IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re: WASHINGTON MUTUAL, INC., et al., Debtors.	Chapter 11 Case No. 08-12229 (MFW) Jointly Administered
BROADBILL INVESTMENT CORP., NANTAHALA CAPITAL PARTNERS, LP, and BLACKWELL CAPITAL PARTNERS, LLC, Plaintiffs, - against - WASHINGTON MUTUAL, INC., Defendant.	Adv. Pro. No. 10-50911 (MFW) **Hearing Date: TBD** **Objection Deadline: TBD**

EMERGENCY MOTION TO STRIKE EXHIBIT O TO THE SHIFFMAN DECLARATION AND REPLACE IT WITH THE FINAL GOLDEN STATE WARRANT AGREEMENT

Plaintiffs, Broadbill Investment Corp., Nantahala Capital Partners, LP and Blackwell Capital Partners, LLC (collectively, "Class Plaintiffs"), Class Plaintiffs, on behalf of themselves and all holders of Litigation Tracking Warrants ("LTWs"), by their undersigned counsel, hereby file this emergency motion ("Motion") to strike Exhibit O attached to the Declaration of Jonathan A. Shiffman (the "Shiffman Declaration") in support of the Motion (the "Summary Judgment Motion") of Defendant Washington Mutual, Inc. ("Defendant" or "WMI") for Summary Judgment, filed October 29, 2010, and to replace it with the Final Golden State Agreement (as defined below).

1. On October 29, 2010, Defendant filed its Summary Judgment Motion in the above captioned adversary proceeding together with the Shiffman Declaration and its Memorandum of Law in Support of the Summary Judgment Motion (the "Summary Judgment Brief"). Attached as Exhibit O to the Shiffman Declaration is a copy of the form of warrant agreement attached as Exhibit 4.7 to the Form S-4 filed by Golden State Bancorp, Inc. ("Golden State") on April 3, 1998, which Shiffman declares, under penalty of perjury, is "a true and correct copy of that certain Warrant Agreement, dated May 4, 1998, between Golden State Bancorp, Inc. and ChaseMellon Shareholder Services L.L.C." See Shiffman Declaration, at para. 16. Attached as Exhibit A to this Motion is the document attached as Exhibit O to the Shiffman Declaration (the "Draft Golden State Agreement").

2. Contrary to the statement in the Shiffman Declaration, the Draft Golden State Agreement, however, is not a "true and correct copy" of the May 4, 1998 Golden State warrant agreement. Rather, the Draft Golden State Agreement is a "form of" agreement that was filed more than a month before the final agreement was executed. The final Golden State warrant agreement was not filed by Golden State until September 18, 1998, when it was attached as Exhibit 4.5 to its Form 10-K405. Attached as Exhibit B to this Motion is the "final" version of the Golden State warrant agreement (the "Final Golden State Agreement"). When a litigant makes an error like the one in issue here, it is incumbent upon such litigant to fix the error. Because Defendant has inexplicably not done so, even after it was alerted to its error at the Confirmation Hearing and told to fix it, Class Plaintiffs are compelled to file the present Motion.

3. The difference between the Draft Golden State Agreement and the Final Golden State Agreement is significant and essentially destroys Defendant's principal argument in support of its Summary Judgment Motion. The Draft Golden State Agreement and the Final

Golden State Agreement are different in a number of ways. Specifically, and of critical importance here, Sections 4.5 of the two agreements differ as follows:

Section 4.5 of the Draft Golden State Agreement states:

> Other Events. If any event occurs as to which the foregoing provisions of this Article 4 are not strictly applicable or, if strictly applicable, would not, in the good faith judgment of the Board, fairly and adequately protect the purchase rights of the Warrants in accordance with the essential intent and principles of such provisions, then *such Board shall make such adjustments to the terms of this Article 4*, in accordance with such essential intent and principles, as shall be reasonably necessary, in the good faith opinion of such Board, to protect such purchase rights as aforesaid.

(Emphasis added.)

Section 4.5 of the Final Golden State Agreement states:

> Other Events. If any event occurs as to which the foregoing provisions of this Article 4 are not strictly applicable or, if strictly applicable, would not, in the good faith judgment of the Board, fairly and adequately protect the purchase rights of the Holders of the Warrants in accordance with the essential intent and principles of such provisions, then *the Board may make, without the consent of the Holders, such adjustments to the terms of this Article 4*, in accordance with such essential intent and principles, as shall be reasonably necessary, in the good faith opinion of such Board, to protect such purchase rights as aforesaid.

(Emphasis added.)

4. Defendant's primary argument in support of the Summary Judgment Motion is that Defendant did not breach Section 4.4 of the Warrant Agreement (as amended, the "Dime Agreement") relating to the Dime Litigation Tracking Warrants (the "Dime LTWs") because the word "may" - - instead of "shall" - - in Section 4.4 of the Dime Agreement renders WMI's (and WMI's Board's) obligation to the Dime LTW holders "permissive" rather than mandatory. See Summary Judgment Brief, at p. 27. In support of Defendant's argument that Defendant's board can be arbitrary even if, in their good faith judgment, something needed to

be done to preserve the intent and principles of the Dime Agreement, Defendant compares the language of Section 4.4 of the Dime Agreement to the language of Section 4.5 of the Draft Golden State Agreement. Specifically, Defendant argues that "[w]hereas the [Dime Agreement] at issue here provide[s] that Dime's Board and WMI's Board, respectively, 'may' make adjustments, the Golden State Warrant Agreement specifies that Golden State Bancorp, Inc.'s board 'shall' make adjustments." See Summary Judgment Brief, at p. 29 (citing the Dime Agreement and the Draft Golden State Agreement). Fatal to Defendant's argument, however, is the fact that Section 4.5 of the Final Golden State Agreement is identical to Section 4.4 of the Dime Agreement. Specifically, the Dime Agreement and the Final Golden State Agreement each contain the word "may" rather than "shall" in connection with the Board's duty to protect the rights of the holders in accordance with the intent and principles of the respective agreement.

Section 4.4 of the Dime Agreement states:

> Other Events. If any event occurs as to which the foregoing provisions of this Article IV are not strictly applicable or, if strictly applicable, would not, in the good faith judgment of the Board, fairly and adequately protect the purchase rights of the Holders of the Warrants in accordance with the essential intent and principles of such provisions, then *the Board may make, without the consent of the Holders, such adjustments to the terms of this Article IV*, in accordance with such essential intent and principles, as will be reasonably necessary, in the good faith opinion of such Board, to protect such purchase rights as aforesaid.

(emphasis added)

5. In the Summary Judgment Brief, Defendant states that the Dime Agreement and the Draft Golden State Agreement are "substantially similar" and alleges, without support, that Dime was aware of and had carefully analyzed the Draft Golden State Agreement prior to issuance of the Dime LTWs. See Summary Judgment Brief, at p. 28-29. As a result,

Defendant contends that the intent of the Dime Board in drafting the Dime Agreement and issuing the Dime LTWs can be determined by reference to the differences between the Dime Agreement and the Draft Golden State Agreement. Id. This is particularly important, according to Defendant, because the intent of the Golden State board allegedly was apparent based on the words of the Draft Golden State Agreement. Unfortunately for Defendant, it referenced the wrong agreement and is now "knee deep" in its concocted story. Defendant is exposed with no explanation for the notes to financial statements included in the Form S-1 filed by Golden State Holdings Inc. - - an affiliate of Golden State - - on September 29, 1998 (attached hereto as Exhibit C, the "Golden State S-1") as it relates to the Final Golden State Agreement. There, Golden State specifically acknowledges that the goodwill litigation was "owned" by the holders of Golden State's litigation tracking warrants, notwithstanding the tax efficient structure of the litigation tracking warrant. See Golden State S-1, at p. 51 ("Percent of Goodwill Litigation owned by Litigation Tracking Warrants (Trade Mark) Holders.").

6. Moreover, as reflected in the Agreement and Plan of Merger, dated May 21, 2002 (attached hereto as Exhibit D, the "Golden State Merger Agreement"), in connection with a merger between Golden State and Citigroup Inc., Golden State's board recognized its obligations under Section 4.5 of the Final Golden State Agreement and agreed to provide holders of Golden State's litigation tracking warrants with cash and stock whenever the "Trigger event" ultimately would occur. See Golden State Merger Agreement, at Section 5.17. This modified currency for value payable under the Golden State litigation tracking warrant was intended to be consistent with what Golden State shareholders actually received in connection with the Golden State/Citigroup merger.

Section 5.17 of the Golden State Merger Agreement states:

> Amendment of Warrant Agreement. The Company's Board of Directors, *in accordance with Section 4.5 of the Warrant*

> *Agreement*, has determined that, following the Effective Time, by virtue of the Merger, holders of LTWs shall be exercisable in respect of an amount in *cash and shares of Parent Common Stock* as provided for in Section 2.6 of this Agreement and, in connection therewith, the Company shall cause the Warrant Agreement to be amended and signed by Parent with the consent of the warrant agent to so provide and to provide for Parent's assumption of the Company's obligations thereunder by virtue of such determination as provided in Section 2.6.

(emphasis added)

7. The treatment of the Golden State litigation tracking warrants under the Golden State Merger Agreement demonstrates that the Golden State board understood that the intent of Section 4.5 of the Final Golden State Agreement was to obligate the Golden State board to take actions to protect the rights of the Golden State litigation tracking warrant holders. The board's duty was mandatory, and they could not be arbitrary. Because, according to Defendant, the Dime Agreement was "modeled" after the Golden State agreement - - as Defendant repeatedly acknowledges in the Summary Judgment Brief - - it must be clear that the Dime board intended Section 4.4 of the Dime Agreement likewise to obligate the board to take action to protect the rights of the Dime LTW holders. Moreover, when WMI acquired Dime and gave WMI shareholders an option to receive cash for the merger consideration, the Dime LTWs, under Sections 4.2(b) and 4.4 of the Dime Agreement, became payable in cash - - not stock of WMI. This is the exact same result as holders of Golden State litigation tracking warrants received three (3) years after the Golden State/Citigroup merger by virtue of the currency paid to Golden State shareholders as part of such merger.

CONCLUSION

8. Defendant and its counsel represented to this Court that the Draft Golden State Agreement is a "true and correct copy" of the executed May 4, 1998 Golden State warrant agreement. See Shiffman Declaration, at para. 16. This representation is false. Defendant and its counsel have an obligation to correct this misrepresentation but have yet to do so.

Defendant stated that the Dime Agreement was clear on its face and that its intent can be unquestionably determined by reference to the terms thereof, and by contrast to the Golden State agreement. Regrettably for Defendant and its counsel, the Summary Judgment Brief refers to the Draft Golden State Agreement - - not the Final Golden State Agreement - - and, as a result, Defendant's primary argument for summary judgment relies on differences in language that never existed. The basis for Defendant's summary judgment argument is thus eviscerated. This Court should strike the Draft Golden State Agreement from the record and replace it with the Final Golden State Agreement.

WHEREFORE, for the reasons stated herein, Class Plaintiffs respectfully request that this Court (i) grant the Motion striking the Draft Golden State Agreement and replacing it with the Final Golden State Agreement and (ii) grant such other and further relief as this Court deems just and proper.

Dated: December 10, 2010

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EXHIBIT 4.7

WARRANT AGREEMENT

Dated as of
_____ __, 1998

between

GOLDEN STATE BANCORP INC.
and

CHASEMELLON SHAREHOLDER SERVICES L.L.C.

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as the Warrant Agent

Warrants for
Common Stock of
Golden State Bancorp Inc.

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WARRANT AGREEMENT, dated as of _____ __, 1998 (this "Agreement"), between GOLDEN STATE BANCORP INC., a Delaware corporation (the "Company"), and CHASEMELLON SHAREHOLDER SERVICES L.L.C., a New York limited liability Company, as Warrant Agent (in such capacity, the "Warrant Agent").

W I T N E S S E T H :

WHEREAS, the Board of Directors of the Company has authorized a distribution (the "Distribution") of one warrant (a "Warrant") for each share of the Company's common stock, par value $1.00 per share ("Common Stock"), outstanding as of the Close of Business (as defined below) on _____ __ , 1998 (the "Record Date"), each Warrant representing the right to purchase shares or a portion of a share of Common Stock (subject to adjustment as provided herein), upon the terms and subject to the conditions herein set forth; and

WHEREAS, in order to issue Warrants in the Distribution and to issue Warrants to holders of outstanding Convertible Securities (as defined herein) who exercise or convert such Convertible Securities at any time and from time to time prior to the occurrence of the Triggering Event (as defined herein), the Company has determined to enter into this Agreement with the Warrant Agent.

NOW, THEREFORE, in consideration of the premises and mutual covenants contained herein, the parties hereto hereby agree as follows:

ARTICLE 1.

Defined Terms

SECTION 1.1 Definitions. As used in this Agreement, the following terms shall have the following meanings:

"Adjusted Litigation Recovery" means an amount equal to 85% of the amount obtained from the following equation: (a) the Payment, minus (b) the sum of the following: (i) the aggregate of all expenses incurred by or on behalf of the Bank in prosecuting the Litigation and obtaining the Payment (whether incurred prior to or after the date hereof), (ii) the aggregate of all expenses incurred by the Company in connection with the creation, issuance and trading of the Warrants, including, without limitation, legal and accounting fees and the fees and expenses of the Warrant Agent (whether incurred prior to or after the date hereof) and (iii) an amount equal to the Payment (less the expenses described in the preceding clauses (i) and (ii)) multiplied by the highest, combined statutory rate of federal, state and local income taxes applicable to the Company during the tax year in which the full Payment is received.

"Adjusted Market Value" means the average daily Closing Prices of a share of Common Stock for the thirty consecutive Trading Days ending on and including the Determination Date, minus $1.00; provided that if the context in which this defined term is used is with respect to securities other than Common Stock, then "Adjusted Market Value" means the average daily Closing Prices of a unit of such securities for the thirty consecutive Trading Days ending on and including the Determination Date, minus $1.00 and provided further that if the context in which this defined term is used is with respect to property other than securities, then "Adjusted Market Value" means the Fair Market Value of such property, minus $1.00.

"Bank" means Glendale Federal Bank, Federal Savings Bank, a federally chartered stock savings bank.

"Board" means the Board of Directors of the Company or any committee thereof duly authorized to act on behalf of such Board of Directors.

"Business Day" a day other than a Saturday, Sunday or other day on which commercial banks in New York City are authorized or required by law to close.

"Close of Business" on any given date shall mean 5:00 P.M., New York City time, on such date; provided, however, that if such date is not a Business Day it shall mean 5:00 P.M., New York City time, on the next succeeding Business Day.

