

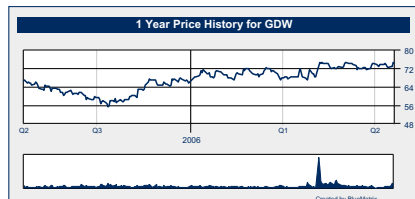


Analysis of Sales/Earnings
Estimates Change

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Market Price:	\$74.18
Target Price:	\$70.00
Proj. Total Return:	(5.2%)
52 Wk. Range	\$76.57-\$55.40
Yield:	0.43%
Shr.O/S-Diluted (mm):	308.9
Insider Ownership:	17.4%
Market Cap:	\$22.9bn
Book Value/Share:	\$30.47
Tangible Book Value:	\$30.47
Tangible Common Equity/Assets:	7.3%



Industry Opinion:

The western regional operating environment appears to be improving, and loan growth and credit quality are positive. Higher rates should support margin expansion for banks with conservative balance sheets, but squeeze thrift margins. Economic expansion appears robust in S. Cal. and Hawaii, while N. Cal. and Oregon/Washington remain sluggish.

Company Description:

Golden West Financial Corp. is a \$125-billion thrift holding company for World Savings, which operates 274 branches in 10 states and lending offices in 38 states. Golden West is a leader in originating, servicing and holding in-portfolio monthly Adjustable Rate Mortgages (ARM).

Banks: Large Cap

July 21, 2006

Golden West Financial Corp
(GDW, \$74.18, Market Perform, Target: \$70.00)

GDW: Golden West: A Great American Growth Story Comes to an End

Event-- [ROCK: \$1.25, \$1.25, \$1.29, \$1.28] GDW reported second quarter EPS of \$1.25, three cents light of our estimate and four cents below the consensus. We are lowering our 2006 and 2007 EPS estimates for GDW due to our assumptions for declining loans and higher expenses. We are lowering our 2006 EPS estimate to \$5.10 (from \$5.30) and our 2007 EPS estimate to \$5.60 (from \$6.00).

	R \$1.25 reported	O \$1.25 operating	C \$1.29 consensus	K \$1.28 BW			
	Earnings per Share			P/E	%Chg.	L/Term	
Year End Dec	2005A	2006E	2007E	06E	07E	07/06	Grth. Rate
KBW (Curr.)	\$4.77	\$5.10	\$5.60	14.5x	13.2x	9.80%	16.0%
KBW (Prev.)	\$4.77	\$5.30	\$6.00	13.6x	12.0x	13.21%	16.0%
FC (Cons.)	—	\$5.28	\$6.03	14.0x	12.3x	14.20%	13.2%

	2005	2006	2007	Quarterly Earnings Per Share				
				1Q	2Q	3Q	4Q	YR
NCOs/Avg. Loans	0.00%	0.01%	0.05%					
NIM	2.54%	2.82%	2.88%					
Efficiency Ratio	28.3%	30.4%	29.5%					
Fees/Total Rev.	13.6%	4.5%	4.4%					

ROA	1.27%	1.25%	1.29%
ROE	18.7%	17.0%	17.2%

- Golden West Financial reported second quarter EPS of \$1.25, three cents light of our estimate and four cents below the consensus. The miss relative to our estimate was driven by the following factors: net interest income (-\$0.02), fee income (+\$0.01), non-interest expense (-\$0.02), provision (+\$0.02), and tax rate (-\$0.02).
- We are lowering our 2006 and 2007 EPS estimates for GDW due to our assumptions for declining loans and higher expenses. We are lowering our 2006 EPS estimate to \$5.10 (from \$5.30) and our 2007 EPS estimate to \$5.60 (from \$6.00).
- We are also saying a fond farewell to GDW, as we expect the WB deal to close prior to another earnings report. It's been a pleasure covering what we consider to be one of America's great companies.



Risk

Target Price Risks: Risks that may affect the company's stock price include a rapid increase in short rates putting pressure on the net interest margin, and a downturn in home prices that could increase credit risk.

