GOLDEN WEST FINANCIAL CORPORATION® | 2004 Annual Report

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A proven recipe for long-term success

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TODAY'S THOUGHT

"We are what we repeatedly do. Excellence, then, is not an act, but a habit."

—ARISTOTLE

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Read the details of the Company's many accomplishments in this 2004 Annual Report, formatted as sections of the *Golden West Financial Times*, a fictitious newspaper created for your reading pleasure. Don't miss our editorial "Food for Thought" starting on page 5.

Golden West Financial Times

FINANCIAL HIGHLIGHTS

(Dollars in thousands except per share figures)

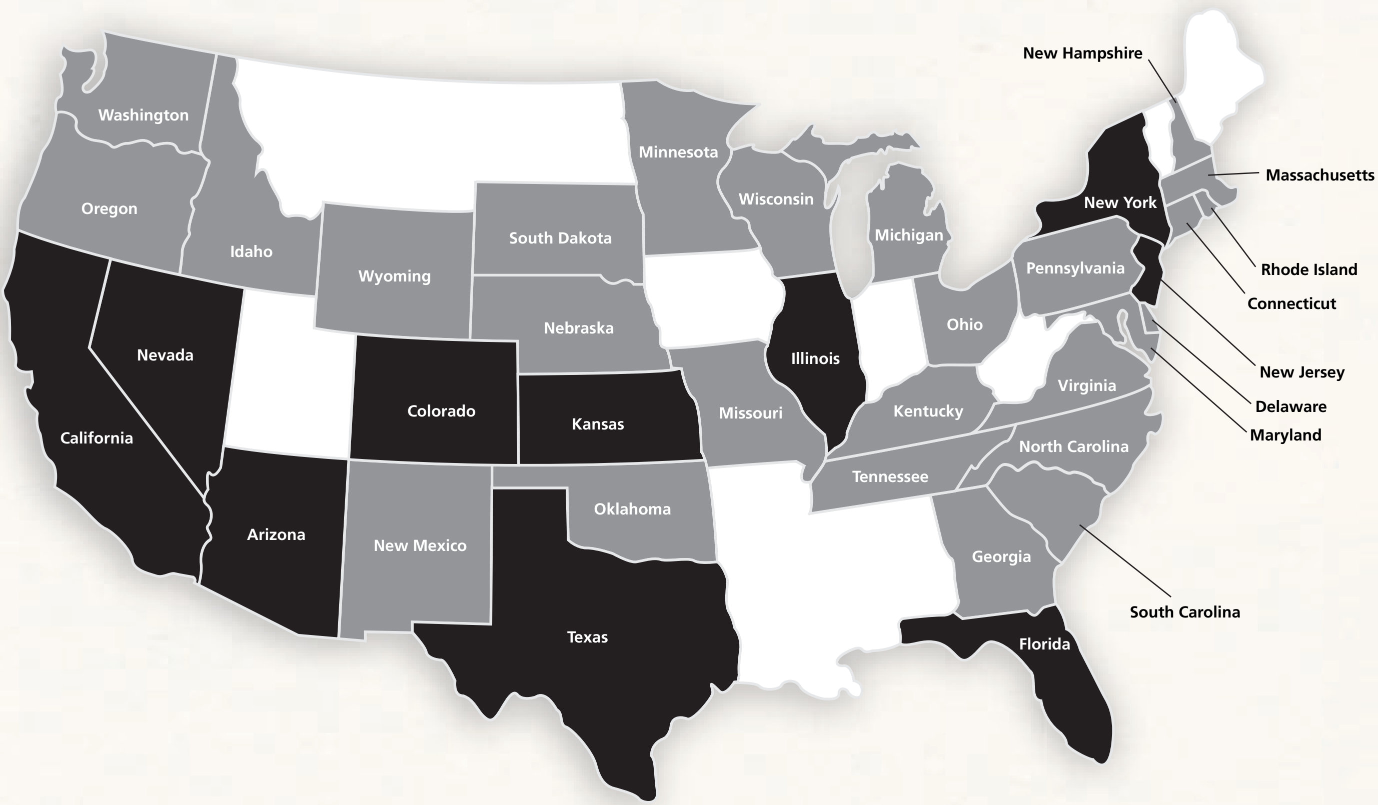
At Yearend	2004	2003
Assets	$106,888,541	$82,549,890
Loans receivable and mortgage-backed securities (MBS)	$102,669,231	$78,311,016
Adjustable rate mortgages and MBS	$ 99,730,701	$75,238,723
Deposits	$ 52,965,311	$46,726,965
Stockholders' equity	$ 7,274,876	$ 5,947,268
Stockholders' equity/total assets	6.81%	7.20%
Common shares outstanding	306,524,716	304,238,216
Book value per common share	$ 23.73	$ 19.55
Yield on interest-earning assets	4.73%	4.54%
Cost of funds	2.22%	1.67%
Yield on interest-earning assets less cost of funds	2.51%	2.87%
Nonperforming assets and troubled debt restructured/total assets	.33%	.51%
For the Year	**2004**	**2003**
Earnings before taxes on income	$ 2,069,001	$ 1,789,335
Net earnings	$ 1,279,721	$ 1,106,099
Basic earnings per share	$ 4.19	$ 3.63
Diluted earnings per share	$ 4.13	$ 3.57
Cash dividends on common stock	$ .21	$ .1775
Average common shares outstanding	305,470,587	305,047,184
Average diluted common shares outstanding	310,119,746	309,974,406
Ratios:		
• Net earnings/average stockholders' equity (ROE)	19.45%	20.33%
• Net earnings/average assets (ROA)	1.37%	1.50%
• Net interest income/average earning assets	2.83%	3.05%
• General and administrative expense/net interest income plus other income (Efficiency ratio)	28.85%	28.57%
• General and administrative expense/average assets	.90%	.98%

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.

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 home mortgage lenders. Additionally, Golden West owns Atlas Advisers, an investment adviser to our Atlas family of mutual funds, and Atlas Securities, the distributor of our Atlas mutual funds and annuities.

Golden West conducts its business through an extensive network of World Savings retail branches through which the Company markets savings, checking, money market, and certificate of deposit accounts; home loans; and Atlas mutual funds and annuities. The Company also originates residential real estate mortgages through separate 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

506 offices • 38 states

EDITORIAL

Food for Thought

Golden West has achieved an outstanding earnings record by diligently following a carefully developed recipe.

We begin the 2004 Golden West Financial Corporation annual report by asking the same rhetorical question we have posed in each of the past two years: "Why is Golden West a special situation?" Our answer this year centers on the second of nine ingredients that when blended together set the Company apart from other large public U.S. companies and support our proposition that Golden West has no comparables, fits no mold, and has no peers: **"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."**

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

Demonstrated Earning Power

Golden West has achieved a long-term earnings record matched by few, if any[1], large American corporations. Specifically, measured over the past 35 years, Golden West's compound average annual growth rate of earnings per share (EPS) has amounted to 19%. Furthermore, we have consistently posted superior returns.

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%	16%	17%	21%	23%

Golden West has achieved this outstanding earnings record by diligently following a carefully developed recipe.

How to Prepare a Special Sauce… from the Golden West Recipe File

Step 1: Put Your Trust in Experienced, Skilled, and Dedicated Chefs

To be successful, our unique business model[2] or recipe requires the focus, discipline, seasoning, and experience of a strong management team. The knowledge, understanding, and skills accumulated by Golden West managers at all levels are utilized to develop and implement strategies geared to the long-term health and success of the Company. Additionally, Golden West's senior executives and Board of Directors together own a sizable portion, approximately 17%, of the Company's stock, giving them a strong identity with shareholders.

"Cooking is not a particularly difficult art...But like any art it requires practice and experience."

Julia Child

Step 2: Base the Recipe on Sound Concepts

We began developing our special situation recipe by selecting a business with sound fundamentals. For us, that was home lending. Since everyone needs a place to live, demand for single-family residences and apartments is always there. We supply the financing that enables households to satisfy this basic human need for shelter and to facilitate the American dream of homeownership. The country's population of approximately 295 million clearly provides a very large pool of potential customers. Small wonder then that the $8.4 trillion of outstanding single- and multi-family U.S. residential mortgages constitutes the largest debt market in the world.

Golden West chefs monitor, measure, and manage interest rate risk to limit the impact of rising market rates on the Company's earnings.

[1] In some cases, comparable data is unavailable due to merger and acquisition activity and balance sheet restructurings.
[2] For a full description of how Golden West's unique business model contributes to making the Company a Special Situation, see "Golden West's Own Business Model" on pages 3-6 of the 2003 Golden West Annual Report, which is available on our web site www.gdw.com.

Step 3: Accumulate Large Amounts of Essential Ingredients: Exceptional Earning Assets and Advantageous Liabilities

Exceptional Earning Assets. In Golden West's unique business model, profits are maximized by retaining virtually all the home loans we originate on our balance sheet as earning assets. The reason: to provide a stream of robust revenue in the form of interest income that flows into the income statement year after year. We have successfully produced growing profits over time by increasing the size of the Company's mortgage portfolio. For example, in 2004 our loans receivable balance expanded by over 31%. While 2004's rapid growth may have been unusual, our long-term record has also been impressive, with the compound average annual growth rate of Golden West's mortgage portfolio averaging 14% over the past ten years, and 21% over the past five.

Advantageous Liabilities. A lender cannot retain loans in portfolio without having the ability to raise the funds to underwrite that strategy. For Golden West, acquiring the liabilities to support mortgages on our balance sheet has meant developing both retail and wholesale sources of funds. Effectively reaching retail customers requires marketing skill and the ability to provide high-touch customer service. Obtaining money on a wholesale basis from the capital markets at attractive rates and terms necessitates superior credit ratings and high-quality collateral. Through the years, we have successfully raised money from both sources.

We reach the investing public on a retail basis through 276 branches in ten states and over the Internet. Here again we are filling a basic need, in this case a safe, secure place for households to invest their savings in federally insured checking, money market, and term accounts.

Every major investment the Company makes must pass a taste test.

Step 4: Maintain the Right Balance between the Essential Ingredients

The price we pay for savings and borrowings shows up as interest expense. The difference between interest expense and the earnings on our loans and other assets is called *net interest income* and constitutes the vast majority of Golden West's revenue. Therefore, our goal is to maintain a sizable advantage between the yield on our earning assets and the cost of our liabilities.

Step 5: Simmer and Season to Taste

We, of course, have to pay close attention to the mix of earning assets and interest-bearing liabilities so that we can generate strong net interest income in a variety of business environments. Consequently, our gourmet chefs devote considerable attention to monitoring, measuring, and managing interest rate risk in order to prevent our net interest income, and hence earnings, from being squeezed if the yield on earning assets and the cost of funds respond at significantly different paces to changes in interest rates.

To facilitate Golden West's management of interest rate risk, our recipe calls for the accumulation of a specific type of earning asset:

adjustable rate mortgages (ARMs), which are loans with an interest rate that changes periodically, in our case on a monthly basis. The Company's concentration on ARMs is essential to the long-term quality of our profits, because these loans enable the asset side of our balance sheet to react to changes in market yields, thereby reducing the variability of our earnings as interest rates rise or fall, usually in response to a heating up or cooling down of the economy.

Step 6: Add Natural Preservatives

As we blend the principal ingredients together to create Golden West's earnings, we must also add in a few natural preservatives to prevent the evaporation of revenues through uncontrolled expenses and nonearning assets.

A Low-Fat Cost Structure. Mortgage lending is a highly competitive, commoditized business. By way of explanation, the public perceives home loan and savings offerings as being very similar from one institution to another. Because there's little product differentiation, the ability to price competitively is key. Since profit margins for residential mortgage lenders are inherently slim, we find we must constantly watch expenses in order to prevent excessive costs from eating away at our profits. Through careful management of day-to-day expenses and our strategic investments in people, processes, technology, and facilities, for the past ten years we have kept our ratio of general and administrative expenses to average assets under 1%, far below other large financial institutions' expenditure levels. In essence, every major investment we make must pass a "taste test" by demonstrating how the spending will contribute to increased productivity, generating and servicing future business volumes, or enhancing customer service.

"The proof of the pudding is in the eating."
Miguel de Cervantes

Delivering high-quality products and services to homeowners and savers is fundamental to Golden West's operations.

High-Quality Mortgages. Delinquent loans can turn into nonearning assets, which could result in foregone interest income, increased expenses, and losses on repossessed properties. Therefore, we pay careful attention to the credit quality of our mortgage portfolio and have thus incurred very few losses. For example, over the past seven years, our ratio of chargeoffs, that is write downs and expenses associated with repossessed properties, to loans has been zero. Admittedly, we enjoyed a generally positive economy and housing market during this period. But our emphasis on quality has enabled Golden West's loan portfolio to perform well even in difficult environments: During the deep California real estate recession of the early to mid-1990s, our highest annual chargeoff ratio was only 18 basis points, far below the experience of other California home lenders.

Step 7: Bon Appétit!

Now that we have shared with you the Golden West recipe that blends together home mortgage lending, fund raising, interest rate and credit risk management, and expense control to produce virtually an unmatched earnings record, we ask and answer our recurring rhetorical question:

Question:

"What do you call a Company whose execution of its unique business model has resulted in exceptionally high-quality earnings spanning four decades and a long-term earnings record that has outperformed virtually all of the country's leading corporations for 35 years, through all phases of the economic cycle?"

Answer:

A SPECIAL SITUATION

Crossword

GOLDEN WEST, A SPECIAL SITUATION

(Answer on page 35)

ACROSS

2 Location of Golden West operations center in TX

5 Golden West has a _______ business model

6 Golden West corporate headquarters are in this CA city

7 Cost of Savings Index

8 Opposite of liabilities

10 A high return using a ______ strategy

11 Acronym for Golden West loan product

12 Another word for home loan

13 _______ rate loan, not a fixed.

14 A Golden West wholly owned subsidiary

DOWN

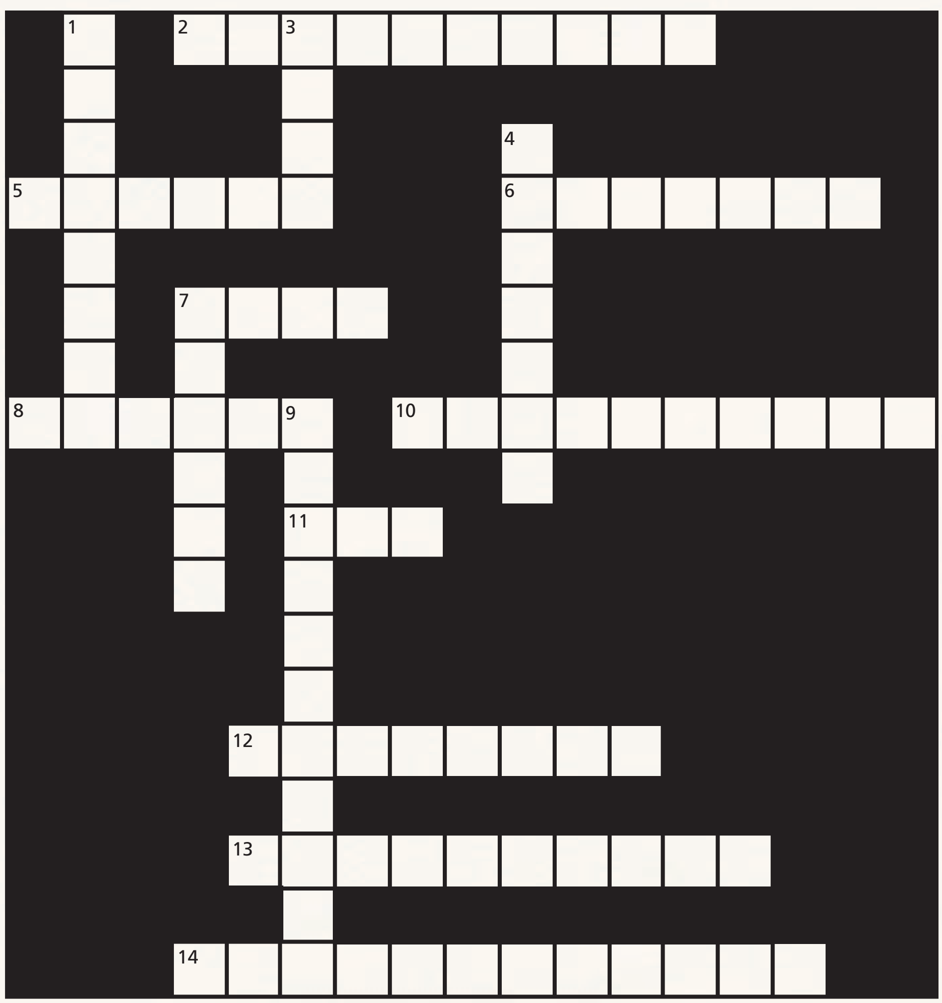
1 Impressive long-term _______ record

3 Number of reasons Golden West is a Special Situation

4 Golden West has a _______ expense structure

7 Golden West has high ______ ratings

9 Someone who owns stock

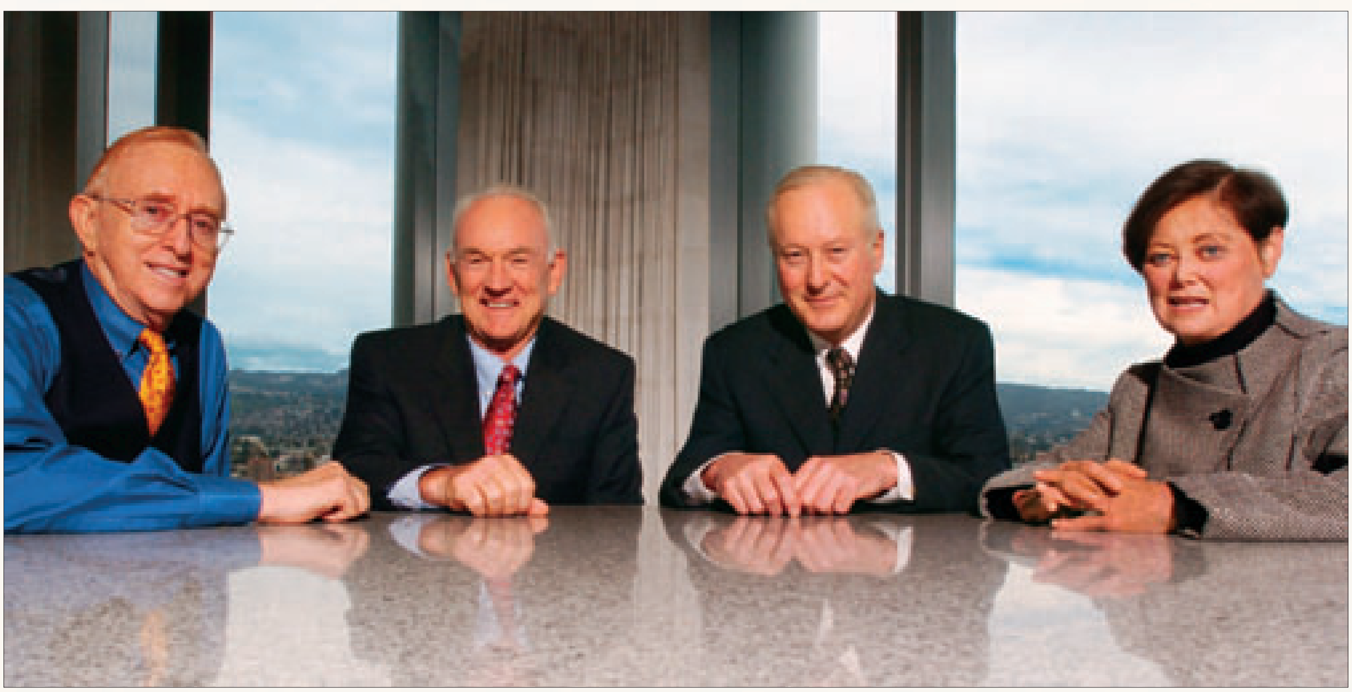


From the Office of the Chairman

Golden West Financial Corporation reported the Company's best year ever in 2004, with records set for earnings, asset size, loan originations, and capital. In particular, our diluted earnings per share reached an all-time high of $4.13, a 16% increase over the previous record of $3.57 set just a year ago in 2003. Assets passed the $100 billion mark in September 2004 and ended the year at $107 billion, up 29% from the prior year. Loan originations jumped 36% from 2003, and net worth exceeded $7 billion at yearend.

Additionally, Golden West produced news-worthy results in three other important areas. First, net deposit inflows of $6.2 billion were the second highest in the Company's history. Second, our loan quality measures continued to be excellent. The ratio of nonperforming assets and troubled debt restructured to total assets fell to .33% at yearend 2004, down from .51% at December 31, 2003. Plus, we recorded virtually no chargeoffs for the seventh straight year. And, third, our already low general and administrative expense ratio fell even further, dropping to .90% in 2004 from .98% for the prior year.

Of course, in 2004, as in every other year, we carried out our unique business model within the context of specific market interest rates, economic conditions, and demand for home loans. To obtain background information about the environment within which Golden West operated in 2004, read about the year's important developments in interest rates, the economy, and the mortgage market starting on the following page.