"Closing Price" on any day shall mean the closing sale price regular way (with any relevant due bills attached) of a share of Common Stock on such day, or in case no such sale takes place on such day, the average of the reported closing bid and asked prices regular way (with any relevant due bills attached) of a share of Common Stock, in each case on the New York Stock Exchange Consolidated Tape (or any successor composite tape reporting transactions on national securities exchanges), or, if the Common Stock is not listed or admitted to trading on the NYSE, on the principal national securities exchange on which the Common Stock is listed or admitted to trading (which shall be the national securities exchange on which the greatest number of shares of Common Stock has been traded during the five consecutive Trading Dates ending on and including the Determination Date), or, if not listed or admitted to trading on any national securities exchange, the average of the closing bid and asked prices regular way (with any relevant due bills attached) of a share of Common Stock on the over-the-counter market on the day in question as reported by Nasdaq, or a similar generally accepted reporting service, or if not so available as determined in good faith by the Board of Directors of the Company, on the basis of such relevant factors as it in good faith considers appropriate.

"Combination" means an event in which the Company consolidates with, merges with or into, or sells all or substantially all its property and assets to another Person.

"Determination Date" means the 30th calendar day prior to the date on which the Bank receives the total amount of the Payment. If the Payment is payable by the United

States Government in installments, the Determination Date will be the 30th calendar day prior to the date on which the Bank receives the last installment of the Payment.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Fair Market Value" means the fair market value of the relevant property on the Determination Date as determined in good faith by the Board of Directors of the Company, on the basis of such factors as it in good faith considers appropriate.

"Holder" means the duly registered holder of a Warrant under the terms of this Agreement.

"Litigation" means the Bank's case against the United States Government in the United States Court of Federal Claims entitled Glendale Federal Bank, F.S.B. v. United States, No. 90-772C, filed on August 15, 1990.

"Nasdaq" shall mean the stock market operated by the National Association of Securities Dealers, Inc.

"NYSE" shall mean the stock exchange operated by New York Stock Exchange, Inc.

"Officer" means the Chairman, the Vice Chairman, the Chief Executive Officer, the President, the Chief Financial Officer, the Secretary or any Vice President of the Company.

"Payment" means the aggregate amount of any cash payment and the Fair Market Value of any property or assets actually received by the Bank pursuant to a final, nonappealable judgment in or final settlement of the Litigation (including any post-judgment interest actually received by the Bank on any payment).

"Person" means any individual, corporation, partnership, joint venture, limited liability company, association, joint-stock company, trust, unincorporated organization, government or any agency or political subdivision thereof or any other entity.

"SEC" means the Securities and Exchange Commission.

"Securities Act" means the Securities Act of 1933.

"Trading Date" means a date on which the NYSE or Nasdaq (or any successor thereto) is open for the transaction of business.

"Triggering Event" means, the occurrence of all of the following events: (a) receipt by the Bank of the Payment, (b) determination by the Bank of the amount of the Adjusted Litigation Recovery and (c) receipt of all regulatory approvals necessary to issue the shares of Common Stock to be issued upon the exercise of the Warrants, including without

limitation, the effectiveness of a registration statement relating to the issuance of the Warrant Shares under the Securities Act.

"Warrant Shares" means the shares of Common Stock of the Company received, or issued and received, as the case may be, upon exercise of the Warrants.

SECTION 1.2 Other Definitions.

Term	Defined in Section
"Agent Members".....	2.2(c)
"Certificate Register.....	2.4
"Certificated Warrants".....	2.2(a)
"Convertible Securities".....	2.1(c)
"Common Stock".....	Recitals
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"Warrant Exercise Period".....	3.2(b)

SECTION 1.3 Rules of Construction. Unless the text otherwise requires

(i) a term has the meaning assigned to it herein;

(ii) an accounting term not otherwise defined has the meaning assigned to it in accordance with U.S. generally accepted accounting principles as in effect from time to time;

(iii) "or" is not exclusive;

(iv) "including" means including, without limitation; and

(v) words in the singular include the plural and words in the plural include the singular.

ARTICLE 2.

Warrant Certificates

SECTION 2.1 Issuance of Warrant Certificates. (a) As soon as practicable after the Record Date, the Company will prepare and execute, the Warrant Agent will countersign, and the Company will send or cause to be sent (and the Warrant Agent will, if requested, send) by first-class, insured, postage-prepaid mail, to each record holder of Common Stock as of the Close of Business on the Record Date, at the address of such holder shown on the records of the Company, one or more Warrant Certificates, in substantially the form of Exhibit A hereto (a "Warrant Certificate"), evidencing one Warrant (subject to adjustment as provided herein) for each share of Common Stock so held.

(b) On the Record Date, or as soon as practicable thereafter, the Company will send a copy of an Information Memorandum, in substantially the form of Exhibit C hereto, by first-class, postage-prepaid mail, to each record holder of Common Stock as of the Close of Business on the Record Date, at the address of such holder shown on the records of the Company.

(c) At any time and from time to time prior to the occurrence of the Triggering Event, the Company may cause the Warrant Agent to issue, in accordance with the provisions of this Article 2, Warrants to holders of (i) shares of the Company's Noncumulative Convertible Preferred Stock, Series A (the "Preferred Stock"); (ii) common stock purchase warrants (the "Five-Year Warrants") issued under the Warrant Agreement, dated February 23, 1993, by and between the Company and ChaseMellon Shareholder Services L.L.C. (as successor to Chemical Trust Company of California), as Warrant Agent; (iii) common stock purchase warrants (the "Seven-Year Warrants") issued under the Warrant Agreement, dated August 15, 1993, by and between the Company and ChaseMellon Shareholder Services L.L.C. (as successor to Chemical Trust Company of California), as Warrant Agent; and (iv) stock options of the Company and its subsidiaries (the "Stock Options", and together with the Preferred Stock, the Five-Year Warrants, the Seven-Year Warrants and the Stock Options, the "Convertible Securities") that were outstanding on the Record Date, who in any such case exercise or convert such Convertible Securities into shares of Common Stock and Warrants in accordance with the terms and conditions of such Convertible Securities.

(d) The maximum number of Warrants that may be issued hereunder is _____, of which _____ are available for issuance under Section 2.1(a) hereof and _____ are available for issuance under Section 2.1(c) hereof. The Company will not

issue any Warrants or securities substantially similar to the Warrants other than in accordance with this Section 2.1.

SECTION 2.2 Form and Dating. The Warrant Certificates shall be substantially in the form of Exhibit A, which is hereby incorporated in and expressly made a part of this Agreement. The Warrants may have such notations, legends or endorsements as the Company may deem appropriate and as are not inconsistent with the provisions hereof, or as may be required by law, stock exchange rule, agreements to which the Company is subject, if any, or usage (provided that any such notation, legend or endorsement is in a form acceptable to the Company). Each Warrant shall be dated the date of its countersignature.

(a) Certificated Warrants. The Warrants may be issued in definitive form represented by a physical Warrant Certificate (such certificate and all other certificates representing physical delivery of Warrants in definitive form being called "Certificated Warrants").

(b) Global Warrant. The Warrants may be issued in the form of one or more fully registered global certificates with the global securities legend set forth in Exhibit A hereto (the "Global Warrant"), which shall be deposited on behalf of beneficial owners of Warrants with the Warrant Agent, as custodian for the Depository Trust Corporation ("DTC") (or with such other custodian as DTC may direct), and registered in the name of DTC or a nominee of DTC, duly executed by the Company and countersigned by the Warrant Agent as hereinafter provided. The number of Warrants represented by Global Warrants may from time to time be increased or decreased by adjustments made on the records of the Warrant Agent and DTC or its nominee as hereinafter provided. Except as provided in Section 2.5, owners of beneficial interests in a Global Warrant will not be entitled to receive physical delivery of Certificated Warrants.

(c) Book-Entry Provisions. Members of, or participants in, DTC ("Agent Members") shall have no rights under this Agreement with respect to any Global Warrant held on their behalf by DTC or by the Warrant Agent as the custodian of DTC or under such Global Warrant, and DTC may be treated by the Company, the Warrant Agent and any agent of the Company or the Warrant Agent as the absolute owner of such Global Warrant for all purposes whatsoever. Notwithstanding the foregoing, nothing herein shall prevent the Company, the Warrant Agent or any agent of the Company or the Warrant Agent from giving effect to any written certification, proxy or other authorization furnished by DTC or impair, as between DTC and its Agent Members, the operation of customary practices of DTC governing the exercise of the rights of a holder of a beneficial interest in any Global Warrant.

SECTION 2.3 Execution and Countersignature. (a) With respect to any Global Warrant to be issued hereunder, one Officer shall sign, and the Company's Secretary or any of its Assistant Secretaries shall attest, such Global Warrant. The Warrant Agent, upon the written order of the Company signed by an Officer, shall countersign any Global Warrant certificate by manual or facsimile signature, and such Global Warrant shall be deposited in accordance with Section 2.2 hereof.

(b) With respect to all other Warrants, an Officer shall sign, and the Company's Secretary or any of its Assistant Secretaries shall attest, the Warrant Certificates for the Company by manual or facsimile signature. If an Officer whose signature is on a Warrant Certificate no longer holds that office at the time the Warrant Agent countersigns the Warrant Certificate, the Warrant shall be valid nevertheless. A Warrant shall not be valid until an authorized signatory of the Warrant Agent manually countersigns the Warrant Certificate. The signature shall be conclusive evidence that the Warrant Certificate has been countersigned under this Agreement.

The Warrant Agent shall countersign and deliver the Warrants Certificates for original issue, in each case upon a written order of the Company signed by an Officer of the Company. Such order shall specify (in addition to the number of Warrants) the date on which the original issue of Warrants is to be countersigned.

(c) The Warrant Agent may appoint an agent reasonably acceptable to the Company to countersign the Warrant Certificates. Unless limited by the terms of such appointment, such agent may countersign Warrant Certificates whenever the Warrant Agent may do so. Each reference in this Agreement to countersignature by the Warrant Agent includes by such agent. Such agent will have the same rights as the Warrant Agent for service of notices and demands.

SECTION 2.4 Certificate Register. The Warrant Agent shall keep a register ("Certificate Register") of the Warrant Certificates and of their transfer and exchange. The Certificate Register shall show the names and addresses of the respective Holders and the date and number of Warrants evidenced on the face of each of the Warrant Certificates. The Company and the Warrant Agent may deem and treat the Person in whose name a Warrant Certificate is registered as the absolute owner of such Warrant Certificate for all purposes whatsoever and neither the Company nor the Warrant Agent shall be affected by notice to the contrary.

SECTION 2.5 Transfer and Exchange. (a) Transfer and Exchange of Certificated Warrants. When Certificated Warrants are presented to the Warrant Agent with a request to register the transfer of such Certificated Warrants or to exchange such Certificated Warrants for an equal number of Certificated Warrants of other authorized denominations, the Warrant Agent shall register the transfer or make the exchange as requested if its reasonable requirements for such transaction are met; provided, however, that the Certificated Warrants surrendered for transfer or exchange shall be duly endorsed or accompanied by a written instrument of transfer in form reasonably satisfactory to the Company and the Warrant Agent, duly executed by the Holder thereof or its attorney duly authorized in writing.

(b) Restrictions on Transfer of Certificated Warrants for a Beneficial Interest in a Global Warrant. Certificated Warrants may not be exchanged for a beneficial interest in a Global Warrant except upon satisfaction of the requirements set forth below. Upon receipt by the Warrant Agent of Certificated Warrants, duly endorsed or accompanied by appropriate instruments of transfer, in form satisfactory to the Warrant Agent, together with written

instructions directing the Warrant Agent to make, or to direct DTC to make, an adjustment on its books and records with respect to such Global Warrants to reflect an increase in the number of Warrants represented by the Global Warrant, then the Warrant Agent shall cancel such Certificated Warrants and cause, or direct DTC to cause, in accordance with the standing instructions and procedures existing between DTC and the Warrant Agent, the number of Warrants represented by the Global Warrant to be increased accordingly.

(c) Transfer and Exchange of Global Warrants. The transfer and exchange of beneficial interests in a Global Warrant shall be effected through DTC, in accordance with this Agreement and the procedures of DTC therefor.

(d) Restrictions on Transfer and Exchange of the Global Warrant. Notwithstanding any other provisions of this Agreement (other than the provisions set forth in Section 2.5(g)), Global Warrants may not be transferred as a whole except by DTC to a nominee of DTC or by a nominee of DTC to DTC or another nominee of DTC or by DTC or any such nominee to a successor depository or a nominee of such successor depository.

(e) Authentication and Distribution of Certificated Warrants. If at any time:

(i) DTC notifies the Company that DTC is unwilling or unable to continue as depository for Global Warrants and a successor depository for Global Warrants is not appointed by the Company within 90 calendar days after delivery of such notice;

(ii) DTC ceases to be a clearing agency registered under the Exchange Act; or

(iii) the Company, in its sole discretion, notifies the Warrant Agent in writing that it elects to cause the issuance of Certificated Warrants under this Agreement;

then, the Company will execute, and the Warrant Agent, upon receipt of a written order of the Company signed by an Officer requesting the delivery of Certificated Warrants to the holders of beneficial interests in the Global Warrant, will countersign and deliver Certificated Warrants equal to the number of Warrants represented by Global Warrants, in exchange for such Global Warrants. Certificated Warrants issued in exchange for a beneficial interest in a Global Warrant shall be registered in such names and in such authorized denominations as DTC, pursuant to instructions from its direct or indirect participants or otherwise, shall instruct the Warrant Agent. The Warrant Agent shall deliver such Certificated Warrants to the Persons in whose names such Warrants are so registered in accordance with the instructions of DTC.

(f) Cancellation or Adjustment of Global Warrants. At such time as all beneficial interests in Global Warrants have either been exchanged for Certificated Warrants, redeemed, repurchased or canceled, such Global Warrant shall be returned to DTC for cancellation or retained and canceled by the Warrant Agent. At any time prior to such cancellation, if any beneficial interest in a Global Warrant is exchanged for Certificated

Warrants, redeemed, repurchased or canceled, the number of Warrants represented by such Global Warrant shall be reduced and an adjustment shall be made on the books and records of the Warrant Agent with respect to such Global Warrant, by the Warrant Agent or DTC, to reflect such reduction.

(g) Obligations with Respect to Transfers and Exchanges of Warrants. (i) To permit registrations of transfers and exchanges, the Company shall execute and the Warrant Agent shall countersign Certificated Warrants and Global Warrants as required pursuant to the provisions of this Section 2.5.

(ii) All Certificated Warrants and Global Warrants issued upon any registration of transfer or exchange of Certificated Warrants shall be the valid obligations of the Company, entitled to the same benefits under this Agreement as the Certificated Warrants or Global Warrants surrendered upon such registration of transfer or exchange.

(iii) Prior to due presentment for registration of transfer of any Warrant, the Warrant Agent and the Company may deem and treat the Person in whose name any Warrant is registered as the absolute owner of such Warrant and neither the Warrant Agent nor the Company shall be affected by notice to the contrary.