A Great American Growth Story Comes to an End

Golden West Financial reported second quarter EPS of \$1.25, three cents light of our estimate and four cents below the consensus. The miss relative to our estimate was driven by the following factors: net interest income (-\$0.02), fee income (+\$0.01), non-interest expense (-\$0.02), provision (+\$0.02), and tax rate (-\$0.02).

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Significant Developments in the Quarter

- Golden West agrees to be acquired by Wachovia. On May 7, GDW agreed to be acquired by WB which is expected to close in the fourth quarter of 2006.
- Volatile NIM – The net interest margin decreased to 2.82% from 2.88% in the prior quarter, and roughly equal to 2.81% in the year ago quarter. We would note that the NIM in the first quarter did experience a sharp increase from the fourth quarter. The NIM has become more volatile following the inclusion of prepayment penalties in the calculation.
- Continued build of capital – The tangible equity ratio at period end was 7.31%, up from 7.09% in the first quarter and 6.76% in the year ago quarter. Last quarter we questioned the growth of the capital levels, which Wachovia has decided to acquire and leverage.
- First signs of declining balance sheet – The monthly data, also released today, showed the first signs of balance sheet declines, as we have already seen at the other option ARM lenders in our universe. Loan originations in June were only \$140 million above the prepayments, which occurred at an annualized 37% during the month.
- Steady reserve ratio – Unlike other option ARM lenders which have been taking provisions to include the reserve-to-loan ratio, GDW's reserve ratio has remained steady at 24.5 basis points.



A Great American Growth Story Comes to an End – Part 1

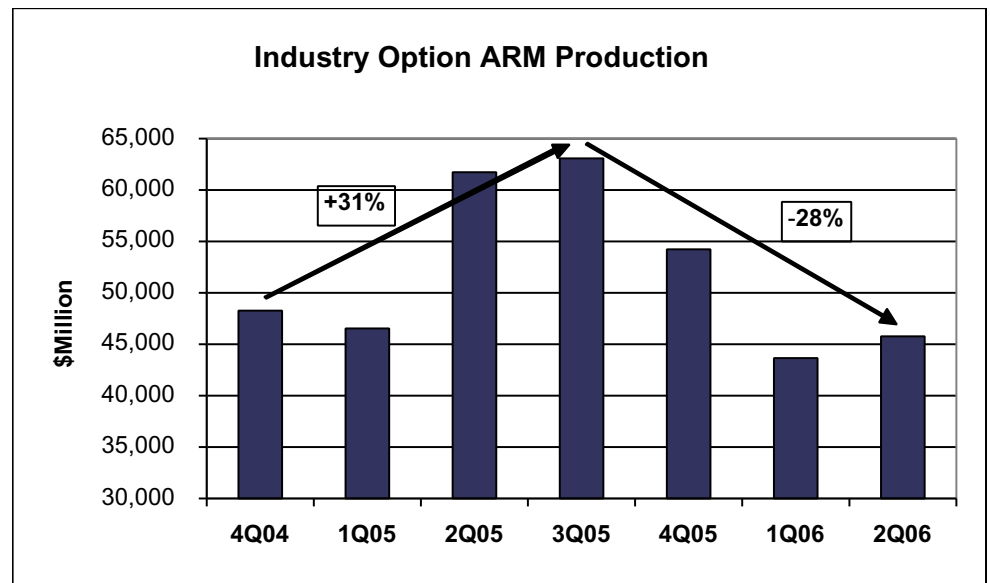
On May 7, Golden West agreed to be acquired by Wachovia, bringing an end to one of the strongest, most consistent growth companies in U.S. business history. GDW has consistently delivered growth of earnings for shareholders, driving stock price appreciation. Earnings per share have grown at a compound annual rate of 17% over the past 25 years, while the stock has also appreciated at a 17% compound annual growth rate since debuting as a public company in 1968.

In addition to the strong results, the management team and the board of directors have continually received acclaim for strong business management and exceptional corporate ethics. We believe that the results and the acclaim are not independent. We extend a well-deserved "congratulations" to both the management and the shareholders of Golden West Financial.

