rates, and loss experience over multiple business cycles. Data for the model is gathered using an internal database that identifies and measures losses on loans and foreclosed real estate broken down by age of the loan. To evaluate the adequacy of reserves on individually evaluated loans, impairment is measured based on the fair value of the collateral taking into consideration the estimated sale price, cost of refurbishing the security property, payment of delinquent property taxes, and costs of disposal.

The Company has also established an unallocated component to address the imprecision and range of probable outcomes inherent in the estimates of credit losses. The amount of the unallocated reserve takes into consideration many factors, including trends in economic growth, unemployment, housing market activity, home prices for the nation and individual geographic regions, and the level of mortgage turnover. The ratios of allocated allowance and unallocated allowance to total allowance may change from period to period.

MORTGAGE SERVICING RIGHTS. The Company recognizes as assets the rights to service loans for others. When the servicing rights are retained by the Company upon the sale of loans, the allocated cost of these rights is capitalized as an asset and then amortized over the expected life of the loan. The amount capitalized is based on the relative fair value of the servicing rights and the loan on the sale date. The balance of Capitalized Mortgage Servicing Rights (CMSRs) is included in "Other assets" in the Consolidated Statement of Financial Condition. The amortization of the CMSRs is included in "Fees" in the Consolidated Statement of Net Earnings.

The fair value of CMSRs is estimated using a present value cash flow model to estimate the fair value that the CMSRs could be sold for in the open market as of the valuation date. The Company's model estimates a fair value based on a variety of factors including observable data such as adequate compensation for servicing, loan repayment rates, and market discount rates.

For the purposes of the fair value calculation, the loans are stratified by year of origination or modification, term to maturity, and loan type. The other key assumptions used in calculating the fair value of CMSRs at December 31, 2005 were a weighted average repayment rate of 24.0%, a discount rate of 10%, and the market rate of the annual cost of servicing of 7.7 basis points. CMSRs are evaluated for possible impairment based on the current carrying value amount and the estimated fair value. If temporary impairment exists, a valuation allowance is established for the estimated temporary impairment through a charge to noninterest income. If an other-than-temporary impairment exists, the Company recognizes a direct write-down.

INVESTMENT IN CAPITAL STOCK OF FEDERAL HOME LOAN BANKS. The Company's investment in the stock of the Federal Home Loan Banks (FHLBs) is carried at cost since it is not a readily marketable security and is evaluated for impairment. If a decline in the value is considered to be other-than-temporary, the cost of the asset is reduced and the loss is recorded in noninterest income.

PREMISES AND EQUIPMENT. Buildings, leasehold improvements, and equipment are carried at depreciated cost and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets might not be recoverable. Buildings and equipment are depreciated over their estimated useful lives using the straight-line method. The estimated useful life of newly constructed buildings is 40 years and the lives of new assets that are added to existing buildings are based on the remaining life of the original building. The estimated useful life for equipment is 3-10 years. Leasehold improvements are amortized over the shorter of their useful lives or lease terms.

SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE. The Company enters into sales of securities under agreements to repurchase (reverse repurchase agreements) only with selected dealers and banks. Reverse repurchase agreements are treated as financings and the obligations to repurchase securities sold are reflected as a liability in the Consolidated Statement of Financial Condition. The securities underlying the agreements remain in the asset accounts.

INTEREST RATE SWAPS. The Company enters into interest rate swaps as a part of its interest rate risk management strategy. Such instruments are entered into primarily to alter the repricing characteristics of designated assets and liabilities. The Company does not hold any derivative financial instruments for trading purposes. Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133), as amended, establishes accounting and reporting standards for derivative instruments and for hedging activities. In accordance with SFAS 133, interest rate swaps are recognized on the Consolidated Statement of Financial Condition at fair value.

Fair value hedges. In a fair value hedge, changes in the fair value of the hedging derivative are recognized in earnings and offset by also recognizing in earnings changes in the fair value of the hedged item. To the extent that the hedge is ineffective, the changes in fair value will not be equal and the difference is reflected in the Consolidated Statement of Net Earnings as "Change in Fair Value of Derivatives."

The Company formally documents the relationship between the hedging derivative used in fair value hedges and the hedged items, as well as the risk management objective and strategy, before undertaking the hedge. This process includes linking all derivative instruments that are designated as fair value hedges to the specific asset or liability.

TAXES ON INCOME. The Company files a consolidated federal income tax return with its subsidiaries and, in certain states, combined state tax returns. In accordance with Statement of Financial Standards No. 109, "Accounting for Income Taxes," deferred tax assets and liabilities are recognized for the future tax consequences of differences between the financial statement and tax basis of assets and liabilities using enacted tax rates. The effect on deferred taxes of a change in tax rates is recognized in the period that the change is enacted.

STOCK SPLIT. On October 20, 2004, the Company's Board of Directors approved a two-for-one stock split of its outstanding common stock in the form of a 100% stock dividend. The stock split became effective on December 10, 2004. All references in the consolidated financial statements to the number of shares of common stock, prices per share, earnings and dividends per share, and other per share amounts reflect the stock split.

STOCK-BASED COMPENSATION. The Company has a stock-based employee compensation plan, which is described more fully in Note S. The Company applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) and related interpretations in accounting for its plan. Accordingly, no compensation cost has been recognized for awards granted under the plan. Had compensation cost been determined using the fair value based method prescribed

by SFAS 123 "Accounting for Stock-Based Compensation," the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below:

(Dollars in thousands except per share amounts)	Year Ended December 31 2005	2004	2003
Net income, as reported	$1,486,164	$1,279,721	$1,106,099
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(8,022)	(7,228)	(8,162)
Pro forma net income	$1,478,142	$1,272,493	$1,097,937
Basic earning per share			
As reported	$ 4.83	$ 4.19	$ 3.63
Pro forma	4.81	4.17	3.60
Diluted earning per share			
As reported	$ 4.77	$ 4.13	$ 3.57
Pro forma	4.75	4.10	3.55

NEW ACCOUNTING PRONOUNCEMENTS. In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123 (Revised 2004), "Share-Based Payment" (SFAS 123R). This statement is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation" (SFAS 123) and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25). This Statement requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service in exchange for the award. This Statement is effective as of the beginning of the first fiscal year that begins after December 15, 2005. In October 2005, the FASB issued FASB Staff Position (FSP) FAS 123R-2, "Practical Accommodation to the Application of Grant Date as Defined in SFAS 123." The FSP provides guidance on the application of grant date as defined in SFAS 123R. The FSP will be applied upon initial adoption of SFAS 123R.The Company expects that the adoption of SFAS 123R will result in amounts that are similar to the current pro forma disclosures under SFAS 123.

In November 2005, the FASB issued FSP SFAS 123R-3, "Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards." The FSP provides a practical transition election related to accounting for the tax effects of share-based payments to employees. The FSP is effective as of November 10, 2005. A company may make a one-time election to adopt the transition method described in the FSP. The Company expects to make this election.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections" (SFAS 154). This Statement replaces APB Opinion No. 20, "Accounting Changes," and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements," and revises the requirements for the accounting for and reporting of a change in an accounting principle. SFAS 154 applies to all voluntary changes in accounting principles and to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. This Statement requires retrospective application to prior periods' financial statements of a change in accounting principle. This Statement shall be effective for fiscal years beginning after December 15, 2005, but early adoption is permitted.

In November 2005, the FASB issued FSP SFAS 115-1 and SFAS 124-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." The FSP specifically nullifies the recognition and measurement provisions of Emerging Issues Task Force (EITF) Issue 03-1 and references existing other-than-temporary impairment guidance. The FSP carries forward the disclosure requirements included in EITF Issue 03-1. The FSP is effective for reporting periods beginning after December 15, 2005. Earlier application is permitted. The adoption of the FSP would not have significant impact on the Company's financial statements.

NOTE B - Federal Funds Sold and Other Investments

The following is a summary of federal funds sold and other investments:

(Dollars in thousands)	December 31 2005	2004
Federal funds sold	$1,096,626	$861,353
Eurodollar time deposits	225,000	75,000
	$1,321,626	$936,353

The weighted average portfolio yields on federal funds sold and other investments were 4.11% and 2.08% at December 31, 2005 and 2004, respectively. At December 31, 2005, all federal funds sold and Eurodollar time deposits had overnight maturities.

NOTE C - Securities Available for Sale

The following is a summary of securities available for sale:

	December 31, 2005			
(Dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government obligation	$ 1,765	$ -0-	$-0-	$ 1,765
Freddie Mac stock	5,530	361,737	-0-	367,267
Other	11,673	1,826	32	13,467
	$18,968	$363,563	$32	$382,499

(Dollars in thousands)	December 31, 2004			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government obligation	$ 1,762	$ -0-	$ 2	$ 1,760
Freddie Mac stock	5,530	408,664	-0-	414,194
Other	20,752	1,340	14	22,078
	$28,044	$410,004	$16	$438,032

The weighted average portfolio yields on securities available for sale excluding equity securities were 4.24% and 2.43% at December 31, 2005 and 2004, respectively.

Principal proceeds from the sales of securities from the securities available for sale portfolio were $9.8 million (2005), $-0- (2004), and $1.5 million (2003) and resulted in gross realized gains of $-0- (2005), $-0- (2004), and $21 thousand (2003) and no realized losses in 2005, 2004, or 2003.

At December 31, 2005, the securities available for sale had maturities as follows:

(Dollars in thousands)	Amortized Cost	Fair Value
Maturity		
No maturity	$17,099	$380,633
2006	1,765	1,765
2007 through 2010	70	68
2011 through 2015	-0-	-0-
2016 and thereafter	34	33
	$18,968	$382,499

NOTE D - Purchased Mortgage-Backed Securities Available for Sale

Purchased mortgage-backed securities available for sale are summarized as follows:

	December 31, 2005			
(Dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Fannie Mae	$ 5,545	$195	$ -0-	$ 5,740
Ginnie Mae	2,901	218	-0-	3,119
Freddie Mac	2,686	236	-0-	2,922
	$11,132	$649	$ -0-	$11,781

	December 31, 2004			
(Dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Fannie Mae	$ 6,613	$ -0-	$186	$ 6,427
Ginnie Mae	4,053	-0-	-0-	4,053
Freddie Mac	3,958	-0-	-0-	3,958
	$14,624	$ -0-	$186	$14,438

The weighted average portfolio yields on mortgage-backed securities available for sale were 8.51% and 8.69% at December 31, 2005 and 2004, respectively.

There were no sales of securities from the mortgage-backed securities available for sale portfolio in 2005, 2004 or 2003.

At December 31, 2005, purchased mortgage-backed securities available for sale had contractual maturities as follows:

(Dollars in thousands)	Amortized Cost	Fair Value
Maturity		
2006 through 2010	$ 441	$ 467
2011 through 2015	937	991
2016 and thereafter	9,754	10,323
	$11,132	$11,781

NOTE E - Mortgage-Backed Securities Held to Maturity

Mortgage-backed securities held to maturity are summarized as follows:

	December 31, 2005			
(Dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Purchased MBS held to maturity:				
Fannie Mae	$ 281,996	$1,061	$ 3,206	$ 279,851
Freddie Mac	18,185	301	232	18,254
Ginnie Mae	3,522	266	-0-	3,788
Subtotal	303,703	1,628	3,438	301,893
MBS with recourse held to maturity:				
REMICs	1,168,480	4,152	1,916	1,170,716
Total	$1,472,183	$5,780	$ 5,354	$1,472,609

	December 31, 2004			
(Dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Purchased MBS held to maturity:				
Fannie Mae	$ 348,663	$ 5,345	$202	$ 353,806
Freddie Mac	22,302	195	-0-	22,497
Ginnie Mae	4,667	-0-	-0-	4,667
Subtotal	375,632	5,540	202	380,970
MBS with recourse held to maturity:				
REMICs	1,719,982	37,942	-0-	1,757,924
Total	$2,095,614	$43,482	$202	$2,138,894

The weighted average portfolio yields on mortgage-backed securities held to maturity were 5.72% and 4.89% at December 31, 2005 and 2004, respectively.

There were no sales of securities from the mortgage-backed securities held to maturity portfolio during 2005, 2004, or 2003.

At December 31, 2005, MBS with an amortized cost of $1.0 billion were pledged to secure Federal Home Loan Bank advances.

At December 31, 2005, mortgage-backed securities held to maturity had contractual maturities as follows:

(Dollars in thousands)	Amortized Cost	Fair Value
Maturity		
2006 through 2010	$ 23	$ 23
2011 through 2015	300	298
2016 and thereafter	1,471,860	1,472,288
	$1,472,183	$1,472,609

NOTE F - Loans Receivable

(Dollars in thousands)	December 31 2005	2004
Loans collateralized by:		
One- to four-family dwelling units	$111,394,353	$ 94,449,233
Over four-family dwelling units	4,794,359	4,748,335
Commercial property	10,205	15,220
	116,198,917	99,212,788
Loans on savings accounts	10,509	10,734
	116,209,426	99,223,522
Loans in process	826,355	722,115
Net deferred costs	1,152,143	915,008
Allowance for loan losses	(295,859)	(290,110)
Undisbursed loan funds	(10,100)	(11,356)
	$117,881,965	$100,559,179

The amount of deferred interest included in the loan portfolio was $449 million and $55 million as of December 31, 2005 and 2004, respectively.

As of December 31, 2005 and 2004, the Company had $2.9 billion and $2.6 billion, respectively, of Equity Lines of Credit (ELOC) balances and second mortgages outstanding.

At December 31, 2005 and 2004, the Company had $83 million and $52 million, respectively, in loans held for sale, all of which were carried at the lower of cost or fair value. At December 31, 2005, the Company had $49.9 billion of loans that were securitized after March 31, 2001 that are securities classified as loans receivable in accordance with SFAS 140. The outstanding balances of securitizations created prior to April 1, 2001 are included in MBS with recourse.

Loans totaling $57.8 billion and $52.5 billion at December 31, 2005 and 2004 were pledged to secure advances from the FHLBs and securities sold under agreements to repurchase.

As of December 31, 2005, 62% of the Company's loan balances were on residential properties in California. The other 38% represented loans in 38 other states, none of which made up more than 7% of the total loan portfolio. The vast majority of these loans were secured by first deeds of trust on one- to four-family residential property. Economic conditions and real estate values in the states in which the Company lends are the key factors that affect the credit risk of the Company's loan portfolio.

A summary of the changes in the allowance for loan losses is as follows:

	Year Ended December 31		
(Dollars in thousands)	2005	2004	2003
Balance at January 1	$290,110	$289,937	$281,097
Provision for loan losses	8,290	3,401	11,864
Loans charged off	(4,363)	(4,613)	(3,633)
Recoveries	1,822	1,385	609
Balance at December 31	$295,859	$290,110	$289,937

The following is a summary of impaired loans:

	December 31	
(Dollars in thousands)	2005	2004
Nonperforming loans	$373,671	$ 332,329
Troubled debt restructured	124	3,810
Other impaired loans	407	6,648
	$374,202	$ 342,787

The portion of the allowance for loan losses that was specifically provided for impaired loans was $645 thousand and $1.4 million at December 31, 2005 and 2004, respectively. The average recorded investment in total impaired loans was $347 million and $387 million during 2005 and 2004, respectively. All amounts involving impaired loans have been measured based upon the fair value of the related collateral. The amount of interest income recognized during the years ended December 31, 2005, 2004, and 2003 on the total of impaired loans at each yearend was $10 million (2005), $10 million (2004), and $13 million (2003).

NOTE G - Loan Servicing

In addition to loans receivable and MBS with recourse held to maturity, the Company services loans for others. At December 31, 2005 and 2004, the outstanding balance of loans sold with servicing retained by the Company was $4.2 billion and $4.5 billion, respectively. Included in those amounts were $1.7 billion and $2.3 billion at December 31, 2005 and 2004, respectively, of loans sold with recourse.

Capitalized mortgage servicing rights are included in "Other assets" on the Consolidated Statement of Financial Condition. The following is a summary of CMSRs:

	Year Ended December 31	
(Dollars in thousands)	2005	2004
CMSRs:		
Balance at January 1	$60,544	$88,967
New CMSRs from loan sales	9,502	9,970
Amortization of CMSRs	(30,344)	(38,393)
Balance at December 31	39,702	60,544
Valuation Allowance:		
Balance at January 1	(7,310)	-0-
Recovery of (provision for) CMSRs in excess of fair value	6,742	(7,310)
Balance at December 31	(568)	(7,310)
CMSRs, net	$39,134	$53,234

The estimated amortization of the December 31, 2005 balance of CMSRs for the five years ending 2010 is $23.1 million (2006), $12.1 million (2007), $4.2 million (2008), $262 thousand (2009), and $2 thousand (2010). Actual results may vary depending upon the level of the payoffs of the loans currently serviced.

The net estimated fair value of CMSRs as of December 31, 2005 and 2004 was $54 million and $62 million, respectively. The book value of the Company's CMSRs for certain of the Company's loan strata exceeded the fair values by $568 thousand and $7.3 million at December 31, 2005 and 2004, respectively, and as a result, we had a valuation allowance of those amounts.

NOTE H - Interest Earned But Uncollected

	December 31	
(Dollars in thousands)	2005	2004
Loans receivable	$364,036	$230,018
Mortgage-backed securities	5,325	6,478
Interest rate swaps	7,266	1,142
Other	15,676	10,435
	$392,303	$248,073

NOTE I - Premises and Equipment

	December 31	
(Dollars in thousands)	2005	2004
Land	$ 93,025	$ 83,677
Building and leasehold improvements	288,645	280,037
Furniture, fixtures, and equipment	389,282	354,691
	770,952	718,405
Accumulated depreciation and amortization	367,868	326,882
	$403,084	$391,523

The aggregate future rentals under long-term operating leases on land or premises in effect on December 31, 2005, and which expire between 2006 and 2064, amounted to approximately $218 million. The approximate minimum payments during the five years ending 2010 are $35 million (2006), $33 million (2007), $26 million (2008), $21 million (2009), $15 million (2010), and $88 million thereafter. Certain of the leases provide for options to renew and for the payment of taxes, insurance, and maintenance costs. The rental expense for the year amounted to $39 million (2005), $34 million (2004), and $31 million (2003).