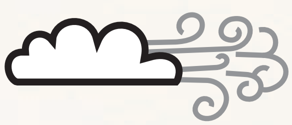
Office of the Chairman, *from left to right, Herbert M. Sandler, James T. Judd, Russell W. Kettell, and Marion O. Sandler*

This climate report summarizes the key elements of the changing business environment in which Golden West operated in 2004.

WEATHER REPORT

Wind Shift Causes Updraft in Short-Term Interest Rates; Long-Term Yields Hold Relatively Steady

In 2004, short-term interest rates, which had reached 45-year lows in 2003, started to move up. The Federal Reserve's Open Market Committee raised the Federal Funds (Fed Funds) rate five times, bringing the level to 2.25% at yearend, up 125 basis points from the 1.00% level where it had hovered since June 2003. Three-month LIBOR, a sensitive short-term interest rate to which many adjustable rate debt instruments are pegged, also increased.



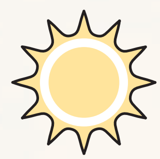
Long-term interest rates displayed more variability than short-term yields. The Ten-Year U.S. Treasury Note rate, which has a direct bearing on the cost of traditional fixed-rate mortgages, remained near historical lows throughout the year, but fluctuated within a 120 basis point band. During the year, these yields trended down in the winter to a mid-March low, then rose in the spring to a mid-June high, before gently subsiding during the summer and fall and then turning up again at the end of the year.

Selected Interest Rates for Federal Funds, 3-Month LIBOR, and the Ten-Year U.S. Treasury Note 2004

	For the Year Ended December 31, 2004					
	Beginning	Highest	Lowest	Ending	Change	Average
Federal Funds	1.00%	2.25%	1.00%	2.25%	1.25%	1.34%
3-Month LIBOR	1.15%	2.56%	1.11%	2.56%	1.41%	1.62%
Ten-Year U.S. Treasury Note	4.27%	4.89%	3.70%	4.24%	-0.03%	4.27%

Favorable Economic Currents Lead to Drop in Unemployment

The benign business climate that prevailed in 2004 resulted in moderate Gross Domestic Product growth. Because of the calm atmosphere,



the unemployment rate dropped to 5.4% at yearend 2004 from the elevated level of 2003, when the jobless figures equaled or exceeded 6.0% for more than half the year.

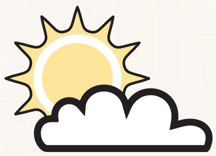
Quarterly Gross Domestic Product Growth Rate and Unemployment Rate 2004

	For the Quarter Ended			
	March 31	June 30	September 30	December 31
Gross Domestic Product Growth Rate[a]	4.5%	3.3%	4.0%	3.1%[c]
Unemployment Rate[b]	5.6%	5.6%	5.5%	5.4%

(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 28, 2005, BEA estimate for the fourth quarter

U.S. Mortgage Demand Subsides, But Volume Still Strong

At $2.9 trillion, total nationwide one- to four-family mortgage originations were the second largest in history, although the year's production was down



25% from the all-time high $3.8 trillion set in 2003. The falloff was driven by the 50% drop in the refinance market, after the prior year's "refi mania." Partially offsetting the decline in refinance activity was the strong 2004 U.S. home sales market, which hit new highs in terms of both number sold and dollar volume of mortgages written. The climate for adjustable rate mortgages (ARMs), our primary product, warmed up in 2004, with ARMs increasing as a percentage of nationwide originations, as many consumers were attracted by the affordability of these loans.

One- to Four-Family U.S. Mortgage Origination Market 2003, 2004, and Percentage Change (Dollars in Billions)

	2004	2003	Percentage Change
Total One- to Four-Family U.S. Mortgage Originations	**$2,852**	$3,810	-25%
Refinance transactions	**$1,266**	$2,530	-50%
Purchase transactions	**$1,585**	$1,280	+24%
Refinances as a % of total originations	**44%**	66%	
Home sales (thousands of units sold)	**7,802**	7,193	+8%
Adjustable Rate Mortgage (ARM) volume as a % of total purchase volume[a]	**35%**	19%	

(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 21, 2005

February 14, 2005

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

MAIL

Dear Golden West Management:

I've often wondered why you don't provide earnings guidance. You no doubt have the numbers. Why don't you share them?

—VERY FRUSTRATED CERTIFIED FINANCIAL ANALYST (CFA)

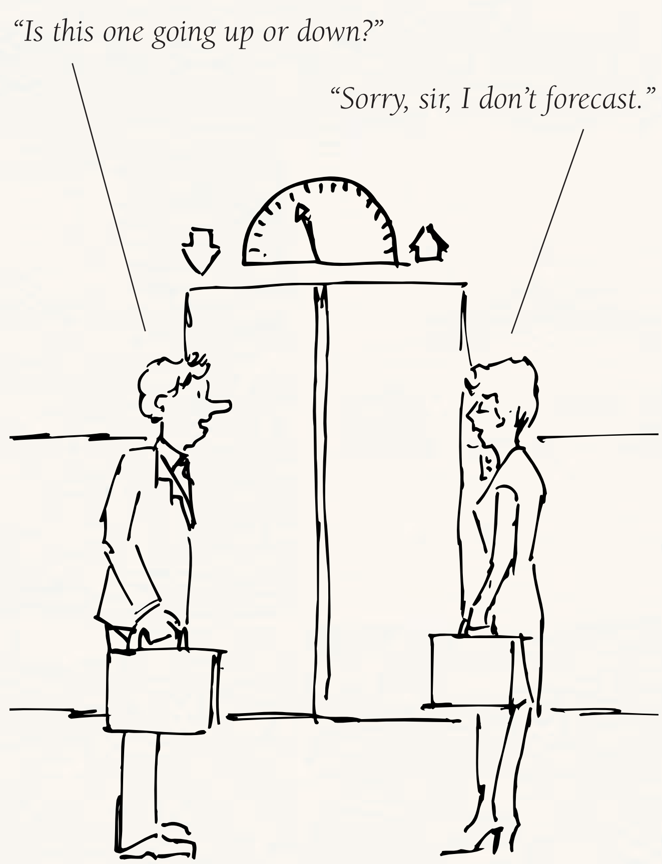
Dear Very Frustrated:

You're right about one thing. There is no way to manage a company without a sophisticated, finely tuned strategic plan that is updated frequently in order to reflect actual operating experience, changes in circumstances, and any other relevant developments.

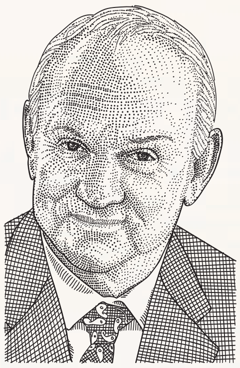
Golden West does not and will not provide earnings guidance. We firmly believe in the wisdom of the saying, "He who talks knows not. He who knows talks not."

We attempt to make our operating plan as precise and accurate as possible. But, in the words of Samuel Goldwyn, the legendary movie mogul, "Forecasts are dangerous—particularly those about the future." While we may have an outstanding financial model, it is by no means a crystal ball. Furthermore, it contains data that is not only highly confidential, sensitive, and proprietary, but also subject to error and the impact of external forces over which we have no control. Given these cautions, under no circumstances should our forecasting model be used to publicly predict future earnings.

Yes, many other companies engage in the earnings guidance free-for-all. Why? We can only speculate. Pressure from Wall Street and the financial press? A way to enhance the price of the stock in the short term? A lack of sophistication about investor relations? The list could go on and on, but suffice it to say, Golden West does not and will not provide earnings guidance. We firmly believe in the wisdom of the saying, "He who talks knows not. He who knows talks not."



Plain Talk from Jim Judd



Real Estate editor, **James T. Judd**, is the President and Chief Operating Officer of Golden West Financial Corporation's World Savings Bank subsidiary, and directs the Company's loan and savings operations.

James T. Judd responds to questions about how Golden West is able to originate record loan volume and, at the same time, focus on quality.

GWFT: *A good place to start our conversation is by asking you to review 2004 loan volume.*

Judd: The Company's mortgage originations were impressive, reaching an all-time high of $49.0 billion, up 36% from our previous record of $36.0 billion set in 2003. But, for Golden West, volume is only one recurring theme in our story; another is the composition of our originations. As you know, we keep almost all the loans we make rather than sell them the way most of our competitors do. For this portfolio strategy to work, we have to limit interest rate risk, particularly the possibility that profits will be hurt when interest rates change, in our case when they rise.

You may recall that, back in the early 1980s, a lot of savings and loans ran into earnings problems, because their loan portfolios consisted of long-term mortgages which had fixed rates. I'll be referring to them as FRMs. Because these FRMs were supported with short-term deposits and borrowings, when interest rates shot up to historically high levels, costs on these liabilities rose much faster than loan yields. That's why industry profits came under extreme pressure.

Twenty years later, mortgage-lending institutions that offer FRMs still have to deal with the problems caused by funding long-term mortgages with short-term liabilities. At Golden West, we avoid this risk by concentrating on adjustable rate mortgages, or ARMs, as our asset of choice. Why? Because, as the cost of the liabilities funding our loans responds to movements in market yields, so does the return on our ARM portfolio. Due to certain lags (see From the Editor's Desk, page 27 in the Health and Fitness section), the match may not be perfect in the short run, but over an interest rate cycle the timing differences tend to even out.

Once again, *Fortune* named Golden West one of "America's Most Admired" companies.

New Loan Originations by Type and by Purpose
2003–2004
(Dollars in Thousands)

	For the Year Ended December 31					
By Type		2004			2003	
	No. of Loans	Amount	% of Total	No. of Loans	Amount	% of Total
Residential (one unit)	218,575	$46,130,614	94.1%	181,042	$33,730,118	93.8%
Residential (two to four units)	7,482	1,794,050	3.7	5,752	1,308,127	3.6
Residential (five or more units)	1,516	1,064,413	2.2	1,564	946,476	2.6
Total	227,573	$48,989,077	100.0%	188,358	$35,984,721	100.0%
By Purpose		2004			2003	
	No. of Loans	Amount	% of Total	No. of Loans	Amount	% of Total
Purchase	59,893	$13,845,483	28.3%	50,540	$10,693,372	29.7%
Refinance	167,680	35,143,594	71.7	137,818	25,291,349	70.3
Total	227,573	$48,989,077	100.0%	188,358	$35,984,721	100.0%

We also believe we have cracked the code on how to originate adjustables in all interest environments. And that includes when interest rates are really low, as they've been for the past few years—when the naysayers predicted that few if any borrowers would want an adjustable. Well, despite an environment favoring FRMs, Golden West's lending program was a big success in 2004: $48.4 billion, or 99% of our total volume, were ARMs, compared with $33.7 billion, or 94%, in 2003.

GWFT: *We're curious about how you were able to increase Golden West's volume by more than one-third when total U.S. one- to four-family mortgage originations declined by 25% to $2.9 trillion from the record $3.8 trillion achieved in 2003.*

Judd: Let's start by looking at the typical pattern of demand for ARMs versus FRMs. World's ARMs compete in a lending market usually dominated by fixed-rate mortgages. But the popularity of ARMs can increase or decrease based on the relative attractiveness of the two products. For example, when the cost of fixed loans is high or rising, ARMs are fairly popular, because adjustables typically cost less than FRMs. However, when the price of fixed mortgages is low or falling, borrowers tend to gravitate to FRMs to lock in attractive rates and payments for the long term.

In 2004, rates on fixed mortgages continued to be exceptionally low from an historical perspective. So, of course, we once again faced stiff competition from FRMs, which could generally be obtained below 6% for most of the year. Yet, we produced our record ARM volumes because we had three very strong positives going for us. First, our ARM is an excellent product that provides customers with flexible terms. Second, we have an outstanding sales force. And, third, we provide exceptional customer service that is facilitated by

"The Company's mortgage originations were impressive, reaching an all-time high of $49.0 billion, up 36% from our previous record of $36.0 billion set in 2003."

"Our record loan volume resulted in the robust 31% growth of our mortgage portfolio..."

the rapid processing of mortgage applications. As a result, our loan representatives delivered on their promises of speedy loan closings in 2004.

GWFT: *What impact will your high level of originations in 2004 have on future earnings?*

Judd: Our record loan volume resulted in the robust 31% growth of our mortgage portfolio, which is our principal earning asset. Because our loan balances generate an ongoing stream of income, much like an annuity, we expect the substantial volume of mortgages we put on the books will contribute significantly to the Company's future profits. Growing our earning asset base through all interest rate and business environments is what accounts for Golden West's exceptional long-term earnings record and contributes to our being a special situation.

Golden West maintains loan quality by carefully evaluating properties through its well-trained, in-house staff of appraisers.

GWFT: *In addition to originations, the size of the loan portfolio also depends on how long loans remain on your balance sheet. Can you tell us what went on with repayments by your existing borrowers?*

Judd: I anticipated you'd ask a question about repayments, so I'd like to point to the first of several tables I brought along to help explain our numbers. Just like the rest of the mortgage-lending industry, Golden West has experienced unusually high repayments for the past few years, because low mortgage rates motivated borrowers to refinance existing loans. If you look back to 2000 when interest rates were higher and there was relatively little refinance activity in the market, our repayments were considerably lower.

Total Mortgage Repayments and
Mortgage Repayments as a Percent
of Beginning-of-Year Loan Portfolio Balance
2000–2004
(Dollars in Millions)

	For the Year Ended December 31				
	2004	2003	2002	2001	2000
Mortgage repayments (a)(b)	$24,155	$20,043	$15,551	$15,570	$6,921
Percent of beginning-of-year loan portfolio balance (b)	31%	31%	28%	30%	17%

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

GWFT: *Now let's shift gears and talk about mortgage quality. What happened with your problem assets and loan losses in 2004?*

Judd: To answer that question, just take a look at the numbers in my second table. We closely track the overall dollar volume and trends in non-performing assets, which include loans more than 90 days delinquent and foreclosed real estate, plus

FROM THE EDITOR'S DESK

Golden West's monthly adjustable (ARM)

Golden West specializes in originating an adjustable rate mortgage on which the rate changes monthly. The Company's ARM is quite different from the majority of adjustables produced by other lenders, who mainly offer a so-called hybrid ARM that is really a cross between a fixed-rate mortgage and an adjustable. Here's why Golden West's monthly adjustable ARM is clearly a superior species.

The most important distinction among ARMs is the frequency with which rates on these loans change. Because the interest rates on Golden West's loans adjust each month, the yield on the Company's mortgage portfolio responds relatively quickly to movements in interest rates. In contrast to the monthly adjustable ARM, hybrid ARMs start out as fixed-rate loans for periods typically ranging from three to five years, and sometimes even from seven to ten, after which there is a periodic adjustment to the interest rate. In effect, the lender has originated a short-term FRM and, during the fixed period, has given up all of the interest rate protection that ARMs can provide an institution.

As in 2003, hybrid ARMs constituted the largest portion of the home mortgage lending industry's adjustable rate mortgage originations in 2004.

troubled debt restructured, which are loans we've modified to assist borrowers who are having temporary financial difficulties. The total amount of nonperforming assets, which we call NPAs, plus troubled debt restructured, abbreviated as TDRs,

"Our chargeoff ratio was zero in 2004, for the seventh year in a row."

actually declined in 2004. Then there's the ratio of NPAs and TDRs to total assets. Our ratio dropped during 2004 to an exceptionally low level.

Nonperforming Assets[(a)],
Troubled Debt Restructured[(a)], and
Ratio of Nonperforming Assets and
Troubled Debt Restructured to Total Assets
2000–2004
(Dollars in Millions)

	December 31				
	2004	2003	2002	2001	2000
Nonperforming Assets (NPAs)	$344	$424	$424	$394	$239
Troubled Debt Restructured (TDRs)	4	3	-0-	1	2
Total NPAs and TDRs	$348	$427	$424	$395	$241
Ratio of NPAs and TDRs to total assets	.33%	.51%	.62%	.67%	.43%

(a) For definitions of nonperforming assets and troubled debt restructured, see the Glossary on pages 34 and 35.

Another number that's very important is the ratio of chargeoffs, or losses on the disposition of repossessed property, to total loans. Our chargeoff ratio was zero in 2004, for the seventh year in a row.

GWFT: *How did you achieve these excellent results, especially in 2004?*

Judd: Our outstanding performance is in large part due to our lending philosophy. Because we are risk averse, we focus on quality to protect our profits from the triple threat posed by nonperforming assets: diminished interest income, increased expenses, and losses upon sale of repossessed properties. But I hesitate to take too much credit for 2004, a year when unemployment declined, and housing prices rose in most of our lending territories. If our borrowers weren't able to make their loan payments, they generally could take care of the problem by selling their house, rather than going into default.

GWFT: *Aren't you concerned that home prices have run up too fast in some of your major markets, possibly leading to a housing bubble? Also, that values may be adversely impacted when mortgage rates go up and that credit problems may increase?*

Judd: Now you're asking me to look into a crystal ball, and frankly I don't have one. But I think what you're really asking is whether there's something unusual in the low interest rate environment of the past few years that's setting us up for problems in the future.

"...the average loan-to-value ratio for all loans on the books at December 31, 2004, was 69%."

What's important from Golden West's perspective is how we've protected our portfolio. One way is by focusing on loan-to-value—or LTV—ratios, which measure the size of the loan relative to the appraised value. The lower the LTV, the more protection for the lender, because there's more equity to absorb a decline in house prices should that happen. The average loan-to-value ratio for mortgages Golden West originated in 2004 was only 71%, and the average loan-to-value ratio for all loans on the books at December 31, 2004, was 69%. Our low average portfolio LTV is based on the current mortgage balance divided by the original value, and doesn't take into consideration any price appreciation of properties backing older loans. I'd also like to point to another protection provided by our lending program. As you know, mortgages at the upper end of the LTV scale, especially those over 90%, typically pose the greatest credit risk for home lenders. At yearend 2004, only 1% of our loan balances had LTVs over 90%, and almost all of these carried mortgage insurance, which we purchase in order to limit our losses should borrowers default.

FROM THE EDITOR'S DESK

Golden West's lending program emphasizes high quality by:

- Lending primarily on affordably priced one- to four-family homes. Demand for reasonably priced properties tends to hold up even in weak housing markets.
- Assessing property values and borrowers' ability to repay the loans using systems developed internally based on years of experience evaluating credit risk. In addition, we continue to underwrite loans the old-fashioned way, using technology as a tool, not a crutch.
- Separating sales, appraising, and underwriting groups to assure independence and accountability so that the lending process incorporates quality at every step and is not driven by volume goals.
- Analyzing market trends in lending territories and adjusting lending terms as appropriate, such as decreasing loan-to-value ratios if prices either start to become overheated or show signs of weakness.

Substantial Volume of Funds Raised to Support Record Lending and Mortgage Portfolio Growth

Money columnist, **Marion O. Sandler**, is Chairman of the Board and Chief Executive Officer of Golden West Financial Corporation, and writes periodically for the *Golden West Financial Times.*

Today's column focuses on how Golden West generated funds from three primary sources: consumer deposits, borrowings, and loan repayments.

Loan Repayments, Loan Sales, Savings Growth, and Net Change in Borrowings 2000–2004 (Dollars in Millions)

	For the Year Ended December 31				
	2004	2003	2002	2001	2000
Loan repayments[a]	$24,155	$20,043	$15,551	$15,570	$ 6,921
Loan sales[a]	553	3,218	2,605	2,924	350
Savings growth	6,238	5,688	6,566	4,610	2,748
Net change in borrowings	16,656	7,471	2,498	(2,313)	10,000
Total sources of funds	$47,602	$36,420	$27,220	$20,791	$20,019

(a) Includes mortgage-backed securities.

Savings

The marketing department at Golden West has a special knack for gathering deposits. Look at the last few years. In 2004, savings balances increased 13% or $6.2 billion, the second highest growth in our history. This impressive performance topped the $5.7 billion reported in 2003 and approached the previous record of $6.6 billion set in 2002.

In 2004, savings balances increased 13% or $6.2 billion, the second highest growth in our history.

But I think it's even more instructive to measure our performance against the competition's. For the first nine months of 2004[1], the Company's 11% savings growth beat the 7% increase produced by all FDIC-insured institutions combined. Over the past ten years, Golden West's deposits grew at a compound clip of 11% versus 6% for all insured U.S. depositories as a group, thereby contributing to our special situation aura.

Golden West's in-house Marketing Department uses state-of-the-art computer technology to design advertisements, brochures, and other customer communications.

[1] Latest available data for all FDIC-insured institutions.

User-friendly brochures communicate the details and benefits of the Company's products and services to customers.

How do we do it? In simple marketing terms: We find a need and fill it. Take 2004, a year of historically low interest rates and a nervous, directionless stock market. Anxiety and the lack of clarity surrounding the economy and the presidential election (to mention just a few items) led to a strong preference for liquidity. As you can see from the advertisement on the opposite page, our product design and message met that consumer need—and the rate was attractive, certainly when compared to our major competitors.

Borrowings

In addition to raising money on a retail level, Golden West has access to a number of wholesale sources. Because of the Company's large appetite in 2004, we borrowed very actively, with total debt registering a net increase of $16.7 billion, the largest annual growth in our history.