A Great American Growth Story Comes to an End – Part 2

The monthly adjustable Option ARM has been the primary product for Golden West for more than 20 years. The past few years have witnessed an explosive growth of the product among a growing number of lenders. As shown in Exhibit 1, the industry growth of the Option ARM loan has been exceptional since the development of a secondary market for the product early in this decade. However, volumes peaked in the second half of last year and have begun declining sharply. We expect the coincidence of rising rates and softening home prices will result in further declines in coming quarters. It should be noted that these macro forces have not coincided previously with an inverted yield curve.

Exhibit 1 – Industry Option ARM Production – Growth Story Ending?



Source: Industry proxy based on origination data from CFC, WM, GDW, BKUNA, DSL, FED



Are the Endings to Both Stories Coincidental?

We believe that investors will make that decision as the real estate market continues to unfold in the near future...

Trends in the Quarter

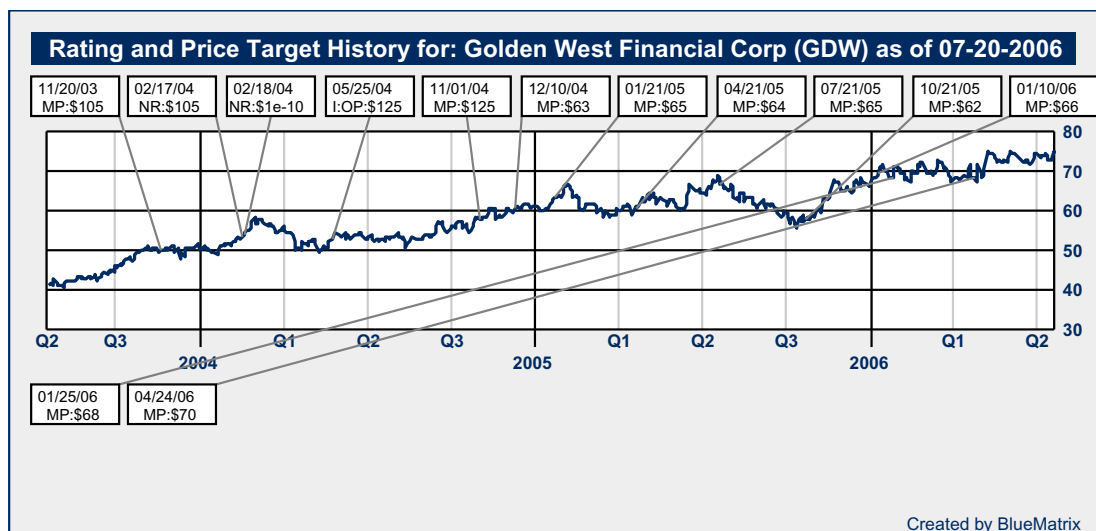
- **Slowing Loan Growth:** Loans grew at a 4.0% annualized rate in the first quarter, below the 9.8% growth over the past two quarters.
- **Margin Relatively Stable:** The net interest margin was 2.82% in the second quarter, down 6 basis points from last quarter. The margin trends changed somewhat due to the inclusion of prepayment income. We believe the margin is bouncing along a bottom as the Federal Reserve maintains its steady policy of raising interest rates.
- **Prepayments at All Time High, but Fees Charged on the Loans Drop:** Prepayment and late fees are currently classified in net interest income. Prepayment fees were \$92.9 million in the quarter on loan prepayments amounted to \$10.54 billion, representing 88 bps compared to \$77.8 million of fees on \$8.68 billion in the first quarter, or 90 bps.
- **Credit Quality Solid, but NPAs Tick Up:** Credit quality remained solid with essentially no charge-offs, but with NPAs to assets increasing to 39 basis points from 36 basis points in previous quarter and 29 bps the year ago quarter. The provision was \$2.8 million, well above charge-offs of \$654,000. The reserve ratio at period end stood at 24 basis points.
- **Deferred Interest Expands:** Deferred interest (accumulated negative amortization) was \$915 million, or 74 basis points of loans and 3.0 times the level of loan loss reserves. Negative amortization in the quarter totaled \$248.8 million, or 28% of net interest income, or 38.7% of pretax net income.
- **Capital Ratios Expand:** Equity to assets increased to 7.3% from 7.1% in the first quarter and 6.8% a year ago. No shares were repurchased.