NOTE J - Deposits

	December 31			
	2005		2004	
(Dollars in thousands)	Rate	Amount	Rate	Amount
Deposits by rate:				
Interest-bearing checking accounts	1.69%	$ 4,916,067	1.35%	$ 5,425,183
Savings accounts	2.20	14,141,337	1.94	33,990,906
Term certificate accounts with original maturities of:				
4 weeks to 1 year	3.77	28,956,796	1.94	4,315,419
1 to 2 years	3.87	8,082,385	2.43	4,217,192
2 to 3 years	2.90	1,086,506	2.33	1,344,881
3 to 4 years	3.05	728,817	3.37	1,230,919
4 years and over	4.33	2,227,145	4.62	2,405,210
Retail jumbo CDs	1.31	19,266	1.63	35,565
All other	0.00	-0-	2.78	36
		$60,158,319		$52,965,311

	December 31			
	2005		2004	
(Dollars in thousands)	Rate	Amount	Rate	Amount
Deposits by remaining maturity at yearend:				
No contractual maturity	2.07%	$19,057,404	1.86%	$39,416,089
Maturity within one year	3.77	38,139,593	2.41	9,956,686
After one but within two years	4.17	1,875,679	2.94	1,400,252
After two but within three years	3.45	495,177	4.33	1,461,677
After three but within four years	3.80	435,351	3.24	287,350
After four but within five years	4.09	154,389	3.80	442,598
Over five years	3.31	726	3.19	659
		$60,158,319		$52,965,311

At December 31, the weighted average cost of deposits was 3.24% (2005) and 2.08% (2004).

As of December 31, 2005, the aggregate amount outstanding of time certificates of deposit in amounts of $100 thousand or more was $16.1 billion and the aggregate amount outstanding of transaction accounts in amounts of $100 thousand or more was $8.0 billion.

Interest expense on deposits is summarized as follows:

	Year Ended December 31		
(Dollars in thousands)	2005	2004	2003
Interest-bearing checking accounts	$ 71,150	$ 78,417	$ 78,900
Savings accounts	377,062	575,039	533,402
Term certificate accounts	1,102,305	291,037	325,821
	$1,550,517	$944,493	$938,123

NOTE K - Advances from Federal Home Loan Banks

Advances are borrowings secured by pledges of certain loans, MBS, and capital stock of the Federal Home Loan Banks. The Company is required to own FHLB stock based primarily on the level of outstanding FHLB advances. The Company owned $1.9 billion of FHLB stock at December 31, 2005.

The Company's advances have maturities and interest rates as follows:

December 31, 2005		
(Dollars in thousands)	Amount	Stated Rate
Maturity		
2006	$ 9,325,594	4.15%
2007	11,785,124	4.37
2008	8,965,039	4.35
2009	4,069,839	4.37
2010	4,374,269	4.43
2011 and thereafter	441,300	5.44
	$38,961,165	

December 31, 2004		
(Dollars in thousands)	Amount	Stated Rate
Maturity		
2005	$ 9,045,933	2.17%
2006	6,825,003	2.22
2007	9,814,655	2.31
2008	3,589,620	2.31
2009	4,069,464	2.34
2010 and thereafter	437,220	5.60
	$33,781,895	

Financial data pertaining to advances from FHLBs was as follows:

	Year Ended December 31	
(Dollars in thousands)	2005	2004
Weighted average interest rate, end of year	4.33%	2.30%
Weighted average interest rate during the year	3.34%	1.58%
Average balance of FHLB advances	$36,531,354	$28,372,344
Maximum outstanding at any monthend	38,961,165	33,781,895

Of the advances outstanding at December 31, 2005, $35.4 billion were tied to a London Interbank Offered Rate (LIBOR) index and were scheduled to reprice within 90 days.

NOTE L - Securities Sold under Agreements to Repurchase

Securities sold under agreements to repurchase are collateralized by mortgage-backed securities.

December 31, 2005		
(Dollars in thousands)	Amount	Stated Rate
Maturity		
2006	$3,550,000	4.26%
2007	650,000	4.49
2008	300,000	4.16
2009	500,000	4.44
	$5,000,000	

December 31, 2004		
(Dollars in thousands)	Amount	Stated Rate
Maturity		
2005	$2,500,000	2.21%
2006	500,000	1.99
2007	400,000	2.49
2009	500,000	2.40
	$3,900,000	

Financial data pertaining to securities sold under agreements to repurchase was as follows:

	Year Ended December 31	
(Dollars in thousands)	2005	2004
Weighted average interest rate, end of year	4.30%	2.23%
Weighted average interest rate during the year	3.38%	1.51%
Average balance of agreements to repurchase	$4,602,694	$3,279,154
Maximum outstanding at any monthend	5,150,000	4,150,000

At the end of 2005 and 2004, all of the agreements to repurchase with brokers/dealers were to reacquire the same securities.

NOTE M - Bank Notes

WSB has a bank note program under which up to $5.0 billion of borrowings can be outstanding at any point in time. These unsecured bank notes have maturities of 270 days or less.

December 31, 2005		
(Dollars in thousands)	Amount	Stated Rate
Maturity		
2006	$2,393,951	4.33%

December 31, 2004		
(Dollars in thousands)	Amount	Stated Rate
Maturity		
2005	$2,709,895	2.29%

NOTE N - Senior Debt

(Dollars in thousands)	December 31 2005	2004
Golden West Financial Corporation senior debt, unsecured, due from 2006 to 2012, at coupon rates of 4.125% to 5.50%, net of unamortized discount of $5,603 (2005) and $7,171 (2004)	$ 994,397	$ 992,829
WSB senior debt, unsecured, due from 2006 to 2009, at coupon rates of 4.125% to 4.6012%, net of unamortized discount of $12,560 (2005) and $11,299 (2004) [(a)]	7,199,869	4,299,011
	$8,194,266	$5,291,840

(a) The Company entered into three interest rate swaps to effectively convert certain fixed-rate debt to variable-rate debt.

Financial data pertaining to senior debt follows and includes the effect of the interest rate swaps:

(Dollars in thousands)	Year Ended December 31 2005	2004
Weighted average interest rate, end of year	4.61%	3.03%
Weighted average interest rate during the year	3.77%	2.93%
Average balance of senior debt	$6,535,666	$2,779,242
Maximum outstanding at any monthend	8,194,266	5,291,840

At December 31, 2005, senior debt had maturities as follows:

(Dollars in thousands)	Amount
Maturity	
2006	$1,549,481
2007	2,896,916
2008	1,436,951
2009	1,815,470
2012	495,448
	$8,194,266

NOTE O - Taxes on Income

The following is a comparative analysis of the provision for federal and state taxes on income.

(Dollars in thousands)	Year Ended December 31 2005	2004	2003
Federal income tax:			
Current	$807,697	$693,808	$556,885
Deferred	(8,175)	(6,820)	44,349
State tax:			
Current	138,420	98,862	87,403
Deferred	2,396	3,430	(5,401)
	$940,338	$789,280	$683,236

The components of the net deferred tax liability are as follows:

(Dollars in thousands)	December 31 2005	2004
Deferred tax liabilities:		
Loan fees and interest income	$211,324	$252,532
FHLB stock dividends	214,679	189,290
Unrealized gains on debt and equity securities	140,482	158,347
Depreciation and other	36,025	32,381
Gross deferred tax liabilities	602,510	632,550
Deferred tax assets:		
Provision for losses on loans	118,420	116,619
State taxes	46,955	41,272
Other deferred tax assets	3,834	17,715
Gross deferred tax assets	169,209	175,606
Net deferred tax liability	$433,301	$456,944

A reconciliation of income taxes at the federal statutory corporate rate to the effective tax rate is as follows:

(Dollars in thousands)	Year Ended December 31 2005		2004		2003	
	Amount	Percent of Pretax Income	Amount	Percent of Pretax Income	Amount	Percent of Pretax Income
Computed standard corporate tax expense	$849,276	35.0%	$724,150	35.0%	$626,267	35.0%
Increases (reductions) in taxes resulting from:						
State tax, net of federal income tax benefit	85,638	3.5	74,962	3.6	58,344	3.3
Other	5,424	.3	(9,832)	(.5)	(1,375)	(.1)
	$940,338	38.8%	$789,280	38.1%	$683,236	38.2%

In accordance with Statement of Financial Accounting Standards No. 109, “Accounting for Income Taxes,” a deferred tax liability has not been recognized for the tax bad debt reserve of WSB that arose in tax years that began prior to December 31, 1987. At December 31, 2005 and 2004, the portion of the tax bad debt reserve attributable to pre-1988 tax years was approximately $252 million. The amount of unrecognized deferred tax liability at December 31, 2005 and 2004, was approximately $88 million. This deferred tax liability could be recognized if certain distributions are made with respect to the stock of WSB, or the bad debt reserve is used for any purpose other than absorbing bad debt losses.

NOTE P - Stockholders’ Equity

Changes in common stock issued and outstanding were as follows:

	Year Ended December 31 2005	2004	2003
Shares issued and outstanding, beginning of year	306,524,716	304,238,216	307,042,206
Common stock issued through options exercised	2,502,060	2,286,500	1,108,750
Common stock repurchased and retired	(985,000)	-0-	(3,912,740)
Shares issued and outstanding, end of year	308,041,776	306,524,716	304,238,216

The quarterly cash dividends paid on the Company's common stock were as follows:

	Year Ended December 31		
	2005	2004	2003
First Quarter	$.06	$05	$.0425
Second Quarter	.06	.05	.0425
Third Quarter	.06	.05	.0425
Fourth Quarter	.08	.06	.0500

In September 2001, the Company's Board of Directors authorized the repurchase of up to 31,733,708 shares of Golden West's common stock. During 2005, 985,000 of the shares were purchased and retired at a cost of $58 million. No shares were repurchased during 2004. At December 31, 2005, the remaining shares authorized to be repurchased were 17,671,358.

NOTE Q - Earnings Per Share

The Company calculates Basic Earnings Per Share (EPS) and Diluted EPS in accordance with Statement of Financial Accounting Standards No. 128, " Earnings per Share" (SFAS 128). The following is a summary of the calculation of basic and diluted EPS:

	Year Ended December 31		
(Dollars in thousands except per share amounts)	2005	2004	2003
Net earnings	$1,486,164	$1,279,721	$1,106,099
Weighted average shares	307,388,071	305,470,587	305,047,184
Dilutive effect of outstanding common stock equivalents	4,402,120	4,649,159	4,927,222
Diluted average shares outstanding	311,790,191	310,119,746	309,974,406
Basic earnings per share	$ 4.83	$ 4.19	$ 3.63
Diluted earnings per share	$ 4.77	$ 4.13	$ 3.57

As of December 31, options to purchase 1,978,400 (2005), 21,000 (2004), and 839,000 (2003) shares were outstanding but not included in the computation of earnings per share because the exercise price was higher than the average market price, and therefore they were antidilutive.

NOTE R - Regulatory Capital Requirements and Dividend Restrictions

The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) established capital standards for federally insured financial institutions, such as WSB and WTX. Under FIRREA, thrifts and savings banks must have tangible capital equal to at least 1.5% of adjusted total assets, have core capital equal to at least 4% of adjusted total assets, and have risk-based capital equal to at least 8% of risk-weighted assets.

The OTS and other bank regulatory agencies have adopted rules based upon five capital tiers: well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized. The rules provide that a savings association is "well-capitalized" if its leverage ratio is 5% or greater, its Tier 1 risk-based capital ratio is 6% or greater, its total risk-based capital ratio is 10% or greater, and the institution is not subject to a capital directive.

As used herein, the total risk-based capital ratio is the ratio of total capital to risk-weighted assets, Tier 1 risk-based capital ratio is the ratio of core capital to risk-weighted assets, and the Tier 1 or leverage ratio is the ratio of core capital to adjusted total assets, in each case as calculated in accordance with current OTS capital regulations. As of December 31, 2005, the date of the most recent report to the OTS, WSB and WTX were considered "well-capitalized" under the current requirements. There are no conditions or events that have occurred since that date that the Company believes would have an impact on the categorization of WSB or WTX.

At December 31, 2005 and 2004, WSB and WTX had the following regulatory capital calculated in accordance with FIRREA's capital standards:

	December 31, 2005			
	ACTUAL		MINIMUM CAPITAL REQUIREMENTS	
(Dollars in thousands)	Capital	Ratio	Capital	Ratio
WSB:				
Tangible	$8,384,582	6.76%	$1,860,332	1.50%
Tier 1 (core or leverage)	8,384,582	6.76	4,960,885	4.00
Total risk-based	8,671,909	13.02	5,330,004	8.00
WTX:				
Tangible	$ 744,749	5.61%	$ 199,060	1.50%
Tier 1 (core or leverage)	744,749	5.61	530,827	4.00
Total risk-based	744,543	24.77	241,440	8.00

	December 31, 2004			
	ACTUAL		MINIMUM CAPITAL REQUIREMENTS	
(Dollars in thousands)	Capital	Ratio	Capital	Ratio
WSB:				
Tangible	$7,139,505	6.71%	$1,596,105	1.50%
Tier 1 (core or leverage)	7,139,505	6.71	4,256,281	4.00
Total risk-based	7,428,260	12.92	4,601,015	8.00
WTX:				
Tangible	$ 686,052	5.22%	$ 197,148	1.50%
Tier 1 (core or leverage)	686,052	5.22	525,727	4.00
Total risk-based	687,409	23.67	232,322	8.00

December 31, 2005				
	ACTUAL		WELL-CAPITALIZED CAPITAL REQUIREMENTS	
(Dollars in thousands)	Capital	Ratio	Capital	Ratio
WSB:				
Tier 1 (core or leverage)	$8,384,582	6.76%	$6,201,106	5.00%
Tier 1 risk-based	8,384,582	12.58	3,997,503	6.00
Total risk-based	8,671,909	13.02	6,662,505	10.00
WTX:				
Tier 1 (core or leverage)	$ 744,749	5.61%	$ 663,534	5.00%
Tier 1 risk-based	744,749	24.68	181,080	6.00
Total risk-based	744,543	24.77	301,799	10.00

December 31, 2004				
	ACTUAL		WELL-CAPITALIZED CAPITAL REQUIREMENTS	
(Dollars in thousands)	Capital	Ratio	Capital	Ratio
WSB:				
Tier 1 (core or leverage)	$7,139,505	6.71%	$5,320,351	5.00%
Tier 1 risk-based	7,139,505	12.41	3,450,761	6.00
Total risk-based	7,428,260	12.92	5,751,269	10.00
WTX:				
Tier 1 (core or leverage)	$ 686,052	5.22%	$ 657,159	5.00%
Tier 1 risk-based	686,052	23.62	174,241	6.00
Total risk-based	687,409	23.67	290,402	10.00

The payments of capital distributions by WSB and WTX to their parent are governed by OTS regulations. WSB and WTX must file a notice with the OTS prior to making capital distributions and, in some cases, may need to file applications. The OTS may disapprove a notice or deny an application, in whole or in part, if the OTS finds that: (a) the insured subsidiary would be undercapitalized or worse following the capital distribution; (b) the proposed capital distribution raises safety and soundness concerns; or (c) the proposed capital distribution violates a prohibition contained in any statute, regulation, agreement with the OTS, or a condition imposed upon the insured subsidiary in an OTS approved application or notice. In general, WSB and WTX may, with prior notice to the OTS, make capital distributions during a calendar year in an amount equal to that year's net income plus retained net income for the preceding two years, as long as immediately after such distributions they remain at least adequately capitalized. Capital distributions in excess of such amount, or which would cause WSB or WTX to no longer be adequately capitalized, require specific OTS approval.

At December 31, 2005, $6.2 billion of WSB's retained earnings were available for the payment of cash dividends without the imposition of additional federal income taxes.

NOTE S - Stock Options

The Company's shareholder-approved 1996 Stock Option Plan authorized the issuance of up to 42 million shares of the Company's common stock for non-qualified and incentive stock option grants to key employees. At December 31, there were 1,332,000 (2005), 3,277,300 (2004), and 3,190,900 (2003) shares available for option under this plan. The 1996 Stock Option Plan expired on February 1, 2006, after which no further options may be granted under this Plan.

The Company's shareholder-approved 2005 Stock Incentive Plan was effective on April 27, 2005. The 2005 Stock Incentive Plan authorizes the issuance of up to 25 million shares of the Company's common stock for awards to key employees of non-qualified and incentive stock options, restricted stock, stock units, and stock appreciation rights. At December 31, 2005, all 25 million shares authorized under the 2005 Stock Incentive Plan were available for awards.

The exercise price for all non-qualified and incentive stock options granted under the 1996 Stock Option Plan was set at fair market value as of the date of grant. The outstanding options under the 1996 Stock Option Plan provide for vesting after two to five years, after which time the vested options may be exercised at any time until ten years after the date of grant.