The Company was able to utilize the capital markets because Golden West has spent years developing and maintaining excellent access to a variety of funding sources on both a secured and an unsecured basis. To raise secured debt, we use our large, high-quality loan portfolio to provide excellent collateral for borrowings, which can then be used to support the accumulation of additional earning assets. For unsecured debt, we rely on our superior credit ratings. In particular, Golden West's World Savings subsidiary can borrow on an unsecured basis at advantageous rates and terms, because of its "Double A" credit rating from both Moody's and Standard & Poor's, the nation's leading credit evaluation agencies. In 2004, our subsidiary issued $4.3 billion in long-term unsecured senior debt, not only helping to support the strong growth of the Company's mortgage portfolio, but also continuing to diversify Golden West's sources of borrowings.

FROM THE EDITOR'S DESK

FHLB advances

The Federal Home Loan Bank System (FHLB) provided the largest portion of Golden West's borrowings in 2004. Loans from the FHLB are called "advances" and are secured by mortgages from the Company's loan portfolio.

Loan Repayments

While savings and borrowings usually make a major contribution to meeting Golden West's funding needs, repayments of mortgages from our own portfolio typically provide the largest share. The amount furnished by repayments varies from year to year depending on what's going on in the mortgage market, including the level of home sales and the degree of refinance activity. When loan demand is high, repayments are usually elevated as well, because many borrowers are replacing existing mortgages with new ones in connection with either home purchases or refinances. As discussed in the Real Estate section on pages 14 through 18, continued low interest rates in 2004 fueled strong nationwide mortgage originations and, as a consequence, our repayments totaled $24.2 billion.

FROM THE EDITOR'S DESK

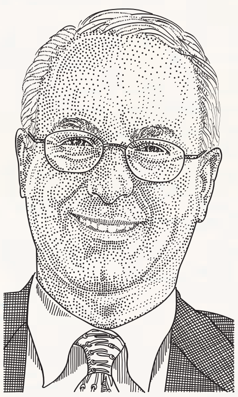
Mortgage repayments

Golden West's loan portfolio provides cash in two ways:

- Mortgage payoffs, which occur when borrowers sell their residences or refinance existing loans.
- Principal amortization, which consists of scheduled monthly payments to reduce loan balances.

World Savings, Golden West's primary operating subsidiary, uses newspaper ads in local media to promote savings products featuring superior rates.

Capital: Nominated for Best Supporting Role



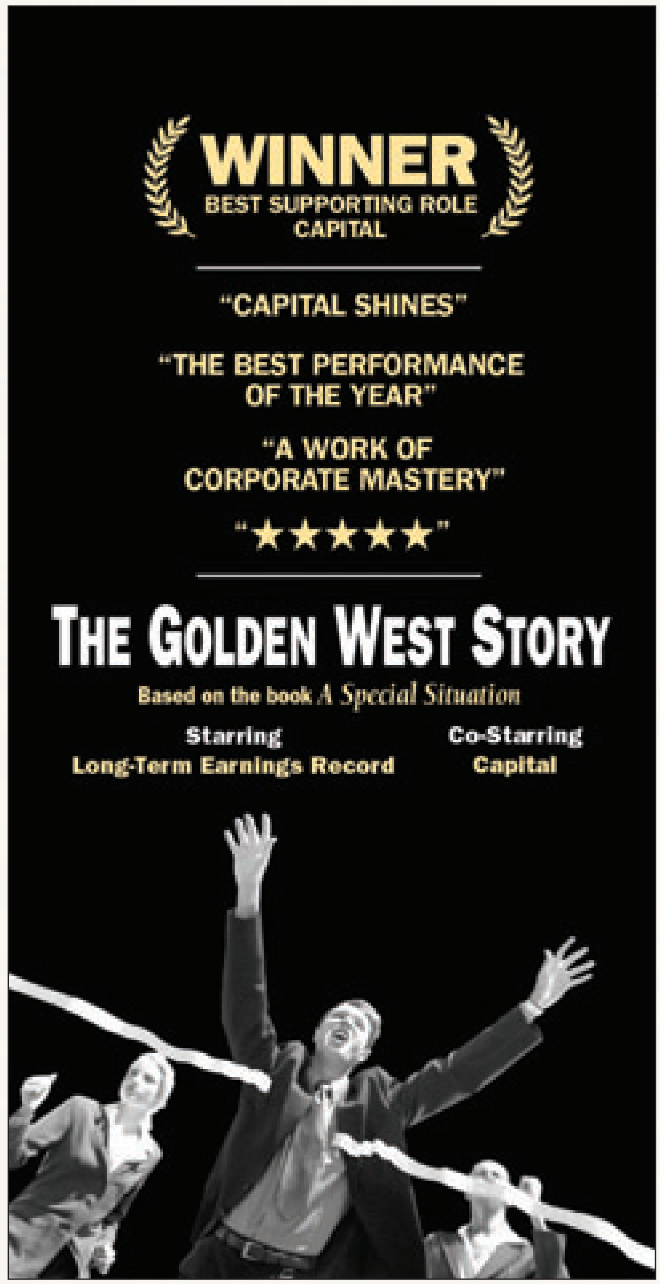
Movie critic, **Russell W. Kettell,** is President and Chief Financial Officer of Golden West, and has guided the Company's financial strategy for more than 30 years.

Capital, or net worth, performs a very significant role in the Golden West drama by enabling the Company to take advantage of growth and other profit-making opportunities. To see how capital has supported the Company's special situation status, let's examine the three most important benefits that having robust capital has provided.

...Golden West's large and increasing capital base...made possible the 30% growth of our earning assets in 2004...

Supporting the Growth of Earning Assets

Golden West's unique business model[1] focuses on expanding earning assets in order to increase profits over time. Since government regulations require that financial institutions maintain certain minimum ratios of net worth to assets, if a bank wants to expand, it must have enough capital to facilitate that growth. Fortunately, Golden West's



Capital plays a pivotal role in *The Golden West Story,* helping to support expansion, profitability, and high credit ratings.

[1] See "Golden West's Own Business Model" on pages 3-6 of the 2003 Golden West Annual Report, which is available on www.gdw.com.

large and increasing capital base, virtually all of which has been generated internally through the retention of our substantial profits over the years, made possible the 30% growth of our earning assets in 2004, and the 21% compound average annual growth over the past five years.

Supporting Access to Capital Markets

A substantial portion of the funds Golden West uses to support the accumulation of earning assets comes in the form of borrowings. Although a large part of our debt is secured by collateral created from our loan portfolio, a significant portion is not. The audience that lends on an unsecured basis at attractive rates and terms requires borrowers to have superior credit ratings. And that's where capital comes into play. Our high net worth level has received a standing ovation from both Moody's Investors Service and Standard & Poor's, the nation's two leading credit evaluation agencies. In particular, these organizations have cited our substantial capital as a principal factor in ranking our World Savings subsidiary's unsecured long-term debt at the "Double A" level, the highest achieved by an independent savings institution. In 2004, advantageous ratings were instrumental in enabling our subsidiary to issue $4.3 billion of unsecured, long-term senior notes at favorable prices.

Supporting Earnings Per Share Increases

High net worth contributes to the growth of Golden West's net income per share in two principal ways. First and foremost is enabling the Company to grow earning assets as I described above. Second is having enough extra capital on hand to repurchase shares during periods of slow growth or if conditions in the equities markets are favorable. Stock repurchase enhances per share profits because the same level of earnings divided by a smaller number of shares produces higher profits per share. In 2004, Golden West did not repurchase shares because we used our capital to support rapid mortgage portfolio expansion. However, over the past five years, the Company has purchased and retired 24.1 million shares, equaling approximately 7.2% of the average number of shares outstanding.

Now playing at a website near you.

www.gdw.com

Thank

y00,000,000,000u.

Your hard work has helped us reach
$100,000,000,000 in assets.

In October 2004, Golden West thanked employees for helping the Company reach the $100 billion milestone.

...stockholders' equity grew by $1.3 billion or 22% and passed $7 billion for the first time in our history.

Now let's take a look at what happened with Golden West's capital in the 2004 scene. As in prior years, Golden West reinvested the lion's share of the Company's substantial earnings back into the business. Consequently, stockholders' equity grew by $1.3 billion or 22% and passed $7 billion for the first time in our history. At the same time, total assets expanded by 29%. But, because we started the year with a relatively high ratio of net worth to total assets, our capital not only easily supported the Company's rapid 2004 asset growth, but also left us in good shape at yearend.

Stockholders' Equity, Total Assets,
Ratio of Stockholders' Equity to Total Assets, and
Return on Equity
2000–2004
(Dollars in Millions)

	December 31				
	2004	2003	2002	2001	2000
Stockholders' equity	$ 7,275	$ 5,947	$ 5,025	$ 4,284	$ 3,687
Total assets	106,889	82,550	68,406	58,586	55,704
Ratio of stock-holders' equity to total assets	6.8%	7.2%	7.3%	7.3%	6.6%
Return on equity [(a) (b)]	19.5%	20.3%	20.6%	20.4%	16.2%

(a) Earnings divided by average equity.
(b) For 2001, see footnote (b) on page 36.

I'd also like to point out another favorable aspect of capital's relationship to earnings at Golden West, by directing your attention to the return on equity (ROE) line in the preceding table. As you can see in the commentary in From the Editor's Desk, ROE is a simple mathematical calculation. However, it's important to look behind the numbers. For example, an institution with modest profits but low net worth could still report a good return on equity, while a firm with a solid level of earnings but very high capital could show a relatively low ROE. In Golden West's case, we are in the special situation of producing a high ROE by generating substantial earnings on a large net worth base.

FROM THE EDITOR'S DESK

Return on equity (ROE)

The difference between a company's assets and its liabilities is the amount owned by the shareholders and is called stockholders' equity, or net worth, or capital.

Return on equity (ROE) is a measure of a company's earnings in relation to average stockholders' equity.

$$\text{ROE} = \frac{\text{Earnings}}{\text{Average Stockholders' Equity}}$$

So, in summary, after demonstrating how important net worth has been for the successful execution of Golden West's business model, I hereby nominate capital for "Best Supporting Role."

Before we begin curtain calls, I'd like to mention one other development involving Golden West's capital in 2004. In October, the Board of Directors approved a two-for-one split of the Company's outstanding common shares in the form of a stock dividend and also increased the cash dividend by 20%. Because of the Company's ongoing strong earnings, the Board has increased this cash dividend at a compound average annual rate of 18% over the past five years.

Golden West's Financial Fitness Plan

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

To stay healthy, Golden West has faithfully followed a rigorous financial regimen based on our simple business model: Generate growing and recurring income by making high-quality residential home loans in volume, while controlling expenses to ensure that as much of our revenue as possible reaches the bottom line. Based on this strategy, we have taken the concept of financial fitness to a whole new level. In 2004, diluted earnings per share reached a record $4.13, a 16% increase from the previous high of $3.57 reported in 2003. And over the past 35 years, our compound annual growth rate of earnings has averaged 19%, a record matched by few of the country's leading corporations.

In 2004, diluted earnings per share reached a record $4.13, a 16% increase from the previous high of $3.57 reached in 2003.

Muscular Net Interest Income Keeps Us Fiscally Fit

Net interest income is by far the largest part of our earnings, making it the focal point of our fitness program. As the table below documents, in 2004 net interest income reached an all-time high of $2.6 billion, or 19% more than the prior record of $2.2 billion set in 2003.

Interest Income, Interest Expense, Net Interest Income, and Annual Percentage Change 2000–2004 (Dollars in Millions)

	For the Year Ended December 31				
	2004	2003	2002	2001	2000
Interest income	$4,178	$3,529	$3,497	$4,209	$3,796
Interest expense	1,560	1,320	1,567	2,578	2,645
Net interest income	$2,618	$2,209	$1,930	$1,631	$1,151
Annual percentage change	19%	14%	18%	42%	15%

FROM THE EDITOR'S DESK

Net interest income

Net interest income measures the difference **in dollars** between the interest 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.

The strength behind Golden West's net interest income growth in 2004, or in any year for that matter, is provided by two large "muscles": earning assets and the primary spread.

Earning asset growth and a healthy primary spread power Golden West's profitability.

FROM THE EDITOR'S DESK

Portfolio lending and earning asset growth

Golden West increases earning assets by keeping the loans we originate on the books, rather than selling the mortgages as many other lenders do. Golden West can follow this approach because the Company has the ability to fund loans with deposits and borrowings, and the capital necessary to support the growth of these earning assets.

Building Up Earning Assets Produces More Income

Golden West's largest earning asset is its mortgage portfolio. The more loans the Company has on the books, the more interest income we generate. In 2004, by doing some heavy lifting, Golden West originated a record $49.0 billion of new loans, which led to a 31% increase in the mortgage portfolio. This substantial growth was not only the most important reason the Company reported record net interest income, but also helped bulk up our future earning potential as well.

While the loan portfolio expanded at a rapid rate in 2004, substantial growth is nothing new at Golden West. Over the past five years, the Company's loan and MBS balances have increased at a compound average annual rate of 21%.

Balance of Loans Receivable and MBS,
Change, and Percentage Change
2000–2004
(Dollars in Billions)

	For the Year Ended December 31				
	2004	2003	2002	2001	2000
Loans receivable and MBS	$102.7	$78.3	$65.0	$55.7	$52.7
Change	24.4	13.3	9.3	3.0	12.9
Percentage change	31%	20%	17%	6%	32%

A Healthy Profit Margin Also Powers Net Interest Income

The second key "muscle" that strengthens net interest income is the Company's primary spread, or profit margin. The primary spread measures the difference, in percentage terms, between the yield earned on loans and investments and the rate paid on deposits and borrowings. It is usually the case that our primary spread has an inverse relationship to movements in short-term market

FROM THE EDITOR'S DESK

The variability of the primary spread

Golden West's primary spread can vary a bit from year to year, because of the makeup of the Company's assets and liabilities.

On the one hand, to support a portion of the mortgage portfolio, Golden West uses liabilities from the capital markets, 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 reporting lag, which is caused by the month or two it takes to gather and report the data needed to compute the index. Second is the repricing lag, which means there is a timing gap between a change in market interest rates and how long it takes the index to respond. The repricing lags occur either because the components of the index do not react immediately to rate changes or because the index is computed as a moving average.

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, leading to a temporary narrowing of the primary spread when interest rates rise and a temporary widening of the primary spread when interest rates fall.

interest rates. When interest rates rise, spreads typically decline, and when rates fall, spreads expand. As a result, the contribution of our profit margin to net interest income can vary from one year to the next.

As the table below demonstrates, the Company's primary spread peaked at the end of 2001, following a very steep drop in the Federal Funds rate. In 2002 and 2003, market interest rates were relatively stable, so our average profit margin changed very little. But as expected, when the Federal Funds rate started to rise in 2004, our spread declined.

Average Annual Yield on Interest-Earning Assets, Cost of Funds, and Primary Spread[a], and Primary Spread at Yearend 2000–2004

	For the Year Ended December 31				
	2004	2003	2002	2001	2000
Average annual: Yield on interest-earning assets	4.56%	4.88%	5.68%	7.43%	7.58%
Less: Cost of funds	1.80	1.94	2.69	4.73	5.53
Primary spread	2.76%	2.94%	2.99%	2.70%	2.05%
Primary spread at yearend	2.51%	2.87%	2.93%	3.21%	2.03%

(a) Annual averages are computed by adding the number reported at the prior yearend to the numbers reported at each monthend and dividing by 13.

All else being equal, a lower profit margin would mean less net interest income. This past year, however, the increased earning capacity created by the rapid expansion of our mortgage portfolio was more than enough to compensate for the decrease in the primary spread, and the Company recorded all-time high net interest income.

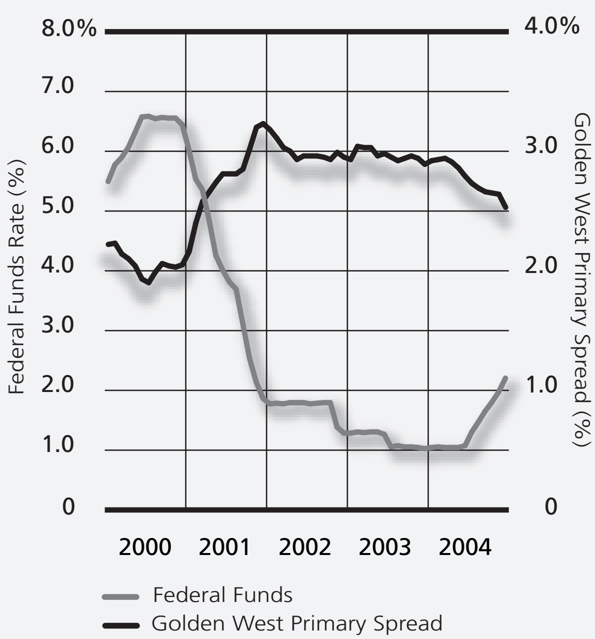
And over the past 35 years, our compound annual growth rate of earnings has averaged 19%, a record matched by few of the country's leading corporations.

FROM THE EDITOR'S DESK

The relationship of Golden West's profit margin to short-term interest rates

To illustrate the connection between Golden West's profit margin and short-term market rates, the graph below compares the Company's primary spread for the past five years to the monthly average Federal Funds rate, which is a key driver of short-term yields.

Monthly Average of Federal Funds Rate and Monthend Golden West Primary Spread 2000–2004



Noninterest Income Helps Supplement Revenues

While net interest income is the primary source of Golden West's earnings each year, noninterest income contributes to the bottom line as well, generally constituting 5% to 15% of the Company's revenue. In 2004, noninterest income totaled $294 million, or 10% of revenues, down from $313 million, or 12% of revenues, one year earlier.

The decline in the volume of fixed-rate mortgages (FRMs) the Company originated and sold in 2004 was the major reason for the decrease in noninterest income. By way of background, Golden West sells the majority of the FRMs we produce each year to avoid the interest rate risk associated with keeping these loans. In 2004, we didn't have many FRMs to sell because only 1% of our new loan originations were fixed-rate mortgages, down from 6% in 2003. As a result, our gain on sale, which is reported with noninterest income, decreased from the prior year's level.

FROM THE EDITOR'S DESK

Noninterest income

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

- Fees associated with servicing the loan portfolio
- Gains on the sale of fixed-rate mortgages
- Income from the management and sales of our Atlas mutual funds and annuities
- Checking and savings account charges

Low-Fat Diet Preserves Profits

Building and maintaining the muscles to generate robust, recurring revenues is, of course, only one part of our fiscal fitness program. The other is following a low-fat diet, so that we can bring as much of our income as possible to the bottom line. The success of this program has contributed significantly to the Company's exceptional long-term earnings record and is one of the reasons we are a special situation.

"Bob is taking this transparent accounting really seriously."

There is no magic potion in our low-fat approach to general and administrative (G&A) expense control—just careful planning, focus, discipline, hard work, and an unrelenting devotion to enhancing productivity. Our goal is to achieve healthy financial results on an ongoing basis. By spending wisely and investing in people, processes, technology, training, and facilities, we put in place the resources required to accumulate and service record volumes of both earning assets and supporting liabilities. As a result of honing our expense management skills for over four decades,

The Company's focused and disciplined approach to managing expenses and enhancing productivity is an important contributor to generating record-breaking results.

Golden West has earned the undisputed status of being the low-cost operator among major depository institutions. At the same time, I don't want to give you the impression that we spend our days counting pennies, for that image couldn't be farther from the truth.

FROM THE EDITOR'S DESK

Calculating expense ratios

There are two key expense ratios for financial institutions:

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

As the accompanying table shows, Golden West spends a meaningful amount of money on general and administrative expenses, specifically, $840 million in 2004, a 17% increase over the prior year's level of $721 million. What's important is not so much what we spend as knowing that we are getting our money's worth through enhanced productivity.

At Golden West, there are two ways we measure the efficiency of our cost control diet plan: the ratio of G&A to average assets and the efficiency ratio. In 2004, our G&A ratio declined significantly to .90%, from .98% in 2003, as the Company was able to keep expense growth in line with prior years, while at the same time increasing average assets an impressive 27%. And our already low efficiency ratio hovered around 29%.

Total General and Administrative Expenses (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 2000–2004

	2004	2003	2002	2001	2000
G&A (millions)	**$840**	$721	$601	$514	$425
Percentage change	**17%**	20%	17%	21%	10%
Average assets (billions)	**$ 94**	$ 74	$ 63	$ 57	$ 49
Percentage change	**27%**	17%	9%	17%	24%
G&A as a percentage of average assets	**.90%**	.98%	.96%	.90%	.87%
Efficiency ratio[(a)]	**28.9%**	28.6%	27.6%	27.5%	32.4%

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

Now that we've reviewed the numbers, let's take a closer look at how we implement Golden West's low-fat approach to expense management on a day-to-day basis. First, we make sure we are investing in the "right" activities. In essence, all expenditures must pass a rigorous screening test characterized by the initials WTGBRFDT[1] that stand for "What's the good business reason for doing this?" Essentially, we analyze all investments to understand how they will benefit the Company, for example, by enabling Golden West to become more productive, to generate larger business volumes, and to enhance customer service. Second, we focus our spending on critical elements of our business plan, including originating high-quality adjustable rate mortgages and attracting and servicing substantial amounts of consumer deposits. And, third, we coach and train employees throughout the organization on ways to perform their jobs at peak efficiency.