(iv) No service charge shall be made to a Holder for any registration of transfer or exchange upon surrender of any Warrant Certificate at the office of the Warrant Agent maintained for that purpose. The Company may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any registration of transfer or exchange of Warrant Certificates.

SECTION 2.6 Replacement Certificates. If a mutilated Warrant Certificate is surrendered to the Warrant Agent or if the Holder of a Warrant Certificate claims that the Warrant Certificate has been lost, destroyed or wrongfully taken, the Company shall issue and the Warrant Agent shall countersign a replacement Warrant Certificate if the reasonable requirements of the Warrant Agent and of Section 8-405 of the Uniform Commercial Code as in effect in the State of California are met. If required by the Warrant Agent or the Company, such Holder shall furnish an indemnity bond or other instrument sufficient in the judgment of the Company and the Warrant Agent to protect the Company and the Warrant Agent from any loss which either of them may suffer if a Warrant Certificate is replaced. The Company and the Warrant Agent may charge the Holder for their expenses in replacing a Warrant Certificate. Every replacement Warrant Certificate is an additional obligation of the Company.

SECTION 2.7 Temporary Certificates. Until definitive Warrant Certificates are ready for delivery, the Company may prepare and the Warrant Agent shall countersign temporary Warrant Certificates. Temporary Warrant Certificates shall be substantially in the form of definitive Warrant Certificates but may have variations that the Company considers appropriate for temporary Warrant Certificates. Without unreasonable delay, the Company shall prepare and the Warrant Agent shall countersign definitive Warrant Certificates and deliver them in exchange for temporary Warrant Certificates.

SECTION 2.8 Cancellation. (a) In the event the Company shall purchase or otherwise acquire Certificated Warrants, the same shall thereupon be delivered to the Warrant Agent for cancellation.

(b) The Warrant Agent and no one else shall cancel and destroy all Warrant Certificates surrendered for transfer, exchange, replacement, exercise or cancellation and deliver a certificate of such destruction to the Company unless the Company directs the Warrant Agent to deliver canceled Warrant Certificates to the Company. The Company may not issue new Warrant Certificates to replace Warrant Certificates to the extent they evidence Warrants which have been exercised or Warrants which the Company has purchased or otherwise acquired.

ARTICLE 3.

Exercise Terms

SECTION 3.1 Number of Warrant Shares; Exercise Price. Each Warrant shall, upon exercise thereof as provided herein, initially entitle the registered Holder thereof to purchase the number of shares of Common Stock having an Adjusted Market Value equal to the Adjusted Litigation Recovery divided by [86,000,000] [the number of Warrants issued or reserved for issuance on the Record Date] at an exercise price per Warrant equal to the number of shares of Common Stock for which the Warrant is exercisable multiplied by $1.00 (the "Exercise Price").

SECTION 3.2 Exercise Period. (a) The Company will provide notice, as described below (the "Exercise Notice"), of the occurrence of the Triggering Event not more than 15 calendar days after the occurrence thereof. If the Payment is payable by the United States Government in installments, the Triggering Event will not be deemed to have occurred until the Bank receives the last installment of the Payment. The Exercise Notice shall be dated the date it is first sent to Holders and shall be provided by means of a press release to the one or more national news services and by mailing such notice first class, postage prepaid, to each Holder at such Holder's address as it appears on the Certificate Register; provided, however, that no failure to give such notice by mail nor any defect therein shall affect the validity of the Exercise Notice or the expiration of all Warrants on the Close of Business on the last day of the Warrant Exercise Period, except as to the Holder to whom the Company has failed to give such notice by mail or except as to the Holder whose notice was defective. The Exercise Notice shall state the following:

(i) that the Triggering Event has occurred,

(ii) the aggregate number of shares for which the Warrants are exercisable,

(iii) the number of shares of Common Stock for which one Warrant is exercisable,

(iv) the Exercise Price per Warrant,

(v) the manner in which the Warrants are exercisable and

(vi) the date on which the Warrants will no longer be exercisable.

(b) Subject to the terms and conditions set forth herein, each Warrant shall be exercisable at any time or from time to time during the sixty-day period commencing on the date on which the Exercise Notice is first sent to Holders pursuant to Section 3.2(a) (the "Warrant Exercise Period").

(c) No Warrant shall be exercisable after the Close of Business on the last day of the Warrant Exercise Period.

SECTION 3.3 Expiration. (a) A Warrant shall terminate and become void as of the earlier of (i) the Close of Business on the last day of the Warrant Exercise Period, (ii) the Close of Business on the date the Litigation has been disposed of in a manner such that no shares of Common Stock or other securities or property will be issuable under the term of the Warrants (the "Termination Date") or (iii) the time and date such Warrant is exercised. The Company will provide notice, as described below (the "Termination Notice"), of the occurrence of the Termination Date or the expiration of the Warrant Exercise Period not more than 60 calendar days after the occurrence thereof. The Termination Notice shall be dated the date it is first sent to Holders and shall be provided by means of a press release to a national news service and by mailing such notice first class, postage prepaid, to each Holder at such Holder's address as it appears on the Certificate Register. The Termination Notice shall state the following:

(i) that the Termination Date has occurred or the Warrant Exercise Period has expired, as the case may be, and

(ii) that all outstanding Warrants have terminated and become void.

The Warrants shall terminate and become void as provided herein notwithstanding the Company's failure to give the Termination Notice.

SECTION 3.4 Manner of Exercise. Warrants may be exercised upon (i) surrender to the Warrant Agent of the Warrant Certificates, together with the form of election to purchase Common Stock on the reverse thereof properly completed and validly executed by the Holder thereof and (ii) payment to the Warrant Agent, for the account of the Company, of the Exercise Price. Such payment shall be made by certified or official bank check or personal check payable to the order of the Company. Subject to Section 3.2, the Warrants shall be exercisable at the election of the Holders thereof either in full at any time or from time to time in part and in the event that a Warrant Certificate is surrendered for exercise in respect of less than all the Warrant Shares purchasable on such exercise at any time prior to the Expiration Date a new Warrant Certificate exercisable for the remaining Warrant Shares will be issued. The Warrant Agent shall countersign and deliver the required

new Warrant Certificates, and the Company, at the Warrant Agent's request, shall supply the Warrant Agent with Warrant Certificates duly signed on behalf of the Company for such purpose. The Warrant Agent shall account promptly to the Company with respect to all Warrants exercised and concurrently pay to the Company all moneys received by the Warrant Agent for the purchase of shares of Common Stock through the exercise of such Warrants.

SECTION 3.5 Issuance of Warrant Shares. Subject to Section 3.6, upon the surrender of Warrant Certificates and payment of the Exercise Price, as set forth in Section 3.4, the Company shall issue and cause the Warrant Agent or, if appointed, a transfer agent for the Common Stock ("Transfer Agent") to countersign and deliver to or upon the written order of the Holder and in such name or names as the Holder may designate, a certificate or certificates for the number of full Warrant Shares so purchased upon the exercise of such Warrants or other securities or property to which it is entitled, registered or otherwise to the Person or Persons entitled to receive the same, together with cash as provided in Section 3.6 in respect of any fractional Warrant Shares otherwise issuable upon such exercise. Such certificate or certificates shall be deemed to have been issued and any Person so designated to be named therein shall be deemed to have become a holder of record of such Warrant Shares as of the date of the surrender of such Warrant Certificates and payment of the Exercise Price.

SECTION 3.6 Fractional Warrant Shares. The Company shall not be required to issue fractional Warrant Shares on the exercise of Warrants. If more than one Warrant shall be exercised in full at the same time by the same Holder, the number of full Warrant Shares which shall be issuable upon such exercise shall be computed on the basis of the aggregate number of Warrant Shares purchasable pursuant thereto. If any fraction of a Warrant Share would, except for the provisions of this Section 3.6, be issuable on the exercise of any Warrant (or specified portion thereof), the Company shall pay an amount in cash equal to the sum of (i) the Adjusted Market Value for one Warrant Share and (ii) $1.00, multiplied by such fraction, rounded upwards or downwards, as the case may be, to the nearest whole cent.

SECTION 3.7 Reservation of Warrant Shares. (a) The Company shall use its best efforts to at all times keep reserved out of its authorized shares of Common Stock or shares of Common Stock held in its treasury and unissued a number of shares of Common Stock sufficient to provide for the exercise in full of all Warrants then outstanding or reserved for issuance pursuant to Section 2.1. The registrar for the Common Stock (the "Registrar") shall at all times until the Termination Date, or the time at which all Warrants have been exercised or cancelled, reserve such number of authorized shares as shall be required for such purpose. The Company will keep a copy of this Agreement on file with the Transfer Agent. The Company will supply such Transfer Agent with duly executed stock certificates for such purpose and will itself provide or otherwise make available any cash which may be payable as provided in Section 3.6. The Company will furnish to such Transfer Agent a copy of all notices of adjustments and certificates related thereto transmitted to each Holder.

(b) If, upon the Triggering Event, the number of shares of Common Stock authorized but not issued plus the number of shares of Common Stock held in the Company's

treasury is less than the number of shares of Common Stock necessary to permit the exercise in full of the Warrants then outstanding or reserved for issuance pursuant to Section 2.1 (the number of shares of Common Stock comprising such deficiency being the "Number of Shortfall Shares"), then the Company shall either (i) to the extent permitted by applicable law and any material agreements then in effect to which the Company is a party, commence a tender offer for the aggregate number of shares of Common Stock at least equal to the Number of Shortfall Shares or (ii) call a special meeting of the Common Stockholders for the purpose of increasing the number of authorized shares of Common Stock in an amount at least equal to the Number of Shortfall Shares. In such an event, the Warrant Exercise Period shall be automatically extended to 60 calendar days after the date on which either (a) the tender offer referred to in clause (i) above is successfully completed or (b) the effective date of the increase in the number of authorized shares of Common Stock referred to in clause (ii) above.

(c) The Company covenants that all shares of Common Stock which may be issued upon exercise of Warrants will, upon issue, be fully paid, nonassessable, free of preemptive rights, free from all taxes and free from all liens, charges and security interests, created by or through the Company, with respect to the issue thereof.

SECTION 3.8 Compliance with Law. (a) Notwithstanding anything in this Agreement to the contrary, in no event shall a Holder be entitled to exercise a Warrant unless (i) a registration statement filed under the Securities Act in respect of the issuance of the Warrant Shares is then effective or (ii) an exemption from such registration requirements is available to all Holders under the Securities Act at the time of such exercise.

(b) If any shares of Common Stock required to be reserved for purposes of exercise of Warrants require, under any other Federal or state law or applicable governing rule or regulation of any national securities exchange, registration with or approval of any governmental authority, or listing on any such national securities exchange before such shares may be issued upon exercise, the Company will cause such shares to be duly registered or approved by such governmental authority or listed on the relevant national securities exchange.

SECTION 3.9 Cancellation of Warrants In the event the Company shall purchase or otherwise acquire Warrants, the same shall thereupon be delivered to the Warrant Agent and be cancelled by it and retired. The Warrant Agent shall cancel any Warrant surrendered for exchange, substitution, transfer or exercise in whole or in part.

ARTICLE 4.

Adjustments

SECTION 4.1 Reclassifications, Redesignations or Reorganizations of Common Stock. (a) In the event that at any time or from time to time after the date hereof the Company shall issue by reclassification, redesignation or reorganization of the shares of its class of Common Stock any shares of capital stock of the Company then, in any such event, the Holders shall have the right to receive upon exercise of the Warrants the number of shares of such capital stock of the Company equal to the Adjusted Litigation Recovery divided by [86,000,000] [the number of Warrants issued or reserved for issuance on the Record Date] divided by the aggregate Adjusted Market Value of the capital stock of the Company that one share of Common Stock was exchanged for or converted into as a result of such reclassification, redesignation or reorganization.

(b) The proportion and type of capital stock of the Company that the Holders shall have the right to receive in the circumstance set forth in the preceding sentence will be in the same proportion and type as one share of Common Stock was exchanged for or converted into as a result of such reclassification, redesignation or reorganization. Such adjustment shall become effective immediately after the effective date of such reclassification, redesignation or reorganization. In the event of the occurrence of more than one of the foregoing, such adjustments shall be made successively.

SECTION 4.2 Combination. (a) Except as provided in Section 4.2(c), in the event of a Combination, the Holders shall have the right to receive upon exercise of the Warrants the number of shares of capital stock or other securities or an amount of property equal to the Adjusted Litigation Recovery divided by [86,000,000] [the number of Warrants issued or reserved for issuance on the Record Date] divided by the aggregate Adjusted Market Value of the capital stock, other securities or property that one share of Common Stock was exchanged for or converted into as a result of such Combination.

(b) The proportion and type of capital stock, other securities or property that the Holders shall have the right to receive in the circumstance set forth in the preceding sentence will be in the same proportion and type as one share of Common Stock was exchanged for or converted into as a result of such Combination. The provisions of this Section 4.2 shall similarly apply to successive Combinations involving any Successor Company.

(c) In the event of a Combination where consideration is payable to holders of Common Stock in exchange for their shares solely in cash, each Warrant will upon exercise thereof be entitled to receive cash in an amount equal to the Adjusted Litigation Recovery divided by [86,000,000] [the number of Warrants issued or reserved for issuance on the Record Date], less the Exercise Price.

In case of any Combination described in this Section 4.2(c), the surviving or acquiring Person shall promptly after the occurrence of the Triggering Event deposit with the

Warrant Agent the funds necessary to pay to the Holders of the Warrants the amounts to which they are entitled as described above. After such funds and the surrendered Warrant Certificates are received, the Warrant Agent shall make payment to the Holders by delivering a check in such amount as is appropriate to such Person or Persons as it may be directed in writing by the Holders surrendering such Warrants.

(d) The Company shall provide that the surviving or acquiring Person (the "Successor Company") in such Combination will enter into an agreement with the Warrant Agent confirming the Holders' rights pursuant to this Section 4.2 and providing for adjustments, which shall be as nearly equivalent as may be practicable to the adjustments provided for in this Article 4.

SECTION 4.3 Exercise Price Adjustment. In case of any reclassification, redesignation or reorganization described in Section 4.1 or any Combination descried in Section 4.2, the Exercise Price of one Warrant after such reclassification, redesignation, reorganization or Combination will equal (i) if the Warrants are exercisable into stock only, the per share par value of such stock multiplied by the number of shares of stock into which one Warrant is exercisable, (ii) if the Warrants are exercisable for cash or property only, an amount equal to a fraction the numerator of which is the product of $1.00 and the Fair Market Value of amount of cash or property into which one Warrant is exercisable and the denominator of which is the amount of cash or property one share of Common Stock was exchanged for in such Combination and (iii) if the Warrants are exercisable for cash or property and stock, an amount equal to the Exercise Price determined by clause (i) above with respect to the stock portion and the Exercise Price determined by clause (ii) with respect to the cash or property portion.