Outstanding options at December 31, 2005, were held by 688 employees and had expiration dates ranging from January 12, 2006 to September 26, 2015. The following table sets forth the range of exercise prices on outstanding options at December 31, 2005:

Range of Exercise Price	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
$ 8.71 - $15.79	4,021,100	$15.05	3.6 years
$23.58 - $34.33	1,313,988	23.81	5.8 years
$40.29 - $59.95	2,947,000	41.63	7.6 years
$61.25 - $67.78	1,980,600	63.92	9.5 years
	10,262,688		

	Currently Exercisable	
Range of Exercise Price	Number of Options	Weighted Average Exercise Price
$ 8.71 - $15.79	4,021,100	$15.05
$23.58 - $34.33	1,309,488	23.78
$40.29 - $59.95	21,000	41.57
$61.25 - $67.78	-0-	n/a
	5,351,588	

A summary of the transactions of the stock option plan follows:

	Shares	Average Exercise Price Per Share
Outstanding, January 1, 2003	11,197,598	$14.92
Granted	3,144,400	41.35
Exercised	(1,108,750)	11.48
Canceled	(40,900)	29.28
Outstanding, December 31, 2003	13,192,348	$21.47
Granted	27,000	56.53
Exercised	(2,286,500)	12.80
Canceled	(113,400)	37.14
Outstanding, December 31, 2004	10,819,448	$23.22
Granted	1,988,200	63.91
Exercised	(2,502,060)	14.11
Canceled	(42,900)	42.65
Outstanding, December 31, 2005	10,262,688	$33.24

At December 31, options exercisable amounted to 5,351,588 (2005), 6,803,148 (2004), and 5,140,650 (2003). The weighted average exercise price of the options exercisable at December 31 was $17.29 (2005), $14.91 (2004), and $13.42 (2003).

The weighted average fair value per share of options granted during 2005 was $17.31 per share, $14.45 per share for those granted during 2004, and $11.36 per share for those granted during 2003. For these disclosure purposes, the fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants in 2005, 2004, and 2003, respectively: dividend yield of 0.6% (2005), 0.6% (2004), and 0.7% (2003); expected volatility of 22% (2005), 23% (2004), and 23% (2003); expected lives of 5.5 years (2005), 5.1 years (2004), and 5.7 years (2003); and risk-free interest rates of 3.91% (2005), 3.43% (2004), and 3.57% (2003).

NOTE T - Commitments and Contingencies

Commitments to originate mortgage loans are agreements to lend to a customer provided that the customer satisfies the terms of the contract. Commitments generally have fixed expiration dates or other termination clauses. Prior to entering each commitment, the Company evaluates the customer's creditworthiness. The amount of outstanding loan origination commitments at December 31, 2005 and 2004 was $1.9 billion and $1.8 billion, respectively. The vast majority of these commitments were for adjustable rate mortgages.

The Company enters into Equity Lines of Credit with its customers. At December 31, 2005 and 2004, the balance of outstanding ELOCs was $2.9 billion and $2.6 billion, respectively. The maximum total line of credit available on the ELOCs at December 31, 2005 and 2004 was $4.5 billion and $3.9 billion, respectively.

The Company originates loans in which deferred interest may occur as long as the loan balance remains below a cap based on the percentage of the original loan amount. A 125% cap on the loan balance applies to loans with original loan to value ratios at or below 85%. Loans with original loan to values above 85% have a 110% cap. The Company closely monitors the portfolio's deferred interest and limits the credit risk through strict underwriting and appraisal standards. At December 31, 2005 and 2004, deferred interest amounted to $449 million and $55 million, respectively.

The Company enters into commitments to sell mortgage loans. The commitments generally have a fixed delivery settlement date. The Company had $120 million and $46 million of outstanding commitments to sell mortgage loans as of December 31, 2005 and 2004, respectively.

The Company sells certain fixed-rate loans with full credit recourse in the ordinary course of its business. The Company is required to repurchase a loan if it becomes 90 days past due. As of December 31, 2005, the balance of loans sold with recourse and the related recourse liability were approximately $1.7 billion and $12 million, respectively. As of December 31, 2004, the balance of loans sold with recourse and the related recourse liability were approximately $2.3 billion and $13 million, respectively. As of December 31, 2005 and 2004, there were loans with balances of $1.3 million and $809 thousand, respectively, 90 days past due. The Company may obtain and liquidate the real estate pledged as collateral to recover amounts paid under the recourse arrangement. As of December 31, 2005 and 2004, the original appraised value of real estate collateral securing the loans sold with recourse was $3.1 billion and $3.9 billion, respectively.

From time to time, the Company enters into commitments to purchase or sell mortgage-backed securities. The commitments generally have a fixed delivery or receipt settlement date. The Company controls the credit risk of such commitments through credit evaluations, limits, and monitoring procedures. The interest rate risk of the commitment is considered by the Company and may be matched with the appropriate funding sources. The Company had no significant outstanding commitments to purchase or sell mortgage-backed securities as of December 31, 2005 or 2004.

In the ordinary course of its business, the Company enters into transactions and other relationships in which the Company may undertake an obligation to indemnify third parties against damages, losses, and expenses arising from these transactions and relationships. These indemnification obligations include those arising from underwriting agreements relating to the Company's securities, agreements relating to the securitization and

sale of the Company's loans, office leases, indemnification agreements with the directors of the Company and its related entities, and various other transactions and arrangements. The Company also is subject to indemnification obligations arising under its organization documents and applicable laws with respect to the Company's directors, officers, and employees. Because the extent of the Company's various indemnification obligations depends entirely upon the occurrence of future events, the potential future liability under these obligations is not determinable.

The Company and its subsidiaries are parties to legal actions arising in the ordinary course of business, none of which, in the opinion of management, is material to the Company's consolidated financial condition or results of operations.

NOTE U - Interest Rate Swaps

The Company has entered into interest rate swap agreements with selected banks and government security dealers to reduce its exposure to fluctuations in interest rates. The possible inability of counterparties to satisfy the terms of these contracts exposes the Company to credit risk to the extent of the net difference between the calculated pay and receive amounts on each transaction. To limit credit exposure, among other things, the Company enters into interest rate swap contracts only with major banks and securities dealers selected by the Company primarily upon the basis of their creditworthiness. The Company obtains cash or securities in accordance with the contracts to collateralize these instruments as interest rates move. The Company has not experienced any credit losses from interest rate swaps and does not anticipate nonperformance by any current counterparties.

Fair value hedges

At December 31, 2005, the Company had three interest rate swaps that are used to effectively convert payments on WSB's fixed-rate senior debt to floating-rate payments. These interest rate swaps were designated as fair value hedges and qualified for the shortcut method under SFAS 133 and, as such, an ongoing assessment of hedge effectiveness is not required and the changes in fair value of the hedged items are deemed to be equal to the changes in the fair value of the interest rate swaps. The fair value of the swaps at December 31, 2005 was $(37.6) million which was offset by the change in the fair value of the debt. Accordingly, changes in the fair value of these swaps had no impact on the Consolidated Statement of Net Earnings.

The following table illustrates the maturities and weighted average interest rates for the swap contracts and the hedged fixed-rate senior debt as of December 31, 2005. There are no maturities in the years 2006 through 2007.

	Expected Maturity Date as of December 31, 2005			
(Dollars in thousands)	2008	2009	Total Balance	Fair Value
Hedged Fixed-Rate Senior Debt				
Contractual maturity	$700,000	$1,200,000	$1,900,000	$1,854,919
Weighted average interest rate	4.27%	4.39%	4.35%	
Swap Contracts				$ (37,571)
Weighted average interest rate paid	4.42%	4.47%	4.45%	
Weighted average interest rate received	4.15%	4.19%	4.18%	

The net effect of these transactions was that the Company effectively converted fixed-rate senior debt to floating-rate senior debt with a weighted average interest rate of 4.62% at December 31, 2005.

During 2005, the range of floating interest rates paid on swap contracts was 2.51% to 4.55%. The range of fixed interest rates received on swap contracts was 4.09% to 4.39%.

Interest rate swap not designated as a hedging instrument

Interest rate swap payment activity on swaps not designated as hedging instruments decreased net interest income by $1 million and $12 million for the years ended December 31, 2004, and 2003, respectively. The last interest rate swap not designated as a hedging instrument matured in April 2004.

NOTE V - Disclosure about Fair Value of Financial Instruments

The Statement of Financial Accounting Standards No. 107, "Disclosures About Fair Value of Financial Instruments," requires disclosure of the fair value of financial instruments for which it is practicable to estimate that value. The statement provides for a variety of different valuation methods, levels of aggregation, and assessments of practicability of estimating fair value.

The values presented are based upon information as of December 31, 2005 and 2004, and do not reflect any subsequent changes in fair value. Fair values may have changed significantly following the balance sheet dates. The estimates presented herein are not necessarily indicative of amounts that could be realized in a current transaction.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

- The historical cost amounts approximate the fair value of the following financial instruments: cash, interest earned but uncollected, investment in capital stock of Federal Home Loan Banks, other overnight investments, demand deposits, and securities sold under agreements to repurchase with brokers/dealers due within 90 days.
- Fair values are based on quoted market prices for securities available for sale, mortgage-backed securities available for sale, mortgage-backed securities held

to maturity, securities sold under agreements to repurchase with brokers/dealers with terms greater than 90 days, bank notes, senior debt, and interest rate swaps.

- For loans receivable and loan commitments for investment portfolio, the fair value is estimated by present valuing projected future cash flows, using current rates at which similar loans would be made to borrowers and with assumed rates of prepayment.
- For mortgage servicing rights, the fair value is estimated using a discounted cash flow analysis based on the Company's estimated annual cost of servicing, prepayment rates, and discount rates.
- Fair values are estimated using projected cash flows present valued at replacement rates currently offered for instruments of similar remaining maturities for term deposits and advances from Federal Home Loan Banks.

The table below discloses the carrying value and the fair value of Golden West's financial instruments as of December 31.

	December 31			
	2005		2004	
(Dollars in thousands)	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial Assets:				
Cash	$ 518,161	$ 518,161	$ 292,421	$ 292,421
Federal funds sold and other investments	1,321,626	1,321,626	936,353	936,353
Securities available for sale	382,499	382,499	438,032	438,032
MBS available for sale	11,781	11,781	14,438	14,438
MBS held to maturity	1,472,183	1,472,609	2,095,614	2,138,894
Loans receivable	117,881,965	118,987,054	100,559,179	101,261,901
Interest earned but uncollected	392,303	392,303	248,073	248,073
Investment in capital stock of FHLBs	1,857,580	1,857,580	1,563,276	1,563,276
Capitalized mortgage servicing rights	39,134	53,719	53,234	62,273
Interest rate swaps	-0-	-0-	10,309	10,309
Financial Liabilities:				
Deposits	60,158,319	60,260,546	52,965,311	53,022,209
Advances from FHLBs	38,961,165	38,978,241	33,781,895	33,790,789
Securities sold under agreements to repurchase	5,000,000	4,998,367	3,900,000	3,899,607
Bank notes	2,393,951	2,393,907	2,709,895	2,709,742
Senior debt	8,194,266	8,200,022	5,291,840	5,323,968
Interest rate swaps	37,571	37,571	-0-	-0-

NOTE W - Employee Benefits

The Company sponsors a defined contribution plan intended to be a tax-qualified plan under Sections 401(a) and 401(k) of the Internal Revenue Code. Employees may voluntarily contribute within the guidelines of the plan. The Company will contribute an amount equal to 50% of the first 6% of salary deferred on behalf of each participant. Contributions to the plan were approximately $12 million, $9 million, and $8 million for the years ended December 31, 2005, 2004, and 2003, respectively.

The Company also has individual deferred compensation agreements with select employees. These agreements are unfunded. The projected benefit obligation recognized which equals the accumulated benefit obligation was $39 million and $29 million at December 31, 2005 and 2004, respectively. The benefits paid amounted to $1 million (2005) and $1 million (2004). The net periodic benefit cost recognized was $11 million (2005), $5 million (2004), and $5 million (2003). The weighted average discount rates used to determine the projected benefit obligation and the net periodic benefit costs were 4.79% (2005), 5.01% (2004), and 4.90% (2003). Future benefits that the Company expects to pay in each of the next five years, and in the aggregate for the five years thereafter, were $1 million (2006), $1 million (2007), $1 million (2008), $2 million (2009), $2 million (2010), and $23 million (2011 – 2015) as of December 31, 2005.

NOTE X - Parent Company Financial Information

Statement of Net Earnings

	Year Ended December 31		
(Dollars in thousands)	2005	2004	2003
Revenues:			
Dividends from subsidiaries	$ 265,135	$ 250,089	$ 200,112
Investment income	29,054	9,915	8,576
Other income	36	2,975	2,331
	294,225	262,979	211,019
Expenses:			
Interest	48,692	48,697	57,826
General and administrative	3,794	5,158	6,693
	52,486	53,855	64,519
Earnings before income tax benefit and equity in undistributed net earnings of subsidiaries	241,739	209,124	146,500
Income tax benefit	8,898	15,813	20,723
Equity in undistributed net earnings of subsidiaries	1,235,527	1,054,784	938,876
Net Earnings	$1,486,164	$1,279,721	$1,106,099

Statement of Financial Condition

(Dollars in thousands)	December 31	
Assets	2005	2004
Cash	$ 73,298	$ 29,937
Federal funds sold and other investments	225,000	75,000
Securities available for sale	5,536	5,301
Overnight note receivable from subsidiary	710,109	706,129
Other investments with subsidiary	-0-	217
Investment in subsidiaries	8,626,075	7,418,446
Other assets	40,402	47,750
Total Assets	$9,680,420	$8,282,780
Liabilities and Stockholders' Equity		
Senior debt	$ 994,397	$ 992,829
Other liabilities	15,058	15,075
Stockholders' equity	8,670,965	7,274,876
Total Liabilities and Stockholders' Equity	$9,680,420	$8,282,780

Statement of Cash Flows

	Year Ended December 31		
(Dollars in thousands)	2005	2004	2003
Cash flows from operating activities:			
Net earnings	$1,486,164	$1,279,721	$1,106,099
Adjustments:			
Equity in undistributed net earnings of subsidiaries	(1,235,527)	(1,054,784)	(938,876)
Other, net	48,987	16,650	3,290
Net cash provided by operating activities	299,624	241,587	170,513
Cash flows from investing activities:			
Decrease (increase) in fed funds and other investments	(150,000)	523,238	(373,238)
Decrease (increase) in securities available for sale	(2)	55	200,716
Decrease (increase) in overnight notes receivable from subsidiary	(3,979)	(706,129)	399,369
Decrease (increase) in other investments with subsidiary	217	(112)	(2)
Net cash provided by (used in) investing activities	(153,764)	(182,948)	226,845
Cash flows from financing activities:			
Repayment of subordinated notes	-0-	-0-	(200,000)
Dividends on common stock	(79,911)	(64,157)	(54,159)
Exercise of stock options	35,296	29,277	12,728
Purchase and retirement of Company stock	(57,884)	-0-	(151,230)
Net cash used in financing activities	(102,499)	(34,880)	(392,661)
Net increase in cash	43,361	23,759	4,697
Cash at beginning of period	29,937	6,178	1,481
Cash at end of period	$ 73,298	$ 29,937	$ 6,178

NOTE Y - Selected Quarterly Financial Data

(Unaudited)

	2005			
	Quarter Ended			
(Dollars in thousands)	Mar. 31	Jun. 30	Sep. 30	Dec. 31
Interest income	$1,311,485	$1,464,202	$1,631,766	$1,792,443
Interest expense	606,921	744,637	883,938	1,029,329
Net interest income	704,564	719,565	747,828	763,114
Provision for loan losses	884	1,807	2,810	2,789
Noninterest income	82,613	112,085	129,434	138,004
Noninterest expense	224,239	238,574	237,382	262,220
Earnings before taxes on income	562,054	591,269	637,070	636,109
Taxes on income	213,804	230,840	254,830	240,864
Net earnings	$ 348,250	$ 360,429	$ 382,240	$ 395,245
Basic earnings per share	$ 1.13	$ 1.17	$ 1.24	$ 1.29
Diluted earnings per share	$ 1.12	$ 1.16	$ 1.22	$ 1.27

	2004			
	Quarter Ended			
(Dollars in thousands)	Mar. 31	Jun. 30	Sep. 30	Dec. 31
Interest income	$939,757	$977,732	$1,072,930	$1,188,437
Interest expense	320,503	335,046	407,801	496,901
Net interest income	619,254	642,686	665,129	691,536
Provision for loan losses	241	392	197	2,571
Noninterest income	59,807	81,147	71,605	81,364
Noninterest expense	199,514	207,533	210,460	222,619
Earnings before taxes on income	479,306	515,908	526,077	547,710
Taxes on income	179,582	199,190	201,299	209,209
Net earnings	$299,724	$316,718	$ 324,778	$ 338,501
Basic earnings per share	$ .98	$ 1.04	$ 1.06	$ 1.11
Diluted earnings per share	$ .97	$ 1.02	$ 1.05	$ 1.09

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
Golden West Financial Corporation
Oakland, California

We have audited the accompanying consolidated statements of financial condition of Golden West Financial Corporation and subsidiaries (the "Company") as of December 31, 2005 and 2004, and the related consolidated statements of net earnings, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Golden West Financial Corporation and subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2005, based on the criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 3, 2006 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Deloitte & Touche LLP

Oakland, California
March 3, 2006

Management's Report on Internal Control over Financial Reporting

The management of Golden West Financial Corporation and subsidiaries (the Company or Golden West) is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control system was designed to provide reasonable assurance to the Company's management and Board of Directors regarding the preparation and fair presentation of published financial statements.

Golden West's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2005. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework*. Based on our assessment, we believe that as of December 31, 2005, the Company's internal control over financial reporting was effective based on those criteria.

Golden West's independent auditors, Deloitte & Touche LLP, an independent registered public accounting firm, have issued an audit report on our assessment of the Company's internal control over financial reporting and their report follows.