Variance Table

GoldenWest Financial Corp. 2Q06 Results								
(\$Mil. except per share amounts)	2Q06	1Q06	Growth	2Q05	Growth	Reported vs. Forecast		
						Forecast	Variance	EPS
Income Statement								
Net interest income (FTE)	889.3	883.1	0.7%	795.5	11.8%	900.6	(11.3)	-0.02
Total non-interest income	43.5	36.6	18.8%	36.1	20.3%	37.2	6.3	0.01
Memo: securities gains	3.1	2.2	NM	1.8	NM	2.2	0.9	0.00
Fee income ex. securities gains	40.4	34.4	17.4%	34.3	17.8%	35.0	5.4	0.01
Total revenues	932.7	919.7	1.4%	831.7	12.2%	937.8	(5.0)	-0.01
Total non interest expense	286.7	271.3	5.7%	238.6	20.2%	275.9	10.7	-0.02
Operating Pretax, Preprovision	643.0	648.4	-0.8%	593.1	8.4%	661.8	(18.8)	-0.04
Provision	2.8	4.3	--	1.8	--	10.9	(8.2)	0.02
Operating pretax income	643.3	644.1	-0.1%	591.3	8.8%	650.9	(7.6)	-0.01
Effective tax rate	39%	39%		39%		39%		-0.02
Operating net income	390.4	390.9	-0.1%	360.4	8.3%	400.3	(9.9)	-0.03
Operating EPS	1.25	1.25	-0.2%	1.16	8.2%	1.28	(0.03)	
After tax non-operating items	-	-		-		-	-	
Stated Net Income	390.38	390.9	-0.1%	360.4	8.3%	400.3	(9.91)	
Net EPS	1.25	1.25	-0.2%	1.16	8.2%	1.28	(0.03)	
Efficiency ratio (calculated)	30.73%	29.5%		28.7%		29.4%	1.31%	
NIM (FTE, as reported)	2.82%	2.88%		2.81%		2.85%	-0.04%	
ROA	1.22%	1.26%		1.26%		1.25%	-0.03%	
ROE	16.96%	17.88%		18.64%		17.35%	-0.39%	
Tangible ROE	16.96%	17.88%		18.64%		17.35%	--	
Balance Sheet								
EOP loans + HFS	123,517.9	122,299.6	1.0%	112,746.2	9.6%	123,751.1	(233.3)	
EOP total assets	128,805.6	127,556.5	1.0%	117,485.7	9.6%	129,316.8	(511.2)	
Common equity	9,412.8	9,043.0	4.1%	7,936.4	18.6%	9,466.0	(53.2)	
Goodwill & CDI	-	-	NM	-	NM	-	-	
Average loans	123,008.6	120,928.2	1.7%	110,124.9	11.7%	123,080.5	(72.0)	
Average earning assets	126,654.3	124,364.5	1.8%	113,559.9	11.5%	126,551.1	103.2	
Avg non-IB depts	-	-	--	-	--	-	-	
Average IB deposits	61,632.7	60,830.2	1.3%	57,300.7	7.6%	61,494.5	138.2	
Average total deposits	61,632.7	60,830.2	1.3%	57,300.7	7.6%	61,494.5	138.2	
Tangible equity/assets	7.31%	7.09%		6.76%		7.32%	-0.01%	
Credit								
NCOs/avg loans	0.00%	0.00%		0.00%		0.01%	0.00%	
Non-performing Loans	465.51	426.5	9.2%	322.2	44.5%	-	-	
OREO	10.77	10.4		8.8		-	-	
NPAs	476.28	436.9	9.0%	330.9	43.9%	-	476.3	
NPAs/loans + OREO	0.39%	0.36%		0.29%		0.00%	0.39%	
Reserves	302.07	300.0	0.7%	291.7	3.6%	309.4	(7.3)	
Reserves/loans	0.24%	0.25%		0.26%		0.25%	-0.01%	
Average diluted shares	312.072	311.808		311.771		312.261	(0.19)	

Source: Company reports, KBW research


Distribution of Ratings/IB Services
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Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [ALB/OP]	127	35.77	22	17.32
HOLD [MP]	212	59.72	24	11.32
SELL [UP/ALS]	16	4.51	1	6.25

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