SECTION 4.4 Examples. (a) If the Company effects a reclassification, redesignation or reorganization such that one share of its class of Common Stock was converted into a one share of class A common stock and two shares of class B common stock, then, after giving effect to such event, the Holders shall have the right to receive upon exercise of one Warrant shares of class A common stock and class B common stock equal to the Adjusted Litigation Recovery divided by [86,000,000] [the number of Warrants issued or reserved for issuance on the Record Date] divided by the aggregate Adjusted Market Value of one share of class A common stock and two shares of class B common stock. Accordingly, pursuant to Section 4.1(b), if the Adjusted Litigation Recovery were $500 million and the Adjusted Market Value of one share of class A common stock and two shares of class B common stock were $30, then one Warrant would be exercisable for 0.0646 of a share of class A common stock and 0.1292 of a share of class B common stock. The Exercise Price of one Warrant would be the par value of the class A common stock multiplied by 0.0646, plus the par value of the class B common stock multiplied by 0.1292.

(b) In the case of a Combination described in Section 4.2(a), if as a result of such Combination one share of Common Stock is exchanged for one share of Surviving Company common stock and $15, then, after giving effect to such event, the Holders shall have the right to receive upon exercise of one Warrant shares of Surviving Company common stock and cash equal to the Adjusted Litigation Recovery divided by [86,000,000] [the

number of Warrants issued or reserved for issuance on the Record Date] divided by the sum of the Adjusted Market Value of one share of Surviving Company common stock plus $15. Accordingly, pursuant to Section 4.2(b), if the Adjusted Litigation Recovery were $500 million and the Adjusted Market Value of one share of Surviving Company Common Stock were $15, then one Warrant would be exercisable for 0.1938 of a share of Class A Common Stock and $2.907 ($15 multiplied by 0.1938). The Exercise Price of one Warrant would be the par value of the Surviving Company Common Stock multiplied by .1292, plus $.1938.

(c) In the case of a Combination described in Section 4.2(c), if as a result of such Combination one share of Common Stock is exchanged for $30, then, after giving effect to such event, the Holders shall have the right to receive upon exercise of one Warrant cash equal to the Adjusted Litigation Recovery divided by [86,000,000] [the number of Warrants issued or reserved for issuance on the Record Date], less the Exercise Price of the Warrant. Accordingly, if the Adjusted Litigation Recovery were $500 million, then one Warrant would be exercisable for $5.620. The Exercise Price of one Warrant would be $.1938.

SECTION 4.5 Other Events. If any event occurs as to which the foregoing provisions of this Article 4 are not strictly applicable or, if strictly applicable, would not, in the good faith judgment of the Board, fairly and adequately protect the purchase rights of the Warrants in accordance with the essential intent and principles of such provisions, then such Board shall make such adjustments to the terms of this Article 4, in accordance with such essential intent and principles, as shall be reasonably necessary, in the good faith opinion of such Board, to protect such purchase rights as aforesaid.

SECTION 4.6 Notice of Certain Transactions. In the event that the Company shall publicly announce a plan (a) to effect any reclassification, redesignation or reorganization of its shares of its class of Common Stock, (b) to effect any capital reorganization, consolidation or merger or (c) to effect the voluntary or involuntary dissolution, liquidation or winding-up of the Company, the Company shall within 5 calendar days after such public announcement send to the Warrant Agent and the Warrant Agent shall within 5 calendar days send the Holders a notice (in such form as shall be furnished to the Warrant Agent by the Company) of such proposed action, such notice to be mailed by the Warrant Agent to the Holders at their addresses as they appear in the Certificate Register, which notice shall specify the expected date that such issuance or event is to take place and the expected date of participation therein by the holders of Common Stock and shall briefly indicate the effect of such action on the Common Stock and on the number and kind of any other shares of stock and on other securities or property, if any, and the number of shares of Common Stock and other securities or property, if any, purchasable upon exercise of each Warrant and the Exercise Price after giving effect to any adjustment which will be required as a result of such action.

SECTION 4.7 Adjustment to Warrant Certificate. The form of Warrant Certificate need not be changed because of any adjustment made pursuant to this Article 4, and Warrant Certificates issued after such adjustment may have the same terms and conditions as are stated in any Warrant Certificates issued prior to the adjustment. The Company, however, may at any time in its sole discretion make any change in the form of

Warrant Certificate that it may deem appropriate to give effect to such adjustments and that does not affect the substance of the Warrant Certificate, and any Warrant Certificate thereafter issued or countersigned, whether in exchange or substitution for an outstanding Warrant Certificate or otherwise, may be in the form as so changed.

ARTICLE 5.

Warrant Agent

Section 5.1 Nature of Duties and Responsibilities Assumed. The Company hereby appoints the Warrant Agent to act as agent of the Company as set forth in this Agreement. The Warrant Agent hereby accepts the appointment as agent of the Company and agrees to perform that agency upon the terms and conditions herein set forth, by all of which the Company and the Warrant Holders, by their acceptance thereof, shall be bound.

Whenever in the performance of its duties under this Agreement, the Warrant Agent shall deem it necessary or desirable that any fact or matter be proved or established by the Company prior to taking or suffering any action hereunder, such fact or matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a certificate signed by an Officer and delivered to the Warrant Agent; and such certificate shall be full authorization to the Warrant Agent for any action taken or suffered in good faith by it under the provisions of this Agreement in reliance upon such certificate.

The Warrant Agent shall be liable hereunder only for its own negligence, bad faith or willful misconduct. The Warrant Agent shall not be liable for or by reason of any of the statements of fact or recitals contained in this Agreement or in the Warrant Certificates (except its countersignature on the Warrant Certificates and such statements or recitals as described the Warrant Agent or action taken or to be taken by it) or be required to verify the same, but all such statements and recitals are and shall be deemed to have been made by the Company only. The Warrant Agent shall not have any liability or responsibility in respect of the legality, validity or enforceability of this Agreement or the execution and delivery hereof (except the due execution hereof by the Warrant Agent) or in respect of the validity or execution of any Warrant Certificate (except its countersignature thereof); nor shall it be responsible or liable for any breach by the Company of any covenant or condition contained in this Agreement or in any Warrant Certificate; nor shall it be responsible or liable for the making of any change in the number of shares of Common Stock required under the provisions of Article IV or responsible for the manner, method or amount of any such change or the ascertaining of the existence of any facts that would require any such adjustment or change; nor shall it by any act hereunder be deemed to make any representation or warranty as to the authorization or reservation of any shares of Common Stock to be issued pursuant to this Agreement or any Warrant Certificate or as to whether any shares of Common Stock will, when issued, by validly issued, fully paid and nonassessable.

The Warrant Agent shall be under no obligation to institute any action, suit or legal proceeding or take any other action likely to involve expense unless the Company or

one or more registered holders of Warrants shall furnish the Warrant Agent with reasonable security and indemnity for any costs and expenses which may be incurred. All rights of action under this Agreement or under any of the Warrants may be enforced by the Warrant Agent without the possession of any of the Warrants or the production thereof at any trial or other proceeding relative thereto, and any such action, suit or proceeding instituted by the Warrant Agent shall be brought in its name as Warrant Agent and any recovery of judgment shall be for the ratable benefit of the Holders of the Warrants, as their respective rights or interests may appear. The Warrant Agent shall promptly notify the Company in writing of any claim made or action, suit or proceeding instituted against it arising out of or in connection with this Agreement.

The Warrant Agent is hereby authorized and directed to accept written instructions with respect to the performance of its duties hereunder from an Officer, and to apply to any such officer for advice or instructions in connection with the Warrant Agent's duties, and it shall not be liable for any action taken or suffered to be taken or omitted by it in good faith in accordance with the instructions of any such officer.

The Warrant Agent will not be responsible or liable for any failure of the Company to comply with any of the covenants contained in this Agreement or in the Warrant Certificates to be complied with by the Company. The Warrant Agent will not incur any liability or responsibility to the Company or to any Warrant Holder for any action taken, or any failure to take action, in reliance on any notice, resolution, waiver, consent, order, certificate, or other paper, document or instrument reasonably believed by the Warrant Agent to be genuine and to have been signed, sent or presented by the proper party or parties.

The Warrant Agent may execute and exercise any of the rights and powers hereby vested in it or perform any duty hereunder either itself or by or through its attorneys, agents or employees, provided reasonable care has been exercised in the selection and in the continued employment of any such attorney, agent or employee.

The Company will perform, execute, acknowledge and deliver or cause to be performed, executed, acknowledged and delivered all such further acts, instruments and assurances as may reasonably be required by the Warrant Agent in order to enable it to carry out or perform its duties under this Agreement.

The Warrant Agent will act hereunder solely as agent of the Company in a ministerial capacity, and its duties will be determined solely by the provisions hereof. The Warrant Agent will not be liable for anything which it may do or refrain from so doing in connection with this Agreement except for its own negligence, bad faith or willful conduct.

Section 5.2 Right to Consult Counsel. The Warrant Agent may at any time consult with legal counsel satisfactory to it (who may be legal counsel for the Company) and the opinion of such counsel shall be full and complete authorization and protection to the Warrant Agent as to any action taken, suffered or omitted by it in good faith in accordance with such opinion; provided, however, that the Warrant Agent shall have exercised reasonable care in the selection of such counsel.

Section 5.3 Compensation and Reimbursement. The Company agrees to pay to the Warrant Agent from time to time compensation for all services rendered by it hereunder as the Company and the Warrant Agent may agree from time to time, and to reimburse the Warrant Agent for reasonable expenses and disbursements incurred in connection with the execution and administration of this Agreement (including the reasonable compensation and the expenses of its counsel), and further agrees to indemnify the Warrant Agent for, and to hold it harmless against, any loss, liability or expenses incurred without negligence, bad faith or willful misconduct on its part, arising out of or in connection with the acceptance and administration of this Agreement, including the costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers or duties hereunder.

Section 5.4 Warrant Agent May Hold Company Securities. The Warrant Agent and any stockholder, director, officer or employee of the Warrant Agent may buy, sell or deal in any of the Warrants or other securities of the Company or its affiliates or have a pecuniary interest in any transaction in which the Company or its affiliates may be interested, or contract with or lend money to the Company or its affiliates or otherwise act as fully and freely as though it were not the Warrant Agent under this Agreement. Nothing herein shall preclude the Warrant Agent from acting in any other capacity for the Company or for any other legal entity.

Section 5.5 Change of Warrant Agent. The Warrant Agent may resign and be discharged from its duties under this Agreement upon 90 calendar days' prior notice in writing mailed, by registered or certified mail, to the Company. The Company may remove the Warrant Agent or any successor warrant agent upon 60 calendar days' prior notice in writing, mailed to the Warrant Agent or successor warrant agent, as the case may be, by registered or certified mail. If the Warrant Agent shall resign or be removed or shall otherwise become incapable of acting, the Company shall appoint a successor to the Warrant Agent and shall, within 30 calendar days following such appointment, give notice thereof in writing to each registered holder of the Warrant Certificates. If the Company shall fail to make such appointment within a period of 30 calendar days after giving notice of such removal or after it has been notified in writing of such resignation or incapacity by the resigning or incapacitated Warrant Agent, then the Company agrees to perform the duties of the Warrant Agent hereunder until a successor warrant agent is appointed. After appointment the successor warrant agent shall be vested with the same powers, rights, duties and responsibilities as if it had been originally named as Warrant Agent without further act or deed; but the former Warrant Agent shall deliver and transfer to the successor Warrant Agent any property at the time held by it hereunder, and execute and deliver any further assurance, conveyance, act or deed necessary for this purpose. Failure to give any notice provided for in this Section, however, or any defect therein shall not affect the legality or validity of the resignation or removal of the Warrant Agent or the appointment of the successor warrant agent, as the case may be.

ARTICLE 6.

Miscellaneous

SECTION 6.1 Information. As soon as any Warrant becomes outstanding, the Company shall promptly deliver to the Warrant Agent and the Holders its annual report to stockholders and such other information as is provided to any holders of equity securities of the Company in their capacity as holders of such securities.

SECTION 6.2 Persons Benefitting. Nothing in this Agreement is intended or shall be construed to confer upon any Person other than the Company, the Warrant Agent and the Holders any right, remedy or claim under or by reason of this agreement or any part hereof.

SECTION 6.3 Rights of Holders. (a) No Holder, as such, shall be entitled to vote or to receive dividends or shall otherwise be deemed to be the holder of shares of Common Stock for any purpose, nor shall anything contained herein or in any Warrant Certificate be construed to confer upon any Holder, as such, any of the rights of a stockholder of the Company or any right to vote upon or give or withhold consent to any action of the Company (whether upon any reorganization, issuance of securities, reclassification or conversion of Common Stock, consolidation, merger, sale, lease, conveyance or otherwise), receive notice of meetings or other action affecting stockholders (except for notices expressly provided for in this Agreement) or receive dividends or subscription rights, unless and until such Warrant Certificate shall have been surrendered for exercise as provided in this Agreement, payment in respect of such exercise shall have been received by the Warrant Agent, and shares of Common Stock thereunder shall have become issuable and such person shall have been deemed to have become a holder of record of such shares. No Holder shall, upon the exercise of Warrants, be entitled to any dividends if the record date with respect to payment of such dividends shall be a date prior to the date such shares of Common Stock became issuable upon the exercise of such Warrants.

(b) The Bank will retain sole and exclusive control of the Litigation and will retain 100% of any recovery from the Litigation. The Holders will not have any right to control or manage the course or disposition of the Litigation or the proceeds of any recovery therefrom.

SECTION 6.4 Purchase of Warrants by the Company. The Company shall have the right, except as limited by law or other agreement, to purchase or otherwise acquire Warrants at such times, in such manner and for such consideration as it may deem appropriate.

SECTION 6.5 Amendment. This Agreement may be amended by the parties hereto without the consent of any Holder for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained herein or making any other provisions with respect to matters or questions arising under this Agreement as the Company and the Warrant Agent may deem necessary or desirable; provided, however, that

such action shall not affect adversely the rights of the Holders. Any amendment or supplement to this Agreement that has an adverse effect on the interests of the Holders shall require the written consent of the Holders of a majority of the then outstanding Warrants. The consent of each Holder affected shall be required for any amendment pursuant to which the Exercise Price would be increased or the number of Warrant Shares purchasable upon exercise of Warrants would be decreased (other than pursuant to adjustments provided for herein). In determining whether the Holders of the required number of Warrants have concurred in any direction, waiver or consent, Warrants owned by the Company or by any Person directly or indirectly controlling or controlled by or under direct or indirect common control with the Company shall be disregarded and deemed not to be outstanding, except that, for the purpose of determining whether the Warrant Agent shall be protected in relying on any such direction, waiver or consent, only Warrants which the Warrant Agent knows are so owned shall be so disregarded. Also, subject to the foregoing, only Warrants outstanding at the time shall be considered in any such determination.