Herbert M. Sandler
Chairman of the Board and Chief Executive Officer

Marion O. Sandler
Chairman of the Board and Chief Executive Officer

Russell W. Kettell
President and Chief Financial Officer

March 3, 2006

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
Golden West Financial Corporation
Oakland, California

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that Golden West Financial Corporation and subsidiaries (the "Company") maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2005 of the Company and our report dated March 3, 2006 expressed an unqualified opinion on those financial statements.

Deloitte & Touche LLP

Oakland, California
March 3, 2006

Management's Discussion

and Analysis of Financial Condition and Results of Operations

Overview

Headquartered in Oakland, California, Golden West Financial Corporation is one of the nation's largest financial institutions with assets of $124.6 billion as of December 31, 2005. Our principal operating subsidiary is World Savings Bank, FSB (WSB). WSB has a subsidiary, World Savings Bank, FSB (Texas) (WTX). As of December 31, 2005, we operated 283 savings branches in ten states and had lending operations in 39 states under the World name.

Our Business Model

We are a residential mortgage portfolio lender. In order to increase net earnings under this business model, we focus principally on:

- growing net interest income, which is the difference between the interest and dividends earned on loans and other investments and the interest paid on customer deposits and borrowings;
- maintaining a healthy primary spread, which is the difference between the yield on interest-earning assets and the cost of deposits and borrowings;
- expanding the adjustable rate mortgage (ARM) portfolio, which is our primary earning asset;
- managing interest rate risk, principally by originating and retaining monthly adjusting ARMs in portfolio, and matching these ARMs with liabilities that respond in a similar manner to changes in interest rates;
- managing credit risk, principally by originating high-quality loans to minimize nonperforming assets and troubled debt restructured;
- maintaining a strong capital position to support growth and provide operating flexibility;
- controlling expenses; and
- managing operations risk through strong internal controls.

2005 in Review

We had a strong year in 2005 with substantial growth in net interest income driven primarily by the 16% expansion of our loan portfolio. Our volume of ARM originations reached record levels. Partially offsetting the benefit to net interest income of a larger average earning asset balance in 2005 was a decrease in our average primary spread. The average primary spread decreased because short-term interest rates continued to increase in 2005 and the yield on the Company's earning assets responded more slowly than interest rates on our deposits and borrowings.

Our financial highlights include the following:

- diluted earnings per share reached a record of $4.77, up 15% from the $4.13 reported in 2004;
- net interest income grew 12% to a record high of $2.9 billion, despite an average primary spread that compressed from 2.76% during 2004 to 2.38% in 2005;
- our general and administrative expense to average assets ratio fell from .90% to .82%; our general and administrative expense divided by the sum of net interest income and noninterest income (efficiency ratio) was 28.33% compared to 28.85% in 2004;
- our loan portfolio increased to $119.4 billion, up 16% from $102.7 billion at December 31, 2004;
- we had record originations of $51.5 billion as compared to $49.0 billion for 2004;
- 99% of originations in 2005 were ARMs;
- our ARM portfolio increased to a record high of $116.4 billion, up 17% from $99.7 billion at yearend 2004;
- nonperforming assets and troubled debt restructured remained at very low levels, and for the eighth straight year our ratio of net chargeoffs to average loans and MBS was zero basis points;
- we had a record deposit increase of $7.2 billion;
- our capital expanded to a record level of $8.7 billion, up 19% from the $7.3 billion reported at yearend 2004; and

- our stockholders' equity to asset ratio was 6.96% at December 31, 2005, compared to 6.81% at December 31, 2004.

The following table summarizes selected financial information about how we performed in 2005, as compared to 2004 and 2003.

Financial Highlights
2003–2005
(Dollars in Millions Except Per Share Figures)

	Year Ended December 31		
	2005	2004	2003
Operating Results:			
Net earnings	$ 1,486	$ 1,280	$ 1,106
Diluted earnings per share	4.77	4.13	3.57
Net interest income	$ 2,935	$ 2,618	$ 2,209
Average earning assets	115,401	92,441	72,351
Net interest margin	2.54%	2.83%	3.05%
General and administrative expense	$ 963	$ 840	$ 721
General and administrative expense/average assets	.82%	.90%	.98%
Efficiency ratio	28.33%	28.85%	28.57%
	December 31		
	2005	2004	2003
Selected Balance Sheet Items:			
Assets	$124,615	$106,889	$82,550
Loans receivable and mortgage-backed securities (MBS)	119,366	102,669	78,311
Deposits	60,158	52,965	46,727
Borrowings	54,549	45,684	29,028
Stockholders' equity	8,671	7,275	5,947
Stockholders' equity/total assets	6.96%	6.81%	7.20%
World Savings Bank, FSB:			
Total assets	$124,370	$106,787	$81,939
Regulatory capital ratios: (a)			
Core/leverage	6.76%	6.71%	7.45%
Total risk-based	13.02%	12.92%	14.16%

(a) For regulatory purposes, the requirements to be considered "well-capitalized" are 5.0% for core/leverage and 10.0% for total risk-based capital.

Financial Condition

The following table summarizes our major asset, liability, and equity components in percentage terms at yearends 2005, 2004, and 2003.

Asset, Liability, and Equity Components as Percentages of Total Assets
2003–2005

	December 31		
	2005	2004	2003
Assets:			
Cash and investments	1.8%	1.6%	2.6%
Loans receivable and MBS	95.8	96.0	94.9
Other assets	2.4	2.4	2.5
	100.0%	100.0%	100.0%
Liabilities and Stockholders' Equity:			
Deposits	48.3%	49.6%	56.6%
FHLB advances	31.2	31.6	26.7
Other borrowings	12.5	11.1	8.5
Other liabilities	1.0	0.9	1.0
Stockholders' equity	7.0	6.8	7.2
	100.0%	100.0%	100.0%

The Loan Portfolio

Almost all of our assets are adjustable rate mortgages on residential properties. As discussed below, we emphasize ARMs with interest rates that change monthly to reduce our exposure to interest rate risk. We originate and retain these loans in portfolio. We sell most of the fixed-rate loans that we originate, as well as loans that customers convert from ARMs to fixed-rate loans.

Loans Receivable and Mortgage-Backed Securities

The following table shows the components of our loans receivable and mortgage-backed securities (MBS) portfolio at December 31, 2005, 2004, and 2003.

Balance of Loans Receivable and MBS by Component 2003–2005 (Dollars in Thousands)

	December 31		
	2005	2004	2003
Loans	$ 66,339,220	$ 65,266,464	$49,937,769
Securitized loans[(a)]	49,870,206	33,957,058	23,233,928
Other[(b)]	1,672,539	1,335,657	1,033,881
Total loans receivable	117,881,965	100,559,179	74,205,578
MBS with recourse[(c)]	1,168,480	1,719,982	3,650,048
Purchased MBS	315,484	390,070	455,390
Total MBS	1,483,964	2,110,052	4,105,438
Total loans receivable and MBS	$119,365,929	$102,669,231	$78,311,016
ARMS as a percentage of total loans receivable and MBS	99%	98%	97%

(a) Loans securitized after March 31, 2001 are classified as securitized loans and included in loans receivable.
(b) Includes loans in process, net deferred loan costs, allowance for loan losses, and other miscellaneous discounts.
(c) Loans securitized prior to April 1, 2001 are classified as MBS with recourse held to maturity.

The balance of loans receivable and MBS is affected primarily by loan originations and loan and MBS repayments. The following table provides information about our loan originations and loan and MBS repayments for the years ended 2005, 2004, and 2003.

Loan Originations and Loan and MBS Repayments 2003–2005 (Dollars in Millions)

	Year Ended December 31		
	2005	2004	2003
Loan Originations:			
Real estate loans originated	$51,516	$48,989	$35,985
ARMs as a % of originations	99%	99%	94%
Fixed-rate mortgages as a % of originations	1%	1%	6%
Refinances as a % of originations	77%	72%	70%
Purchases as a % of originations	23%	28%	30%
First mortgages originated for portfolio as a % of originations	97%	97%	92%
First mortgages originated for sale as a % of originations	1%	1%	5%
Repayments:			
Loan and MBS repayments [(a)]	$33,822	$24,155	$20,043
Repayment rate [(b)]	33%	31%	31%

(a) Loan and MBS repayments consist of monthly amortization and loan payoffs.
(b) The repayment rate is the annual repayments as a percentage of the prior year's ending loan and MBS balance.

The dollar volume of our originations increased 5% in 2005 versus 2004 due to the continued popularity of adjustable rate mortgages and an increase in the average loan size, offset by a decrease in the number of loans originated.

Loan and MBS repayments, including amortization and loan payoffs, were higher in 2005 as compared to 2004 as a result of a larger portfolio balance and a higher repayment rate. Repayment rates increased because mortgage interest rates remained low from a historical standpoint leading to continued high levels of both home loan purchases and refinance activity.

Equity Lines of Credit and Fixed-Rate Second Mortgages

Most of our loans are collateralized by first deeds of trust on one- to four-family homes. However, we also offer borrowers equity lines of credit (ELOCs). These ELOCs are collateralized typically by second deeds of trust and occasionally by first deeds of trust. The ELOCs we originate are indexed either to the Certificate of Deposit Index (CODI) discussed in "Management of Interest Rate Risk—Asset/Liability Management" or the Prime Rate as published in the Money Rates table in The Wall Street Journal (Central Edition). For the year ended December 31, 2005, $1.2 billion of ELOCs were originated (includes only amounts drawn at the time of establishment), of which $849 million were tied to CODI and $358 million were

tied to the Prime Rate. We also originate a small volume of fixed-rate second mortgages secured by second deeds of trust. In almost all cases, we only originate second deeds of trust on properties that have a first mortgage with us. The following table provides information about our activity in ELOCs and fixed-rate second mortgages in the past three years.

Equity Lines of Credit and Fixed-Rate Second Mortgages
2003–2005
(Dollars in Thousands)

	At and for the Year Ended December 31		
	2005	2004	2003
Equity Lines of Credit:			
ELOC originations[(a)]	$1,206,626	$1,063,102	$ 887,363
New ELOCs established during the year[(b)]	2,453,799	2,146,322	1,708,482
ELOC outstanding balance at yearend	2,862,861	2,575,524	1,827,435
ELOC maximum total line of credit available	4,526,292	3,907,947	2,748,076
Fixed-Rate Second Mortgages:			
Fixed-rate second mortgage originations	$ 7,753	$ 109,054	$ 148,070
Sales of second mortgages	-0-	36,985	100,410
Fixed-rate seconds held for sale	-0-	-0-	57,854
Fixed-rate seconds held for investment	59,894	127,428	79,998

(a) Only the dollar amount of ELOCs drawn at the establishment of the line of credit is included in originations.
(b) Includes the maximum total line of credit available for new ELOCs.

Net Deferred Loan Costs

Included in the balance of loans receivable are net deferred loan costs associated with originating loans. In accordance with accounting principles generally accepted in the United States of America (GAAP), we defer loan fees charged at the time of origination and certain loan origination costs. Over the past five years, the combined amounts have resulted in net deferred costs. These net deferred loan costs are amortized over the contractual life of the related loans. The amortized amount lowers loan interest income and net interest income which reduces the reported yield on our loan portfolio, our primary spread, and our net interest margin. If a loan pays off before the end of its contractual life, any remaining net deferred cost is charged to loan interest income at that time. The vast majority of the amortization of net deferred loan costs shown in the following table is accelerated amortization resulting from early payoffs of loans.

The following table provides information on net deferred loan costs for the years ended December 31, 2005, 2004, and 2003.

Net Deferred Loan Costs
2003–2005
(Dollars in Thousands)

	Year Ended December 31		
	2005	2004	2003
Beginning balance of net deferred loan costs	$ 915,008	$547,318	$331,985
Net loan costs deferred	578,061	558,290	313,331
Amortization of net deferred loan costs	(341,873)	(185,685)	(97,998)
Net deferred loan costs (fees) transferred from MBS	947	(4,915)	-0-
Ending balance of net deferred loan costs	$1,152,143	$915,008	$547,318

The growth in net deferred loan costs in the past three years resulted primarily from the growth in loan origination volume. The increase in the amortization of net deferred loan costs resulted from higher loan repayments.

Lending Operations

At December 31, 2005, we had lending operations in 39 states. Our largest source of mortgage origination volume continues to be loans secured by residential properties in California, which is the largest residential mortgage market in the United States. The following table shows originations for the three years ended December 31, 2005, 2004, and 2003 for Northern and Southern California and for our five next largest origination states by dollar amount in 2005.

Loan Originations by State
2003–2005
(Dollars in Thousands)

	Year Ended December 31		
	2005	2004	2003
Northern California	$19,050,587	$17,891,625	$13,269,180
Southern California	15,487,649	14,932,040	10,955,465
Total California	34,538,236	32,823,665	24,224,645
Florida	3,775,129	2,664,693	1,955,151
New Jersey	1,987,585	2,001,661	1,309,496
Arizona	1,334,374	676,431	494,113
Virginia	1,200,986	1,080,273	704,363
Illinois	950,923	1,219,630	786,228
Other states	7,729,166	8,522,724	6,510,725
Total	$51,516,399	$48,989,077	$35,984,721

The following table shows loans receivable and MBS with recourse by state for the three years ended December 31, 2005, 2004, and 2003 for Northern and Southern California and all other states with more than 2% of the total loan balance at December 31, 2005.

Loans Receivable and MBS with Recourse by State 2003–2005 (Dollars in Thousands)

	December 31		
	2005	2004	2003
Northern California	$ 40,175,262	$35,464,047	$27,682,694
Southern California	32,069,469	27,819,673	21,193,225
Total California	72,244,731	63,283,720	48,875,919
Florida	8,217,469	6,003,687	4,400,376
New Jersey	5,392,295	4,414,236	3,020,539
Texas	3,412,509	3,359,814	2,954,106
Illinois	2,966,965	2,673,642	1,925,959
Virginia	2,613,023	2,085,564	1,393,601
Washington	2,530,090	2,344,628	2,076,473
Other states	19,990,315	16,767,479	12,162,992
	117,367,397	100,932,770	76,809,965
Other [(a)]	1,683,048	1,346,391	1,045,661
Total loans receivable and MBS with recourse	$119,050,445	$102,279,161	$77,855,626

(a) Other includes loans on deposits, loans in process, net deferred loan costs, allowance for loan losses, and other miscellaneous discounts.

Securitization Activity

We often securitize our portfolio loans into mortgage-backed securities. We do this because MBS are a more valuable form of collateral for borrowings than whole loans. Because we have retained all of the beneficial interests in these MBS securitizations to date, the accounting rules require that securities formed after March 31, 2001 be classified as securitized loans and included in our loans receivable. Securitization activity for the years ended December 31, 2005, 2004, and 2003, amounted to $34.3 billion, $24.5 billion, and $13.7 billion, respectively. The volume of securitization activity fluctuates depending on the amount of collateral needed for borrowings and liquidity risk management.

Loans securitized prior to April 1, 2001 are classified as MBS with recourse held to maturity. MBS that are classified as held to maturity are those that we have the ability and intent to hold until maturity.

Structural Features of Our ARMs

After bank regulators authorized ARMs in 1981 to help mortgage lenders better manage interest rate risk, we and other major residential portfolio lenders in California and elsewhere evaluated various ARM products to find solutions that would benefit borrowers and also allow us to manage interest rate risk without assuming undue credit risk. The product selected by most major residential portfolio lenders on the West Coast, and various others throughout the country, was a product often described as an "option ARM" because of the payment options available to borrowers. For the past 25 years, we have continued to originate our version of the option ARM because we believe that borrowers benefit from its structural features and because we have developed pricing, underwriting, appraisal, and other processes over the years to help us manage potential credit risks. Although we have originated some other types of ARMs, almost all of our ARMs are option ARMs.

The option ARMs that we have originated since 1981 have the following structural features that are described in more detail below:

- an interest rate that changes monthly and is based on an index plus a fixed margin set at origination;
- payment options;
- features that allow for deferred interest to be added to the loans; and
- lifetime interest rate caps, and in some cases interest rate floors, that limit the range of interest rates on the loans.

Interest Rates and Indexes. The option ARMs we originate have interest rates that change monthly based on an index plus a fixed margin that is set at the time we make the loan. The index value changes monthly and consequently the loan rate changes monthly. For most of our lending, the indexes used are the Golden West Cost of Savings Index (COSI) and the Certificate of Deposit Index (CODI). Our portfolio also contains loans indexed to the Eleventh District Cost of Funds Index (COFI). Details about these indexes, including the reporting and repricing lags associated with them, are discussed in "Management of Interest Rate Risk—Asset/Liability Management."
The ELOCs we originate are indexed either to CODI or the Prime Rate.

As further described in "Management of Interest Rate Risk—Asset/Liability Management," we have focused on originating ARMs with indexes that meet our customers' needs and match well with our liabilities. The following table shows the distribution of ARM originations by index for the years ending December 31, 2005, 2004, and 2003.

Adjustable Rate Mortgage Originations by Index[a]
2003–2005
(Dollars in Thousands)

	Year Ended December 31		
ARM Index	2005	2004	2003
COSI	$35,835,729	$14,447,060	$10,688,779
CODI[b]	14,429,577	32,264,494	20,518,260
COFI	463,614	654,926	1,559,605
Prime	357,763	1,063,102	887,363
LIBOR [c]	8,268	-0-	-0-
Total	$51,094,951	$48,429,582	$33,654,007

ARM Index	% of Total	% of Total	% of Total
COSI	70%	30%	32%
CODI[b]	28	67	61
COFI	1	1	5
Prime	1	2	2
LIBOR [c]	0	0	0
Total	100%	100%	100%

(a) Only the dollar amount of ELOCs drawn at the establishment of the line of credit is included in originations.
(b) Includes ELOCs tied to CODI.
(c) LIBOR is the London Interbank Offered Rate.