You may also access Golden West's 2004 Annual Report online at www.gdw.com

In 2004, our G&A ratio declined significantly to .90%, from .98% in 2003...

[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.

...we analyze all investments to understand how they will benefit the Company...to become more productive, to generate larger business volumes, and to enhance customer service.

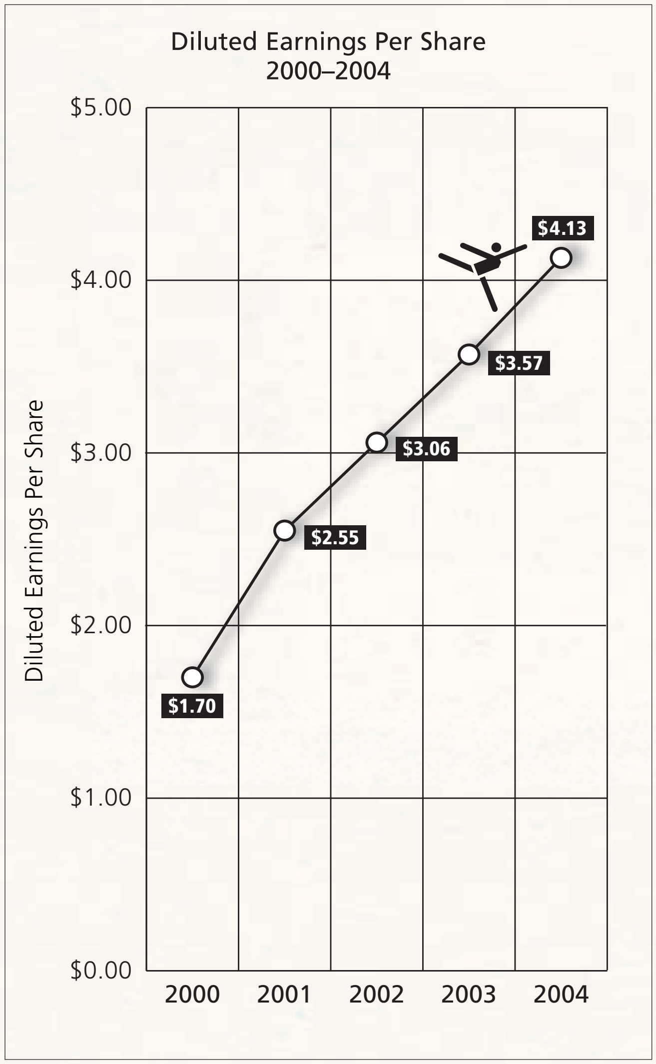
The significant drop in the G&A ratio from 2003 to 2004 is a good case study of how planning ahead and making the right spending choices not only enables us to improve productivity, but also to take advantage of future business opportunities. As we've discussed in previous Annual Reports, Golden West invested heavily over the past several years in building our mortgage origination organization by entering additional markets in 38 states, expanding loan support facilities, training new loan personnel, and installing updated telecommunications and computer systems. These expenditures paid off handsomely in 2004. Why? Because, with the appropriate resources already in place, we were able to respond to the favorable lending environment for adjustable rate mortgages and thereby increase volume by 36% over the prior year—without having to materially add to G&A, or worse still, pass up doing the business. Furthermore, we realized significant mortgage production efficiencies that made a sizable contribution to the decrease in Golden West's G&A ratio.

Of course, not all productivity improvements are as dramatic as the loan origination example just cited. However, at all times, the Company is implementing a host of projects that together help Golden West stick to a low-fat diet. Here are a few illustrations of what was on our menu in 2004:

- Using workflow technology to automate many of the core tasks in the loan service area to eliminate manual processing steps and improve customer service

- Upgrading call center technology to allow loan service personnel to handle both inbound and outbound traffic from the same automated phone system, thereby facilitating more efficient utilization of staff time

- Realizing productivity gains from software designed to enable savings branch personnel to quickly research customer inquiries



By following a rigorous financial fitness regimen, Golden West has produced a dramatic increase in profits.

Golden West volunteers donate their time and energy to paint and repair the homes of low-income seniors.

Community Reinvestment: Lending a helping hand to those in need

Golden West's Community Reinvestment in Action program develops innovative loans that serve thousands of low-income customers every year.

OAKLAND, CALIFORNIA—Golden West continued its commitment to meeting the housing needs of low- to moderate-income areas and minority neighborhoods by providing more than $17 billion for home loans in 2004.

Golden West also works with municipalities across the country in order to provide homebuyers living on a limited income with favorable financing, including down payment and closing cost assistance. In addition to corporate initiatives, many employees give generously of their own time to organize and participate in affordable housing seminars, which help educate potential homebuyers on how to achieve the American dream of homeownership.

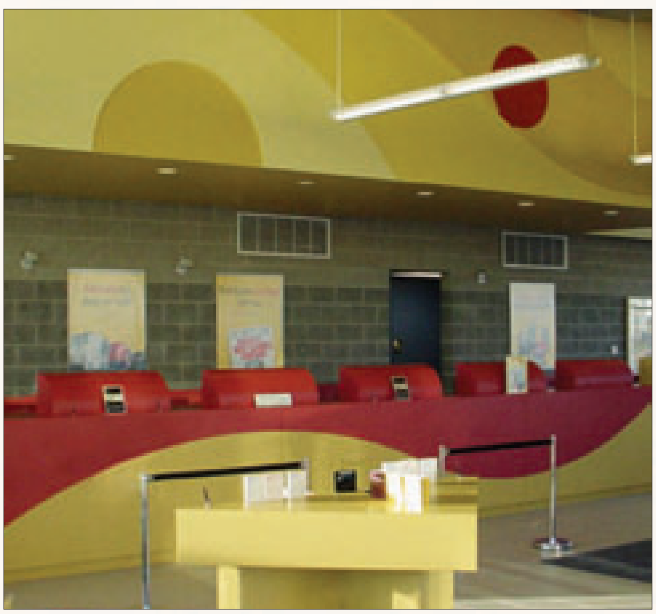
The Company funded grants in 2004 to support housing-related programs and encouraged employees to participate in house painting and repair programs. In April, more than 1,500 company volunteers donated their time and energy to rehabilitate homes for low-income seniors through the *Rebuilding Together with Christmas in April* program.

"Getting involved with helping others is one of the most rewarding things I can do," said Louisa Lin, a company employee and volunteer. She added, "I know my efforts make the community a better place to live and work for everyone."

Golden West continued its commitment to meeting the housing needs of low- to moderate-income areas and minority neighborhoods by providing more than $17 billion for home loans in 2004.

DESIGN REVIEW

Inverness, Florida



Reno, Nevada

Oceanside, New York

Stunning New Branches Attract Customers

OAKLAND, CALIFORNIA—The Company's commitment to architectural excellence is reflected in the distinctive new facilities pictured on this page. Award-winning architects design branches that are both functional and aesthetically pleasing. Use of natural light enhances dramatic interiors and creates bright, friendly atmospheres that are welcoming and enjoyable for customers and employees alike.

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 2.5% and the margin is 2.5%, the interest rate on the mortgage is 5.0%; if the index value rises by .5% to 3.0%, the mortgage rate increases by the same amount to 5.5%.

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.

www.**gdw.com**

Federal Home Loan Bank System

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

LIBOR

London Interbank 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.

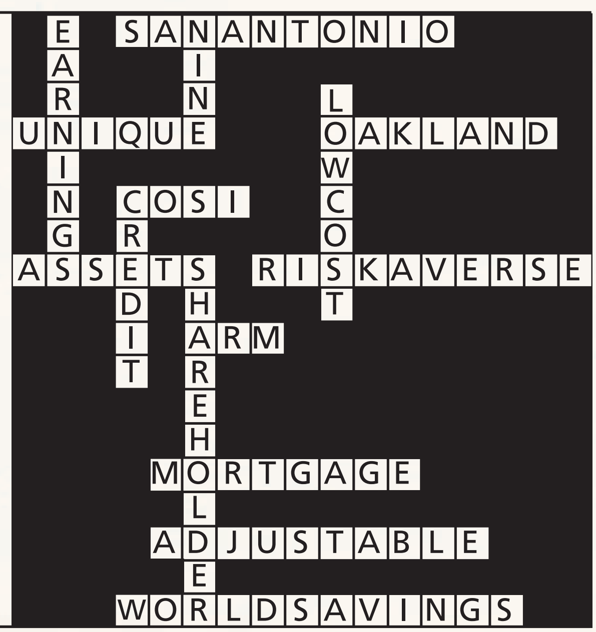
Troubled Debt Restructured (TDR)

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

Golden West Classifieds

ANSWER TO PUZZLE

(Crossword found on page 9)



Summary of Operations

(Dollars in millions except per share figures)

		2004	2003
Operating Results	Interest income	$ 4,178	$ 3,529
	Interest expense	1,560	1,320
	Net interest income	2,618	2,209
	Provision for (recovery of) loan losses	3	12
	Net interest income after provision for (recovery of) loan losses	2,615	2,197
	Noninterest income	294	313
	General and administrative expense	840	721
	Earnings before taxes on income	2,069	1,789
	Taxes on income	789	683
	Earnings before cumulative effect of accounting change and before extraordinary item	$ 1,280	$ 1,106
	Basic earnings per share before cumulative effect of accounting change and before extraordinary item	$ 4.19	$ 3.63
	Diluted earnings per share before cumulative effect of accounting change and before extraordinary item	$ 4.13	$ 3.57
Selected Balance Sheet Items	Assets	$106,889	$82,550
	Cash and investments	1,667	2,140
	Loans receivable and mortgage-backed securities (MBS)	102,669	78,311
	Deposits	52,965	46,727
	Borrowings	45,684	29,028
	Stockholders' equity	7,275	5,947
Loan Data	Real estate loans originated	$ 48,989	$35,985
	Yield on loan portfolio and MBS	4.75%	4.61%
	Adjustable rate mortgages as a % of total loans receivable and MBS	98%	97%
	Number of real estate loans [(a)]	527,185	429,541
Deposit Data	Increase ($)	$ 6,238	$ 5,688
	Increase (%)	13.4%	13.9%
	Cost of deposits	2.08%	1.85%
	Number of accounts	1,260,054	1,135,991
Spread Data	Yield on interest-earning assets	4.73%	4.54%
	Less: cost of funds	2.22%	1.67%
	Primary spread	2.51%	2.87%
Ratios	Net interest income/average earning assets	2.83%	3.05%
	General and administrative expense/average assets	.90%	.98%
	General and administrative expense/net interest income plus other income (Efficiency ratio)	28.9%	28.6%
	Net earnings/average assets (ROA)	1.37%	1.50%
	Net earnings/average stockholders' equity (ROE)	19.5%	20.3%
	Stockholders' equity/total assets	6.81%	7.20%
	Nonperforming assets and troubled debt restructured/total assets	.33%	.51%
	Net chargeoffs (recoveries)/average loans [(a)]	.00%	.00%
Per Share Data	Common stock price range	$61.90-49.33	$51.73-34.84
	Price/earnings ratio on mean market price	13	12
	Cash dividends	$ .210	$ .178
	Book value	23.73	19.55

(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.

2002	2001	2000	1999	1998	1997	1996	1995
$ 3,497	$ 4,209	$ 3,796	$ 2,826	$ 2,962	$ 2,832	$ 2,582	$ 2,427
1,567	2,578	2,645	1,823	1,995	1,942	1,751	1,704
1,930	1,631	1,151	1,003	967	890	831	723
21	22	9	(2)	11	58	84	61
1,909	1,609	1,142	1,005	956	832	747	662
247	237	161	144	138	82	75	39
601	514	425	386	355	327	321[d]	316
1,555	1,332	878	763	739	587	501[d]	385
597	513	332	283	292	233	193[e]	150
$ 958	$ 819[b]	$ 546	$ 480	$ 447[c]	$ 354	$ 308[f]	$ 235
$ 3.10	$ 2.59[b]	$ 1.72	$ 1.45	$ 1.31[c]	$ 1.04	$ .89[f]	$ .67
$ 3.06	$ 2.55[b]	$ 1.70	$ 1.44	$ 1.29[c]	$ 1.02	$ .87[f]	$ .66
$68,406	$58,586	$55,704	$42,142	$38,469	$39,590	$37,731	$35,118
1,241	962	1,112	1,120	1,050	1,033	2,079	2,311
65,011	55,669	52,727	39,826	35,968	37,316	34,519	31,686
41,039	34,473	30,048	27,715	26,219	24,110	22,100	20,848
21,557	19,060	21,188	10,773	8,328	12,071	12,620	11,185
5,025	4,284	3,687	3,195	3,124	2,698	2,350	2,278
$26,683	$20,763	$19,783	$12,672	$ 8,188	$ 7,483	$ 7,013	$ 5,949
5.28%	6.38%	8.03%	7.16%	7.32%	7.50%	7.39%	7.66%
96%	94%	95%	93%	92%	91%	89%	87%
370,770	329,262	335,458	272,647	252,269	263,632	243,455	223,109
$ 6,566	$ 4,425	$ 2,333	$ 1,496	$ 2,109	$ 2,010	$ 1,252	$ 1,629
19.0%	14.7%	8.4%	5.7%	8.7%	9.1%	6.0%	8.5%
2.56%	3.39%	5.52%	4.69%	4.67%	5.04%	4.98%	5.15%
1,135,610	1,155,641	1,169,546	1,084,491	1,094,314	1,113,348	1,135,964	1,136,053
5.25%	6.36%	8.02%	7.15%	7.30%	7.48%	7.37%	7.56%
2.32%	3.15%	5.99%	5.00%	4.96%	5.36%	5.28%	5.50%
2.93%	3.21%	2.03%	2.15%	2.34%	2.12%	2.09%	2.06%
3.17%	2.93%	2.42%	2.63%	2.53%	2.36%	2.39%	2.21%
.96%	.90%	.87%	.98%	.90%	.84%	.89%[d]	.93%
27.6%	27.5%	32.4%	33.7%	32.1%	33.6%	35.4%[d]	41.3%
1.53%	1.43%[b]	1.12%	1.22%	1.14%[c]	.91%	.86%[f]	.69%
20.6%	20.4%[b]	16.2%	15.2%	15.4%[c]	14.1%	14.0%[f]	11.0%
7.35%	7.31%	6.62%	7.58%	8.12%	6.81%	6.23%	6.49%
.62%	.67%	.43%	.59%	.85%	1.07%	1.43%	1.24%
.00%	.00%	.00%	(.01%)	.00%	.06%	.10%	.15%
$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	$9.59-5.79
11	11[b]	14	12	12[c]	13	11[f]	11
$ .151	$ .130	$ .110	$ .097	$ .086	$ .076	$ .066	$ .059
16.37	13.77	11.64	9.90	9.16	7.88	6.83	6.45

(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	**2004**	2003
Cash	**$ 292,421**	$ 260,823
Securities available for sale, at fair value	**1,374,385**	1,879,443
Purchased mortgage-backed securities available for sale, at fair value	**14,438**	22,071
Purchased mortgage-backed securities held to maturity, at cost	**375,632**	433,319
Mortgage-backed securities with recourse held to maturity, at cost	**1,719,982**	3,650,048
Loans Receivable:		
Loans held for sale	**52,325**	124,917
Loans held for investment less allowance for loan losses of $290,110 and $289,937	**100,506,854**	74,080,661
Total Loans Receivable	**100,559,179**	74,205,578
Interest earned but uncollected	**248,073**	183,761
Investment in capital stock of Federal Home Loan Banks, at cost	**1,563,276**	1,152,339
Foreclosed real estate	**11,461**	13,904
Premises and equipment, net	**391,523**	360,327
Other assets	**338,171**	388,277
Total Assets	**$106,888,541**	$ 82,549,890

Liabilities and Stockholders' Equity		
Deposits	**$ 52,965,311**	$ 46,726,965
Advances from Federal Home Loan Banks	**33,781,895**	22,000,234
Securities sold under agreements to repurchase	**3,900,000**	3,021,385
Bank notes	**2,709,895**	3,015,854
Senior debt	**5,291,840**	991,257
Taxes on income	**561,772**	561,406
Other liabilities	**402,952**	285,521
Total Liabilities	**99,613,665**	76,602,622
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, 306,524,716 and 304,238,216 shares	**30,652**	15,212
Additional paid-in capital	**263,770**	220,923
Retained earnings	**6,728,998**	5,513,434
	7,023,420	5,749,569
Accumulated other comprehensive income from unrealized gains on securities, net of income tax of $158,347 and $125,008	**251,456**	197,699
Total Stockholders' Equity	**7,274,876**	5,947,268
Total Liabilities and Stockholders' Equity	**$106,888,541**	$ 82,549,890

See notes to consolidated financial statements.

Consolidated Statement of Net Earnings

(Dollars in thousands except per share figures)

	Year Ended December 31		
	2004	2003	2002
Interest Income			
Interest on loans	**$3,976,619**	$3,178,087	$2,893,299
Interest on mortgage-backed securities	**131,720**	261,712	490,523
Interest and dividends on investments	**70,517**	88,545	113,212
	4,178,856	3,528,344	3,497,034
Interest Expense			
Interest on deposits	**944,493**	938,123	1,079,937
Interest on advances	**448,535**	269,793	379,613
Interest on repurchase agreements	**49,589**	9,048	1,826
Interest on other borrowings	**117,634**	102,996	105,364
	1,560,251	1,319,960	1,566,740
Net Interest Income	**2,618,605**	2,208,384	1,930,294
Provision for loan losses	**3,401**	11,864	21,170
Net Interest Income after Provision for Loan Losses	**2,615,204**	2,196,520	1,909,124
Noninterest Income			
Fees	**210,576**	163,306	139,416
Gain on the sale of securities, MBS, and loans	**13,216**	72,274	45,143
Change in fair value of derivatives	**1,141**	10,890	7,610
Other	**68,990**	66,860	54,831
	293,923	313,330	247,000
Noninterest Expense			
General and administrative:			
Personnel	**547,432**	453,476	378,099
Occupancy	**86,117**	76,649	69,559
Technology and telecommunications	**79,453**	78,701	66,318
Deposit insurance	**7,068**	6,683	6,062
Advertising	**26,743**	22,516	16,528
Other	**93,313**	82,490	64,928
	840,126	720,515	601,494
Earnings before Taxes on Income	**2,069,001**	1,789,335	1,554,630
Taxes on income	**789,280**	683,236	596,351
Net Earnings	**$1,279,721**	$1,106,099	$958,279
Basic earnings per share	**$ 4.19**	$ 3.63	$ 3.10
Diluted earnings per share	**$ 4.13**	$ 3.57	$ 3.06

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

(Dollars in thousands)

	Year Ended December 31		
	2004	2003	2002
Cash Flows from Operating Activities			
Net earnings	**$ 1,279,721**	$ 1,106,099	$ 958,279
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Provision for loan losses	**3,401**	11,864	21,170
Amortization of net loan costs	**189,367**	100,579	59,171
Depreciation and amortization	**48,587**	42,379	37,869
Loans originated for sale	**(428,526)**	(2,003,352)	(1,799,589)
Sales of loans	**552,964**	3,217,876	2,429,131
Decrease (increase) in interest earned but uncollected	**(60,812)**	(2,114)	73,115
Federal Home Loan Bank stock dividends	**(44,458)**	(40,854)	(51,462)
Decrease (increase) in other assets	**60,415**	146,553	(281,973)
Increase (decrease) in other liabilities	**117,431**	(10,128)	(17,125)
Increase (decrease) in taxes on income	**(32,973)**	73,973	47,342
Other, net	**(6,375)**	49,613	140,051
Net cash provided by operating activities	**1,678,742**	2,692,488	1,615,979
Cash Flows from Investing Activities			
New loan activity:			
New real estate loans originated for investment portfolio	**(48,560,551)**	(33,981,369)	(24,883,301)
Real estate loans purchased	**(46,769)**	(2,115)	-0-
Other, net	**(212,104)**	(414,193)	(1,078,210)
	(48,819,424)	(34,397,677)	(25,961,511)
Real estate loan principal payments:			
Monthly payments	**1,492,826**	1,382,599	1,133,269
Payoffs, net of foreclosures	**21,765,272**	16,652,204	11,208,645
	23,258,098	18,034,803	12,341,914
Sales of mortgage-backed securities available for sale	**-0-**	-0-	176,063
Purchases of mortgage-backed securities held to maturity	**(19,028)**	(366,509)	-0-
Repayments of mortgage-backed securities	**897,283**	2,007,746	3,208,823
Proceeds from sales of foreclosed real estate	**49,284**	54,231	49,433
Decrease (increase) in securities available for sale	**592,641**	(957,753)	(331,159)
Purchases of Federal Home Loan Bank stock	**(369,979)**	(37,185)	-0-
Redemptions of Federal Home Loan Bank stock	**-0-**	-0-	83,773
Additions to premises and equipment	**(81,396)**	(53,892)	(62,804)
Net cash used in investing activities	**(24,492,521)**	(15,716,236)	(10,495,468)