SECTION 6.6 Notices. Any notice or communication shall be in writing and delivered in Person or mailed by first-class mail addressed as follows:

if to the Company:

Golden State Bancorp Inc.
414 North Central Avenue
Glendale, CA 91203
Attention: Chief Financial Officer
Telecopy: (818) 409-3151

if to the Warrant Agent:

ChaseMellon Shareholder Services L.L.C.
Reorganization Department
450 West 33rd Street, 15th Floor
New York, New York 10001
Attention:
Telecopy:

The Company or the Warrant Agent by notice to the other may designate additional or different addresses for subsequent notices or communications.

Any notice or communication mailed to a Holder shall be mailed to the Holder at the Holder's address as it appears on the Certificate Register and shall be sufficiently given if so mailed within the time prescribed.

Failure to mail a notice or communication to a Holder or any defect in it shall not affect its sufficiency with respect to other Holders. If a notice or communication is mailed in the manner provided above, it is duly given, whether or not the addressee receives it.

SECTION 6.7 Governing Law. This Agreement and the Warrant Certificates shall be governed by, and construed and interpreted in accordance with, the laws of the State of California.

SECTION 6.8 Successors. All agreements of the Company in this Agreement and the Warrant Certificates shall bind its successors. All agreements of the Warrant Agent in this Agreement shall bind its successors.

SECTION 6.9 Counterparts. The parties may sign any number of copies of this Agreement. Each signed copy shall be an original, but all of them together represent the same agreement. One signed copy is enough to prove this Agreement.

SECTION 6.10 Table of Contents. The table of contents and headings of the Articles and Sections of this Agreement have been inserted for convenience of reference only, are not intended to be considered a part hereof and shall not modify or restrict any of the terms or provisions hereof.

SECTION 6.11 Severability. The provisions of this Agreement are severable, and if any clause or provision shall be held invalid, illegal or unenforceable in whole or in part in any jurisdiction, then such invalidity or unenforceability shall affect in that jurisdiction only such clause or provision, or part thereof, and shall not in any manner affect such clause or provision in any other jurisdiction or any other clause or provision of this Agreement in any jurisdiction.

IN WITNESS WHEREOF, the parties have caused this Agreement to be duly executed as of the date first written above.

GOLDEN STATE BANCORP INC.

By:

Name:
Title:

CHASEMELLON SHAREHOLDER SERVICES L.L.C., as Warrant Agent,

By:

Name:
Title:

EXHIBIT A TO
WARRANT AGREEMENT

[FORM OF FACE OF WARRANT CERTIFICATE]

[Unless and until it is exchanged in whole or in part for Warrants in definitive form, this Warrant may not be transferred except as a whole by the depository to a nominee of the depository or by a nominee of the depository to the depository or another nominee of the depository or by the depository or any such nominee to a successor depository or a nominee of such successor depository. The Depository Trust Company ("DTC") (55 Water Street, New York, New York) shall act as the depository until a successor shall be appointed by the Company and the Warrant Agent. Unless this certificate is presented by an authorized representative of DTC to the issuer or its agent for registration of transfer, exchange or payment, and any certificate issued is registered in the name of Cede & Co. or such other name as requested by an authorized representative of DTC (and any payment is made to Cede & Co. or such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.]/1/

No. __ Certificate for ___ Warrants

WARRANTS TO PURCHASE COMMON STOCK OF
GOLDEN STATE BANCORP INC.

THIS CERTIFIES THAT, _____, or its registered assigns, is the registered holder of the number of Warrants set forth above (the "Warrants"). Each Warrant entitles the holder thereof (the "Holder"), at its option and subject to the provisions contained herein and in the Warrant Agreement referred to below, to purchase from GOLDEN STATE BANCORP INC., a Delaware corporation ("the Company"), the number of shares of Common Stock, par value of $1.00 per share, of the Company (the "Common Stock") having an Adjusted Market Value equal to the Adjusted Litigation Recovery divided by [86,000,000] [the number of Warrants issued or reserved for issuance on the Record Date] at an exercise price per Warrant equal to the number of shares of Common Stock for which one Warrant is exercisable multiplied by $1.00 (the "Exercise Price"). This Warrant Certificate shall terminate and become void on the earliest of (i) the Close of Business on the last day of the Warrant Exercise Period, (ii) the Close of Business on the date the Litigation has been disposed of in a manner such that no shares of Common Stock or other securities or property will be issuable under the terms of the Warrants and (iii) the time and date such Warrant is exercised.

This Warrant Certificate is issued under and in accordance with a Warrant Agreement dated as of _____ __, 1998 (the "Warrant Agreement"), between the Company and ChaseMellon Shareholder Services L.L.C. (the "Warrant Agent", which term includes any successor Warrant Agent under the Warrant Agreement), and is subject to the terms and provisions contained in the Warrant Agreement, to all of which terms and

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/1/ To be included only if the Warrant is in global form.

provisions the Holder of this Warrant Certificate consents by acceptance hereof. The Warrant Agreement is hereby incorporated herein by reference and made a part hereof. Reference is hereby made to the Warrant Agreement for a full statement of the respective rights, limitations of rights, duties and obligations of the Company, the Warrant Agent and the Holders of the Warrants. Capitalized terms used but not defined herein shall have the meanings ascribed thereto in the Warrant Agreement. A copy of the Warrant Agreement may be obtained for inspection by the Holder hereof upon written request to the Warrant Agent at [_____].

Subject to the terms of the Warrant Agreement, the Warrants may be exercised in whole or in part by surrender of this Warrant Certificate with the form of election to purchase Warrant Shares attached hereto duly executed and with the simultaneous payment of the Exercise Price in cash (subject to adjustment) to the Warrant Agent for the account of the Company at the office of the Warrant Agent. Payment of the Exercise Price shall be made by certified or official bank check or personal check payable to the order of the Company or by wire transfer of funds to an account designated by the Company for such purpose.

As provided in the Warrant Agreement and subject to the terms and conditions therein set forth, each Warrant shall be exercisable at any time from and from time to time during the Warrant Exercise Period only and shall not be exercisable after the expiration of the Warrant Exercise Period.

In the event the Company enters into a Combination, the Holder hereof will be entitled to receive upon exercise of the Warrants the shares of capital stock or other securities or other property such that each Warrant may be exercisable for a number of shares of capital stock or other securities or an amount of property equal to the Adjusted Litigation Recovery divided by [86,000,000] [the number of Warrants issued or reserved for issuance on the Record Date] divided by the aggregate Adjusted Market Value of the capital stock, other securities or property that one share of Common Stock was exchanged for or converted into as a result of such Combination; provided, however, that in the event that, in connection with such Combination, consideration to holders of Common Stock in exchange for their shares is payable solely in cash, the Holder hereof will be entitled to receive cash in an amount equal to the Adjusted Litigation Recovery divided by [86,000,000] [the number of Warrants issued or reserved for issuance on the Record Date], less the Exercise Price. The amount and type of capital stock, other securities or property that the Holders shall have the right to receive in the circumstance set forth in the preceding sentence would be the same amount and type as one share of Common Stock was exchanged for or converted into as a result of such Combination.

The Company may require payment of a sum sufficient to pay all taxes, assessments or other governmental charges in connection with the transfer or exchange of the Warrant Certificates pursuant to Section 2.5 of the Warrant Agreement but not for any exchange or original issuance (not involving a transfer) with respect to temporary Warrant Certificates, the exercise of the Warrants or the Warrant Shares.

Upon any partial exercise of the Warrants, there shall be countersigned and issued to the Holder hereof a new Warrant Certificate in respect of the shares of Common Stock as to which the Warrants shall not have been exercised. This Warrant Certificate may be exchanged at the office of the Warrant Agent by presenting this Warrant Certificate properly endorsed with a request to exchange this Warrant Certificate for other Warrant Certificates evidencing an equal number of Warrants. No fractional Warrant Shares will be issued upon the exercise of the Warrants, but the Company shall pay an amount in cash equal to the Adjusted Market Value for one Warrant Share on the Determination Date, multiplied by such fraction, computed to the nearest whole cent.

All shares of Common Stock issuable by the Company upon the exercise of the Warrants shall, upon such issue, be duly and validly issued and fully paid and non-assessable.

The holder in whose name the Warrant Certificate is registered may be deemed and treated by the Company and the Warrant Agent as the absolute owner of the Warrant Certificate for all purposes whatsoever and neither the Company nor the Warrant Agent shall be affected by notice to the contrary.

THE WARRANTS REPRESENT A CONTINGENT RIGHT TO PURCHASE SHARES OF COMMON STOCK WITH AN AGGREGATE VALUE BASED ON A PORTION OF ANY PROCEEDS THAT MAY BE RECEIVED BY THE BANK FROM THE LITIGATION. THE WARRANTS DO NOT PROVIDE TO THEIR HOLDERS ANY RIGHTS IN THE LITIGATION INCLUDING ANY RIGHTS TO RECEIVE ANY CASH OR PROPERTY RECEIVED BY THE BANK IN CONNECTION THEREWITH, OR TO CONTROL THE LITIGATION. THERE CAN BE NO ASSURANCE AS TO WHEN THE LITIGATION WILL BE RESOLVED OR THE AMOUNT OF PROCEEDS, IF ANY, THE BANK WILL RECEIVE THEREFROM. THE BANK WILL RETAIN SOLE AND EXCLUSIVE CONTROL OF THE LITIGATION AND WILL RETAIN 100% OF ANY RECOVERY FROM THE LITIGATION. THE HOLDERS WILL NOT HAVE ANY RIGHT TO CONTROL OR MANAGE THE COURSE OR DISPOSITION OF THE LITIGATION OR THE PROCEEDS OF ANY RECOVERY THEREFROM.

The Warrants do not entitle any holder hereof to any of the rights of a shareholder of the Company.

This Warrant Certificate shall not be valid or obligatory for any purpose until it shall have been countersigned by the Warrant Agent.

GOLDEN STATE BANCORP INC.

By _____

[SEAL]

Attest: _____
Secretary

DATED:

Countersigned:
CHASEMELLON SHAREHOLDER SERVICES L.L.C.
as Warrant Agent,

by _____
Authorized Signatory

EXHIBIT B TO
WARRANT AGREEMENT

FORM OF ELECTION TO PURCHASE WARRANT SHARES
(to be executed only upon exercise of Warrants)

GOLDEN STATE BANCORP INC.

The undersigned hereby irrevocably elects to exercise [ ] Warrants at an exercise price per Warrant of $[ ] to acquire [ ] shares of Common Stock, par value $1.00 per share, of Golden State Bancorp Inc. (the "Company"), on the terms and conditions specified in the within Warrant Certificate and the Warrant Agreement therein referred to, surrenders this Warrant Certificate and all right, title and interest therein to the Company, and directs that the shares of Common Stock deliverable upon the exercise of such Warrants be registered or placed in the name and at the address specified below and delivered thereto.

Date: _____, ____

_____/1/
(Signature of Owner)

_____
(Street Address)

_____
(City) (State) (Zip Code)

Signature Guaranteed by:

_____

- ---

/1/ The signature must correspond with the name as written upon the face of the within Warrant Certificate in every particular, without alteration or enlargement or any change whatever, and must be guaranteed by a national bank or trust company or by a member firm of any national securities exchange.

Securities and/or check to be issued to:

Please insert social security or identifying number:

Name:

Street Address:

City, State and Zip Code:

Any unexercised Warrants evidenced by the within Warrant Certificate to be issued to:

Please insert social security or identifying number:

Name:

Street Address:

City, State and Zip Code:

EXHIBIT C TO
WARRANT AGREEMENT

The following exchanges of a part of this Global Warrant for definitive Warrants have been made:

CERTIFICATE TO BE DELIVERED UPON EXCHANGE OR
REGISTRATION OF TRANSFER OF WARRANTS

Re: Warrants to Purchase Common Stock (the "Warrants") of Golden State Bancorp Inc. (the "Company")

This Certificate relates to _____ Warrants held in definitive form by _____ (the "Transferor").

The Transferor has requested the Warrant Agent by written order to exchange or register the transfer of a Warrant or Warrants. The Warrant Agent and the Company are entitled to rely upon this Certificate and are irrevocably authorized to produce this Certificate or a copy hereof to any interested party in any administrative or legal proceedings or official inquiry with respect to the matters covered hereby.

[INSERT NAME OF TRANSFEROR]

by _____

Date: _____

EXHIBIT 5.1

[LETTERHEAD OF MAYER, BROWN & PLATT]

APRIL 3, 1997

Golden State Bancorp Inc.
414 North Central Avenue
Glendale, California 91203

Re: Registration Statement on Form S-4

Ladies and Gentlemen:

You have requested this opinion in connection with the offering (the "Offering") by Golden State Bancorp Inc., a Delaware corporation (the "Company"), of shares of its common stock, par value $1.00 per share (the "Common Stock"). Capitalized terms used but not otherwise defined herein shall have the meanings ascribed to them in the Registration Statement (as defined below).

In connection with your request, you have provided us with and we have reviewed: (i) the Company's Certificate of Incorporation, as amended through the date hereof, (ii) the Company's Bylaws, as amended through the date hereof, (iii) the Registration Statement on Form S-4, as filed with the Securities and Exchange Commission on April 3, 1997 (the "Registration Statement"), including the form of proxy statement/prospectus to be used in connection with the Offering (the "Prospectus") and (iv) resolutions of the Board of Directors of the Company concerning the Offering.

Subject to (i) the effectiveness of the Registration Statement under the Securities Act of 1933, (ii) the due execution, registration and delivery of the certificates evidencing the Common Stock and (iii) the Board of Directors having taken all necessary action to approve the specific terms of the Common Stock to be issued, we are of the opinion that the Common Stock to be issued by the Company will, when issued and paid for in the manner provided in the Registration Statement, be legally issued, fully paid and non-assessable.

We hereby consent to the use of this opinion as an exhibit to the Registration Statement, and we further consent to the use of our name under the caption "Legal Matters" in the Prospectus.

Our opinions expressed herein are limited to the Delaware General Corporation Law as in effect on the date hereof, and we do not express any opinion herein concerning or arising under any other law.

Very truly yours,

MAYER, BROWN & PLATT

EXHIBIT 8.1

[LETTERHEAD OF GIBSON, DUNN & CRUTCHER LLP]

April 3, 1998

(213) 229-7000
RedFed Bancorp Inc.
300 East State Street
Redlands, California 92373

Re: Federal Income Tax Consequences of Merger
With Golden State Bancorp Inc.

Gentlemen:

We have served as special tax counsel to RedFed Bancorp Inc., a Delaware corporation (the "RedFed") in connection with a merger (the "Merger") of RedFed into a newly formed and wholly-owned subsidiary ("Merger Sub") of Golden State Bancorp Inc., a Delaware corporation ("Golden State"). The Merger is being undertaken pursuant to the terms of that certain Agreement and Plan of Merger, dated as of November 30, 1997 (the "Merger Agreement"), by and between RedFed and Golden State. This opinion is issued pursuant to Section 6.3(b) of the Merger Agreement which conditions the obligation of RedFed to effect the Merger on, among other things, the receipt of our opinion that the Merger will be treated for federal income tax purposes as reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended (the "Code"). Unless otherwise indicated, each capitalized term used herein has the meaning ascribed to it in the Agreement.