The following table shows the distribution by index of the Company's outstanding balance of adjustable rate mortgages (including ARM MBS) at December 31, 2005, 2004, and 2003.

Adjustable Rate Mortgage Portfolio by Index
(Including ARM MBS)
2003–2005
(Dollars in Thousands)

	December 31		
ARM Index	2005	2004	2003
COSI	$ 56,382,694	$ 30,900,888	$24,535,095
CODI [a]	47,557,461	52,412,249	30,243,337
COFI	10,408,640	13,537,745	18,207,868
Prime	1,793,888	2,575,524	1,827,435
Other [b]	226,881	304,295	424,988
Total	$116,369,564	$ 99,730,701	$75,238,723

ARM Index	% of Total	% of Total	% of Total
COSI	48%	31%	33%
CODI [a]	41	52	40
COFI	9	14	24
Prime	2	3	2
Other [b]	0	0	1
Total	100%	100%	100%

(a) Includes ELOCs tied to CODI.
(b) Primarily ARMs tied to the twelve-month rolling average of the One-Year Treasury Constant Maturity (TCM).

Payment Options. The option ARM provides our borrowers with up to four payment options. These payment options include a minimum payment, an interest-only payment, a payment that enables the loan to pay off over its original term, and a payment that enables the loan to pay off 15 years from origination. In addition to these four specified payment options, borrowers may elect a payment of any amount above the minimum payment.

Substantially all of the ARMs we originate allow the borrower to select an initial monthly payment for the first year of the loan. The initial monthly payment selected by the borrower is limited by a floor that we set. If the initial monthly payment selected by the borrower is less than the amount of interest due on the loan, then deferred interest occurs, as described below under "Deferred Interest." In 2005, the initial monthly payment selected on almost all new loans was lower than the amount of interest due on the loans. The minimum monthly payment for substantially all our ARMs is reset annually. The new minimum monthly payment amount generally cannot exceed the prior year's minimum monthly payment amount by more than 7.5%. Periodically, this 7.5% cap does not apply. For example, for most of the loans this 7.5% cap does not apply on the tenth annual payment change of the loan and every fifth annual payment change thereafter. For a small number of loans, the 7.5% cap does not apply on the fifth annual payment change of the loan and every fifth annual payment change thereafter.

Although most of our loans have payments due on a monthly cycle, a significant number of borrowers elect to make payments on a biweekly cycle. A biweekly payment cycle results in a shorter period required to fully amortize the loan.

Deferred Interest. Deferred interest refers to interest that is added to the outstanding loan principal balance when the payment a borrower makes is less than the monthly interest due on the loan. Our loans have had this deferred interest feature for almost a quarter of a century. Borrowers may always make a high enough monthly payment to avoid deferred interest, and many borrowers do so. Borrowers may also pay down the balance of deferred interest in whole or in part at any time without a prepayment fee.

Our loans provide that deferred interest may occur as long as the loan balance remains below a cap based on a

percentage of the original mortgage amount. A 125% cap on the loan balance applies to loans with original loan-to-value ratios at or below 85%, which includes almost all of the loans we originate. Loans with original loan-to-values above 85% have a 110% cap. If the loan balance reaches the applicable limit, additional deferred interest may not be allowed to occur and we may increase the minimum monthly payment to an amount that would amortize the loan over its remaining term. In this case, the new minimum monthly payment amount could increase beyond the 7.5% annual payment cap previously described, and continue to increase each month thereafter, if the applicable loan balance cap is still being reached and the current minimum monthly payment amount would not be enough to fully amortize the loan by the scheduled maturity date.

The amount of deferred interest a loan incurs depends on a number of factors outside our control, including changes in the underlying index and the borrower's payment behavior. If a loan's index were to increase and remain at relatively high levels, the amount of deferred interest on the loan would be expected to trend higher, absent other mitigating factors such as monthly payments that meet or exceed the amount of interest then due. Similarly, if the index were to decline and remain at relatively low levels, the amount of deferred interest on the loan would be expected to trend lower.

Additional discussion of deferred interest can be found in "Management of Credit Risk—Close Monitoring of the Loan Portfolio."

Lifetime Caps and Floors. During the life of a typical ARM loan, the interest rate may not be raised above a lifetime cap which is set at the time of origination or assumption. Virtually all of our ARMs are subject to a lifetime cap. The weighted average maximum lifetime cap rate on our ARM loan portfolio (including MBS with recourse before any reduction for loan servicing and guarantee fees) was 12.15% or 5.68% above the actual weighted average rate at December 31, 2005, versus 12.16% or 7.16% above the actual weighted average rate at yearend 2004 and 12.20% or 7.42% above the weighted average rate at yearend 2003.

The following table shows the Company's ARM loans by lifetime cap bands as of December 31, 2005.

Adjustable Rate Mortgage Portfolio by Lifetime Cap Bands (Dollars in Thousands)

	December 31, 2005		
Cap Bands	ARM Balance	Number of Loans	% of Total Balance
Less than 11.00%	$ 29,313	96	.0%
11.00% - 11.49%	740,070	3,675	.6
11.50% - 11.99%	100,059,007	399,390	86.0
12.00% - 12.49%	9,743,738	54,651	8.4
12.50% - 12.99%	2,655,751	29,119	2.3
13.00% - 13.49%	95,333	696	.1
13.50% - 13.99%	329,782	3,188	.3
14.00% or greater [(a)]	2,692,464	56,503	2.3
No Cap	24,106	216	.0
Total	$116,369,564	547,534	100.0%

(a) Includes $2.1 billion of one- to four-family ELOCs, most of which have an 18% cap.

During the life of some ARM loans, the interest rate may not be decreased to a rate below a lifetime floor which is set at the time of origination or assumption. A portion of our ARMs is subject to lifetime floors. At December 31, 2005, approximately $4.6 billion of our ARM loans (including MBS with recourse) have terms that state that the interest rate may not fall below a lifetime floor set at the time of origination or assumption. As of December 31, 2005, $277 million of ARM loans had reached their rate floors, compared to $1.6 billion at December 31, 2004, and $2.3 billion at December 31, 2003. The weighted average floor rate on the loans that had reached their floor was 6.09% at yearend 2005 compared to 5.36% at yearend 2004 and 5.43% at yearend 2003. Without the floor, the weighted average rate on these loans would have been 5.52% at December 31, 2005, 4.44% at December 31, 2004, and 4.38% at December 31, 2003.

Other Lending Activity

In addition to the monthly adjusting ARMs described above, we originate and have in portfolio a small volume of ARMs with initial interest rates and monthly payments that are fixed for periods of 12 to 36 months, after which the interest rate adjusts monthly and the monthly payment is reset annually. Additionally, we originate a small volume of ARMs where the interest rate adjusts every six months subject to a periodic interest rate cap; some of these ARMs provide for interest-only payments for the first five years.

From time to time, as part of our efforts to retain loans and loan customers, we may waive or temporarily modify certain terms of a loan. Some borrowers elect to modify their loans to fixed-rate loans for one, three,

or five years. These modifications amounted to $1.5 billion during 2005 compared to $548 million and $458 million for the years ended December 31, 2004 and 2003. We retain these modified loans in portfolio. Additionally, some borrowers choose to convert their ARM to a fixed-rate mortgage for the remainder of the term. During 2005, $522 million of loans were converted at the customer's request from ARMs to fixed-rate loans, compared to $150 million and $1.2 billion in 2004 and 2003, respectively. We sell most of the converted fixed-rate loans.

Investments

We invest funds not immediately needed to fund our loan operations in short-term instruments. Our practice is to invest only with counterparties that have high credit ratings. Investments are reported in either "Federal funds sold, securities purchased under agreements to resell, and other investments" or "Securities available for sale, at fair value" on the Consolidated Statement of Financial Condition. The following tables summarize information about the Company's investments.

Federal Funds Sold, Securities Purchased Under Agreements to Resell, and Other Investments 2003–2005 (Dollars in Thousands)

	December 31		
	2005	2004	2003
Federal funds sold. .	$1,096,626	$861,353	$ 941,267
Securities purchased under agreements to resell	-0-	-0-	300,000
Eurodollar time deposits.	225,000	75,000	298,238
Total federal funds sold, securities purchased under agreements to resell, and other investments	$1,321,626	$936,353	$1,539,505

The weighted average yields on federal funds sold, securities purchased under agreements to resell, and other investments were 4.11%, 2.08%, and .93% at December 31, 2005, 2004, and 2003, respectively.

Securities Available for Sale 2003–2005 (Dollars in Thousands)

	December 31		
	2005	2004	2003
U.S. government obligation.	$ 1,765	$ 1,760	$ 1,760
Freddie Mac stock. .	367,267	414,194	327,758
Other	13,467	22,078	10,420
Total securities available for sale . .	$382,499	$438,032	$339,938

We hold stock in the Federal Home Loan Mortgage Corporation (Freddie Mac) that we obtained in 1984 with a cost basis of $6 million. Included in the balances above are net unrealized gains on Freddie Mac stock of $362 million, $409 million, and $322 million at December 31, 2005, 2004, and 2003, respectively. The weighted average yields of securities available for sale, excluding equity securities, were 4.24%, 2.43%, and 1.31% at December 31, 2005, 2004, and 2003, respectively. We had no securities held for trading during 2005, 2004, and 2003.

Other Assets

Capitalized Mortgage Servicing Rights

The Company recognizes as assets the rights to service loans for others. When we retain the servicing rights upon the sale of loans, the allocated cost of these rights is capitalized as an asset and then amortized over the expected life of the loan. The amount capitalized is based on the relative fair value of the servicing rights and the loans on the sale date. We do not have a large portfolio of mortgage servicing rights, primarily because we retain our ARM originations in portfolio and only sell a limited number of other loans to third parties. The balance of capitalized mortgage servicing rights (CMSRs) at December 31, 2005, 2004, and 2003 was $39 million, $53 million, and $89 million, respectively. CMSRs are included in "Other assets" on the Consolidated Statement of Financial Condition.

The estimated fair value of CMSRs is regularly reviewed and can change up or down depending on market conditions. We stratify the serviced loans by year of origination or modification, term to maturity, and loan type. If the estimated fair value of a loan strata is less than its book value, we establish a valuation allowance for the estimated temporary impairment through a charge to noninterest income. We also recognize any other-than-temporary impairment as a direct write-down.

The net estimated fair value of CMSRs as of December 31, 2005, 2004, and 2003 was $54 million, $62 million, and $95 million, respectively. The book value of the Company's CMSRs for certain of the Company's loan strata exceeded the fair value by $1 million at December 31, 2005, and by $7 million at December 31, 2004, and as a result, we had a valuation allowance of those amounts. The book value of the Company's CMSRs did not exceed the fair value at December 31, 2003 and, therefore, no valuation allowance for impairment was required.

Deposits

We raise deposits on a retail basis through our branch system and the Internet, and, from time to time, through the money markets. Retail deposits increased by $7.2 billion in 2005 compared to increases of $6.2 billion and $5.7 billion in 2004 and 2003, respectively. Retail deposits increased during these three years due to favorable customer response to our promoted products. At December 31, 2005, transaction accounts represented 32% of the total balance of deposits, compared to 74% and 77% at yearends 2004 and 2003, respectively. These transaction accounts included checking accounts, money market deposit accounts, and passbook accounts.

Borrowings

In addition to funding real estate loans with deposits, we also utilize borrowings. Most of our borrowings are variable interest rate instruments tied to LIBOR. Borrowings increased by $8.9 billion to $54.5 billion in 2005 and by $16.7 billion to $45.7 billion in 2004 in order to fund the loan growth described earlier.

Advances from Federal Home Loan Banks

An important type of borrowing we use comes from the Federal Home Loan Banks (FHLBs). These borrowings are known as "advances." WSB is a member of the FHLB of San Francisco, and WTX is a member of the FHLB of Dallas. Advances are secured by pledges of certain loans, MBS, and capital stock of the FHLBs that we own. FHLB advances amounted to $39.0 billion at December 31, 2005, compared to $33.8 billion and $22.0 billion at December 31, 2004 and 2003, respectively.

Other Borrowings

In addition to borrowing from the FHLBs, we borrow from other sources to maintain flexibility in managing the availability and cost of funds for the Company.

We borrow funds from the capital markets on both a secured and unsecured basis. Most of WSB's capital market funding consists of unsecured senior debt and bank notes. Debt securities with maturities 270 days or longer are reported as senior debt and debt securities that we issue under our short-term bank note program with maturities of 270 days or less are reported as bank notes on the Consolidated Statement of Financial Condition. WSB has a program that allows for the issuance of up to an aggregate amount of $8.0 billion of unsecured senior notes with maturities ranging from 270 days to thirty years. WSB issued $2.95 billion in notes under this program in 2005 and $1.3 billion in 2004, and as of December 31, 2005, $3.75 billion remains available for issuance under this program. WSB issued $3.0 billion of senior debt under a prior program in 2004. As of December 31, 2005 and 2004, WSB had a total of $7.2 billion and $4.3 billion of long-term unsecured senior debt outstanding. WSB did not have any senior debt outstanding as of December 31, 2003. As of December 31, 2005, WSB's unsecured senior debt ratings were Aa3 and AA- from Moody's and S&P, respectively.

WSB also has a short-term bank note program that allows up to $5.0 billion of short-term notes with maturities of 270 days or less to be outstanding at any point in time. WSB had $2.4 billion, $2.7 billion, and $3.0 billion of short-term bank notes outstanding as of December 31, 2005, 2004, and 2003, respectively. As of December 31, 2005, WSB's short-term bank notes were rated P-1 and A-1+ by Moody's and S&P, respectively.

We also borrow funds on a secured basis through transactions in which securities are sold under agreements to repurchase. Securities sold under agreements to repurchase are entered into with selected major government securities dealers and large banks, using MBS from our portfolio as collateral, and amounted to $5.0 billion, $3.9 billion, and $3.0 billion at December 31, 2005, 2004, and 2003, respectively.

Golden West, at the holding company level, occasionally issues senior or subordinated unsecured debt. In December 2005, Golden West filed a registration statement that allows us to issue up to $2.0 billion of debt securities. As of December 31, 2005, no debt was outstanding under this registration statement. At December 31, 2005, Golden West, at the holding company level, had $994 million of senior debt outstanding compared to $993 million and $991 million at December 31, 2004 and 2003, respectively. Golden West had no subordinated debt outstanding during those time periods. As of December 31, 2005, Golden West's senior debt was rated A1 and A+ by Moody's and S&P, respectively, and its subordinated debt was rated A2 and A by Moody's and S&P, respectively.

Management of Risk

Our business strategy is to achieve sustainable earnings growth utilizing a low-risk business approach. We continue to execute and refine our business model to manage the key risks associated with being a residential mortgage portfolio lender, namely interest rate risk and credit risk. We also manage other risks, such as operational, regulatory, and management risk.

Management of Interest Rate Risk

Overview

Interest rate risk generally refers to the risk associated with changes in market interest rates that could adversely affect a company's financial condition. We strive to manage interest rate risk through the operation of our business,

rather than relying on capital market techniques such as derivatives. Our strategy for managing interest rate risk includes:

- focusing on originating and retaining monthly adjusting ARMs in our portfolio;
- funding these ARM assets with liabilities that respond in a similar manner to changes in market rates; and
- selling most of the limited number of fixed-rate loans that we originate, as well as fixed-rate loans that result from existing customers converting from ARMs.

As discussed further below, these strategies help us to maintain a close relationship between the yield on our assets and the cost of our liabilities throughout the interest rate cycle and thereby limit the sensitivity of net interest income and our primary spread to changes in market rates.

Asset/Liability Management

Our principal strategy to manage interest rate risk is to originate and keep in portfolio ARMs that provide interest sensitivity to the asset side of the balance sheet. The interest rates on most of our ARMs adjust monthly, which means that the yield on our loan portfolio responds to movements in interest rates. At December 31, 2005, ARMs constituted 99% of our loan and MBS portfolio, and 96% of our ARM portfolio adjusted monthly.

The primary difference between how our ARMs and how our liabilities respond to interest rate changes is principally timing related. Specifically, rates on our liabilities tend to adjust more rapidly to interest rate changes than the yield on our ARM portfolio, primarily because of built-in reporting and repricing lags that are inherent in the indexes. Reporting lags occur because of the time it takes to gather the data needed to compute the indexes. Repricing lags occur because it may take a period of time before changes in market interest rates are significantly reflected in the indexes. In addition to the index lags, other structural features of the ARMs, described under "The Loan Portfolio—Structural Features of our ARMs," can delay the repricing of our assets.

This timing disparity between our assets and liabilities can temporarily affect our primary spread until the indexes are able to reflect, or "catch up" with, the changes in market rates. Over a full interest rate cycle, the timing lags will tend to offset one another. The following table summarizes the different relationships the indexes and short-term market interest rates could have at any point in time and the expected impact on our primary spread.

Relationship between Indexes and Short-Term Market Interest Rates and Expected Impact on Primary Spread

Market Interest Rate Scenarios	Relationship between Indexes and Short-Term Market Interest Rates and Expected Impact on Primary Spread
Market interest rates increase	The index increase lags the market interest rate increase, and therefore the primary spread would normally be expected to narrow temporarily until the index catches up with the higher market interest rates.
Market interest rates decline	The index decrease lags the market interest rate decrease, and therefore the primary spread would normally be expected to widen temporarily until the index catches up with the lower market interest rates.
Market interest rates remain constant	The primary spread would normally be expected to stabilize when the index catches up to the current market rate level.