	Year Ended December 31		
	2004	2003	2002
Cash Flows from Financing Activities			
Net increase in deposits	**$ 6,238,346**	$ 5,688,168	$ 6,566,212
Additions to Federal Home Loan Bank advances	**16,700,000**	10,240,000	6,063,051
Repayments of Federal Home Loan Bank advances	**(4,918,340)**	(6,874,865)	(5,465,461)
Proceeds from agreements to repurchase securities	**6,051,855**	4,504,306	1,412,593
Repayments of agreements to repurchase securities	**(5,173,240)**	(2,005,220)	(1,113,817)
Increase (decrease) in bank notes	**(305,959)**	1,805,929	1,209,925
Net proceeds from senior debt	**4,287,595**	-0-	790,708
Repayments of subordinated notes	**-0-**	(200,000)	(400,000)
Dividends on common stock	**(64,157)**	(54,159)	(46,746)
Exercise of stock options	**29,277**	12,728	15,915
Purchase and retirement of Company stock	**-0-**	(151,230)	(173,036)
Net cash provided by financing activities	**22,845,377**	12,965,657	8,859,344
Net Increase (Decrease) in Cash	**31,598**	(58,091)	(20,145)
Cash at beginning of period	**260,823**	318,914	339,059
Cash at end of period	**$ 292,421**	$ 260,823	$ 318,914
Supplemental cash flow information:			
Cash paid for:			
Interest	**$ 1,484,231**	$ 1,328,673	$ 1,580,156
Income taxes	**793,373**	599,367	544,598
Cash received for interest and dividends	**4,114,544**	3,527,713	3,569,504
Noncash investing activities:			
Loans receivable and loans underlying mortgage-backed securities converted from adjustable rate to fixed rate	**149,776**	1,227,486	596,213
Loans transferred to foreclosed real estate	**47,167**	57,008	47,305
Loans securitized into mortgage-backed securities with recourse recorded as loans receivable	**24,535,995**	13,663,049	18,892,282
Mortgage-backed securities held to maturity desecuritized into adjustable rate loans and recorded as loans receivable	**1,024,116**	-0-	4,147,670
Transfer of loans held for investment to (from) loans held for sale	**(69,578)**	(144,323)	24,938

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, 2002	311,063,554	$ 15,553	$ 173,500	$ 3,873,758	$ 221,379	$ 4,284,190
Net earnings		-0-	-0-	958,279	-0-	958,279
Change in unrealized gains on securities available for sale		-0-	-0-	-0-	(21,425)	(21,425)
Reclassification adjustment for gains included in income		-0-	-0-	-0-	(747)	(747)
Comprehensive income						936,107
Common stock issued upon exercise of stock options, including tax benefits	1,461,972	73	24,662	-0-	-0-	24,735
Purchase and retirement of shares of Company stock	(5,483,320)	(274)	-0-	(172,762)	-0-	(173,036)
Cash dividends on common stock ($.1514 per share)		-0-	-0-	(46,746)	-0-	(46,746)
Balance at December 31, 2002	307,042,206	15,352	198,162	4,612,529	199,207	5,025,250
Net earnings		-0-	-0-	1,106,099	-0-	1,106,099
Change in unrealized gains on securities available for sale		-0-	-0-	-0-	(1,501)	(1,501)
Reclassification adjustment for gains included in income		-0-	-0-	-0-	(7)	(7)
Comprehensive income						1,104,591
Common stock issued upon exercise of stock options, including tax benefits	1,108,750	55	22,761	-0-	-0-	22,816
Purchase and retirement of shares of Company stock	(3,912,740)	(195)	-0-	(151,035)	-0-	(151,230)
Cash dividends on common stock ($.1775 per share)		-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 ($.21 per share)		-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**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years ended December 31, 2004, 2003, and 2002

(Dollars in thousands except per share figures)

NOTE A - Summary of Significant Accounting Policies

PRINCIPLES OF CONSOLIDATION. 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 $106.8 billion in assets at December 31, 2004. 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 $13.1 billion of assets at December 31, 2004. 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 276 savings branches in 10 states and has lending operations in 38 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 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. For the purpose of presentation in the Consolidated Statement of Cash Flows, cash is defined as cash held in office 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 asset value 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 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 asset value 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 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 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 cost of funds or other 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 certain 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 at the time. 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 to the borrower because of a perceived temporary weakness in the collateral and/or the borrower's ability to make scheduled payments.

FORECLOSED REAL ESTATE. Foreclosed real estate is comprised of improved 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 Company provides specific valuation allowances for losses on loans when impaired and a write-down on foreclosed real estate when any significant and permanent decline in value is identified. The Company also utilizes a methodology for monitoring and estimating probable loan losses that is based on both the Company's historical loss experience in the loan portfolio and factors reflecting current economic conditions. This approach uses a database that identifies losses on loans and foreclosed real estate from past years to the present, broken down by the age of the loan. This approach also takes into consideration current trends in economic growth, unemployment, housing market activity, and home prices for the nation and individual geographical regions. Based on the analysis of historical performance, current conditions, and other risks, management estimates a range of loss allowances by type of loan and risk category to cover probable losses in the portfolio. One-to-four single-family real estate loans are evaluated as a group. In addition, periodic reviews are made of major multi-family and commercial real estate loans and foreclosed real estate. Where indicated, valuation allowances are established or adjusted. In estimating probable losses, consideration is given to the estimated sales price, cost of refurbishing the security property, payment of delinquent taxes, cost of disposal, and cost of holding the property. Additions to and reductions from the allowances are reflected in current earnings based upon quarterly reviews of the portfolio and the methodology and historical analyses are reviewed quarterly.

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 documented 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, 2004 were a weighted average repayment rate of 22.8%, 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.

PREMISES AND EQUIPMENT. Buildings, leasehold improvements, and equipment are carried at amortized 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.

Interest rate swap not designated as a hedging instrument. For certain interest rate swaps, the Company decided not to utilize hedge accounting. The changes in fair value of these instruments are reflected in the Consolidated Statement of Net Earnings as "Change in Fair Value of Derivatives."

TAXES ON INCOME. The Company files consolidated federal income tax returns with its subsidiaries. The provision for federal and state taxes on income is based on taxes currently payable and taxes expected to be payable in the future as a result of events that have been recognized in the financial statements or tax returns.

REGULATORY CAPITAL REQUIREMENTS. 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, 2004, the most recent notification from the OTS categorized WSB and WTX as "well-capitalized" under the current requirements. There are no conditions or events that have occurred since that notification that the Company believes would have an impact on the categorization of WSB or WTX.

At December 31, 2004 and 2003, WSB and WTX had the following regulatory capital calculated in accordance with FIRREA's capital standards:

December 31, 2004	ACTUAL		MINIMUM CAPITAL REQUIREMENTS	
	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, 2003	ACTUAL		MINIMUM CAPITAL REQUIREMENTS	
	Capital	Ratio	Capital	Ratio
WSB:				
Tangible	$6,085,283	7.45%	$1,225,819	1.50%
Tier 1 (core or leverage)	6,085,283	7.45	3,268,850	4.00
Total risk-based	6,374,182	14.16	3,601,932	8.00
WTX:				
Tangible	$ 504,735	5.16%	$ 146,846	1.50%
Tier 1 (core or leverage)	504,735	5.16	391,591	4.00
Total risk-based	505,530	22.88	176,743	8.00

December 31, 2004	ACTUAL		WELL-CAPITALIZED CAPITAL REQUIREMENTS	
	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

December 31, 2003	ACTUAL		WELL-CAPITALIZED CAPITAL REQUIREMENTS	
	Capital	Ratio	Capital	Ratio
WSB:				
Tier 1 (core or leverage)	$6,085,283	7.45%	$4,086,062	5.00%
Tier 1 risk-based	6,085,283	13.52	2,701,449	6.00
Total risk-based	6,374,182	14.16	4,502,415	10.00
WTX:				
Tier 1 (core or leverage)	$ 504,735	5.16%	$ 489,488	5.00%
Tier 1 risk-based	504,735	22.85	132,557	6.00
Total risk-based	505,530	22.88	220,929	10.00

RETAINED EARNINGS. 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, 2004, $5.0 billion of WSB's retained earnings were available for the payment of cash dividends without the imposition of additional federal income taxes.

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 have been restated to reflect the stock split.

STOCK-BASED COMPENSATION. The Company has a stock-based employee compensation plan, which is described more fully in Note Q. 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:

	Year Ended December 31		
	2004	2003	2002
Net income, as reported	$1,279,721	$1,106,099	$958,279
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(7,228)	(8,162)	(3,464)
Pro forma net income	$1,272,493	$1,097,937	$954,815
Basic earning per share			
As reported	$ 4.19	$ 3.63	$ 3.10
Pro forma	4.17	3.60	3.09
Diluted earning per share			
As reported	$ 4.13	$ 3.57	$ 3.06
Pro forma	4.10	3.55	3.05

NEW ACCOUNTING PRONOUNCEMENTS. In March 2004, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 105, "Application of Accounting Principles to Loan Commitments," which provides guidance regarding loan commitments that are accounted for as derivative instruments. In this SAB, the SEC determined that an interest rate lock commitment should generally be valued at zero at inception. The rate locks will continue to be adjusted for changes in value resulting from changes in market interest rates. The adoption of this SAB did not have a significant impact on the Company's Consolidated Statement of Financial Condition or Consolidated Statement of Net Earnings.

In March 2004, the Financial Accounting Standards Board's (FASB) Emerging Issues Task Force (EITF) supplemented EITF 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." EITF 03-1 provides guidance for evaluating whether an investment is other-than-temporarily impaired and requires disclosures about unrealized losses on available for sale debt and equity securities. In September 2004, the FASB issued FASB Staff Position (FSP) EITF Issue 03-1-1, "Effective Date of Paragraphs 10-20 of EITF Issue 03-1," which deferred the effective date of the recognition and measurement provisions of the consensus until further guidance is issued. A separate proposed FSP was issued in September 2004 to address EITF 03-1 implementation issues. In November 2004, FASB announced that the recognition provisions of EITF Issue 03-1 would not be effective in 2004.

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 eliminates the ability to account for share-based compensation transactions using APB 25. For public entities that do not file as small business issuers, this statement is effective as of the beginning of the first interim or annual reporting period that begins after June 15, 2005. The Company is evaluating the requirements of SFAS 123R and expects that the adoption of SFAS 123R will result in amounts that are similar to the current pro forma disclosures under SFAS 123.

NOTE B - Securities Available for Sale

The following is a summary of securities available for sale:

	December 31, 2004			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Federal funds	$ 861,353	$ -0-	$ -0-	$ 861,353
Eurodollar time deposits	75,000	-0-	-0-	75,000
Equity securities	5,530	408,664	-0-	414,194
Other	22,514	1,340	16	23,838
	$ 964,397	$410,004	$ 16	$1,374,385

	December 31, 2003			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Federal funds	$ 941,267	$ -0-	$ -0-	$ 941,267
Short-term repurchase agreements collateralized by MBS	300,000	-0-	-0-	300,000
Eurodollar time deposits	298,238	-0-	-0-	298,238
Equity securities	5,530	322,228	-0-	327,758
Other	11,792	453	65	12,180
	$1,556,827	$322,681	$ 65	$1,879,443

The weighted average portfolio yields on securities available for sale excluding equity securities were 2.08% and .93% at December 31, 2004 and 2003, respectively.

Principal proceeds from the sales of securities from the securities available for sale portfolio were $-0- (2004), $1,479 (2003), and $1,396 (2002) and resulted in realized gains of $-0- (2004), $21 (2003), and $32 (2002) and no realized losses in 2004, 2003, or 2002.

At December 31, 2004, the securities available for sale had maturities as follows:

Maturity	Amortized Cost	Fair Value
No maturity	$ 26,114	$ 436,115
2005	938,115	938,113
2006 through 2009	126	118
2010 through 2014	-0-	-0-
2015 and thereafter	42	39
	$964,397	$1,374,385

NOTE C - Purchased Mortgage-Backed Securities Available for Sale

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

	December 31, 2004			
	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

	December 31, 2003			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Fannie Mae	$10,841	$94	$ 3	$10,932
Ginnie Mae	5,700	-0-	-0-	5,700
Freddie Mac	5,439	-0-	-0-	5,439
	$21,980	$94	$ 3	$22,071

The weighted average portfolio yields on mortgage-backed securities available for sale were 8.69% and 8.54% at December 31, 2004 and 2003, respectively.

There were no sales of securities from the mortgage-backed securities available for sale portfolio in 2004 or 2003. In 2002, the Company sold $176 million of purchased mortgage-backed securities available for sale and realized a gain of $3 million.

At December 31, 2004, purchased mortgage-backed securities available for sale had contractual maturities as follows:

Maturity	Amortized Cost	Fair Value
2005 through 2009	$ 406	$ 401
2010 through 2014	1,169	1,154
2015 and thereafter	13,049	12,883
	$14,624	$14,438

NOTE D - Mortgage-Backed Securities Held to Maturity

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

	December 31, 2004			
	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

	December 31, 2003			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Purchased MBS held to maturity:				
Fannie Mae	$ 399,883	$ 8,191	$ 119	$ 407,955
Freddie Mac	26,546	359	-0-	26,905
Ginnie Mae	6,890	-0-	-0-	6,890
Subtotal	433,319	8,550	119	441,750
MBS with recourse held to maturity:				
REMICs	3,650,048	23,659	17	3,673,690
Total	$4,083,367	$ 32,209	$ 136	$4,115,440

The weighted average portfolio yields on mortgage-backed securities held to maturity were 4.89% and 5.00% at December 31, 2004 and 2003, respectively.

There were no sales of securities from the mortgage-backed securities held to maturity portfolio during 2004, 2003, or 2002.

At December 31, 2004, MBS with an amortized cost of $1.3 billion were pledged to secure Federal Home Loan Bank advances.

At December 31, 2004, mortgage-backed securities held to maturity had contractual maturities as follows:

Maturity	Amortized Cost	Fair Value
2005 through 2009	$ 32	$ 32
2010 through 2014	282	286
2015 and thereafter	2,095,300	2,138,576
	$2,095,614	$2,138,894

NOTE E - Loans Receivable

	December 31	
	2004	2003
Loans collateralized by:		
One- to four-family dwelling units	$94,449,233	$69,586,604
Over four-family dwelling units	4,748,335	3,554,715
Commercial property	15,220	18,598
	99,212,788	73,159,917
Loans on savings accounts	10,734	11,780
	99,223,522	73,171,697
Loans in process	722,115	785,459
Net deferred costs	915,008	547,318
Allowance for loan losses	(290,110)	(289,937)
Undisbursed loan funds	(11,356)	(8,959)
	$100,559,179	$74,205,578

As of December 31, 2004 and 2003, the Company had $2.6 billion and $1.9 billion, respectively, of second mortgages and Equity Lines of Credit (ELOC) balances outstanding.

At December 31, 2004 and 2003, the Company had $52 million and $125 million, respectively, in loans held for sale, all of which were carried at the lower of cost or fair value. At December 31, 2004, the Company had $34.0 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.

Loans totaling $52.5 billion and $30.6 billion at December 31, 2004 and 2003 were pledged to secure advances from the FHLBs and securities sold under agreements to repurchase.

As of December 31, 2004, 62% of the Company's loans were on residential properties in California. The other 38% represented loans in 37 other states, none of which made up more than 6% 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		
	2004	2003	2002
Balance at January 1	$289,937	$281,097	$261,013
Provision for loan losses	3,401	11,864	21,170
Loans charged off	(4,613)	(3,633)	(1,943)
Recoveries	1,385	609	857
Balance at December 31	$290,110	$289,937	$281,097

The following is a summary of impaired loans:

	December 31	
	2004	2003
Nonperforming loans	$332,329	$ 410,064
Troubled debt restructured	3,810	3,105
Other impaired loans	6,648	6,752
	$342,787	$ 419,921

The portion of the allowance for loan losses that was specifically provided for impaired loans was $1,355 and $1,038 at December 31, 2004 and 2003, respectively. The average recorded investment in total impaired loans was $386,643 and $428,716 during 2004 and 2003, 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, 2004, 2003, and 2002 on the total of impaired loans at each yearend was $9,669 (2004), $12,975 (2003), and $14,874 (2002).

NOTE F - Loan Servicing

In addition to loans receivable and MBS with recourse held to maturity, the Company services loans for others. At December 31, 2004 and 2003, the outstanding balance of loans sold with servicing retained by the Company was $4.5 billion and $5.8 billion, respectively. Included in those amounts were $2.3 billion and $3.1 billion at December 31, 2004 and 2003, 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	
	2004	2003
CMSRs:		
Balance at January 1	$88,967	$69,448
New CMSRs from loan sales	9,970	58,249
Amortization of CMSRs	(38,393)	(38,730)
Balance at December 31	60,544	88,967
Valuation Allowance:		
Balance at January 1	-0-	-0-
Provision for CMSRs in excess of fair value	(7,310)	-0-
Balance at December 31	(7,310)	-0-
CMSRs, net	$53,234	$88,967

The estimated amortization of the December 31, 2004 balance of CMSRs for the five years ending 2009 is $28.9 million (2005), $19.1 million (2006), $9.5 million (2007), $2.9 million (2008), and $156 thousand (2009). 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, 2004 and 2003 was $62,273 and $95,139, respectively. The book value of the Company's CMSRs for certain of the Company's loan strata exceeded the fair values by $7.3 million at December 31, 2004. Therefore, at December 31, 2004 there was an impairment valuation allowance of $7.3 million. 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.

NOTE G - Interest Earned But Uncollected

	December 31	
	2004	2003
Loans receivable	$230,018	$164,028
Mortgage-backed securities	6,478	12,779
Interest rate swaps	1,142	-0-
Other	10,435	6,954
	$248,073	$183,761

NOTE H - Premises and Equipment

	December 31	
	2004	2003
Land	$ 83,677	$ 82,169
Building and leasehold improvements	280,037	269,071
Furniture, fixtures, and equipment	354,691	297,799
	718,405	649,039
Accumulated depreciation and amortization	326,882	288,712
	$ 391,523	$360,327

The aggregate future rentals under long-term operating leases on land or premises in effect on December 31, 2004, and which expire between 2005 and 2064, amounted to approximately $214,408. The approximate minimum payments during the five years ending 2009 are $32,506 (2005), $30,096 (2006), $27,384 (2007), $20,060 (2008), $15,021 (2009) and $89,341 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 $34,485 (2004), $30,960 (2003), and $28,480 (2002).

NOTE I - Deposits

	December 31			
	2004		2003	
	Rate	Amount	Rate	Amount
Deposits by rate:				
Interest-bearing checking accounts	1.35%	$ 5,425,183	1.38%	$ 5,555,185
Savings accounts	1.94	33,990,906	1.72	30,193,017
Term certificate accounts with original maturities of:				
4 weeks to 1 year	1.94	4,315,419	1.32	3,766,962
1 to 2 years	2.43	4,217,192	1.32	2,331,194
2 to 3 years	2.33	1,344,881	2.73	1,491,893
3 to 4 years	3.37	1,230,919	3.78	1,317,212
4 years and over	4.62	2,405,210	4.80	2,015,469
Retail jumbo CDs	1.63	35,565	2.33	55,953
All other	2.78	36	3.75	80
		$52,965,311		$46,726,965

	December 31			
	2004		2003	
	Rate	Amount	Rate	Amount
Deposits by remaining maturity at yearend:				
No contractual maturity	1.86%	$39,416,089	1.67%	$35,748,202
Maturity within one year	2.41	9,956,686	1.75	7,356,579
After one but within two years	2.94	1,400,252	3.51	1,674,614
After two but within three years	4.33	1,461,677	3.54	523,446
After three but within four years	3.24	287,350	4.71	1,129,647
After four but within five years	3.80	442,598	3.24	289,505
Over five years	3.19	659	4.22	4,972
		$52,965,311		$46,726,965

At December 31, the weighted average cost of deposits was 2.08% (2004) and 1.85% (2003).

As of December 31, 2004, the aggregate amount outstanding of time certificates of deposit in amounts of $100 thousand or more was $3.9 billion and the aggregate amount outstanding of transaction accounts in amounts of $100 thousand or more was $20.4 billion.

Interest expense on deposits is summarized as follows:

	Year Ended December 31		
	2004	2003	2002
Interest-bearing checking accounts	$ 78,417	$ 78,900	$ 86,983
Savings accounts	575,039	533,402	416,931
Term certificate accounts	291,037	325,821	576,023
	$944,493	$938,123	$1,079,937

NOTE J - 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 records FHLB stock at cost, which approximates fair value, and owned $1.6 billion of FHLB stock at December 31, 2004.

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

	December 31, 2004	
Maturity	Amount	Stated Rate
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	

	December 31, 2003	
Maturity	Amount	Stated Rate
2004	$ 4,848,040	1.17%
2005	7,552,750	1.17
2006	5,589,602	1.22
2007	535,793	1.49
2008	3,081,102	1.24
2009 and thereafter	392,947	5.81
	$22,000,234	

Financial data pertaining to advances from FHLBs was as follows:

	Year Ended December 31	
	2004	2003
Weighted average interest rate, end of year	2.30%	1.28%
Weighted average interest rate during the year	1.58%	1.37%
Average balance of FHLB advances	$28,372,344	$19,621,477
Maximum outstanding at any monthend	33,781,895	22,000,234

Of the advances outstanding at December 31, 2004, $32.7 billion were tied to a London Interbank Offered Rate (LIBOR) index and were scheduled to reprice within 90 days. At December 31, 2004, the Company had $1.0 billion and $505 million of commitments outstanding to borrow advances from the FHLB of Dallas and the FHLB of San Francisco, respectively. These advances will be indexed to one-month LIBOR.