If the Merger is consummated on the terms and subject to the conditions set forth in the Merger Agreement, then (i) the RedFed will merge into Merger Sub with Merger Sub being the Surviving Corporation and a wholly-owned subsidiary of Golden State and (ii) each share of outstanding RedFed Common Stock will be converted into shares of Golden State Common Stock in an amount calculated pursuant to Article II of the Merger Agreement. Cash will be paid to each holder of RedFed Common Stock in lieu of the issuance of fractional shares.

In rendering our opinion we have examined (i) the Agreement, including all exhibits thereto; (ii) the description of the Merger and related transactions set forth in the OTS Application on Form H-(e)3 filed in connection with the Merger; (iii) the description of the Merger and related transactions set forth in the Proxy Statement-Prospectus on Form S-4 filed with the Securities and Exchange Commission in connection with the Merger (the "Registration Statement"); and (iv) written representations provided by the management of RedFed and of Golden State concerning certain facts underlying and relating to the Merger transaction (the "Representations"). The opinions expressed herein are conditioned on the initial and continuing accuracy of the facts, information and representations set forth in the foregoing documents. We have assumed that any representation or statement made "to the best of knowledge" or similarly qualified is correct without such qualification. As to all matters in which a person or entity making a representation has represented that such person or entity either does not have or is not aware of any plan or intention, we have assumed that there is in fact no such plan or intention.

In our examination we have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as copies and the authenticity of the originals of such documents. We are assuming that the Merger will qualify as a statutory merger in accordance with applicable Delaware law and that the Merger will be carried out in conformance with the terms and conditions as set forth in the Merger Agreement.

In formulating our opinion, we have considered the applicable provisions of the Code, the Treasury Regulations promulgated thereunder and pertinent Internal Revenue Service rulings and judicial authorities, all as they exist as of the date of this letter. We caution that such authorities are subject to change in the future, possibly with retroactive effect, and any such change could affect the conclusions set forth below.

Based on the foregoing and on the continuing accuracy of the Representations and provided that the Merger is consummated in a manner contemplated by the Merger Agreement, we are of the opinion that:

1. The Merger will constitute a reorganization within the meaning of Section 368(a) of the Code, and Golden State, Merger Sub and the RedFed will each be a party to the reorganization within the meaning of Section 368(b) of the Code;

2. No gain or loss will be recognized for purposes of federal income taxation by Golden State, RedFed or Merger Sub as a result of the Merger;

3. No gain or loss will be recognized by the RedFed shareholders upon the receipt of shares of Golden State Common Stock in exchange for shares of RedFed Common Stock pursuant to the Merger, except that a shareholder who receives cash in lieu of fractional shares

will recognize gain or loss equal to the difference between such cash and the basis allocated to such fractional shares;

4. The aggregate basis of the shares of Golden State Common Stock received by a RedFed shareholder (including any fractional share interest treated as received) will be same as the shareholder's aggregate basis in his shares of RedFed Common Stock immediately prior to the Merger; and

5. The holding period of the shares of Golden State Common Stock received by a RedFed shareholder (including any fractional share interest treated as received) will include the shareholder's holding period in his shares of RedFed Common Stock exchanged for Golden State Common Stock, provided the shares of RedFed Common Stock were held as capital assets on the Effective Date.

The foregoing opinions represent our best legal judgment, but you should be aware of the fact that opinions of counsel have no binding effect on or official status of any kind with respect to the Internal Revenue Service or any court considering the issues. Except as to matters set forth expressly herein, we are giving no opinion as to any other tax consequences related to the Merger, whether under federal, state, local or foreign law. We hereby consent to the filing of this opinion as an exhibit to the OTS Application on Form H-(e)3 filed in connection with the Merger. We further consent to the filing of this opinion as an exhibit to the Registration Statement and to all references to this Firm under the heading "Certain Federal Income Tax Consequences" in the Registration Statement.

Very truly yours,

GIBSON, DUNN & CRUTCHER LLP

EXHIBIT 8.2

[LETTERHEAD OF MAYER, BROWN & PLATT]

April 3, 1998

Golden State Bancorp Inc.
414 North Central Avenue
Glendale, California 91203

Re: Merger of RedFed Bancorp, Inc. with and into a Wholly-Owned Subsidiary of Golden State Bancorp Inc.

Ladies and Gentlemen:

We have acted as special counsel to Golden State Bancorp Inc. ("Golden State") in connection with a proposed merger pursuant to which RedFed Bancorp, Inc. ("RedFed") will be merged with and into Golden State Financial Corporation ("Merger Sub"), a wholly owned direct subsidiary of Golden State, as provided for in the Agreement and Plan of Merger dated as of November 30, 1997 (the "Merger Agreement"). Upon consummation of this transaction (the "Merger"), each issued and outstanding share of RedFed common stock (other than shares of RedFed common stock held in treasury), will be converted into the right to receive shares of Golden State common stock as provided in the Merger Agreement. Cash will be paid to each holder of RedFed common stock in lieu of the issuance of fractional shares. You have requested that we provide opinions, as required by section 6.2(b) of the Merger Agreement, regarding qualification of the Merger as a tax-free reorganization under Section 368(a) of the Internal Revenue Code of 1986, as amended (the "Code") and certain related matters.

The opinions set forth below are based upon the Code, the legislative history with respect thereto, rules and regulations promulgated thereunder, published rulings and court decisions, all as in effect and existing on the date hereof, and all of which are subject to change at any time, possibly on a retroactive basis. There can be no assurance that our conclusions will not be rendered invalid as a result of subsequent changes in the law, including changes to the Code, the regulations thereunder, or the interpretation thereof by the courts or the Internal Revenue Service.

In addition, in providing these opinions, we have relied upon (1) the Merger Agreement; (2) the description of the Merger and related transactions set forth in the OTS Application on Form H-(e)3 filed in connection with the Merger; (3) the description of the Merger and related transactions set forth in the Proxy Statement-Prospectus on Form S-4 filed in connection with the Merger (the "Registration Statement"); and (4) written representations provided by the management of RedFed and of Golden State concerning certain facts underlying and relating to the proposed transactions (the "Representations"). This opinion is conditioned on the Representations remaining true, correct and complete at the Effective Time (as defined in the Merger Agreement). In the Representations, the signatories thereof have undertaken to inform us if any prior statement made therein becomes untrue prior to the Effective Time. In addition, we have assumed that any representation or statement made "to the best knowledge" or similarly qualified is correct without such qualification.

Based on the foregoing, we offer the following opinions:

1. The Merger will be treated for purposes of the Federal income tax as a "reorganization" within the meaning of Section 368(a) of the Code.

2. Golden State, RedFed and Merger Sub will each be a "party" to that reorganization within the meaning of Section 368(b) of the Code.

3. No gain or loss will be recognized for purposes of the Federal income tax by Golden State, RedFed or Merger Sub as a result of the Merger.

The opinions herein are rendered to you solely in connection with the contemplated Merger and may not be relied upon by any other person or entity or used for any other purpose without our prior written consent. We hereby consent to the filing of this opinion as an exhibit to the OTS Application on Form H-(e)3 filed in connection with the Merger. We further consent to the filing of this opinion as an exhibit to the Registration Statement and to all references to this firm under the heading "Certain Federal Income Tax Consequences" in the Registration Statement.

Very truly yours,

/s/ Mayer, Brown & Platt

Mayer, Brown & Platt

EXHIBIT 23.3

CONSENT OF INDEPENDENT AUDITORS

The Board of Directors
Golden State Bancorp Inc.:

We consent to the incorporation by reference in the Registration Statement on Form S-4 of Golden State Bancorp Inc. of our report dated July 23, 1997, except for Note 24 of notes to the consolidated financial statements which is as of August 18, 1997, with respect to the consolidated balance sheets of Glendale Federal Bank, Federal Savings Bank, and subsidiaries as of June 30, 1997 and 1996, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for each of the years in the three-year period ended June 30, 1997, which report appears in the Form 8-K of Golden State Bancorp Inc. dated September 23, 1997, and to the reference to our firm under the heading "Experts" in the Proxy Statement-Prospectus.

/s/ KPMG Peat Marwick LLP

KPMG Peat Marwick LLP

Los Angeles, California
April 2, 1998

EXHIBIT 23.4

INDEPENDENT AUDITORS' CONSENT

The Board of Directors
RedFed Bancorp Inc.:

We consent to the incorporation by reference in the registration statement on Form S-4 of Golden State Bancorp Inc. of our report dated January 28, 1998, except as to note 19 to the consolidated financial statements, which is as of February 4, 1998, with respect to the consolidated statements of financial condition of RedFed Bancorp Inc. and subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1997, which report appears in the Form 10-K of RedFed Bancorp Inc. for the year ended December 31, 1997, and to the references to our firm under the headings "The Merger--Background of the Merger" and "Experts" in the prospectus.

/s/ KPMG Peat Marwick LLP

KPMG Peat Marwick LLP

Orange County, California
April 1, 1998

EXHIBIT 23.5

INDEPENDENT AUDITOR'S CONSENT

The Board of Directors
CENFED Financial Corporation:

We consent to incorporation by reference in the Registration Statement on Form S-4 of Golden State Bancorp Inc. (Registration Statement) of our report dated March 17, 1998, with respect to the consolidated statements of financial condition of CENFED Financial Corporation and subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended, and to the reference to our firm under the heading "Experts" in the Proxy Statement-Prospectus with respect to CENFED Financial Corporation and subsidiaries.

/s/ KPMG Peat Marwick LLP

KPMG Peat Marwick LLP

Los Angeles, California
April 2, 1998

EXHIBIT 23.6

CONSENT OF INDEPENDENT AUDITORS

The Board of Directors
First Nationwide (Parent) Holdings Inc.:

We consent to the incorporation by reference in the Registration Statement of Form S-4 of Golden State Bancorp Inc. of our report dated February 23, 1998 with respect to the consolidated balance sheets of First Nationwide (Parent) Holdings Inc. and subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of income, comprehensive income, stockholder's equity and cash flows for each of the years in the three-year period ended December 31, 1997, which report appears in the Form 10-K of First Nationwide (Parent) Holdings Inc., and to the reference to our firm under the heading "Experts" in the Registration Statement.

/s/ KPMG Peat Marwick LLP

KPMG Peat Marwick LLP

Dallas, Texas
April 2, 1998

EXHIBIT 99.1

REDFED BANCORP INC.

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS
ANNUAL MEETING OF STOCKHOLDERS TO BE HELD MAY 26, 1998

Revoking all prior proxies, the undersigned, a stockholder of REDFED BANCORP INC. (the "Company"), hereby appoints Stanley C. Weisser, Robert G. Wiens, Douglas R. McAdam, and William T. Hardy, Jr., and each of them, attorneys and agents of the undersigned, with full power of substitution, to vote all shares of the Common Stock, par value $.01 per share ("Common Stock"), of the undersigned of the Company at the Annual Meeting of Stockholders of the Company to be held at the Company's offices located at 300 East State Street, Redlands, California 92373 on May 26, 1998 at 10:00 a.m., local time, and at any adjournment thereof, as fully and effectively as the undersigned could do if personally present and voting, hereby approving, ratifying and confirming all that said attorneys and agents or their substitutes may lawfully do in place of the undersigned as indicated on the reverse. The undersigned acknowledges receipt of the Notice of Annual Meeting of Stockholders of the Company called for the date indicated herein and the Proxy Statement/Prospectus (the "Proxy Statement/Prospectus") relating to such meeting prior to the signing of this Proxy.

IN THEIR DISCRETION, THE PROXIES ARE AUTHORIZED TO VOTE UPON SUCH OTHER MATTERS WHICH MAY PROPERLY COME BEFORE THE MEETING OR ANY ADJOURNMENT THEREOF.

THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED AS DIRECTED. IF NO DIRECTION IS INDICATED, THIS PROXY WILL BE VOTED FOR THE ELECTION OF THE LISTED NOMINEES AS DIRECTORS AND FOR APPROVAL OF THE MERGER AGREEMENT AND CONSUMMATION OF THE MERGER.

IMPORTANT: SIGNATURE REQUIRED ON REVERSE SIDE

PLEASE DATE, SIGN AND MAIL YOUR
PROXY CARD BACK AS SOON AS POSSIBLE!

- ---

[X] PLEASE MARK YOUR VOTES AS IN THIS EXAMPLE.

	FOR all nominees	WITHHOLD AUTHORITY
1. Election of Directors:	[_]	[_]

NOMINEES: Ms. Anne Bacon and Messrs. John D. McAlearney and William C. Buster Jr.

INSTRUCTIONS: For all nominees listed, except votes withheld from the following nominees:

- ---

NOTE: If the Merger Agreement (as defined below) and the transactions contemplated thereby shall be approved by the stockholders of the Company, the Company's Board of Directors will serve until the consummation of the transactions contemplated by the Merger Agreement (as described in the Company's Proxy Statement/Prospectus dated April 21, 1998), at which time the separate corporate existence of the Company will cease to exist and consequently the Company's Board of Directors will be simultaneously dissolved by operation of law.

	FOR	AGANIST	ABSTAIN
2. To approve the Agreement and Plan of Merger, dated as of November 30, 1997 by and between the Company and Golden State Bancorp Inc. (the "Merger Agreement"), and the consummation of the transactions contemplated thereby, all as described in the Company's Proxy Statement/Prospectus dated April 21, 1998.	[_]	[_]	[_]

PLEASE SIGN, DATE AND RETURN THIS PROXY PROMPTLY, USING THE ENCLOSED ENVELOPE.

Signature _____ Date _____

Signature _____ Date _____

Signature if held jointly

NOTE: PLEASE SIGN EXACTLY AS NAME APPEARS HEREON. WHEN SHARES ARE HELD BY JOINT TENANTS, ALL SHOULD SIGN. WHEN SIGNING AS ATTORNEY, EXECUTOR, ADMINISTRATOR, TRUSTEE OR GUARDIAN PLEASE GIVE FULL TITLE AS SUCH. IF A CORPORATION, PLEASE SIGN IN FULL CORPORATE NAME BY PRESIDENT OR OTHER AUTHORIZED OFFICER. IF A PARTNERSHIP, PLEASE SIGN IN PARTNERSHIP NAME BY AUTHORIZED PERSON.

- ---

EXHIBIT 99.2

NOTE: THIS CONSENT SHOULD BE FILED WITH THE "ADDITIONAL EXHIBITS," NOT WITH THE "CONSENTS OF EXPERTS AND COUNSEL." SEE ITEM 601 OF REGULATION S-K.