As the table above indicates, although market rate changes impact the primary spread, the impact is principally a timing issue until the market rates are reflected in the applicable index. Also, a gradual change in rates would tend to have less of an impact on the primary spread than a sharp rise or decline in rates.

To mitigate the lags discussed above, our ARM index strategy strives to match portions of our ARM portfolio with liabilities that have similar repricing characteristics, by which we mean the frequency of rate changes and the responsiveness of rate changes to fluctuations in market interest rates. The following table describes the indexes we use and shows how these indexes are intended to match with our liabilities. As discussed in the table, ARMs funded with savings historically have had similar repricing lags. The repricing lags of ARMs and LIBOR-based market-rate borrowings have historically been somewhat different but these differences have been principally timing related. In particular, most of the Company's interest rate sensitivity has come from CODI loans funded with borrowings.

Summary of Key Indexes			
	COSI	**CODI**	**COFI**
How the Index is Calculated	Equal to Golden West's cost of deposits as reported monthly.	Based on a market rate, specifically the monthly yield of three-month certificates of deposit (secondary market), as published by the Federal Reserve Board. CODI is calculated by adding the twelve most recently published monthly yields together and dividing the result by twelve.	Equal to the monthly average cost of deposits and borrowings of savings institution members of the Federal Home Loan Bank System's Eleventh District, which is comprised of California, Arizona, and Nevada.
Matching and Activity Levels			
How the Index Matches the Company's Liabilities	COSI equals our own cost of deposits. COSI and the cost of our deposits are therefore matched subject only to the reporting lag described below.	Historically, the three-month CD yield on which CODI is based has closely tracked LIBOR. Most of our borrowings from the FHLBs and the capital markets are based on LIBOR. The 12-month rolling aspect of CODI creates a timing lag.	Historically, COFI has tracked our cost of deposits. The match is not perfect, however, because COFI includes the cost of savings and borrowings of many other institutions as well as our own.
Percentage of 2005 ARM Originations	70%	28%	1%
Percentage of ARM Portfolio at 12/31/05	48%	41%	9%
Timing Lags (see descriptions in the paragraph below)			
Reporting Lag	One month	One month	Two months
Repricing Lag	Yes, because the rates paid on many of our deposits may not respond immediately or fully to a change in market rates, but this lag is offset by the same repricing lag on our deposits.	Yes, because CODI is a 12-month rolling average, and it takes time before the index is able to reflect, or "catch up" with, a change in market rates.	Yes, because the portfolio of liabilities comprising COFI do not all reprice immediately or fully to changes in market rates. Historically, this lag has been largely offset by a similar repricing lag on our deposits.

As discussed above, market interest rate movements are the most significant factor that affects our primary spread. The primary spread is also influenced by:

- the shape of the yield curve (the difference between short-term and long-term interest rates) and competition in the home lending market, both of which influence the pricing of our adjustable and fixed-rate mortgage products;
- our efforts to attract deposits and competition in the retail savings market, which influence the pricing of our deposit products;
- the prices that we pay for our borrowings; and
- loan prepayment rates.

The table below shows the primary spread, and its main components, at December 31, 2005, 2004, and 2003.

Yield on Earning Assets, Cost of Funds, and Primary Spread 2003–2005

	December 31		
	2005	2004	2003
Yield on loan portfolio and MBS	6.05%	4.75%	4.61%
Yield on investments	4.11	2.08	.93
Yield on earning assets	6.03	4.73	4.54
Cost of deposits	3.24	2.08	1.85
Cost of borrowings	4.37	2.38	1.37
Cost of funds	3.78	2.22	1.67
Primary spread	2.25%	2.51%	2.87%

During 2004, the Federal Reserve's Open Market Committee raised the Federal Funds rate, a key short-term interest rate, five times, bringing the rate up to 2.25% at December 31, 2004 as compared to 1.00% at December 31, 2003. During 2005, the Federal Reserve's Open Market Committee raised the Federal Funds rate eight times, bringing the rate up to 4.25% at December 31, 2005. As a consequence, our cost of funds, which is related primarily to the level of short-term market interest rates, also increased. At the same time, the yield on our earning assets responded more slowly due to the ARM index lags previously described.

The following table shows the average primary spread by quarter.

Average Primary Spread

	For the Quarter Ended				
	Dec. 31 2005	Sep. 30 2005	Jun. 30 2005	Mar. 31 2005	Dec. 31 2004
Average primary spread	2.29%	2.37%	2.39%	2.46%	2.60%

For the five years ended December 31, 2005, which included periods of both falling and rising interest rates, our primary spread averaged 2.75%.

Mortgage portfolio lenders often provide a table with information about the "repricing gap," which is the difference between the repricing of assets and liabilities. The following gap table shows the volume of assets and liabilities that reprice within certain time periods as of December 31, 2005, as well as the repricing gap and the cumulative repricing gap as a percentage of assets.

Repricing of Earning Assets and Interest-Bearing Liabilities, Repricing Gaps, and Gap Ratios
As of December 31, 2005
(Dollars in Millions)

	Projected Repricing [a]				
	0 - 3 Months	4 - 12 Months	1 - 5 Years	Over 5 Years	Total
Earning Assets					
Investments	$ 1,702	$ 2	$ -0-	$ -0-	$ 1,704
MBS:					
Adjustable rate	1,113	-0-	-0-	-0-	1,113
Fixed-rate	15	34	150	172	371
Loans receivable:					
Adjustable rate	114,730	1,363	817	-0-	116,910
Fixed-rate held for investment	77	165	408	240	890
Fixed-rate held for sale	82	-0-	-0-	-0-	82
Other [b]	2,080	-0-	-0-	129	2,209
Total	$119,799	$ 1,564	$ 1,375	$ 541	$123,279
Interest-Bearing Liabilities:					
Deposits [c]	$ 36,479	$ 20,718	$ 2,960	$ 1	$ 60,158
FHLB advances	37,436	328	692	505	38,961
Other borrowings	12,739	200	2,154	495	15,588
Impact of interest rate swaps	1,900	-0-	(1,900)	-0-	-0-
Total	$ 88,554	$ 21,246	$ 3,906	$1,001	$114,707
Repricing gap	$ 31,245	$(19,682)	$(2,531)	$ (460)	$ 8,572
Cumulative gap	$ 31,245	$ 11,563	$ 9,032	$8,572	
Cumulative gap as a percentage of total assets	25.1%	9.3%	7.2%		

(a) Based on scheduled maturity or scheduled repricing; loans and MBS reflect scheduled amortization and projected prepayments of principal based on current rates of prepayment.
(b) Includes primarily cash in banks and Federal Home Loan Bank (FHLB) stock.
(c) Deposits with no maturity date, such as checking, passbook, and money market deposit accounts, are assigned zero months.

If all repricing assets and liabilities responded equally to changes in the interest rate environment, then the gap analysis would suggest that our earnings would rise when interest rates increase and would fall when interest rates decrease. However, as previously discussed, our experience has been that the timing lags in our indexes tend to cause the rates on our liabilities to change more quickly than the yield on our assets.

The following table is a summary of our market risk on financial instruments. It includes our expected cash flows and applicable yields on the balances of our interest-sensitive assets and liabilities as of December 31, 2005, taking into consideration expected prepayments of our long-term assets (primarily loans receivable and MBS). The table also includes the estimated current fair value of the assets and liabilities shown.

Summary of Market Risk on Financial Instruments
As of December 31, 2005
(Dollars in Millions)

	Expected Maturity Date as of December 31, 2005 [a]							
	2006	2007	2008	2009	2010	2011 & Thereafter	Total Balance	Fair Value
Interest-Sensitive Assets:								
Federal funds sold and other investments	$ 1,322	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-	$ 1,322	$ 1,322
Weighted average interest rate	4.11%	.00%	.00%	.00%	.00%	.00%	4.11%	
Securities available for sale[b]	$ 2	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-	$ 2	2
Weighted average interest rate	4.24%	.00%	.00%	.00%	.00%	.00%	4.24%	
MBS								
Fixed-rate	$ 72	$ 58	$ 50	$ 40	$ 31	$ 120	$ 371	373
Weighted average interest rate	5.86%	5.79%	5.68%	5.64%	5.60%	5.47%	5.65%	
Variable rate	$ 238	$ 184	$ 156	$ 120	$ 99	$ 316	$ 1,113	1,112
Weighted average interest rate	5.65%	5.63%	5.61%	5.60%	5.58%	5.55%	5.60%	
Loans receivable[c]								
Fixed-rate	$ 291	$ 151	$ 113	$ 86	$ 67	$ 245	$ 953	958
Weighted average interest rate	7.01%	6.92%	6.77%	6.67%	6.60%	6.46%	6.77%	
Variable rate	$32,007	$23,434	$16,678	$12,432	$9,146	$21,559	$115,256	116,355
Weighted average interest rate	6.53%	6.51%	6.49%	6.47%	6.45%	6.40%	6.48%	
Total	$33,932	$23,827	$16,997	$12,678	$9,343	$22,240	$119,017	$120,122
Interest-Sensitive Liabilities:								
Deposits [d]	$57,197	$ 1,876	$ 495	$ 435	$ 154	$ 1	$ 60,158	$ 60,261
Weighted average interest rate	3.20%	4.17%	3.45%	3.80%	4.09%	3.31%	3.24%	
FHLB advances								
Fixed-rate	$ 2,368	$ 185	$ 460	$ 41	$ 125	$ 346	$ 3,525	3,556
Weighted average interest rate	3.65%	4.88%	4.66%	5.46%	4.96%	5.74%	4.12%	
Variable Rate	$ 6,958	$11,600	$ 8,505	$ 4,029	$4,249	$ 95	$ 35,436	35,422
Weighted average interest rate	4.31%	4.36%	4.34%	4.36%	4.41%	4.34%	4.35%	
Other borrowings								
Fixed-rate	$ 4,569	$ 299	$ 688	$ 1,167	$ -0-	$ 495	$ 7,218	7,216
Weighted average interest rate	4.36%	4.31%	4.61%[e]	4.78%[e]	.00%	4.93%	4.49%	
Variable rate	$ 2,925	$ 3,248	$ 1,049	$ 1,148	$ -0-	$ -0-	$ 8,370	8,376
Weighted average interest rate	4.40%	4.48%	4.49%	4.60%	.00%	.00%	4.47%	
Interest rate swaps (notional values)								
Receive fixed swaps	$ -0-	$ -0-	$ 700	$ 1,200	$ -0-	$ -0-	$ 1,900	38
Weighted average receive rate	.00%	.00%	4.15%	4.19%	.00%	.00%	4.18%	
Weighted average pay rate	.00%	.00%	4.42%	4.47%	.00%	.00%	4.45%	
Total	$74,017	$17,208	$11,897	$ 8,020	$4,528	$ 937	$116,607	$114,869

(a) Based on scheduled maturity or scheduled repricing: loans and MBS reflect scheduled amortization and projected prepayments of principal based on current rates of prepayment.
(b) Excludes equity securities.
(c) Excludes loans in process, net deferred loan costs, allowance for loan losses, and other miscellaneous discounts.
(d) Deposits with no maturity are included in the 2006 column.
(e) The effect of the interest rate swaps is reflected in the weighted average interest rate.

We estimate the sensitivity of our net interest income, net earnings, and capital ratios to interest rate changes and anticipated growth based on simulations using an asset/liability model. The simulation model projects net interest income, net earnings, and capital ratios based on a significant interest rate increase that is sustained for a thirty-six month period. The model is based on the actual maturity and repricing characteristics of interest-rate sensitive assets and liabilities which takes into account the lags previously described. For mortgage assets, the model incorporates assumptions regarding the impact of changing interest rates on prepayment rates, which are based on our historical prepayment information. The model also factors in projections for loan and liability growth. Based on the information and assumptions in effect at December 31, 2005, a 200 basis point rate increase sustained over a thirty-six month period would initially, but temporarily, reduce our primary spread, and would not adversely affect our long-term profitability and financial strength.

Interest Rate Swaps

We manage interest rate risk principally through the operation of our business. On occasion, however, we do enter into derivative contracts, particularly interest rate swaps. As of December 31, 2005, we had three interest rate swaps that were used to effectively convert payments on WSB's fixed-rate senior debt to floating-rate payments. These interest rate swaps were designated as fair value hedges and qualified for what is called the shortcut method of hedge accounting. Because the swaps qualify for the shortcut method, an ongoing assessment of hedge effectiveness is not required, and the change in fair value of the hedged item is deemed to be equal to the change in the fair value of the interest rate swap. Accordingly, changes in the fair value of these swaps had no impact on the Consolidated Statement of Net Earnings. We do not hold any derivative financial instruments for trading purposes.

Management of Credit Risk

Credit risk refers to the risk of loss if a borrower fails to perform under the terms of a mortgage loan and the realized value upon the sale of the underlying collateral is not sufficient to cover the loan amount and the costs of foreclosure and sale.

Among the steps we take to manage credit risk are the following:

- emphasizing high-quality loans on moderately priced properties;
- manually underwriting each loan we originate;
- using internal appraisal staff to appraise most properties we lend on, and having our internal appraisal staff review each external appraisal before underwriting decisions are made;
- limiting the amount we will lend relative to a property's original appraised value;
- maintaining mortgage insurance and pool mortgage insurance coverage to reduce the potential credit risk of most loans with an original loan-to-value (LTV) or combined loan-to-value (CLTV) over 80%; and
- closely monitoring the loan portfolio and taking early steps to protect our interests.

Our objective is to minimize nonperforming assets to limit losses and thereby maintain high profitability. Our business strategy does not involve assuming additional credit risk in the portfolio in order to be able to charge higher prices to consumers.

Underwriting and Appraisal Processes

Our underwriting process evaluates the creditworthiness of potential borrowers based primarily on credit history and an evaluation of the potential borrower's ability to repay the loan. When evaluating a borrower's ability to pay, we assess the ability to make fully amortizing monthly payments, even if the borrower has the option to make a lower initial monthly payment. In our underwriting decisions, we also evaluate the characteristics of the property and the loan transaction, including whether the borrower is purchasing or refinancing the property and will occupy the property. We use systems developed internally based on decades of experience evaluating credit risk. Although we use credit scores and technological tools to help with underwriting evaluations, our trained underwriting personnel review each file and analyze a wide range of relevant factors when making final judgments. Higher-level approvals within the underwriting organization are obtained when circumstances warrant.

We appraise the property that secures the loan by assessing its market value and marketability. We maintain an internal staff to conduct and review property appraisals. Any external appraisers we use for loans that we originate and retain in portfolio are required to go through a training program with us, and each external appraisal is reviewed by our internal appraisal staff. We do not rely on any external automated valuation models (AVMs) in our appraisal process.

Our underwriting and appraisal processes are separate from our loan origination process to assure independence and accountability. The underwriting and appraisal processes that we use for loans originated for sale may differ from that described above due to the purchaser's specific standards and system requirements.

Lending on Moderately Priced Properties

In our originations, we focus on high-quality loans on moderately priced properties because these properties tend to hold their values better than high-priced properties, particularly in weak housing markets. We do not emphasize lending on higher-priced properties because of concerns about greater price volatility and the larger potential loss if these loans do not perform. Although we originate a high volume of loans in California, we do virtually no lending in the more volatile high-priced end of the California real estate market. We have adopted this strategy in an effort to minimize our credit risk exposure if adverse conditions were to occur in California. The average loan size for our California one- to four-family first mortgage originations in 2005 was approximately $338 thousand.

Loan-to-Value Ratio and Use of Mortgage Insurance

The loan-to-value ratio, or LTV, is the loan balance of a first mortgage expressed as a percentage of the appraised value of the property at the time of origination. A combined loan-to-value, or CLTV, refers to the sum of the first and second mortgage loan balances as a percentage of the total appraised value at the time of origination. When we discuss LTVs below, we are referring to cases when our borrower obtained only a first mortgage from us at origination. When we discuss CLTVs below, we are referring to cases when our borrower obtained both a first mortgage and a second mortgage from us at origination. The second mortgage may be either a fixed-rate loan or an ELOC.

The following table shows that we focus our lending activity on loans that have original LTVs or CLTVs at or below 80%, and that few originations have LTVs or CLTVs greater than 90%. Historically, loans with LTVs or CLTVs at or below 80% at origination have resulted in lower losses compared to loans originated with LTVs or CLTVs above 80%.

The table also provides information about our use of mortgage insurance and pool mortgage insurance, which reduces the potential credit risk with respect to loans with LTVs or CLTVs over 80%. We use mortgage insurance on some first mortgage loans to reimburse us for losses up to a specified percentage per loan, thereby reducing the effective LTV to below 80%. Less than 1% of our 2005 and 2004 first mortgage originations with LTVs above 80% did not have mortgage insurance, and most of these uninsured loans had original LTVs below 85%. We carry pool mortgage insurance on most ELOCs and most fixed-rate seconds held for investment when the CLTV exceeds 80% at origination. For ELOCs the cumulative losses covered by this pool mortgage insurance are limited to 10% or 20% of the aggregate of the highest balance of each loan originally in the pool. For fixed-rate seconds the cumulative losses covered by this pool mortgage insurance are limited to 10% or 20% of the original balance of each insured pool. As loans in a pool pay off, the effective coverage for the remaining loans in the pool may exceed 10% or 20%.