NOTE K - Securities Sold under Agreements to Repurchase

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

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

December 31, 2003		
Maturity	Amount	Stated Rate
2004	$1,871,385	1.12%
2005	650,000	1.17
2006	500,000	1.14
	$3,021,385	

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

	Year Ended December 31	
	2004	2003
Weighted average interest rate, end of year	2.23%	1.13%
Weighted average interest rate during the year	1.51%	1.13%
Average balance of agreements to repurchase	$3,279,154	$ 803,478
Maximum outstanding at any monthend	4,150,000	3,021,385

At the end of 2004 and 2003, all of the agreements to repurchase with brokers/dealers were to reacquire the same securities.

NOTE L - 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, 2004		
Maturity	Amount	Stated Rate
2005	$2,709,895	2.29%

December 31, 2003		
Maturity	Amount	Stated Rate
2004	$3,015,854	1.12%

NOTE M - Senior Debt

	December 31	
	2004	2003
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 $7,171 (2004) and $8,743 (2003)	$ 992,829	$991,257
WSB senior debt, unsecured, due from 2006 to 2009, at coupon rates of 2.41% to 4.50%, net of unamortized discount of $11,299 (2004) [a]	4,299,011	-0-
	$5,291,840	$991,257

(a) The Company entered into two interest rate swaps to effectively convert certain fixed-rate debt to variable-rate debt. Because the swaps qualify as fair value hedges, the debt is recorded at fair value.

Financial data pertaining to senior debt was as follows:

	Year Ended December 31	
	2004	2003
Weighted average interest rate, end of year [a]	3.03%	4.91%
Weighted average interest rate during the year [a]	2.93%	4.92%
Average balance of senior debt	$2,779,242	$990,409
Maximum outstanding at any monthend	5,291,840	991,257

(a) The effect of the swaps is reflected in the weighted average interest rate.

At December 31, 2004, senior debt had maturities as follows:

Maturity	Amount
2006	$1,548,417
2007	1,397,203
2009	1,851,446
2012	494,774
	$5,291,840

NOTE N - Taxes on Income

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

	Year Ended December 31		
	2004	2003	2002
Federal income tax:			
Current	$693,808	$556,885	$479,732
Deferred	(6,820)	44,349	43,611
State tax:			
Current	98,862	87,403	69,933
Deferred	3,430	(5,401)	3,075
	$789,280	$683,236	$596,351

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

	December 31	
	2004	2003
Deferred tax liabilities:		
Loan fees and interest income	$252,532	$292,633
FHLB stock dividends	189,290	173,901
Unrealized gains on debt and equity securities	158,347	125,009
Depreciation and other	32,381	24,748
Gross deferred tax liabilities	632,550	616,291
Deferred tax assets:		
Provision for losses on loans	116,619	116,834
State taxes	41,272	33,306
Other deferred tax assets	17,715	39,155
Gross deferred tax assets	175,606	189,295
Net deferred tax liability	$456,944	$426,996

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

	Year Ended December 31					
	2004		2003		2002	
	Amount	Percent of Pretax Income	Amount	Percent of Pretax Income	Amount	Percent of Pretax Income
Computed standard corporate tax expense	$724,150	35.0%	$626,267	35.0%	$544,120	35.0%
Increases (reductions) in taxes resulting from:						
State tax, net of federal income tax benefit	74,962	3.6	58,344	3.3	60,666	3.9
Other	(9,832)	(.5)	(1,375)	(.1)	(8,435)	(.5)
	$789,280	38.1%	$683,236	38.2%	$596,351	38.4%

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, 2004 and 2003, 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, 2004 and 2003, 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 O - Stockholders' Equity

Changes in common stock issued and outstanding were as follows:

	Year Ended December 31		
	2004	2003	2002
Shares issued and outstanding, beginning of year	304,238,216	307,042,206	311,063,554
Common stock issued through options exercised	2,286,500	1,108,750	1,461,972
Common stock repurchased and retired	-0-	(3,912,740)	(5,483,320)
Shares issued and outstanding, end of year	306,524,716	304,238,216	307,042,206

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

	Year Ended December 31		
	2004	2003	2002
First Quarter	$.0500	$.0425	$.0363
Second Quarter	.0500	.0425	.0363
Third Quarter	.0500	.0425	.0363
Fourth Quarter	.0600	.0500	.0425

The Company's Board of Directors, through five separate actions beginning in 1993, authorized the repurchase by the Company of up to 121.2 million shares of Golden West's common stock. As of December 31, 2004, 102,541,256 of such shares had been repurchased and retired at a cost of $1.4 billion since October 28, 1993. During 2003, 3,912,740 of the shares were purchased and retired at a cost of $151 million. No shares were repurchased during 2004. At December 31, 2004, the remaining shares authorized to be repurchased were 18,656,358.

NOTE P - 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		
	2004	2003	2002
Net earnings	$1,279,721	$1,106,099	$958,279
Weighted average shares	305,470,587	305,047,184	309,122,480
Dilutive effect of outstanding common stock equivalents	4,649,159	4,927,222	4,241,880
Diluted average shares outstanding	310,119,746	309,974,406	313,364,360
Basic earnings per share	$ 4.19	$ 3.63	$ 3.10
Diluted earnings per share	$ 4.13	$ 3.57	$ 3.06

As of December 31, options to purchase 21,000 (2004), 839,000 (2003), and 14,500 (2002) 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 Q - Stock Options

The Company's 1996 stock option plan authorizes the granting of options to key employees to purchase up to 42 million shares of the Company's common stock.

The plan permits the issuance of either non-qualified stock options or incentive stock options. Under terms of the plan, incentive stock options have been granted at fair market value as of the date of grant and are exercisable any time after two to five years and prior to ten years from the grant date. Non-qualified options have been granted at fair market value as of the date of grant and are exercisable after two to five years and prior to ten years and one month from the grant date. At December 31, shares available to be granted under options amounted to 3,277,300 (2004), 3,190,900 (2003), and 6,294,400 (2002). Outstanding options at December 31, 2004, were held by 643 employees and had expiration dates ranging from May 2, 2005 to November 29, 2014.

The following table sets forth the range of exercise prices on outstanding options at December 31, 2004:

Range of Exercise Price	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
$ 7.67 - $ 8.92	1,102,250	$ 8.45	0.9 years
$13.80 - $19.38	5,112,760	15.25	4.6 years
$23.58 - $59.29	4,604,438	35.60	8.0 years
	10,819,448		

	Currently Exercisable	
Range of Exercise Price	Number of Options	Weighted Average Exercise Price
$ 7.67 - $ 8.92	1,102,250	$ 8.45
$13.80 - $19.38	5,112,760	15.25
$23.58 - $59.29	588,138	24.04
	6,803,148	

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

	Shares	Average Exercise Price Per Share
Outstanding, January 1, 2002	12,776,970	$14.45
Granted	26,500	31.83
Exercised	(1,461,972)	10.89
Canceled	(143,900)	16.67
Outstanding, December 31, 2002	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

At December 31, options exercisable amounted to 6,803,148 (2004), 5,140,650 (2003), and 5,376,350 (2002). The weighted average exercise price of the options exercisable at December 31 was $14.91 (2004), $13.42 (2003), and $11.35 (2002).

The weighted average fair value per share of options granted during 2004 was $14.45 per share, $11.36 per share for those granted during 2003, and $8.64 per share for those granted during 2002. 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 2004, 2003, and 2002, respectively: dividend yield of 0.6% (2004), 0.7% (2003), and 0.5% (2002); expected volatility of 23% (2004), 23% (2003), and 26% (2002); expected lives of 5.1 years (2004), 5.7 years (2003), and 5.3 years (2002); and risk-free interest rates of 3.43% (2004), 3.57% (2003), and 2.73% (2002).

NOTE R - 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, 2004 and 2003 was $1.8 billion and $1.7 billion, respectively. The vast majority of these commitments were for adjustable rate mortgages.

The Company enters into commitments to sell mortgage loans. The commitments generally have a fixed delivery settlement date. The Company had $46 million and $65 million of outstanding commitments to sell mortgage loans as of December 31, 2004 and 2003, 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, 2004 or 2003.

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, 2004, the total amount of loans sold with recourse and the related recourse liability were approximately $2.3 billion and $13 million, respectively. As of December 31, 2003, the total amount of loans sold with recourse and the related recourse liability were approximately $3.1 billion and $18 million, respectively. As of December 31, 2004 and 2003, there were loans with balances of $809 thousand and $1.9 million, 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, 2004 and 2003, the original appraised value of real estate collateral securing the loans sold with recourse was $3.9 billion and $5.0 billion, respectively.

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 S - 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 received 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, 2004, the Company had two interest rate swaps that are used to effectively convert payments on WSB's fixed-rate senior debt to floating-rate payments. The Company entered into an interest rate swap with a notional amount of $400 million in June 2004 and another with a notional amount of $800 million in December 2004. 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, 2004 was $10.3 million which was offset by the decrease 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, 2004. There are no maturities in the years 2005 through 2008.

	Expected Maturity Date as of December 31, 2004		
	2009	Total Balance	Fair Value
Hedged Fixed-Rate Senior Debt			
Contractual maturity	$1,200,000	$1,200,000	$1,203,472
Weighted average interest rate	4.39%	4.39%	
Swap Contracts			$ 10,309
Weighted average interest rate paid	2.44%	2.44%	
Weighted average interest rate received	4.19%	4.19%	

The net effect of this transaction was that the Company effectively converted fixed-rate senior debt to floating-rate senior debt with a weighted average interest rate of 2.63% at December 31, 2004.

During 2004, the range of floating interest rates paid on swap contracts was 1.35% to 2.49%. 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, $12 million, and $19 million for the years ended December 31, 2004, 2003, and 2002, respectively. At December 31, 2004, the Company did not have any interest rate swaps not designated as hedging instruments outstanding.

NOTE T - 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, 2004 and 2003, 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, 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. Adjustment for credit risk is estimated based upon the classification status of the loans.
- 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			
	2004		2003	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial Assets:				
Cash	$ 292,421	$ 292,421	$ 260,823	$ 260,823
Securities available for sale	1,374,385	1,374,385	1,879,443	1,879,443
MBS available for sale	14,438	14,438	22,071	22,071
MBS held to maturity	2,095,614	2,138,894	4,083,367	4,115,440
Loans receivable	100,559,179	101,261,901	74,205,578	74,825,796
Interest earned but uncollected	248,073	248,073	183,761	183,761
Investment in capital stock of Federal Home Loan Banks	1,563,276	1,563,276	1,152,339	1,152,339
Capitalized mortgage servicing rights	53,234	62,273	88,967	95,139
Interest rate swaps	10,309	10,309	-0-	-0-
Financial Liabilities:				
Deposits	52,965,311	53,022,209	46,726,965	46,898,313
Advances from Federal Home Loan Banks	33,781,895	33,790,789	22,000,234	22,020,154
Securities sold under agreements to repurchase	3,900,000	3,899,607	3,021,385	3,021,415
Bank notes	2,709,895	2,709,742	3,015,824	3,016,048
Senior debt	5,291,840	5,323,968	991,257	1,027,745
Interest rate swaps	-0-	-0-	991	991

Off-Balance Sheet Instruments (at estimated fair value):

	December 31, 2004		
	Unrealized Gains	Unrealized Losses	Net Unrealized Gain
Loan commitments for investment portfolio	$18,784	$ -0-	$18,784

	December 31, 2003		
	Unrealized Gains	Unrealized Losses	Net Unrealized Gain
Loan commitments for investment portfolio	$12,963	$ -0-	$12,963

NOTE U - 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 $9.0 million, $7.5 million, and $6.4 million for the years ended December 31, 2004, 2003, and 2002, respectively.

NOTE V - Parent Company Financial Information

Statement of Net Earnings

	Year Ended December 31		
	2004	2003	2002
Revenues:			
Dividends from subsidiaries	$ 250,089	$ 200,112	$300,188
Investment income	9,915	8,576	7,766
Insurance commissions	2,948	2,331	2,354
Rental Income	27	-0-	-0-
	262,979	211,019	310,308
Expenses:			
Interest	48,697	57,826	45,859
General and administrative	5,158	6,693	5,053
	53,855	64,519	50,912
Earnings before income tax benefit and equity in undistributed net earnings of subsidiaries	209,124	146,500	259,396
Income tax benefit	15,813	20,723	15,793
Equity in undistributed net earnings of subsidiaries	1,054,784	938,876	683,090
Net Earnings	$1,279,721	$ 1,106,099	$958,279

Statement of Financial Condition

	December 31	
Assets	2004	2003
Cash	$ 29,937	$ 6,178
Securities available for sale	80,301	603,080
Overnight note receivable from subsidiary	706,129	-0-
Other investments with subsidiary	217	105
Investment in subsidiaries	7,418,446	6,310,185
Other assets	47,750	35,183
	$8,282,780	$6,954,731
Liabilities and Stockholders' Equity		
Senior debt	$ 992,829	$ 991,257
Other liabilities	15,075	16,206
Stockholders' equity	7,274,876	5,947,268
	$8,282,780	$6,954,731

Parent Company Financial Information
(continued)

Statement of Cash Flows

	Year Ended December 31		
	2004	2003	2002
Cash flows from operating activities:			
Net earnings	$1,279,721	$1,106,099	$958,279
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Equity in undistributed net earnings of subsidiaries	(1,054,784)	(938,876)	(683,090)
Amortization of discount on senior debt and subordinated notes	1,572	1,700	1,123
Other, net	15,078	1,590	3,377
Net cash provided by operating activities	241,587	170,513	279,689
Cash flows from investing activities:			
Decrease (increase) in securities available for sale	523,293	(172,522)	(226,762)
Decrease (increase) in overnight notes receivable from subsidiary	(706,129)	399,369	(349,208)
Increase in other investments with subsidiary	(112)	(2)	(3)
Repayments of subordinated note receivable from subsidiary	-0-	-0-	100,000
Net cash provided by (used in) investing activities	(182,948)	226,845	(475,973)
Cash flows from financing activities:			
Proceeds from senior debt	-0-	-0-	790,708
Repayment of subordinated notes	-0-	(200,000)	(400,000)
Dividends on common stock	(64,157)	(54,159)	(46,746)
Exercise of stock options	29,277	12,728	15,915
Purchase and retirement of Company stock	-0-	(151,230)	(173,036)
Net cash provided by (used in) financing activities	(34,880)	(392,661)	186,841
Net increase (decrease) in cash	23,759	4,697	(9,443)
Cash at beginning of period	6,178	1,481	10,924
Cash at end of period	$ 29,937	$ 6,178	$ 1,481

NOTE W - Selected Quarterly Financial Data
(Unaudited)

	2004			
	Quarter Ended			
	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	$ 0.98	$ 1.04	$ 1.06	$ 1.11
Diluted earnings per share	$ 0.97	$ 1.02	$ 1.05	$ 1.09

	2003			
	Quarter Ended			
	Mar. 31	Jun. 30	Sep. 30	Dec. 31
Interest income	$877,434	$871,323	$876,886	$902,701
Interest expense	348,693	329,702	323,556	318,009
Net interest income	528,741	541,621	553,330	584,692
Provision for loan losses	4,479	3,501	2,082	1,802
Noninterest income	67,062	82,930	90,740	72,598
Noninterest expense	169,710	177,180	181,053	192,572
Earnings before taxes on income	421,614	443,870	460,935	462,916
Taxes on income	161,549	171,397	178,029	172,261
Net earnings	$260,065	$272,473	$282,906	$290,655
Basic earnings per share	$ 0.85	$ 0.89	$ 0.93	$ 0.96
Diluted earnings per share	$ 0.83	$ 0.88	$ 0.91	$ 0.94

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, 2004 and 2003, 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, 2004. 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, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004 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, 2004, 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 7, 2005 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 7, 2005

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, 2004. 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, 2004, 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 7, 2005

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, 2004, 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, 2004, 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, 2004, 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, 2004 of the Company and our report dated March 7, 2005 expressed an unqualified opinion on those financial statements.

Deloitte & Touche LLP

Oakland, California
March 7, 2005

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 $106.9 billion as of December 31, 2004. The Company's principal operating subsidiary is World Savings Bank, FSB (WSB). WSB has a subsidiary, World Savings Bank, FSB (Texas) (WTX). As of December 31, 2004, we operated 276 savings branches in 10 states and had lending operations in 38 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.

2004 in Review

We had a strong year in 2004 with substantial growth in net interest income driven primarily by the 31% 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 2004 was a decrease in our average primary spread. The average primary spread decreased as short-term interest rates increased in 2004 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 $4.13, up 16% from the $3.57 reported in 2003 (amounts reflect the December 2004 two-for-one stock split);
- net interest income grew 19% to a record high of $2.6 billion, despite an average primary spread that compressed from 2.94% during 2003 to 2.76% in 2004;
- we had record originations of $49 billion as compared to $36 billion for 2003;
- 99% of originations in 2004 were ARMs as compared to 94% in 2003;
- our ARM portfolio increased to a record high of $100 billion, up 33% from $75 billion at yearend 2003;
- nonperforming assets and troubled debt restructured remained at very low levels, and for a seventh straight year our ratio of net chargeoffs to average loans and MBS was zero basis points;
- our capital expanded to a record level of $7.3 billion, up 22% from the $5.9 billion reported at yearend 2003;
- our stockholders' equity to asset ratio was 6.81% at December 31, 2004, even with high asset growth; and
- our general and administrative expense to average assets ratio fell from .98% to .90%.

The following table summarizes selected financial information about how we performed in 2004, as compared to 2003 and 2002.

Financial Highlights
2002 – 2004
(Dollars in Millions Except Per Share Figures)

	Year Ended December 31		
	2004	2003	2002
Operating Results:			
Net earnings	$ 1,280	$ 1,106	$ 958
Diluted earnings per share [(a)]	4.13	3.57	3.06
Net interest income	$ 2,618	$ 2,209	$ 1,930
Average earning assets	92,441	72,351	61,476
Net interest margin	2.83%	3.05%	3.17%
General and administrative expense	$ 840	$ 721	$ 601
General and administrative expense/average assets	.90%	.98%	.96%
Efficiency ratio [(b)]	28.85%	28.57%	27.63%
	December 31		
	2004	2003	2002
Selected Balance Sheet Items:			
Assets	$106,889	$82,550	$68,406
Loans receivable and mortgage-backed securities (MBS)	102,669	78,311	65,011
Deposits	52,965	46,727	41,039
Borrowings	45,684	29,028	21,557
Stockholders' equity	7,275	5,947	5,025
Stockholders' equity/total assets	6.81%	7.20%	7.35%
World Savings Bank, FSB:			
Total assets	$106,787	$81,939	$67,968
Stockholder's equity	7,391	6,289	5,358
Regulatory capital ratios: [(c)]			
Core/leverage	6.71%	7.45%	7.61%
Total risk-based	12.92%	14.16%	14.26%

(a) Amounts reflect a December 2004 two-for-one stock split in the form of a 100% stock dividend.
(b) Efficiency ratio is defined as general and administrative expense divided by the sum of net interest income and noninterest income.
(c) 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 2004, 2003, and 2002.

Asset, Liability, and Equity Components as Percentages of the Total Balance Sheet
2002 – 2004

	December 31		
	2004	2003	2002
Assets:			
Cash and investments	1.6%	2.6%	1.8%
Loans receivable and MBS	96.0	94.9	95.0
Other assets	2.4	2.5	3.2
	100.0%	100.0%	100.0%
Liabilities and Stockholders' Equity:			
Deposits	49.6%	56.6%	60.1%
FHLB advances	31.6	26.7	27.2
Other borrowings	11.1	8.5	4.3
Other liabilities	0.9	1.0	1.1
Stockholders' equity	6.8	7.2	7.3
	100.0%	100.0%	100.0%

The Loan Portfolio

Almost all of our assets are adjustable rate mortgages on residential properties. We originate and retain these loans in portfolio. As discussed below, we emphasize ARMs with interest rates that change monthly to reduce our exposure to interest rate risk. 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, 2004, 2003, and 2002.

Balance of Loans Receivable and MBS by Component
2002 – 2004
(Dollars in Thousands)

	December 31		
	2004	2003	2002
Loans	$ 65,266,464	$49,937,769	$39,159,502
Securitized loans [a]	33,957,058	23,233,928	19,066,063
Other [b]	1,335,657	1,033,881	717,751
Total loans receivable	100,559,179	74,205,578	58,943,316
MBS with recourse [c]	1,719,982	3,650,048	5,871,069
Purchased MBS	390,070	455,390	196,389
Total MBS	2,110,052	4,105,438	6,067,458
Total loans receivable and MBS	$102,669,231	$78,311,016	$65,010,774
ARMs as a percentage of total loans receivable and MBS	98%	97%	96%

(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 2004, 2003, and 2002.