Members of the Board of Directors
RedFed Bancorp Inc.
300 East State Street
Redlands, California 92373

Gentlemen:

We hereby consent to the inclusion of our opinion letter dated November 30, 1997 to the Board of Directors of RedFed Bancorp Inc. (the "Company") regarding the acquisition of RedFed Bancorp Inc. by Golden State Bancorp Inc., in Golden State Bancorp's Registration Statement on Form S-4 (the "Registration Statement") and to the references therein to our firm and to our opinion under the headings "SUMMARY--Opinion of RedFed Financial Advisor", "THE MERGER--Background of the Merger", "THE MERGER--Reasons for the Merger and Recommendation of RedFed Board of Directors" and "THE MERGER--Opinion of RedFed Financial Advisor". In giving the foregoing consent, we do not admit (i) that we come within the category of persons whose consent is required under Section 7 of the Securities Act of the 1933, as amended (the "Securities Act"), or the rules and regulations of the Securities and Exchange Commission promulgated thereunder, and (ii) that we are experts with respect to any part of the Registration Statement within the meaning of the term "experts" as used in the Securities Act and the rules and regulations of the Securities and Exchange Commission promulgated thereunder.

Very truly yours,

NATIONSBANC MONTGOMERY SECURITIES LLC

EXHIBIT 4.5

==========

WARRANT AGREEMENT

Dated as of

May 4, 1998

between

GOLDEN STATE BANCORP INC.

and

CHASEMELLON SHAREHOLDER SERVICES L.L.C.

as the Warrant Agent

Warrants for
Common Stock of
Golden State Bancorp Inc.

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WARRANT AGREEMENT, dated as of May 4, 1998 (this "Agreement"), between GOLDEN STATE BANCORP INC., a Delaware corporation (the "Company"), and CHASEMELLON SHAREHOLDER SERVICES L.L.C., a New York limited liability Company, as Warrant Agent (in such capacity, the "Warrant Agent").

W I T N E S S E T H:

WHEREAS, the Board of Directors of the Company has authorized a distribution (the "Distribution") of one Litigation Tracking Warrant(TM) (a "Warrant") for each share of the Company's common stock, par value $1.00 per share ("Common Stock"), outstanding as of the Close of Business (as defined below) on May 7, 1998 (the "Record Date"), each Warrant representing the right to purchase shares or a portion of a share of Common Stock (subject to adjustment as provided herein), upon the terms and subject to the conditions herein set forth; and

WHEREAS, in order to issue Warrants in the Distribution and to issue Warrants to holders of outstanding Convertible Securities (as defined herein) who exercise or convert such Convertible Securities at any time and from time to time prior to the occurrence of the Triggering Event (as defined herein), the Company has determined to enter into this Agreement with the Warrant Agent.

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained herein, the parties hereto hereby agree as follows:

ARTICLE 1.

Defined Terms

SECTION 1.1 Definitions. As used in this Agreement, the following terms shall have the following meanings:

"Adjusted Litigation Recovery" means an amount equal to 85% of the amount obtained from the following equation: (a) the Payment, minus (b) the sum of the following: (i) the aggregate of all expenses incurred by or on behalf of the Bank in prosecuting the Litigation and obtaining the Payment (whether incurred prior to or after the date hereof), including, without limitation, that portion of fees and expenses incurred pursuant to the Management Agreement attributable to the Litigation, (ii) the aggregate of all expenses incurred by the Company in connection with the creation, issuance and trading of the Warrants, including, without limitation, legal, financial advisory and accounting fees and the fees and expenses of the Warrant Agent (whether incurred prior to or after the date hereof) and (iii) an amount equal to the Payment, less the expenses described in the preceding clauses (i) and (ii), multiplied by the highest, combined statutory rate of federal, state and local

income taxes applicable to the Company during the tax year in which the full Payment is received.

"Adjusted Market Value" means the average of the daily Closing Prices of a share of Common Stock for the thirty consecutive Trading Days ending on and including the Determination Date, minus $1.00; provided, that if the context in which this defined term is used is with respect to securities other than shares of Common Stock, then "Adjusted Market Value" means the average of the daily Closing Prices of a unit of such securities for the thirty consecutive Trading Days ending on and including the Determination Date, minus $1.00, and provided, further that if the context in which this defined term is used is with respect to property other than securities, then "Adjusted Market Value" means the Fair

Market Value of the amount of such property distributable in respect of one share of Common Stock.

"Bank" means Glendale Federal Bank, Federal Savings Bank, a federally chartered stock savings bank or any successor thereto.

"Board" means the Board of Directors of the Company or any committee thereof duly authorized to act on behalf of such Board of Directors.

"Business Day" a day other than a Saturday, Sunday or other day on which commercial banks in New York City are authorized or required by law to close.

"Close of Business" on any given date shall mean 5:00 P.M., New York City time, on such date; provided, however, that if such date is not a Business Day
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it shall mean 5:00 P.M., New York City time, on the next succeeding Business Day.

"Closing Price" on any day shall mean the closing sale price regular way (with any relevant due bills attached) of a share of Common Stock on such day, or in case no such sale takes place on such day, the average of the reported closing bid and asked prices regular way (with any relevant due bills attached) of a share of Common Stock, in each case on the New York Stock Exchange Consolidated Tape (or any successor composite tape reporting transactions on national securities exchanges), or, if the Common Stock is not listed or admitted to trading on the NYSE, on the principal national securities exchange on which the Common Stock is listed or admitted to trading (which shall be the national securities exchange on which the greatest number of shares of Common Stock has been traded during the five consecutive Trading Dates ending on and including the Determination Date), or, if not listed or admitted to trading on any national securities exchange, the average of the closing bid and asked prices regular way (with any relevant due bills attached) of a share of Common Stock on the over-the-counter market on the day in question as reported by Nasdaq, or a similar generally accepted reporting service, or if not so available as determined in good faith by the Board of Directors of the Company, on the basis of such relevant factors as it in good faith considers appropriate.

"Combination" means an event in which the Company consolidates with, merges with or into, or sells all or substantially all its property and assets to another Person.
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"Determination Date" means the 30th calendar day prior to the date on which the Bank receives the total amount of the Payment. If the Payment is payable by the United States Government in installments, the Determination Date will be the 30th calendar day prior to the date on which the Bank receives the last installment of the Payment.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Fair Market Value" means the fair market value of the relevant property on the Determination Date as determined in good faith by the Board of Directors of the Company, on the basis of such factors as it in good faith considers appropriate.

"Holder" means the duly registered holder of a Warrant under the terms of this Agreement.

"Litigation" means the Bank's case against the United States Government in the United States Court of Federal Claims entitled Glendale Federal Bank F.S.B.v. United States, No. 90-772C, filed on August 15, 1990.

"Management Agreement" means the Litigation Management Agreement, dated as of February 4, 1998, by and among the Company, the Bank and the other persons signatories thereto.

"Maximum Number of Warrants" has the meaning ascribed to it in Section 2.1(c).

"Nasdaq" means the stock market operated by the National Association of Securities Dealers, Inc.

"NYSE" means the stock exchange operated by New York Stock Exchange, Inc.

"Officer" means the Chairman, the Vice Chairman, the Chief Executive Officer, the President, the Chief Financial Officer, the Secretary or any Vice President of the Company.

"Payment" means the aggregate amount of any cash payment and the Fair Market Value of any property or assets actually received by the Bank pursuant to a final, nonappealable judgment in or final settlement of the Litigation (including any post-judgment interest actually received by the Bank on any payment).

"Person" means any individual, corporation, partnership, joint venture, limited liability company, association, joint-stock company, trust, unincorporated organization, government or any agency or political subdivision thereof or any other entity.

"SEC" means the Securities and Exchange Commission.
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"Securities Act" means the Securities Act of 1933.

"Trading Date" means a date on which the NYSE or Nasdaq (or any successor thereto) is open for the transaction of business.

"Triggering Event" means the occurrence of all of the following events: (a) receipt by the Bank of the Payment in full, (b) determination by the Bank of the amount of the Adjusted Litigation Recovery and (c) receipt of all regulatory approvals necessary to issue the shares of Common Stock to be issued upon the exercise of the Warrants, including without limitation, the effectiveness of a registration statement relating to the issuance of the Warrant Shares under the Securities Act.

"Warrant Shares" means the shares of Common Stock of the Company issued and received upon exercise of the Warrants.

SECTION 1.2 Other Definitions.

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Term	Defined in Section
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"Agent Members"	2.2(c)
"Certificate Register"	2.4
"Certificated Warrants"	2.2(a)
"Convertible Securities"	2.1(b)
"Common Stock"	Recitals
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"Distribution"	Recitals
"DTC"	2.2(b)
"Exercise Notice:	3.2
"Exercise Price"	3.1
"Five-Year Warrants"	2.1(b)
"Global Warrant"	2.2(b)
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"Record Date"	Recitals
"Registrar"	3.7(a)
"Seven-Year Warrants"	2.1(b)
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"Successor Company"	4.2(d)
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"Warrant"	Recitals
"Warrant Agent"	Recitals
"Warrant Certificate"	2.1
"Warrant Exercise Period"	3.2(b)

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SECTION 1.3 Rules of Construction. Unless the text otherwise requires

(i) a term has the meaning assigned to it herein;

(ii) an accounting term not otherwise defined has the meaning assigned to it in accordance with U.S. generally accepted accounting principles as in effect from time to time;

(iii) "or" is not exclusive;

(iv) "including" means including, without limitation; and

(v) words in the singular include the plural and words in the plural include the singular.

ARTICLE 2.

Warrant Certificates

SECTION 2.1 Issuance of Warrant Certificates. (a) As soon as practicable after the Record Date, the Company will prepare and execute, the Warrant Agent will countersign, and the Company will send or cause to be sent (and the Warrant Agent will, if requested, send) by first-class, insured, postage-prepaid mail, to each record holder of Common Stock as of the Close of Business on the Record Date, at the address of such holder shown on the records of the Company, one or more Warrant Certificates, in substantially the form of Exhibit A hereto (a "Warrant Certificate"), evidencing one Warrant (subject to adjustment as provided herein) for each share of Common Stock so held.

(b) At any time and from time to time prior to the occurrence of the Triggering Event, the Company may cause the Warrant Agent to issue, in accordance with the provisions of this Article 2, Warrants to holders of (i) shares of the Company's Noncumulative Convertible Preferred Stock, Series A (the "Preferred Stock"); (ii) common stock purchase warrants (the "Five-Year Warrants") issued under the Warrant Agreement, dated February 23, 1993 (as

amended, supplemented or otherwise modified from time to time), by and between the Company and ChaseMellon Shareholder Services L.L.C. (as successor to Chemical Trust Company of California), as Warrant Agent; (iii) common stock purchase warrants (the "Seven-Year Warrants") issued under the Warrant Agreement, dated August 15, 1993 (as amended, supplemented or otherwise modified from time to time), by and between the Company and ChaseMellon Shareholder Services L.L.C. (as successor to Chemical Trust Company of California), as Warrant Agent; and (iv) stock options of the Company and its subsidiaries (the "Stock Options", and together with the Preferred Stock, the Five-Year Warrants, the Seven-Year Warrants and the Stock Options, the "Convertible Securities") that were outstanding on the Record Date, who exercise or convert such Convertible Securities into shares of Common Stock and Warrants in accordance with the terms and conditions of such Convertible Securities.
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(c) The maximum number of Warrants (the "Maximum Number of Warrants") that may be issued hereunder is equal to (i) the number of shares of Common Stock outstanding on the Record Date plus (ii) the number of Warrants that holders of Convertible Securities would be entitled to receive upon the conversion or exercise of such Convertible Securities on the Record Date in accordance with the terms and conditions thereof. On the date of this Agreement, the maximum number of Warrants that may be issued hereunder is approximately 85,759,465. The Company will not issue any Warrants or securities substantially similar to the Warrants other than in accordance with this Section 2.1.

SECTION 2.2 Form and Dating. The Warrant Certificates shall be substantially in the form of Exhibit A, which is hereby incorporated in and expressly made a part of this Agreement. The Warrants may have such notations, legends or endorsements as the Company may deem appropriate and as are not inconsistent with the provisions hereof, or as may be required by law, stock exchange or stock market rule, agreements to which the Company is subject, if any, or usage (provided that any such notation, legend or endorsement is in a form acceptable to the Company). Each Warrant shall be dated the date of its countersignature.

(a) Certificated Warrants. The Warrants may be issued in definitive form represented by a physical Warrant Certificate (such certificate and all other certificates representing physical delivery of Warrants in definitive form being called "Certificated Warrants").

(b) Global Warrant. The Warrants may be issued in the form of one or more fully registered global certificates with the global securities legend set forth in Exhibit A hereto (the "Global Warrant"), which shall be deposited on behalf of beneficial owners of Warrants with the Warrant Agent, as custodian for the Depository Trust Corporation ("DTC") (or with such other custodian as DTC may direct), and registered in the name of DTC or a nominee of DTC, duly executed by the Company and countersigned by the Warrant Agent as hereinafter provided. The number of Warrants represented by Global Warrants may from time to time be increased or decreased by adjustments made on the records of the Warrant Agent and DTC or its nominee as hereinafter provided. Except as provided in Section 2.5, owners of beneficial interests in a Global Warrant will not be entitled to receive physical delivery of Certificated Warrants.

(c) Book-Entry Provisions. Members of, or participants in, DTC ("Agent Members") shall have no rights under this Agreement with respect to any Global Warrant held on their behalf by DTC or by the Warrant Agent as the custodian of DTC or under such Global Warrant, and DTC may be treated by the Company, the Warrant Agent and any agent of the Company or the Warrant Agent as the absolute owner of such Global Warrant for all purposes whatsoever. Notwithstanding the foregoing, nothing herein shall prevent the Company, the Warrant Agent or any agent of the Company or the Warrant Agent from giving effect to any written certification, proxy or other authorization furnished by DTC or impair, as between DTC and its Agent Members, the operation of customary practices of DTC governing the exercise of the rights of a holder of a beneficial interest in any Global Warrant.
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SECTION 2.3 Execution and Countersignature. (a) With respect to any Global Warrant to be issued hereunder, one Officer shall sign, and the Company's Secretary or any of its Assistant Secretaries shall attest, such Global Warrant. The Warrant Agent, upon the written order of the Company signed by an Officer, shall countersign any Global Warrant certificate by manual or facsimile signature, and such Global Warrant shall be deposited in accordance with Section 2.2(b) hereof.

(b) With respect to all other Warrants, an Officer shall sign, and the Company's Secretary or any of its Assistant Secretaries shall attest, the Warrant Certificates for the Company by manual or facsimile signature.

The Warrant Agent shall countersign and deliver the Warrant Certificates for original issue, in each case upon a written order of the Company signed by an Officer of the Company. Such order shall specify (in addition to the number of Warrants) the date on which the original issue of Warrants is to be countersigned.