Mortgage Originations by LTV or CLTV Bands 2004–2005 (Dollars in Millions)

	Year Ended December 31			
	2005		2004	
	$ Volume	% of Total	$ Volume	% of Total
First mortgage LTVs:				
At or below 80.00%:				
60.00% or less	$ 8,190	15.9%	$ 7,299	14.8%
60.01% to 70.00%	12,103	23.5	10,768	22.0
70.01% to 80.00%	26,108	50.7	24,477	50.0
Subtotal	46,401	90.1	42,544	86.8
80.01% to 85.00%:				
With mortgage insurance	2	.0	3	.0
With no mortgage insurance	188	.4	89	.2
Subtotal	190	.4	92	.2
85.01% to 90.00%:				
With mortgage insurance	11	.0	26	.1
With no mortgage insurance	2	.0	3	.0
Subtotal	13	.0	29	.1
Greater than 90.00%:				
With mortgage insurance	25	.0	57	.1
With no mortgage insurance	2	.0	2	.0
Subtotal	27	.0	59	.1
Total first mortgage LTVs	46,631	90.5	42,724	87.2
First and second mortgage CLTVs:[(a)]				
At or below 80.00%:				
60.00% or less	573	1.1	472	1.0
60.01% to 70.00%	513	1.0	422	.8
70.01% to 80.00%	686	1.3	1,119	2.3
Subtotal	1,772	3.4	2,013	4.1
80.01% to 85.00%:				
With pool insurance on seconds	349	.7	459	1.0
With no pool insurance	2	.0	21	.0
Subtotal	351	.7	480	1.0
85.01% to 90.00%:				
With pool insurance on seconds	2,629	5.1	3,407	7.0
With no pool insurance	10	.0	114	.2
Subtotal	2,639	5.1	3,521	7.2
Greater than 90.00%:				
With pool insurance on seconds	119	.3	7	.0
With no pool insurance	4	.0	244	.5
Subtotal	123	.3	251	.5
Total first and second CLTVs	4,885	9.5	6,265	12.8
Total originations by LTV & CLTV band	$51,516	100.0%	$48,989	100.0%

(a) The CLTV calculation excludes any unused portion of a line of credit.

The following table provides additional LTV and CLTV detail about our portfolio. Most of the loans in our mortgage portfolio have LTVs or CLTVs at or below 80%, and we have only a small number of loans with LTVs or CLTVs above 90%. Most first mortgage loans with LTVs above 90% have mortgage insurance. The table also shows that we generally maintain pool insurance for first and second loans with CLTVs above 80%, and that the limited balance of loans with CLTVs above 90% are almost all insured. Most of the uninsured first mortgages with LTVs between 80.01% and 85% were originated with LTVs at or below 80% and subsequently increased above 80% due to deferred interest; at December 31, 2005 the weighted average LTV of these loans was 80.7%. At December 31, 2005 and December 31, 2004, the aggregate average of LTVs and CLTVs on the loans in portfolio was 68% and 69%, respectively.

The LTV and CLTV calculations that we provide generally do not take into account any changes in property values since the time of origination, even if market data suggests that properties have appreciated in value. We recognize the limitations of this approach, but we use this convention because bank regulators historically have preferred original values for reporting purposes. Although the denominator of the LTV or CLTV calculation generally remains fixed, the numerator does change over time, and could increase beyond the original loan balance if borrowers incur deferred interest or decrease below the original loan balance if borrowers amortize or pay down the principal on their loans.

Mortgage Portfolio Balance by LTV or CLTV Bands[a]
2004–2005
(Dollars in Millions)

	December 31			
	2005		2004	
	Balance	% of Total	Balance	% of Total
First mortgage LTVs:				
At or below 80.00%:				
60.00% or less	$ 21,786	18.6%	$ 18,915	18.8%
60.01% to 70.00%	23,234	19.8	21,192	21.0
70.01% to 80.00%	40,549	34.5	37,784	37.4
Subtotal	85,569	72.9	77,891	77.2
80.01% to 85.00%:				
With mortgage insurance	71	.1	76	.1
With no mortgage insurance	13,072	11.1	5,190	5.1
Subtotal	13,143	11.2	5,266	5.2
85.01% to 90.00%:				
With mortgage insurance	171	.2	174	.2
With no mortgage insurance	25	.0	22	.0
Subtotal	196	.2	196	.2
Greater than 90.00%:				
With mortgage insurance	114	.1	211	.2
With no mortgage insurance	23	.0	29	.0
Subtotal	137	.1	240	.2
Total first mortgage LTVs	99,045	84.4	83,593	82.8
First and second mortgage CTVSs:[b]				
At or below 80.00%:				
60.00% or less	4,569	3.9	3,442	3.4
60.01% to 70.00%	3,390	2.9	2,906	2.9
70.01% to 80.00%	4,214	3.6	4,308	4.3
Subtotal	12,173	10.4	10,656	10.6
80.01% to 85.00%:				
With pool insurance on seconds	795	.7	989	1.0
With no pool insurance	423	.3	312	.3
Subtotal	1,218	1.0	1,301	1.3
85.01% to 90.00%:				
With pool insurance on seconds	2,782	2.4	4,510	4.5
With no pool insurance	14	.0	26	.0
Subtotal	2,796	2.4	4,536	4.5
Greater than 90.00%:				
With pool insurance on seconds	2,123	1.8	819	.8
With no pool insurance	11	.0	24	.0
Subtotal	2,134	1.8	843	.8
Total first & second CLTVs	18,321	15.6	17,336	17.2
Total portfolio by LTV & CLTV bands[c]	$117,366	100.0%	$100,929	100.0%

(a) The mortgage portfolio balances include deferred interest.
(b) The CLTV calculation excludes any unused portion of a line of credit.
(c) The total portfolio figures exclude loans on deposits, loans in process, net deferred loan costs, allowance for loan losses, and other miscellaneous premiums and discounts.

We believe that by emphasizing original LTVs below 80%, minimizing loans with LTVs and CLTVs above 90%, and insuring most loans with original LTVs or CLTVs above 80%, we have helped to mitigate our exposure to a disruption in the real estate market that could cause property values to decline. Nonetheless, it is reasonable to expect that a significant decline in the values of residential real estate could result in increased rates of delinquencies, foreclosures, and losses.

Close Monitoring of the Loan Portfolio

In addition to the steps we take to manage credit risk when loans are first originated, we also actively monitor our loan portfolio. In doing so, our objective is to detect any credit risk issues early so we can mitigate risks in the portfolio and also can revise terms for new originations. For example, we do the following:

- conduct periodic loan reviews;
- analyze market trends in lending territories and appropriately adjust loan terms, such as required original LTV or CLTV ratios;
- review loans that become nonperforming assets to evaluate if there were detectable signs we should incorporate into the training of underwriting and appraisal staff;
- identify segments of the portfolio that might have more vulnerability to credit risk, either because of geography, LTV or CLTV ratio, credit score, or a combination of these and other factors;
- work with customers who may present potential risks either now or in the future, and offer them counseling or other programs to try to reduce the potential for future problems.

As a risk-averse portfolio lender, we closely monitor and analyze many factors that could impact the credit risk of individual loans or segments of loans in the portfolio. One of these factors is deferred interest, which has received recent industry-wide attention largely because new participants in the option ARM market have been originating a greater volume of loans that can incur deferred interest.

We have 25 years of experience managing a portfolio of loans structured to allow borrowers to incur deferred interest. Our experience suggests that deferred interest is principally a loan-by-loan credit issue. We believe that much of the deferred interest in our portfolio is on loans with limited credit risk. A loan may have limited credit risk for one or more reasons, including the following:

- the loan had a low original LTV or CLTV;
- the property value appreciated, resulting in a low current LTV or CLTV;
- the borrower's payment is at or near the fully-indexed rate;

- the borrower has a strong credit history or substantial assets;
- the loan has a limited amount of deferred interest;
- the borrower periodically pays down a deferred interest balance; or
- the loan is covered by mortgage or pool insurance.

In addition, as previously discussed under "The Loan Portfolio—Structural Features of our ARMs," we have structured our loans to try to reduce the potential credit risk that might result from a significant early change in a borrower's payment. In particular, most of our loans are scheduled to have a payment change without respect to any annual limit in order to reamortize the loan over its remaining life at the end of the tenth year or when the loan balance reaches 125% of the original amount. We term this reamortization a "recast." Historically, most loans in our portfolio have paid off before the loan's payment is recast.

The following table shows the amount of deferred interest in the loan portfolio at December 31, 2005 by LTV and CLTV and year of origination. The table shows that much of the deferred interest in the portfolio is in loans that we believe have limited credit risk, such as loans with LTVs or CLTVs at or below 80%. We also believe many of the properties securing the loans we originated prior to 2005 have experienced price appreciation.

Deferred Interest in the Loan Portfolio by LTV/CLTV Bands and Year of Origination As of December 31, 2005 (Dollars in Thousands)

	Year of Origination[(a)]			
	2005	2004	2003 and Prior	Total
Deferred interest balance by LTV/CLTV:[(b)]				
At or below 80.00%				
60.00% or less	$ 22,543	$ 27,031	$ 8,897	$ 58,471
60.01% to 70.00% . .	31,848	35,809	9,980	77,637
70.01% to 80.00% . .	71,853	84,477	23,068	179,398
Subtotal	126,244	147,317	41,945	315,506
80.01% to 85.00% . . .	46,938	54,903	12,996	114,837
85.01% to 90.00% . . .	2,146	3,223	1,190	6,559
Greater than 90.00%[(c)] . .	4,839	5,684	1,391	11,914
Total deferred interest . .	$180,167	$211,127	$57,522	$448,816

(a) The first lien's origination year is used in this table if a second lien has a different origination year from the associated first lien.
(b) First mortgage LTVs and first and second mortgage CLTVs are both included in this table. These calculations rarely take into account any changes in property value since the time of origination.
(c) Approximately 99% of this deferred interest is on loans covered by mortgage or pool insurance.

The aggregate amount of deferred interest in the loan portfolio amounted to $449 million, $55 million, and $21 million at December 31, 2005, 2004, and 2003, respectively. Deferred interest amounted to less than .39% of the total loan portfolio on those dates. Deferred interest levels increased primarily because the balance of ARM loans in our portfolio increased by $41 billion since 2003, the indexes on our ARMs increased, the minimum payment on most new and many existing loans was less than the interest due, and many borrowers made monthly payments that were lower than the amount of interest due. We do not believe the aggregate amount of deferred interest in the portfolio is a principal indicator of credit risk exposure. Nonetheless, we carefully monitor the payment behavior and performance of all loans with deferred interest.

Based on our 25-year track record with ARM loans that have the potential for deferred interest, together with our underwriting and appraisal processes, we believe we can manage incremental credit risk that may be associated with loans with deferred interest. We continually analyze the portfolio and market trends to try to detect issues early enough so we can minimize future credit losses. As short-term interest rates have risen, we have begun increasing the minimum payment allowable on many of our new originations because the discount between the minimum payment and the fully-indexed payment affects the amount of deferred interest loans incur and could affect the loans' potential credit risk.

Asset Quality

An important measure of the soundness of our loan and MBS portfolio is the ratio of nonperforming assets (NPAs) and troubled debt restructured (TDRs) to total assets. Nonperforming assets include nonaccrual loans (that is, loans, including loans securitized into MBS with recourse, that are 90 days or more past due) and real estate acquired through foreclosure. No interest is recognized on nonaccrual loans. TDRs are made up of loans on which delinquent payments have been capitalized or on which temporary interest rate reductions have been made, primarily to customers impacted by adverse economic conditions.

Our credit risk management practices have enabled us to have low NPAs and TDRs throughout our history. However, even by our standards, NPAs and TDRs have been unusually low in recent years. Although we believe that our lending practices have historically been the primary contributor to our low NPAs and TDRs, the sustained period of low interest rates and rapid home price appreciation during the past several years contributed to the unusually low level of NPAs and TDRs.

It is unlikely that such historically low levels of NPAs and TDRs will continue indefinitely.

The following table sets forth the components of our NPAs and TDRs and the various ratios to total assets at December 31, 2005, 2004, and 2003.

Nonperforming Assets and Troubled Debt Restructured 2003–2005 (Dollars in Thousands)

	December 31		
	2005	2004	2003
Nonaccrual loans	$ 373,671	$332,329	$410,064
Foreclosed real estate	8,682	11,461	13,904
Total nonperforming assets	$382,353	$343,790	$423,968
TDRs	$ 124	$ 3,810	$ 3,105
Ratio of NPAs to total assets	.31%	.32%	.51%
Ratio of TDRs to total assets	.00%	.00%	.00%
Ratio of NPAs and TDRs to total assets	.31%	.33%	.51%

The following table sets forth the components of our NPAs for Northern and Southern California and for all states with more than 2% of the total loan balance at December 31, 2005.

Nonperforming Assets by State 2003–2005 (Dollars in Thousands)

	December 31		
	2005	2004	2003
Northern California	$ 95,579	$ 86,906	$118,322
Southern California	51,436	48,351	79,773
Total California	147,015	135,257	198,095
Florida	24,609	23,903	30,009
New Jersey	23,641	19,452	20,526
Texas	48,930	48,585	43,489
Illinois	15,593	14,000	14,509
Virginia	2,064	2,182	3,088
Washington	11,553	12,736	14,268
Other states(a)	108,948	87,675	99,984
Total	$382,353	$343,790	$423,968
	NPAs as a % of Loans	NPAs as a % of Loans	NPAs as a % of Loans
Northern California	.24%	.25%	.43%
Southern California	.16	.17	.38
Total California	.20	.21	.41
Florida	.30	.40	.68
New Jersey	.44	.44	.68
Texas	1.43	1.45	1.47
Illinois	.53	.52	.75
Virginia	.08	.10	.22
Washington	.46	.54	.69
Other states(a)	.55	.52	.82
Total	.33%	.34%	.55%

(a) All states included in Other states have total loan balances with less than 2% of total loans.

The balances of NPAs at December 31, 2005 and 2004 reflected the impact of a strong economy and housing market. We attribute the relatively high level of NPAs in Texas to economic difficulties in the state over the past several years. Although economic conditions may be improving in the state, some weakness remains in the residential lending market. We closely monitor all delinquencies and take appropriate steps to protect our interests.

Allowance for Loan Losses

The allowance for loan losses reflects our estimate of the probable credit losses inherent in the loans receivable balance. Each quarter we review the allowance. Additions to or reductions from the allowance are reflected in the provision for loan losses in current earnings.

In order to evaluate the adequacy of the allowance, we determine an allocated component and an unallocated component. The allocated component consists of reserves on loans that we evaluate on a pool basis, primarily our large portfolio of one-to four-family loans, as well as loans that we evaluate on an individual basis, such as major multi-family and commercial real estate loans. However, the entire allowance is available to absorb credit losses inherent in the total loan receivable balance.

To evaluate the adequacy of the reserves for pooled loans, we use a model that is based on our historical repayment rates, foreclosure rates, and loss experience over multiple business cycles. Data for the model is gathered using an internal database that identifies and measures losses on loans and foreclosed real estate broken down by age of the loan. To evaluate the adequacy of reserves on individually evaluated loans, we measure impairment based on the fair value of the collateral taking into consideration the estimated sale price, cost of refurbishing the security property, payment of delinquent property taxes, and costs of disposal.

We have also established an unallocated component to address the imprecision and range of probable outcomes inherent in our estimates of credit losses. The amount of the unallocated reserve takes into consideration many factors, including trends in economic growth, unemployment, housing market activity, home prices for the nation and individual geographic regions, and the level of mortgage turnover. The ratios of allocated allowance and unallocated allowance to total allowance may change from period to period.

The table below shows the changes in the allowance for loan losses for the years ending December 31, 2005, 2004, and 2003.

Changes in Allowance for Loan Losses
2003-2005
(Dollars in Thousands)

	Year Ended December 31		
	2005	2004	2003
Beginning allowance for loan losses	$290,110	$289,937	$281,097
Provision for losses	8,290	3,401	11,864
Loans charged off	(4,363)	(4,613)	(3,633)
Recoveries	1,822	1,385	609
Ending allowance for loan losses	$295,859	$290,110	$289,937
Ratio of provision for loan losses to average loans receivable and MBS with recourse held to maturity	.01%	.00%	.02%
Ratio of net chargeoffs to average loans receivable and MBS with recourse held to maturity	.00%	.00%	.00%
Ratio of allowance for loan losses to total loans held for investment and MBS with recourse held to maturity	.25%	.28%	.37%
Ratio of allowance for loan losses to NPAs	77.4%	84.4%	68.4%

The provision for losses charged to expense in 2005, 2004, and 2003 reflected the lower level of nonperforming assets as well as the strong nationwide housing market and the prevailing economic conditions during those years.

Management of Other Risks

We manage other risks that are common to companies in other industries, including operational, regulatory, and management risk.

Operational Risk

Operational risk refers to the risk of loss resulting from inadequate or failed processes or systems, human factors, or external events. These events could result in financial losses and other negative consequences, including reputational harm.

We mitigate operational risk in a variety of ways, including the following:

- we promote a corporate culture focused on high ethical conduct, superior customer service, and continual process and productivity improvements;
- we focus our efforts on a single line of business;
- our management and Board of Directors generally have long tenures with the Company, giving us the benefit of experience and institutional memory in managing through business cycles and addressing other strategic issues;
- our business managers have the responsibility for adopting and monitoring appropriate controls for their business units, both under long-standing banking regulations and Section 404 of the Sarbanes-Oxley Act;
- we have maintained an Internal Audit Department for decades that regularly audits our business, including operational controls and information security; the Internal Audit Department reports directly to the Audit Committee of the Board of Directors, all of the members of which are independent directors under the New York Stock Exchange's corporate governance standards;
- we maintain strong relationships and open dialogue with our regulators, who regularly conduct evaluations of our operations and controls;
- our management has regular discussions with rating agencies that routinely evaluate our creditworthiness;
- our business managers and other employees, as well as internal and external legal counsel and auditors, understand they are expected to communicate any material issues not otherwise properly addressed promptly to senior management and, if appropriate, the Board of Directors or a committee thereof;
- we monitor the strength and reputations of our counterparties;
- we perform as many of the business functions and operations internally as economically feasible to retain control of our operations;
- we have and enforce codes of conduct and ethics for employees, officers, and directors; and
- we have insurance and contingency plans in place in case of enterprise-wide business interruption.