Loan Originations and Repayments
2002 – 2004
(Dollars in Millions)

	Year Ended December 31		
	2004	2003	2002
Loan Originations:			
Real estate loans originated	$48,989	$35,985	$26,683
ARMs as a % of originations	99%	94%	92%
Fixed-rate mortgages as a % of originations	1%	6%	8%
Refinances as a % of originations	72%	70%	62%
Purchases as a % of originations	28%	30%	38%
First mortgages originated for portfolio as a % of originations	97%	92%	93%
First mortgages originated for sale as a % of originations	1%	5%	7%
Repayments:			
Loan and MBS repayments [a]	$24,155	$20,043	$15,551
Loan repayment rate [b]	31%	31%	28%

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

The volume of our originations increased substantially in 2004 versus 2003 due to an increase in the popularity of adjustable rate mortgages. ARMs increased significantly as a percentage of mortgage originations nationwide because the rates and payments on these loans remained lower than those on the more traditional fixed-rate mortgages. We were able to take advantage of the favorable environment for ARM lending in 2004 because we focus on ARMs and because of prior investments that increased the capacity of our loan operations.

Loan and MBS repayments, including amortization and loan payoffs, were higher in 2004 as compared to 2003 as a result of an increase in the portfolio balance partially offset by a slight decrease in the repayment rate. Repayments were high in 2004 because interest rates remained very low and both home purchases and refinance activity remained high.

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 originate a small volume of fixed-rate second mortgages secured by second deeds of trust, most of which we have historically sold. We also offer borrowers equity lines of credit (ELOCs) indexed to the Prime Rate. These ELOCs are collateralized typically by second deeds of trust and occasionally by first deeds of trust. Our general practice is to only originate second deeds of trust on properties that have a first mortgage with us. The following table provides information about our activity in fixed-rate second mortgages and ELOCs in the past three years.

Equity Lines of Credit and Fixed-Rate Second Mortgages
2002 – 2004
(Dollars in Thousands)

	Year Ended December 31		
	2004	2003	2002
Equity Lines of Credit:			
New ELOCs established	$2,146,322	$1,708,482	$1,179,467
ELOC outstanding balance	2,575,524	1,827,435	999,251
ELOC maximum total line of credit available	3,907,947	2,748,076	1,501,725
Fixed-Rate Second Mortgages:			
Fixed-rate second mortgage originations	$ 109,054	$ 148,070	$ 160,065
Sales of second mortgages	36,985	100,410	139,011
Fixed-rate seconds held for sale	-0-	57,854	33,888
Fixed-rate seconds held for investment	127,428	79,998	181,355

Net Deferred Loan Costs

Included in the balance of loans receivable are net deferred loan costs associated with originating loans. In accordance with generally accepted accounting principles (GAAP), we defer loan origination fees 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 as a yield reduction over the contractual life of the related loans, thereby lowering net interest income and the reported yield on our loan portfolio. 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 following table provides information on net deferred loan costs for the years ended December 31, 2004, 2003, and 2002.

Net Deferred Loan Costs
2002 – 2004
(Dollars in Thousands)

	Year Ended December 31		
	2004	2003	2002
Beginning balance of net deferred loan costs	$547,318	$331,985	$193,924
Net loan costs deferred	558,290	313,331	173,570
Amortization of net deferred loan costs	(185,685)	(97,998)	(54,144)
Net deferred loan costs (fees) transferred from MBS	(4,915)	-0-	18,635
Ending balance of net deferred loan costs	$915,008	$547,318	$331,985

The growth in deferred loan costs in the past two years has resulted primarily from the growth in loan origination volume.

Lending Operations

At December 31, 2004, we had lending operations in 38 states. Our largest source of mortgage origination volume has been 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, 2004, 2003, and 2002 for Northern and Southern California and for our five next largest origination states in 2004.

Loan Originations by State
2002 – 2004
(Dollars in Thousands)

	Year Ended December 31		
	2004	2003	2002
Northern California	$17,891,625	$13,269,180	$10,117,551
Southern California	14,932,040	10,955,465	7,742,042
Florida	2,664,693	1,955,151	1,394,241
New Jersey	2,001,661	1,309,496	890,602
Illinois	1,219,630	786,228	565,406
Nevada	1,123,568	425,256	220,640
Virginia	1,080,273	704,363	464,018
Other states	8,075,587	6,579,582	5,288,390
Total	$48,989,077	$35,984,721	$26,682,890

The following table shows loans receivable and MBS with recourse by state for the three years ended December 31, 2004, 2003, and 2002 for Northern and Southern California and all other states with more than 2% of the total loan balance at December 31, 2004.

Loans Receivable and MBS with Recourse by State
2002 – 2004
(Dollars in Thousands)

	December 31		
	2004	2003	2002
Northern California	$ 35,464,047	$27,682,694	$22,667,805
Southern California	27,819,673	21,193,225	18,264,895
Florida	6,003,687	4,400,376	3,449,900
New Jersey	4,414,236	3,020,539	2,390,606
Texas	3,359,814	2,954,106	2,671,241
Illinois	2,673,642	1,925,959	1,676,901
Washington	2,344,628	2,076,473	1,973,427
Virginia	2,085,564	1,393,601	1,016,734
Colorado	2,033,951	1,694,296	1,567,584
Other states	14,733,528	10,468,696	8,404,301
	100,932,770	76,809,965	64,083,394
Other [(a)]	1,346,391	1,045,661	730,991
Total loans receivable and MBS with recourse	$102,279,161	$77,855,626	$64,814,385

(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 our borrowings than whole loans. Because we have retained all of the beneficial interests in these MBS securitizations to date, the accounting rules require that the securitizations formed after March 31, 2001 be classified as securitized loans and included in our loans receivable. Securitization activity for the years ended December 31, 2004, 2003, and 2002, amounted to $24.5 billion, $13.7 billion, and $18.9 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

Most of the ARMs that we originated in 2004, and that we have been originating 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;
- a monthly payment amount that changes annually;
- features that allow for deferred interest to accrue on the loans; and
- lifetime interest rate caps, and in some cases interest rate floors, that limit the range of interest rates on the loans.

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 with interest only payments for the first five years and an interest rate that adjusts every six months subject to a periodic interest rate cap.

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. Additionally, some borrowers choose to convert an ARM to a fixed-rate mortgage. During 2004, $150 million of loans were converted at the customer's request from ARMs to fixed-rate loans, compared to $1.2 billion and $596 million in 2003 and 2002, respectively. We sell most of the converted fixed-rate loans.

Interest Rates and Indexes. Almost all the 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 are the Certificate of Deposit Index (CODI), the Golden West Cost of Savings Index (COSI) or the Eleventh District Cost of Funds Index (COFI). Details about these indexes, including the reporting and repricing lags associated with them, are discussed in "Asset/Liability Management." The ELOCs we originate are indexed to the Prime Rate as published in the Money Rates table in The Wall Street Journal (Central Edition).

As further described in "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, 2004, 2003, and 2002.

Adjustable Rate Mortgage Originations by Index
2002 – 2004
(Dollars in Thousands)

	Year Ended December 31		
ARM Index	2004	2003	2002
CODI	$32,264,494	$20,518,260	$13,173,161
COSI	14,447,060	10,688,779	7,899,702
COFI	654,926	1,559,605	3,370,412
Prime [(a)]	1,063,102	887,363	-0-
Total	$48,429,582	$33,654,007	$24,443,275
ARM Index	% of Total	% of Total	% of Total
CODI	67%	61%	54%
COSI	30	32	32
COFI	1	5	14
Prime [(a)]	2	2	0
Total	100%	100%	100%

(a) As of January 2003, includes fundings of new ELOCs indexed to the Prime Rate. Only amounts drawn at the establishment of the line of credit are included in originations. Prior to 2003, ELOCs were not included in originations.

The following table shows the distribution by index of the Company's outstanding balance of adjustable rate mortgages (including ARM MBS) at December 31, 2004, 2003, and 2002.

Adjustable Rate Mortgage Portfolio by Index
(Including ARM MBS)
2002 – 2004
(Dollars in Thousands)

	December 31		
ARM Index	2004	2003	2002
CODI	$52,412,249	$30,243,337	$13,286,566
COSI	30,900,888	24,535,095	22,070,692
COFI	13,537,745	18,207,868	24,755,498
Prime [(a)]	2,575,524	1,827,435	999,251
Other [(b)]	304,295	424,988	658,135
Total	$99,730,701	$75,238,723	$61,770,142
ARM Index	% of Total	% of Total	% of Total
CODI	52%	40%	21%
COSI	31	33	36
COFI	14	24	40
Prime [(a)]	3	2	2
Other [(b)]	0	1	1
Total	100%	100%	100%

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

Monthly Payment Amount. For substantially all of our ARMs, the borrower's minimum monthly payment is reset annually. The new monthly payment amount each year is usually calculated to be the amount necessary to amortize the outstanding loan balance at the then applicable interest rate over the remaining term of the loan.

The new monthly payment amount generally cannot exceed the prior year's 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 other loans, the 7.5% cap does not apply on the fifth annual payment change of the loan and every fifth annual payment change thereafter. On each annual payment change date when the 7.5% cap does not apply, the new monthly payment amount will be set to an amount that would fully amortize the loan over its remaining term.

Substantially all of the ARMs we originate allow the borrowers to select a fixed monthly payment amount for an interim period after origination, typically one year. After this interim period, the monthly payment amount resets annually as described above. The amount of the initial payment can range from a minimum payment that we set (which may be lower than the amount of interest accruing on the loan) to a fully amortizing payment.

The monthly statement for most of our loans provides our borrowers with up to four payment options. These payment options include a fully amortizing payment, an interest-only payment, a minimum payment, 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.

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. For more than 20 years, our ARMs have allowed deferred interest to occur if the borrower's monthly payment is not large enough to pay the monthly interest accruing on the loan. Deferred interest refers to the amount of unpaid interest that is added to the outstanding principal balance. Borrowers always have the option to 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 either 125% or 110% of the original mortgage amount. The 125% cap on deferred interest applies to loans with original loan to value ratios at or below 85%. The 110% cap applies to loans with original loan to value ratios above 85%. If the loan balance reaches the applicable limit, additional deferred interest may not be allowed to occur and we may increase the monthly payment to an amount that would amortize the loan over its remaining term. In this case, the new monthly payment amount could increase beyond the 7.5% annual payment cap described above, and continue to increase each month thereafter, if the applicable deferred interest cap is still being reached and the current monthly payment amount would not be enough to fully amortize the loan by the scheduled maturity date. As of December 31, 2004, we did not have any loans in our portfolio that had reached the applicable limit on deferred interest.

The amount of deferred interest that accrued in the loan portfolio amounted to $55 million, $21 million, and $62 million at December 31, 2004, 2003, and 2002, respectively. The amount of deferred interest that may occur in the loan portfolio is uncertain and is influenced by a number of factors outside our control, including changes in the underlying index, the amount and timing of borrowers' monthly payments, and unscheduled principal payments. If the applicable index were to increase and remain at relatively high levels, the amount of deferred interest occurring in the loan portfolio would be expected to trend higher, absent other mitigating factors such as increased prepayments or borrowers making monthly payments that meet or exceed the amount of interest then accruing on their mortgage loan. Similarly, if the index were to decline and remain at relatively low levels, the amount of deferred interest occurring in the loan portfolio would be expected to trend lower.

Lifetime Caps and Floors. Virtually all of our ARMs are subject to a lifetime cap. 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. The weighted average maximum lifetime cap rate on our ARM loan portfolio (including MBS before any reduction for loan servicing and guarantee fees) was 12.16% or 7.16% above the actual weighted average rate at December 31, 2004, versus 12.20% or 7.42% above the actual weighted average rate at yearend 2003 and 12.13% or 6.74% above the weighted average rate at yearend 2002.

The following table shows the Company's ARM loans by lifetime cap bands as of December 31, 2004.

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

	December 31, 2004		
Cap Bands	ARM Balance	Number of Loans	% of Total Balance
Less than 9.00%	$ 6,244	26	.0%
9.00% - 9.49%	100	1	.0
9.50% - 9.99%	470	5	.0
10.00% - 10.49%	5,489	16	.0
10.50% - 10.99%	3,357	18	.0
11.00% - 11.49%	1,197,410	5,473	1.2
11.50% - 11.99%	84,265,599	366,550	84.5
12.00% - 12.49%	8,057,398	49,639	8.1
12.50% - 12.99%	2,290,361	13,031	2.3
13.00% - 13.49%	132,746	830	.1
13.50% - 13.99%	413,906	3,804	.4
14.00% or greater (a)	3,329,849	74,469	3.4
No Cap	27,772	270	.0
Total	$99,730,701	514,132	100.0%

(a) Includes $2.6 billion of one- to four-family ELOCs, most of which have an 18% cap.

A portion of our ARMs are subject to lifetime floors. At December 31, 2004, approximately $5.4 billion of our ARM loans (including MBS with recourse held to maturity) 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, 2004, $1.6 billion of ARM loans had reached their rate floors, compared to $2.3 billion at December 31, 2003 and $2.0 billion at December 31, 2002. The weighted average floor rate on the loans that had reached their floor was 5.36% at yearend 2004 compared to 5.43% at yearend 2003 and 5.87% at yearend 2002. Without the floor, the average rate on these loans would have been 4.44% at December 31, 2004, 4.38% at December 31, 2003, and 5.19% at December 31, 2002.

Securities Available for Sale

We invest funds not immediately needed to fund our loan operations in short-term instruments, primarily in federal funds, short-term repurchase agreements collateralized by MBS, and Eurodollar time deposits. Our practice is to invest only with counterparties that have high credit ratings. In addition to short-term investments, we hold stock in Federal Home Loan Mortgage Corporation (Freddie Mac) that we obtained in 1984 with a cost basis of $6 million. The following table is a summary of information about investment securities, which the Company classifies as available for sale and are reported at fair value.

Composition of Securities Available for Sale (Dollars in Thousands)

	December 31		
	2004	2003	2002
Federal funds	$ 861,353	$ 941,267	$153,838
Eurodollar time deposits	75,000	298,238	225,000
U.S. government obligation	1,760	1,760	1,761
Short-term repurchase agreements collateralized by MBS	-0-	300,000	-0-
Commercial paper	-0-	-0-	199,986
Short-term securities available for sale	938,113	1,541,265	580,585
Freddie Mac Stock	414,194	327,758	331,861
Other	22,078	10,420	9,731
Total securities available for sale	$1,374,385	$1,879,443	$922,177

Included in the balances above are net unrealized gains on investment securities available for sale of $410 million, $323 million, and $326 million at December 31, 2004, 2003, and 2002, respectively. The cost basis of the securities available for sale portfolio at December 31, 2004, 2003, and 2002 was $964 million, $1.6 billion, and $596 million, respectively, with weighted average yields excluding equity securities of 2.08%, .93%, and 1.10% at December 31, 2004, 2003, and 2002, respectively. We had no securities held for trading during 2004, 2003, and 2002.

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 loan 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 fixed-rate loans to third parties. The balance of capitalized mortgage servicing rights (CMSRs) at December 31, 2004, 2003, and 2002 was $53 million, $89 million, and $69 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 estimated fair value of CMSRs as of December 31, 2004, 2003, and 2002 was $62 million, $95 million, and $73 million, respectively. The book value of the Company’s CMSRs for certain of the Company’s loan strata exceeded the fair value by $7 million at December 31, 2004. As a result, an impairment valuation allowance of $7 million was recorded in 2004. The book value of the Company’s CMSRs did not exceed the fair value at December 31, 2003 or 2002 and, therefore, no valuation allowance for impairment was required.

Deposits

We raise deposits through our retail branch system, through the Internet, and, from time to time, through the money markets. Retail deposits increased by $6.2 billion in 2004 compared to increases of $5.7 billion and $6.6 billion in 2003 and 2002, respectively. Retail deposits increased during these three years because the public found insured money market and savings accounts to be a more favorable investment compared with other alternatives, and we also received favorable customer response to our promoted products. At December 31, 2004, transaction accounts represented 74% of the total balance of deposits, compared to 77% and 66% at yearends 2003 and 2002, respectively. These transaction accounts included checking accounts, money market deposit accounts, and passbook accounts (including most of the balance of the promoted account described below).

During the second half of 2004, the savings product that we principally promoted had elements of both a certificate of deposit and a passbook savings account. This product allowed customers to lock in a favorable rate on the entire balance in the account for a specified term, and also gave customers the flexibility to make withdrawals from the account at any time, without penalty, down to a specified minimum balance. Customers were also allowed to make additional deposits into this account up to a specified maximum balance.

Borrowings

In addition to funding real estate loans with deposits, we also utilize borrowings. Most of our borrowings are variable interest rate instruments and are tied to the London Interbank Offered Rate (LIBOR). In 2004, borrowings increased by $16.7 billion to $45.7 billion from $29.0 billion at yearend 2003 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 $33.8 billion at December 31, 2004, compared to $22.0 billion and $18.6 billion at December 31, 2003 and 2002, 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 bank notes. On November 12, 2004, WSB initiated a bank note program that allows us to issue an aggregate amount of $8.0 billion of unsecured senior notes with maturities ranging from 270 days to thirty years. In December 2004, WSB issued $1.3 billion in notes under this program. WSB also issued $3.0 billion of unsecured senior notes in 2004 under a prior program, all of which were outstanding at December 31, 2004. Bank notes with maturities exceeding 270 days are reported as senior debt on the Consolidated Statement of Financial Condition. As of December 31, 2004, 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 under which up to $5.0 billion of short-term notes with maturities of less than 270 days can be outstanding at any point in time. WSB had $2.7 billion, $3.0 billion, and $1.2 billion of short-term bank notes outstanding as of December 31, 2004, 2003, and 2002, respectively. As of December 31, 2004, WSB’s short-term bank notes were rated P-1 and A-1+ by Moody’s and S&P, respectively.

We also borrow funds 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 $3.9 billion, $3.0 billion, and $522 million at December 31, 2004, 2003, and 2002, respectively.

Golden West, at the holding company level, occasionally issues senior or subordinated unsecured debt, although none was issued in 2004. At December 31, 2004, Golden West, at the holding company level, had $993 million of senior debt and no subordinated debt outstanding. As of December 31, 2004, 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 that changes in market interest rates 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 customers converted 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, 2004, ARMs constituted 98% of our loan and MBS portfolio, and 97% of our ARM portfolio adjusted monthly.

Additionally, we emphasize home loans tied to certain ARM indexes so that these index rates and the rates on the liabilities that fund these ARMs respond in a similar manner to changes in market rates.

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.

Summary of Key Indexes			
	CODI	**COSI**	**COFI**
How the Index is Calculated	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 Golden West's cost of deposits as reported monthly.	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	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.	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, COFI has tracked our cost of deposits. The match is not perfect since COFI includes the cost of savings and borrowings of many other institutions as well as our own.
Percentage of 2004 ARM Originations	67%	30%	1%
Percentage of ARM Portfolio at 12/31/04	52%	31%	14%
Timing Lags (see descriptions in the paragraph below)			
Reporting Lag	One month	One month	Two months
Repricing Lag	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 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 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.

The primary difference between our ARMs and liabilities is timing relating to how quickly our ARMs and liabilities reprice. Our liabilities tend to reprice more quickly than our ARM portfolio, primarily because of built-in reporting and repricing lags identified in the table above 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 "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 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 do impact the primary spread, this 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.

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; and
- the prices that we pay for our borrowings.

The table below shows the primary spread, and its main components, at December 31, 2004, 2003, and 2002.

Yield on Earning Assets, Cost of Funds, and Primary Spread 2002 – 2004

	December 31		
	2004	2003	2002
Yield on loan portfolio and MBS	4.75%	4.61%	5.28%
Yield on investments	2.08	.93	1.94
Yield on earning assets	4.73	4.54	5.25
Cost of deposits	2.08	1.85	2.56
Cost of borrowings	2.38	1.37	1.85
Cost of funds	2.22	1.67	2.32
Primary spread	2.51%	2.87%	2.93%

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. 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 described above.

The following table shows the average primary spread by quarter.

Average Primary Spread

	For the Quarter Ended				
	Dec. 31 2004	Sep. 30 2004	Jun. 30 2004	Mar. 31 2004	Dec. 31 2003
Average primary spread	2.60%	2.70%	2.86%	2.90%	2.91%

For the five years ended December 31, 2004, which included periods of both falling and rising interest rates, our primary spread averaged 2.68%.