Although these actions cannot fully protect us from all operational risks, we believe that they do help protect us from many adverse events and also reduce the severity of issues that might arise.

Regulatory Risk

By regulatory risk, we mean the risk that laws or regulations could change in a manner that adversely affects our business. This is a risk that is largely outside our control, although we participate in and monitor legal, regulatory, and judicial developments that could impact our business. Among the issues that have received attention recently include:

- laws and regulations that impact lending, deposit, and mutual fund activities;
- rules that affect the amount of regulatory capital that banks and other types of financial institutions are required to maintain;
- changes to the regulation of the housing government sponsored enterprises, including the Federal Home Loan Banks; and
- federal and state privacy laws and regulations that impact how customer information can be used.

We continue to work with policymakers, trade groups, and others to try to ensure that any legal or regulatory developments reflect sound public policy.

Management Risk

Management risk is mitigated by having well-trained and experienced employees in key positions who can assume management roles in both the immediate and longer-term future. In addition, senior management meets at least twice a year with the Board of Directors in executive sessions to discuss recommendations and evaluations of potential successors to key members of management, along with a review of any development plans that are recommended for such individuals.

Results of Operations

The following table summarizes selected income statement results for 2005, 2004, and 2003.

Selected Financial Results
2003–2005
(Dollars in Millions)

	Year Ended December 31		
	2005	2004	2003
Interest income	$ 6,200	$ 4,178	$ 3,529
Interest expense	3,265	1,560	1,320
Net interest income	2,935	2,618	2,209
Provision for loan losses	8	3	12
Noninterest income	462	294	313
General and administrative expenses	963	840	721
Taxes on income	940	789	683
Net earnings	$ 1,486	$ 1,280	$ 1,106
Average earning assets	$115,401	$92,441	$72,351
Average primary spread	2.38%	2.76%	2.94%

Net Interest Income

The largest component of our revenue and earnings is net interest income, which is the difference between the interest and dividends earned on loans and other investments and the interest paid on customer deposits and borrowings. Long-term growth of our net interest income, and hence earnings, is related to the ability to expand the mortgage portfolio, our primary earning asset, by originating and retaining high-quality adjustable rate home loans. In the short term, however, net interest income can be influenced by business conditions, especially movements in short-term interest rates, which can temporarily affect the level of net interest income.

The 12% increase in net interest income in 2005 compared with the prior year resulted primarily from the growth in the loan portfolio. Between December 31, 2004 and December 31, 2005, our earning asset balance increased by $17 billion or 16%. This growth resulted from strong mortgage originations which more than offset loan repayments and loan sales. Partially offsetting the benefit to net interest income of a larger average earning asset balance in 2005 was a decrease in our average primary spread, which is the monthly average of the monthend difference between the yield on loans and other investments and the rate paid on deposits and borrowings. The primary spread is discussed previously under “Asset/Liability Management.” The increase in net interest income in 2004 as compared to 2003 resulted from the expansion of our earning assets which was partially offset by a decrease in our average primary spread.

Noninterest Income

The increase in noninterest income in 2005 as compared to 2004 resulted primarily from an increase in prepayment fees primarily due to higher loan prepayments. Prepayment fees amounted to $301 million for the year ended December 31, 2005 compared to $164 million and $111 million for the years ended December 31, 2004 and 2003, respectively.

General and Administrative Expenses

G&A expenses increased in 2005 to support the continued investment in resources to support current activity and future growth.

G&A as a percentage of average assets was .82%, .90%, and .98% for the years ended December 31, 2005, 2004, and 2003, respectively. G&A as a percentage of average assets was lower in 2005 as compared to 2004 and in 2004 as compared to 2003 because average assets grew faster than the growth in general and administrative expenses. The efficiency ratio amounted to 28.33%, 28.85%, and 28.57% for the years ended December 31, 2005, 2004, and 2003, respectively.

Taxes on Income

We utilize the accrual method of accounting for income tax purposes. Taxes as a percentage of earnings were 38.75%, 38.15%, and 38.18% for the years ended December 31, 2005, 2004, and 2003, respectively. From quarter to quarter, the effective tax rate may fluctuate due to various state tax matters, particularly changes in the volume of business activity in the various states in which we operate.

Liquidity and Capital Management

Liquidity Management

The objective of our liquidity management is to ensure we have sufficient liquid resources to meet all our obligations in a timely and cost-effective manner under both normal operational conditions and periods of market stress. We monitor our liquidity position on a daily basis so that we have sufficient funds available to meet operating requirements, including supporting our lending and deposit activities and replacing maturing obligations. We also review our liquidity profile on a regular basis to ensure that the capital needs of Golden West and its bank subsidiaries are met and that we can maintain strong credit ratings.

The creation and maintenance of collateral is an important component of our liquidity management. Loans, securitized loans, and, to a much smaller extent, purchased MBS are available to be used as collateral for borrowings. Our objective is to maintain a sufficient supply and variety of collateral so that we have the flexibility to access different secured borrowings at any time. We regularly test ourselves against various scenarios to confirm that we would have more than sufficient collateral to meet borrowing needs under both current and adverse market conditions.

The principal sources of funds for Golden West at the holding company level are dividends from subsidiaries, interest on investments, and the proceeds from the issuance of debt securities. Various statutory and regulatory restrictions and tax considerations limit the amount of dividends WSB can distribute to GDW. The principal liquidity needs of Golden West are for the payment of interest and principal on debt securities, capital contributions to its insured bank subsidiary, dividends to stockholders, the repurchase of Golden West stock, and general and administrative expenses.

WSB's principal sources of funds are cash flows generated from loan repayments; deposits; borrowings from the FHLB of San Francisco; borrowings from its WTX subsidiary; bank notes; debt collateralized by mortgages, MBS, or securities; sales of loans; earnings; and borrowings from Golden West. In addition, WSB has other alternatives available to provide liquidity or finance operations including wholesale certificates of deposit, federal funds purchased, and additional borrowings from private and public offerings of debt. Furthermore, under certain conditions, WSB may borrow from the Federal Reserve Bank of San Francisco to meet short-term cash needs. As of December 31, 2005, WSB maintained approximately $6.4 billion of collateral with the Federal Reserve Bank of San Francisco to expedite its ability to borrow from the Federal Reserve Bank if necessary.

Capital Management

Strong capital levels are important for the safe and sound operation of a financial institution. One of our key operating objectives is to maintain a strong capital position to support growth of our loan portfolio and provide substantial operating flexibility. Also, capital invested in earning assets enhances profit. Maintaining strong capital reserves also allows our bank subsidiaries to meet and exceed regulatory capital requirements and contributes to favorable credit ratings. As of December 31, 2005, WSB, our primary subsidiary, had credit ratings of Aa3 and AA-, respectively, from Moody's Investors Service and Standard & Poor's, the nation's two leading credit evaluation agencies.

Stockholders' Equity

Our stockholders' equity amounted to $8.7 billion, $7.3 billion, and $5.9 billion as of December 31, 2005, 2004, and 2003, respectively. All of our stockholders' equity is tangible common equity. Stockholders' equity increased by $1.4 billion during 2005 as a result of net earnings partially offset by the $58 million cost of the repurchase of Company stock, the payment of quarterly dividends to stockholders, and the decreased market value of securities available for sale. Stockholders' equity increased by $1.3 billion during 2004 as a result of net earnings and increased market values of securities available for sale partially offset by the payment of quarterly dividends to stockholders.

Uses of Capital

As in prior years, we retained most of our earnings in 2005. The 19% growth in our net worth allowed us to support the substantial growth in our loan portfolio. Expanding the balance of our loans receivable is the first priority for use of our capital, because these earning assets generate the net interest income that is our largest source of revenue. Even with high asset growth of 17%, our stockholders' equity to asset ratio was 6.96% at December 31, 2005.

In September 2001, the Company's Board of Directors authorized the repurchase of up to 31,733,708 shares. Unless modified or revoked by the Board of Directors, the 2001 authorization does not expire. During 2005, the Company repurchased 985,000 shares of Golden West common stock. As of December 31, 2005, 17,671,358 shares remained available for purchase under the stock purchase program that our Board of Directors has authorized. Earnings from WSB are expected to continue to be the major source of funding for the stock repurchase program. The repurchase of Golden West stock is not intended to have a material impact on the normal liquidity of the Company.

Regulatory Capital

Our bank subsidiaries, WSB and WTX, are subject to capital requirements described in detail in Note R to the Notes to Consolidated Financial Statements. As of December 31, 2005, the date of the most recent report to the Office of Thrift Supervision, WSB and WTX were considered "well-capitalized," the highest capital tier established by the OTS and other bank regulatory agencies. There are no conditions or events that have occurred since that date that we believe would have an impact on the "well-capitalized" categorization of WSB or WTX. These high capital levels qualify our bank subsidiaries for the minimum federal deposit insurance rates and enable our subsidiaries to minimize time-consuming and expensive regulatory burdens.

Off-Balance Sheet Arrangements and Contractual Obligations

All subsidiaries of Golden West are 100% owned and are included in our consolidated financial statements.

Off-Balance Sheet Arrangements

Like other mortgage lenders and in the ordinary course of our business, we enter into agreements to lend to a customer provided that the customer satisfies the terms of the contract. Loan commitments have fixed expiration dates or other termination clauses. Prior to entering each commitment, we evaluate the customer's creditworthiness and the value of the property. The amount of outstanding loan commitments at December 31, 2005 was $1.9 billion. The vast majority of these commitments were for adjustable rate mortgages.

In the ordinary course of business, we borrow from the FHLBs. At December 31, 2005, we had no commitments outstanding for advances from the FHLB.

Contractual Obligations

We enter into contractual obligations in the ordinary course of business, including debt issuances for the funding of operations and leases for premises. We do not have any significant capital lease or purchase obligations. The following table summarizes our significant contractual obligations and commitments to make future payments under contracts by remaining maturity at December 31, 2005, except for short-term borrowing arrangements and postretirement benefit plans.

Contractual Obligations
As of December 31, 2005
(Dollars in Millions)

	Payments Due by Period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Long-term debt (a)	$49,143	$11,375	$26,044	$10,787	$ 937
Operating leases	218	35	59	36	88
Total.	$49,361	$11,410	$26,103	$10,823	$1,025

(a) Includes long-term FHLB advances, securities sold under agreements to repurchase, and senior debt.

Critical Accounting Policies and Uses of Estimates

Our financial statements are prepared in accordance with GAAP. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions about future events, including interest rate levels and repayments rates. These estimates and assumptions affect the amounts reported in the financial statements and accompanying notes. Actual results could differ materially from those estimates and assumptions because of changes in the business environment.

Our significant accounting policies are more fully described in Note A to the Notes to Consolidated Financial Statements. Management reviews and approves our significant accounting policies on a quarterly basis and discusses them with the Audit Committee at least annually.

We believe that the policy regarding the determination of our allowance for loan losses is our most critical accounting policy as it has a material impact on our financial statements and requires management's most difficult, subjective, and complex judgments. The allowance for loan losses reflects management's estimates of the probable credit losses inherent in our loans receivable balance. The allowance for loan losses, and the resulting provision for loan losses, is based on judgments and assumptions about many external factors, including current trends in economic growth, unemployment, housing market activity, home price appreciation, and the level of mortgage turnover. Additions to and reductions from the allowance are recognized in current earnings based upon management's quarterly reviews. A further discussion can be found in "Management of Credit Risk—Allowance for Loan Losses."

New Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123 (Revised 2004), "Share-Based Payment" (SFAS 123R). This Statement is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation" (SFAS 123) and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25). This Statement requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service in exchange for the award. This Statement is effective as of the beginning of the first fiscal year that begins after December 15, 2005. In October 2005, the FASB issued FASB Staff Position (FSP) FAS 123R-2, "Practical Accommodation to the Application of Grant Date as Defined in SFAS 123." The FSP provides guidance on the application of grant date as defined in SFAS 123R. The FSP will be applied upon initial adoption of SFAS 123R. The Company expects that the adoption of SFAS 123R will result in amounts that are similar to the current pro forma disclosures under SFAS 123.

In November 2005, the FASB issued FSP SFAS 123R-3, "Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards." The FSP provides a practical transition election related to accounting for the tax effects of share-based payments to employees. The FSP is effective as of November 10, 2005. A company may make a one-time election to adopt the transition method described in the FSP. The Company expects to make this election.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections" (SFAS 154). This Statement replaces APB Opinion No. 20, "Accounting Changes," and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements," and revises the requirements for the accounting for and reporting of a change in an accounting principle. SFAS 154 applies to all voluntary changes in accounting principles and to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. This Statement requires retrospective application to prior periods' financial statements of a change in accounting principle. This Statement shall be effective for fiscal years beginning after December 15, 2005, but early adoption is permitted.

In November 2005, the FASB issued FSP SFAS 115-1 and SFAS 124-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." The FSP specifically nullifies the recognition and measurement provisions of Emerging Issues Task Force (EITF) Issue 03-1 and references existing other-than-temporary impairment guidance. The FSP carries forward the disclosure requirements included in EITF Issue 03-1. The FSP is effective for reporting periods beginning after December 15, 2005. Earlier application is permitted. The adoption of the FSP will not have a significant impact on the Company's financial statements.

CORPORATE INFORMATION

Officers and Directors

#† HERBERT M. SANDLER
Chairman of the Board and Chief Executive Officer
Golden West Financial Corporation

#† MARION O. SANDLER
Chairman of the Board and Chief Executive Officer
Golden West Financial Corporation

† JAMES T. JUDD
Senior Executive Vice President
Golden West Financial Corporation
President and Chief Operating Officer
World Savings

† RUSSELL W. KETTELL
President, Chief Financial Officer, and Treasurer
Golden West Financial Corporation

GARY R. BRADLEY
Executive Vice President
Golden West Financial Corporation

MICHAEL ROSTER
Executive Vice President, General Counsel, and Secretary
Golden West Financial Corporation

CARL M. ANDERSEN
Group Senior Vice President and Tax Director
Golden West Financial Corporation

WILLIAM C. NUNAN
Group Senior Vice President and Chief Accounting Officer
Golden West Financial Corporation

§* JERRY GITT, Director
Retired Securities Analyst
Merrill Lynch & Co

◆ ANTONIA HERNANDEZ, Director
President and Chief Executive Officer
California Community Foundation

§* MARYELLEN C. HERRINGER, Director
Attorney-At-Law
Retired Executive Vice President,
General Counsel, and Secretary
APL Limited

◆ PATRICIA A. KING, Director
Professor of Law
Georgetown University Law Center

BERNARD A. OSHER, Director
Private Investor

◆* KENNETH T. ROSEN, Director
Professor Emeritus of Business Administration and Chairman
of the Fisher Center for Real Estate and Urban Economics
University of California, Berkeley

§ LESLIE TANG SCHILLING, Director
President, L.T.D.D., Inc.
Chairperson, Union Square Investment Company
Real Estate and Investment Management

Auditors
Deloitte & Touche LLP
1111 Broadway, Suite 2100
Oakland, California 94607-4036

Transfer Agent and Registrar
Mellon Investor Services, LLC
San Francisco, California 94104
(800) 839-2609

Exchanges
New York Stock Exchange
Pacific Exchange
Chicago Board Options Exchange

Trading Symbol
GDW

Corporate Offices
1901 Harrison Street
Oakland, California 94612

Additional Information
Annual Form 10-K can be obtained from the Company's web site or will be furnished upon written request without charge to persons who are beneficial owners of securities of the Company as of the record date for the Annual Meeting of Stockholders. Direct requests to:

WILLIAM C. NUNAN
Group Senior Vice President and
Chief Accounting Officer
Golden West Financial Corporation
1901 Harrison Street
Oakland, California 94612

For your convenience, the financial data contained in this annual report and subsequent monthly and quarterly performance information as well as the Company's Annual Form 10-K can be obtained at **www.gdw.com**.

The Company's Chief Executive Officers file an annual certification with the New York Stock Exchange (NYSE) relating to compliance with the NYSE's corporate governance rules, and the Chief Executive Officers and Chief Financial Officer file certifications as exhibits to the Annual Form 10-K as required by Section 302 of the Sarbanes-Oxley Act of 2002.

Member of Executive Committee
† Member of Office of the Chairman
* Member of Audit Committee
◆ Member of Compensation and Stock Option Committee
§ Member of Nominating and Corporate Governance Committee

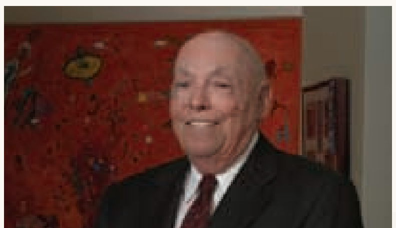
Board of Directors

From left to right: Jerry Gitt, Antonia Hernandez (sitting), Patricia A. King, Marion O. Sandler, Bernard A. Osher, Leslie Tang Schilling, Maryellen C. Herringer, Kenneth T. Rosen (sitting), Herbert M. Sandler

Modern Tapestry, ©Estate of Roy Lichtenstein

Like this distinctive tapestry on display in the boardroom of the Company's headquarters, Golden West is a work of art among public U.S. companies.

Louis J. Galen Retires



With Admiration and Gratitude
During the more than 50 years that Louis J. Galen devoted to the Board of Directors of Golden West and its predecessor company, he has been an important force in guiding our success. We shall miss his wisdom, but will continue to benefit from his legacy.

GOLDEN WEST FINANCIAL CORPORATION®
1901 Harrison Street, Oakland, CA 94612