Financial institutions 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, 2004, 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, 2004
(Dollars in Millions)

	Projected Repricing [a]				
	0 - 3 Months	4 - 12 Months	1 - 5 Years	Over 5 Years	Total
Earning Assets:					
Securities available for sale	$ 1,372	$ 2	$ -0-	$ -0-	$ 1,374
MBS:					
Adjustable rate	1,637	-0-	-0-	-0-	1,637
Fixed-rate	23	55	197	198	473
Loans receivable: [b] [c]					
Adjustable rate	97,945	917	237	-0-	99,099
Fixed-rate held for investment	113	237	462	264	1,076
Fixed-rate held for sale	52	-0-	-0-	-0-	52
Other [d]	1,769	-0-	-0-	137	1,906
Total	$102,911	$ 1,211	$ 896	$ 599	$105,617
Interest-Bearing Liabilities:					
Deposits [e]	$ 43,272	$ 6,100	$ 3,592	$ 1	$ 52,965
FHLB advances	32,662	78	430	612	33,782
Other borrowings	9,706	-0-	1,702	494	11,902
Impact of interest rate swaps	1,200	-0-	(1,200)	-0-	-0-
Total	$ 86,840	$ 6,178	$ 4,524	$1,107	$ 98,649
Repricing gap	$ 16,071	$ (4,967)	$(3,628)	$ (508)	$ 6,968
Cumulative gap	$ 16,071	$11,104	$ 7,476	$6,968	
Cumulative gap as a percentage of total assets	15.0%	10.4%	7.0%		

(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 nonaccrual loans (90 days or more past due).
(c) Includes loans in process. Loans in process are funded, interest-earning loans that have not yet been entered into the loan servicing system due to the normal five to seven day processing lag.
(d) Includes primarily cash in banks and Federal Home Loan Bank (FHLB) stock.
(e) Liabilities 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 discussed above, 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, 2004, taking into consideration expected prepayments of our long-term assets (primarily MBS and loans receivable). 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, 2004
(Dollars in Millions)

	Expected Maturity Date as of December 31, 2004 [a]							
	2005	2006	2007	2008	2009	2010 & Thereafter	Total Balance	Fair Value
Interest-Sensitive Assets:								
Securities Available for Sale	$ 1,374	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-	$ 1,374	$ 1,374
Weighted average interest rate	2.08%	.00%	.00%	.00%	.00%	.00%	2.08%	
MBS								
Fixed-Rate	$ 82	$ 70	$ 57	$ 46	$ 38	$ 180	$ 473	484
Weighted average interest rate	6.15%	6.00%	5.90%	5.82%	5.74%	5.49%	5.78%	
Variable Rate	$ 380	$ 292	$ 224	$ 172	$ 132	$ 437	$ 1,637	1,669
Weighted average interest rate	4.59%	4.59%	4.59%	4.59%	4.59%	4.58%	4.59%	
Loans Receivable [b]								
Fixed-Rate	$ 333	$ 193	$ 140	$ 104	$ 79	$ 282	$ 1,131	1,149
Weighted average interest rate	7.32%	7.21%	6.98%	6.82%	6.71%	6.52%	6.97%	
Variable Rate	$23,950	$18,614	$14,184	$10,532	$7,829	$22,984	$ 98,093	98,777
Weighted average interest rate [c]	5.03%	5.02%	5.02%	5.00%	4.99%	4.98%	5.01%	
Interest Rate Swaps (notional values)								
Receive Fixed Swaps	$ -0-	$ -0-	$ -0-	$ -0-	$1,200	$ -0-	$ 1,200	10
Weighted average receive rate	.00%	.00%	.00%	.00%	4.19%	.00%	4.19%	
Weighted average pay rate	.00%	.00%	.00%	.00%	2.44%	.00%	2.44%	
Total	$26,119	$19,169	$14,605	$10,854	$9,278	$23,883	$103,908	$103,463
Interest-Sensitive Liabilities:								
Deposits [d]	$49,372	$ 1,400	$ 1,462	$ 287	$ 443	$ 1	$ 52,965	$ 53,022
Weighted average interest rate	1.97%	2.94%	4.33%	3.24%	3.80%	3.19%	2.08%	
FHLB Advances								
Fixed-Rate	$ 121	$ 367	$ 65	$ 90	$ 40	$ 437	$ 1,120	1,154
Weighted average interest rate	3.32%	2.31%	4.82%	4.74%	5.47%	5.60%	4.16%	
Variable Rate	$ 8,925	$ 6,458	$ 9,750	$ 3,500	$4,029	$ -0-	$ 32,662	32,636
Weighted average interest rate	2.15%	2.21%	2.29%	2.25%	2.31%	.00%	2.23%	
Other Borrowings								
Fixed-Rate	$ 4,460	$ 199	$ 299	$ -0-	$1,203 [e]	$ 495	$ 6,656	6,683
Weighted average interest rate	2.22%	5.71%	4.31%	.00%	2.61% [f]	4.94%	2.69%	
Variable Rate	$ 750	$ 1,849	$ 1,499	$ -0-	$1,148	$ -0-	$ 5,246	5,251
Weighted average interest rate	2.40%	2.39%	2.55%	.00%	2.56%	.00%	2.47%	
Total	$63,628	$10,273	$13,075	$ 3,877	$6,863	$ 933	$ 98,649	$ 98,746

(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 loans in process, net deferred loan costs, allowance for loan losses, and other miscellaneous discounts.
(c) The total weighted average interest rate for variable rate loans receivable reflects loans with introductory rates in effect at December 31, 2004. Those loans are assumed to mature outside the introductory period at fully-indexed rates (the fully-indexed rate is equal to the effective index plus the loan margin). Consequently, the weighted average rate of all maturing variable rate loans will not equal the weighted average rate of total variable rate loans at December 31, 2004 as indicated in the total balance column.
(d) Deposits with no maturity are included in the 2005 column.
(e) The Company entered into two interest rate swaps to effectively convert certain fixed-rate debt to variable-rate debt. Because the swaps qualify as fair value hedges, the debt is recorded at fair value.
(f) The effect of the 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, 2004, 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, 2004, we had two interest rate swaps that were used to effectively convert payments on WSB's fixed-rate senior debt to floating-rate payments. We entered into one such swap with a notional amount of $400 million in June 2004 and another with a notional amount of $800 million in December 2004. 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. At December 31, 2004, 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 a mortgage loan and the value of the underlying collateral is not sufficient to cover the loan amount. We manage credit risk principally by originating high-quality loans that are reviewed by our underwriting and appraisal staff. We also mitigate credit risk through periodic loan reviews. Additionally, we closely monitor market trends, and take appropriate steps to protect our interests.

Our objective is to minimize nonperforming assets and troubled debt restructured 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 Process

As part of our underwriting process, we evaluate the creditworthiness of potential borrowers based primarily on credit history and an evaluation of the potential borrower's ability to repay the loan. We use systems developed internally based on years of experience evaluating credit risk. Although we use technological tools to help with underwriting evaluations, our underwriting personnel review each file and make final judgments. 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.

Our appraisal process is separate from our underwriting process to assure independence and accountability. We appraise the property that secures the loan by assessing its market value and marketability. We maintain an in-house staff to conduct and review property appraisals. Any external appraisers that we use are required to go through a training program with us, and each appraisal is reviewed by our internal appraisal staff.

California Housing Market

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 to potential adverse conditions in California. The average loan size for our California one- to four-family first mortgage originations in 2004 was approximately $300 thousand.

Loan to Value Ratio

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 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.

Historically, loans with LTVs or CLTVs greater than 80% result in greater credit losses as compared to loans originated with LTVs or CLTVs at 80% or lower. We therefore focus our lending activity on loans that have LTVs or CLTVs at or below 80%. In addition, we take steps to reduce the potential credit risk with respect to new loans with LTVs or CLTVs over 80%. Among other things:

- a significant percentage of first mortgage loans with LTVs over 80% carry mortgage insurance, which reimburses us for losses up to a specified percentage per loan, thereby reducing the effective LTV to below 80%;
- the LTV or CLTV may not exceed 95% of the appraised value of a single-family residence at the time of origination;
- we carry pool mortgage insurance on most ELOCs and most fixed-rate seconds held for investment when the CLTV exceeds 80%; the cumulative losses covered by this pool mortgage insurance are limited to 10% or 20% of the original balance of each insured pool; and
- we have sold without recourse a significant portion of our fixed-rate second mortgage originations.

The following table shows mortgage originations with LTVs or CLTVs greater than 80% for the years ended December 31, 2004, 2003, and 2002.

Mortgage Originations with LTVs or CLTVs Greater Than 80% 2002 – 2004 (Dollars in Thousands)

	Year Ended December 31		
	2004	2003	2002
First mortgages with LTVs greater than 80%:			
With mortgage insurance	$ 86,112	$ 223,775	$ 292,210
With no mortgage insurance	94,038	44,349	70,478
Total	$ 180,150	$ 268,124	$ 362,688
Percentage of total originations	.37%	.75%	1.36%
First and second mortgages with CLTVs greater than 80%: (a)			
With pool insurance on second mortgages	$3,809,644	$2,866,161	$2,412,821
With no pool insurance	377,889	799,231	611,044
Total	$4,187,533	$3,665,392	$3,023,865
Percentage of total originations	8.55%	10.19%	11.33%

(a) For ELOCs, only amounts drawn at the establishment of the line of credit are included in originations. The CLTV calculation for this table excludes any unused portion of the line of credit. The CLTV data only includes firsts and seconds that were originated together in the same month. The CLTV data in 2003 and 2004 includes ELOC amounts drawn at origination, while the 2002 CLTV data does not.

At December 31, 2004, 2003, and 2002, the aggregate average of LTVs and CLTVs on the loans in portfolio was 69%, 68%, and 69%, respectively.

We believe that by emphasizing LTVs below 80%, and insuring most loans with 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.

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 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, 2004, 2003, and 2002.

Nonperforming Assets and Troubled Debt Restructured 2002 – 2004 (Dollars in Thousands)

	December 31		
	2004	2003	2002
Nonaccrual loans	$332,329	$410,064	$413,123
Foreclosed real estate	11,461	13,904	11,244
Total nonperforming assets	$343,790	$423,968	$424,367
TDRs	$ 3,810	$ 3,105	$ 233
Ratio of NPAs to total assets	.32%	.51%	.62%
Ratio of TDRs to total assets	.00%	.00%	.00%
Ratio of NPAs and TDRs to total assets	.33%	.51%	.62%

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, 2004.

Nonperforming Assets by State
2002 – 2004
(Dollars in Thousands)

	December 31		
	2004	2003	2002
Northern California	$ 86,906	$118,322	$ 98,301
Southern California	48,351	79,773	106,358
Florida	23,903	30,009	35,471
New Jersey	19,452	20,526	18,878
Texas	48,585	43,489	30,377
Illinois	14,000	14,509	16,008
Washington	12,736	14,268	18,159
Virginia	2,182	3,088	3,749
Colorado	6,135	9,322	5,395
Other states [(a)]	81,540	90,662	91,671
Total	$343,790	$423,968	$424,367
	NPAs as a % of Loans	NPAs as a % of Loans	NPAs as a % of Loans
Northern California	.25%	.43%	.43%
Southern California	.17	.38	.58
Florida	.40	.68	1.03
New Jersey	.44	.68	.79
Texas	1.45	1.47	1.14
Illinois	.52	.75	.95
Washington	.54	.69	.92
Virginia	.10	.22	.37
Colorado	.30	.55	.34
Other states [(a)]	.55	.87	1.09
Total	.34%	.55%	.66%

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

The low balance of total NPAs at December 31, 2004 as compared to the previous two years reflected the impact of the improved economy and the continued strong 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 Company provides specific valuation allowances for losses on loans when impaired and a write-down on foreclosed real estate when any significant and permanent decline in value is identified. The Company also utilizes a methodology for monitoring and estimating probable loan losses that is based on both the Company's historical loss experience in the loan portfolio and factors reflecting current economic conditions. This approach uses a database that identifies losses on loans and foreclosed real estate from past years to the present, broken down by the age of the loan. This approach also takes into consideration current trends in economic growth, unemployment, housing market activity, and home prices for the nation and individual geographical regions. Based on the analysis of historical performance, current conditions, and other risks, management estimates a range of loss allowances by type of loan and risk category to cover probable losses in the portfolio. One-to-four single-family real estate loans are evaluated as a group. In addition, periodic reviews are made of major multi-family and commercial real estate loans and foreclosed real estate. Where indicated, valuation allowances are established or adjusted. In estimating probable losses, consideration is given to the estimated sales price, cost of refurbishing the security property, payment of delinquent taxes, cost of disposal, and cost of holding the property. Additions to and reductions from the allowances are reflected in current earnings based upon quarterly reviews of the portfolio and the methodology and historical analyses are reviewed quarterly.

The table below shows the changes in the allowance for loan losses for the years ending December 31, 2004, 2003, and 2002.

Changes in Allowance for Loan Losses
2002 – 2004
(Dollars in Thousands)

	Year Ended December 31		
	2004	2003	2002
Beginning allowance for loan losses	$289,937	$281,097	$261,013
Provision for losses	3,401	11,864	21,170
Loans charged off	(4,613)	(3,633)	(1,943)
Recoveries	1,385	609	857
Ending allowance for loan losses	$290,110	$289,937	$281,097
Ratio of provision for loan losses to average loans receivable and MBS with recourse held to maturity	.00%	.02%	.04%
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	.28%	.37%	.43%
Ratio of allowance for loan losses to NPAs	84.4%	68.4%	66.2%

The decreased level of the provision for losses charged to expense in 2004 compared with 2003 and in 2003 as compared to 2002 reflected the lower level of nonperforming assets and continued low level of net chargeoffs that we experienced as a result of the continuation of the strong nationwide housing market and the prevailing economic conditions.

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:

- state 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 and do not uniquely and adversely affect us.

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 2004, 2003, and 2002.

Selected Financial Results
2002 – 2004
(Dollars in Millions)

	Year Ended December 31		
	2004	2003	2002
Interest income	$ 4,178	$ 3,529	$ 3,497
Interest expense	1,560	1,320	1,567
Net interest income	2,618	2,209	1,930
Provision for loan losses	3	12	21
Noninterest income	294	313	247
General and administrative expenses	840	721	601
Taxes on income	789	683	597
Net earnings	$ 1,280	$ 1,106	$ 958
Average earning assets	$92,441	$72,351	$61,476
Average primary spread	2.76%	2.94%	2.99%

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 19% increase in net interest income in 2004 compared with the prior year resulted primarily from the growth in the loan portfolio, our principal earning asset. Between December 31, 2003 and December 31, 2004, our earning asset balance increased by $24 billion or 30%. 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 2004 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 2003 as compared to 2002 resulted from the expansion of our earning assets which was partially offset by a modest decrease in our average primary spread.

Noninterest Income

The decrease in noninterest income in 2004 as compared to 2003 resulted primarily from the decrease in income associated with a smaller volume of fixed-rate loan sales, partially offset by an increase in prepayment fees. Also included in fee income was the $7 million provision for CMSR impairment. See "Capitalized Mortgage Servicing Rights." The increase in 2003 as compared to 2002 resulted primarily from the increase in income associated with the gains on a larger volume of loans sales and higher loan prepayment fees.

General and Administrative Expenses

G&A expenses increased in 2004 to support the record loan volume and the continued investment in resources to support future growth.

G&A as a percentage of average assets was .90%, .98%, and .96% for the years ended December 31, 2004, 2003, and 2002, respectively. G&A as a percentage of average assets was lower in 2004 as compared to 2003 because in 2004 average assets grew faster than the growth in general and administrative expenses. G&A as a percentage of net interest income plus noninterest income (the "efficiency ratio") amounted to 28.85%, 28.57%, and 27.63% for the years ended December 31, 2004, 2003, and 2002, respectively.

Taxes on Income

We utilize the accrual method of accounting for income tax purposes. Taxes as a percentage of earnings were 38.15%, 38.18%, and 38.36% for the years ended December 31, 2004, 2003, and 2002, 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, 2004, WSB maintained approximately $5.0 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, 2004, 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 $7.3 billion, $5.9 billion, and $5.0 billion for the years ended December 31, 2004, 2003, and 2002, respectively. All of our stockholders' equity is tangible common equity. 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. Stockholders' equity increased by $922 million during 2003 as a result of earnings partially offset by the $151 million cost of the repurchase of Company stock, the payment of quarterly dividends to stockholders, and the decreased market values of securities available for sale.

Uses of Capital

As in prior years, we retained most of our earnings in 2004. The 22% 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 29%, our stockholders' equity to asset ratio was 6.81% at December 31, 2004.

We did not repurchase any shares of Golden West common stock in 2004. As of December 31, 2004, 18,656,358 shares remained available for purchase under the stock purchase program that our Board of Directors has authorized. Since October 1993, 102.5 million shares have been repurchased under the stock repurchase program and retired at a cost of $1.4 billion. 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.

On December 10, 2004, a two-for-one stock split in the form of a 100% stock dividend was paid to the holders of record of Golden West's common stock at the close of business on November 15, 2004. The stock dividend was approved by the Board of Directors on October 20, 2004. On that date, the Board of Directors also approved a 20% increase in Golden West's cash dividend.

Regulatory Capital

Our bank subsidiaries, WSB and WTX, are subject to capital requirements described in detail in Note A to the Notes to Consolidated Financial Statements. As of December 31, 2004, the most recent notification from the Office of Thrift Supervision categorized WSB and WTX as "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 notification 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, 2004 was $1.8 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, 2004, we had $1.0 billion and $505 million of commitments outstanding for advances from the FHLB of Dallas and the FHLB of San Francisco, respectively, and these advances will be indexed to one-month LIBOR.

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, 2004, except for short-term borrowing arrangements and postretirement benefit plans.

Contractual Obligations
As of December 31, 2004
(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)]	$41,213	$9,796	$20,485	$10,495	$437
Operating leases	214	33	57	35	89
Total	$41,427	$9,829	$20,542	$10,530	$526

(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 March 2004, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 105, "Application of Accounting Principles to Loan Commitments," which provides guidance regarding loan commitments that are accounted for as derivative instruments. In this SAB, the SEC determined that an interest rate lock commitment should generally be valued at zero at inception. The rate locks will continue to be adjusted for changes in value resulting from changes in market interest rates. The adoption of this SAB did not have a significant impact on the Company's Consolidated Statement of Financial Condition or Consolidated Statement of Net Earnings.

In March 2004, the Financial Accounting Standards Board's (FASB) Emerging Issues Task Force (EITF) supplemented EITF 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." EITF 03-1 provides guidance for evaluating whether an investment is other-than-temporarily impaired and requires disclosures about unrealized losses on available for sale debt and equity securities. In September 2004, the FASB issued FASB Staff Position (FSP) EITF Issue 03-1-1, "Effective Date of Paragraphs 10-20 of EITF Issue 03-1," which deferred the effective date of the recognition and measurement provisions of the consensus until further guidance is issued. A separate proposed FSP was issued in September 2004 to address EITF 03-1 implementation issues. In November 2004, FASB announced that the recognition provisions of EITF Issue 03-1 would not be effective in 2004.

In December 2004, the FASB issued SFAS No. 123 (Revised 2004), "Share-Based Payment" (SFAS 123R). This Statement is a revision of SFAS 123, "Accounting for Stock-Based Compensation" 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 eliminates the ability to account for share-based compensation transactions using APB 25. For public entities that do not file as small business issuers, this Statement is effective as of the beginning of the first interim or annual reporting period that begins after June 15, 2005. The Company is evaluating the requirements of SFAS 123R and expects that the adoption of SFAS 123R will result in amounts that are similar to the current pro forma disclosures under SFAS 123.

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

GEORGANNE PROCTOR
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

§* LOUIS J. GALEN, Director
Private Investor

♦ 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 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: Leslie Tang Schilling, Kenneth T. Rosen, Marion O. Sandler, Bernard A. Osher, Louis J. Galen, Herbert M. Sandler, Maryellen C. Herringer, Patricia A. King, Antonia Hernandez

★NEWS EXTRA★

Morningstar Names 2004 CEOs of the Year: Herbert and Marion Sandler of Golden West Financial Corporation

Winners Scrutinize Costs, Treat Shareholder Capital as Their Own

CHICAGO—"Golden West may be one of the largest and most successful companies that few people have ever heard of," said Patrick Dorsey, director of stock analysis for Morningstar. "Herb and Marion Sandler have created a phenomenal track record during the past four decades in a tough industry that is both commoditized and unpredictable. They run their business efficiently, allocate capital carefully, treat shareholders respectfully with excellent financial disclosure, and are compensated reasonably. It's easy to see why we are delighted to name the Sandlers our 2004 CEOs of the year."

MORNINGSTAR 2004 **Chief Executive Officer of the Year**

The Sandlers founded Golden West Financial Corporation, a thrift-holding company based in Oakland, California, in 1963. The company operates 506 offices in 38 states, and its principal asset, World Savings Bank, is one of the nation's largest savings institutions and home mortgage lenders.

Golden West provides typical banking services—checking, savings, money market accounts, mutual funds, and annuities. Yet its focus on adjustable rate mortgages (ARMs), which the company has been originating for more than 20 years, set it apart from others because it helps the firm better manage rate sensitivity. In addition, Golden West stands out because it retains on its balance sheet the loans it originates in order to minimize volatility and increase profits.

The Sandlers have grown Golden West to become the nation's second-largest savings and loan, behind Washington Mutual, with more than $100 billion in assets, and profits of more than $940 million during the first nine months of 2004.

In addition:

- Golden West's stock boasts an average total return of more than 20 percent for the past 20 years, compared with about 13 percent for the S&P 500 Index.
- The company's efficiency ratio (expenses as a percentage of revenues) of 29 percent is about half of the industry average of 57 percent.
- Earnings per share have increased nearly 20 percent per year during the past 37 years.
- The company is one of eight *Fortune 500* companies with a female CEO, and one of two *Fortune 500* companies where women constitute a majority of board members.

"Scrupulous corporate governance has recently come into vogue, yet for the Morningstar CEOs of the Year, it never went out of style," Dorsey said. "The Sandlers of Golden West have created a company that is a paragon of corporate governance."

Finally, the Sandlers have eschewed providing "guidance" to Wall Street since, well, forever. They've never fallen into that trap, and we commend them for it. As Marion Sandler says, "we don't talk about what we're going to do, we just go out and do it."

GOLDEN WEST FINANCIAL CORPORATION®

1901 Harrison Street, Oakland, CA 94612