(c) If an Officer whose signature is on a Warrant Certificate no longer

holds that office at the time the Warrant Agent countersigns the Warrant Certificate, the Warrant shall be valid nevertheless. A Warrant shall not be valid until an authorized signatory of the Warrant Agent manually countersigns the Warrant Certificate. The signature shall be conclusive evidence that the Warrant Certificate has been countersigned under this Agreement.

(d) The Warrant Agent may appoint an agent reasonably acceptable to the Company to countersign the Warrant Certificates. Unless limited by the terms of such appointment, such agent may countersign Warrant Certificates whenever the Warrant Agent may do so. Each reference in this Agreement to countersignature by the Warrant Agent includes by such agent. Such agent will have the same rights as the Warrant Agent for service of notices and demands.

SECTION 2.4 Certificate Register. The Warrant Agent shall keep a register (the "Certificate Register") of the Warrant Certificates and of their transfer and exchange. The Certificate Register shall show the names and addresses of the respective Holders and the date and number of Warrants evidenced on the face of each of the Warrant Certificates. The Company and the Warrant Agent may deem and treat the Person in whose name a Warrant Certificate is registered as the absolute owner of such Warrant Certificate for all purposes whatsoever and neither the Company nor the Warrant Agent shall be affected by notice to the contrary.

SECTION 2.5 Transfer and Exchange. (a) Transfer and Exchange of Certificated Warrants. When Certificated Warrants are presented to the Warrant Agent with a request to register the transfer of such Certificated Warrants or to exchange such Certificated Warrants for an equal number of Certificated Warrants of other authorized denominations, the Warrant Agent shall register the transfer or make the exchange as requested if its reasonable requirements for such transaction are met; provided, however, that

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the Certificated Warrants surrendered for transfer or exchange shall be duly endorsed or accompanied by a written instrument of transfer in form reasonably satisfactory to the Company and the Warrant Agent, duly executed by the Holder thereof or its attorney duly authorized in writing.

(b) Restrictions on Transfer of Certificated Warrants for a Beneficial Interest in a Global Warrant. Certificated Warrants may not be exchanged for a beneficial interest in a Global Warrant except upon satisfaction of the requirements set forth below. Upon receipt by the Warrant Agent of Certificated Warrants, duly endorsed or accompanied by appropriate instruments of transfer, in form satisfactory to the Warrant Agent, together with written instructions directing the Warrant Agent to make, or to direct DTC to make, an adjustment on its books and records with respect to such Global Warrants to reflect an increase in the number of Warrants represented by the Global Warrant, then the Warrant Agent shall cancel such Certificated Warrants and cause, or direct DTC to cause, in accordance with the standing instructions and procedures existing between DTC and the Warrant Agent, the number of Warrants represented by the Global Warrant to be increased accordingly.

(c) Transfer and Exchange of Global Warrants. The transfer and exchange of beneficial interests in a Global Warrant shall be effected through DTC, in accordance with this Agreement and the procedures of DTC therefor.

(d) Restrictions on Transfer and Exchange of the Global Warrant. Notwithstanding any other provisions of this Agreement, Global Warrants may not be transferred as a whole except by DTC to a nominee of DTC or by a nominee of DTC to DTC or another nominee of DTC or by DTC or any such nominee to a successor depositary or a nominee of such successor depositary.

(e) Authentication and Distribution of Certificated Warrants. If at any time:

(i) DTC notifies the Company that DTC is unwilling or unable to continue as depositary for Global Warrants and a successor depositary for Global Warrants is not appointed by the Company within 90 calendar days after delivery of such notice;

(ii) DTC ceases to be a clearing agency registered under the Exchange Act; or

(iii) the Company, in its sole discretion, notifies the Warrant Agent in writing that it elects to cause the issuance of Certificated Warrants under this Agreement;

then, the Company will execute, and the Warrant Agent, upon receipt of a written order of the Company signed by an Officer requesting the delivery of Certificated Warrants to the holders of beneficial interests in the Global Warrant, will countersign and deliver Certificated Warrants equal to the number of Warrants represented by Global Warrants, in exchange for such Global Warrants. Certificated Warrants issued in exchange for a beneficial interest in a Global Warrant shall be registered in such names and in such authorized denominations as

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DTC, pursuant to instructions from its direct or indirect participants or otherwise, shall instruct the Warrant Agent. The Warrant Agent shall deliver

such Certificated Warrants to the Persons in whose names such Warrants are so registered in accordance with the instructions of DTC.

(f) Cancellation or Adjustment of Global Warrants. At such time as all beneficial interests in Global Warrants have either been exchanged for Certificated Warrants, redeemed, repurchased or canceled, such Global Warrant shall be returned to DTC for cancellation or retained and canceled by the Warrant Agent. At any time prior to such cancellation, if any beneficial interest in a Global Warrant is exchanged for Certificated Warrants, redeemed, repurchased or canceled, the number of Warrants represented by such Global Warrant shall be reduced and an adjustment shall be made on the books and records of the Warrant Agent with respect to such Global Warrant, by the Warrant Agent or DTC, to reflect such reduction.

(g) Obligations with Respect to Transfers and Exchanges of Warrants. (i) To permit registrations of transfers and exchanges, the Company shall execute and the Warrant Agent shall countersign Certificated Warrants and Global Warrants as required pursuant to the provisions of this Section 2.5.

(ii) All Certificated Warrants and Global Warrants issued upon any registration of transfer or exchange of Certificated Warrants shall be the valid obligations of the Company, entitled to the same benefits under this Agreement as the Certificated Warrants or Global Warrants surrendered upon such registration of transfer or exchange.

(iii) Prior to due presentment for registration of transfer of any Warrant, the Warrant Agent and the Company may deem and treat the Person in whose name any Warrant is registered as the absolute owner of such Warrant and neither the Warrant Agent nor the Company shall be affected by notice to the contrary.

(iv) No service charge shall be made to a Holder for any registration of transfer or exchange upon surrender of any Warrant Certificate at the office of the Warrant Agent maintained for that purpose. The Company may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any registration of transfer or exchange of Warrant Certificates.

SECTION 2.6 Replacement Certificates. If a mutilated Warrant Certificate is surrendered to the Warrant Agent or if the Holder of a Warrant Certificate claims that the Warrant Certificate has been lost, destroyed or wrongfully taken, the Company shall issue and the Warrant Agent shall countersign a replacement Warrant Certificate if the reasonable requirements of the Warrant Agent and of Section 8-405 of the Uniform Commercial Code as in effect in the State of California are met. If required by the Warrant Agent or the Company, such Holder shall furnish an indemnity bond or other instrument sufficient in the judgment of the Company and the Warrant Agent to protect the Company and the Warrant Agent from any loss which either of them may suffer if a Warrant Certificate is replaced. The Company and the Warrant Agent may charge the Holder for their expenses in replacing a
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Warrant Certificate. Every replacement Warrant Certificate is an additional obligation of the Company.

SECTION 2.7 Temporary Certificates. Until definitive Warrant Certificates are ready for delivery, the Company may prepare and the Warrant Agent shall countersign temporary Warrant Certificates. Temporary Warrant Certificates shall be substantially in the form of definitive Warrant Certificates but may have variations that the Company considers appropriate for temporary Warrant Certificates. Without unreasonable delay, the Company shall prepare and the Warrant Agent shall countersign definitive Warrant Certificates and deliver them in exchange for temporary Warrant Certificates.

SECTION 2.8 Cancellation. (a) In the event the Company shall purchase or otherwise acquire Certificated Warrants, the same shall thereupon be delivered to the Warrant Agent for cancellation.

(b) The Warrant Agent and no one else shall cancel and destroy all Warrant Certificates surrendered for transfer, exchange, replacement, exercise or cancellation and deliver a certificate of such destruction to the Company unless the Company directs the Warrant Agent to deliver canceled Warrant Certificates to the Company. The Company may not issue new Warrant Certificates to replace Warrant Certificates to the extent they evidence Warrants which have been exercised or Warrants which the Company has purchased or otherwise acquired.

SECTION 2.9 Purchase of Warrants by the Company. The Company shall have the right, except as limited by law or other agreement, to purchase or otherwise acquire Warrants at such times, in such manner and for such consideration as it may deem appropriate.

ARTICLE 3.

Exercise Terms

SECTION 3.1 Number of Warrant Shares; Exercise Price. Each Warrant shall,

upon exercise thereof as provided herein, initially entitle the registered Holder thereof to purchase the number of shares of Common Stock having an Adjusted Market Value equal to the Adjusted Litigation Recovery divided by the Maximum Number of Warrants at an exercise price per Warrant equal to the number of shares of Common Stock for which the Warrant is exercisable multiplied by $1.00 (the "Exercise Price").

SECTION 3.2 Exercise Period. (a) The Company will provide notice, as described below (the "Exercise Notice"), of the occurrence of the Triggering Event not more than 15 calendar days after the occurrence thereof. If the Payment is payable by the United States Government in installments, the Triggering Event will not be deemed to have occurred until the Bank receives the last installment of the Payment. The Exercise Notice shall be dated the date it is first sent to Holders and shall be provided by means of a press release to
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one or more national news services and by mailing such notice first class, postage prepaid, to each Holder at such Holder's address as it appears on the Certificate Register; provided, however, that neither the failure to give such notice by mail to any particular Holder nor any defect therein shall affect the validity of the Exercise Notice or the expiration of all Warrants on the Close of Business on the last day of the Warrant Exercise Period with respect to the other Holders:

(i) that the Triggering Event has occurred,

(ii) the aggregate number of shares for which the Warrants are exercisable,

(iii) the number of shares of Common Stock for which one Warrant is exercisable,

(iv) the Exercise Price per Warrant,

(v) the manner in which the Warrants are exercisable, and

(vi) the date on which the Warrants will no longer be exercisable.

(b) Subject to the terms and conditions set forth herein, each Warrant shall be exercisable at any time or from time to time during the 60-day period commencing on the date on which the Exercise Notice is first sent to Holders pursuant to Section 3.2(a) (the "Warrant Exercise Period").

(c) No Warrant shall be exercisable after the Close of Business on the last day of the Warrant Exercise Period.

SECTION 3.3 Expiration. (a) A Warrant shall terminate and become void as of the earlier of (i) the Close of Business on the last day of the Warrant Exercise Period, (ii) the Close of Business on the date the Litigation has been disposed of in a manner such that no shares of Common Stock or other securities or property will be issuable under the terms of the Warrants (the "Termination Date") or (iii) the time and date such Warrant is exercised. The Company will provide notice, as described below (the "Termination Notice"), of the occurrence of the Termination Date or the expiration of the Warrant Exercise Period not more than 60 calendar days after the occurrence thereof. The Termination Notice shall be dated the date it is first sent to Holders and shall be provided by means of a press release to one or more national news services and by mailing such notice first class, postage prepaid, to each Holder at such Holder's address as it appears on the Certificate Register. The Termination Notice shall state the following:

(i) that the Termination Date has occurred or the Warrant Exercise Period has expired, as the case may be, and

(ii) that all outstanding Warrants have terminated and become void.
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The Warrants shall terminate and become void as provided herein notwithstanding the Company's failure to give the Termination Notice.

SECTION 3.4 Manner of Exercise. Warrants may be exercised upon (i) surrender to the Warrant Agent of the Warrant Certificates, together with the form of election to purchase Common Stock on the reverse thereof properly completed and validly executed by the Holder thereof and (ii) payment to the Warrant Agent, for the account of the Company, of the Exercise Price. Such payment shall be made by certified or official bank check or personal check payable to the order of the Company. Subject to Section 3.2, the Warrants shall be exercisable at the election of the Holders thereof either in full at any time or from time to time in part and in the event that a Warrant Certificate is surrendered for exercise in respect of less than all the Warrant Shares purchasable on such exercise at any time prior to the Expiration Date a new Warrant Certificate exercisable for the remaining Warrant Shares will be issued. The Warrant Agent shall countersign and deliver the required new Warrant Certificates, and the Company, at the Warrant Agent's request, shall supply the Warrant Agent with Warrant Certificates duly signed on behalf of the Company for

such purpose. The Warrant Agent shall account promptly to the Company with respect to all Warrants exercised and concurrently pay to the Company all moneys received by the Warrant Agent for the purchase of shares of Common Stock through the exercise of such Warrants.

SECTION 3.5 Issuance of Warrant Shares. Subject to Section 3.6, upon the surrender of Warrant Certificates and payment of the Exercise Price, as set forth in Section 3.4, the Company shall issue and cause the Warrant Agent or, if appointed, a transfer agent for the Common Stock ("Transfer Agent") to countersign and deliver to or upon the written order of the Holder and in such name or names as the Holder may designate, a certificate or certificates for the number of full Warrant Shares so purchased upon the exercise of such Warrants or such other securities or property to which it is entitled, to the Person or Persons entitled to receive the same, together with cash as provided in Section 3.6 in respect of any fractional Warrant Shares otherwise issuable upon such exercise. Such certificate or certificates shall be deemed to have been issued and any Person so designated to be named therein shall be deemed to have become a holder of record of such Warrant Shares as of the date of the surrender of such Warrant Certificates and payment of the Exercise Price.

SECTION 3.6 Fractional Warrant Shares. The Company shall not be required to issue fractional Warrant Shares on the exercise of Warrants. If more than one Warrant shall be exercised in full at the same time by the same Holder, the number of full Warrant Shares which shall be issuable upon such exercise shall be computed on the basis of the aggregate number of Warrant Shares purchasable pursuant thereto. If any fraction of a Warrant Share would, except for the provisions of this Section 3.6, be issuable on the exercise of any Warrant (or specified portion thereof), the Company shall pay an amount in cash equal to the sum of (i) the Adjusted Market Value for one Warrant Share and (ii) $1.00, multiplied by such fraction, rounded upwards or downwards, as the case may be, to the nearest whole cent.

SECTION 3.7 Reservation of Warrant Shares. (a) The Company shall use its best efforts to at all times keep reserved out of its authorized and unissued shares of Common
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Stock or shares of Common Stock held in its treasury a number of shares of Common Stock sufficient to provide for the exercise in full of all Warrants then outstanding or reserved for issuance pursuant to Section 2.1. The registrar for the Common Stock (the "Registrar") shall at all times until the Termination Date, or the time at which all Warrants have been exercised or cancelled, reserve such number of authorized shares as shall be required for such purpose. The Company will keep a copy of this Agreement on file with the Registrar. The Company will supply such Registrar with duly executed stock certificates for such purpose and will itself provide or otherwise make available any cash which may be payable as provided in Section 3.6. The Company will furnish to such Registrar a copy of all notices of adjustments and certificates related thereto transmitted to each Holder.

(b) If, upon the Triggering Event, the number of shares of Common Stock authorized but not issued plus the number of shares of Common Stock held in the Company's treasury is less than the number of shares of Common Stock necessary to permit the exercise in full of the Warrants then outstanding or reserved for issuance pursuant to Section 2.1 (the number of shares of Common Stock comprising such deficiency being the "Number of Shortfall Shares"), then the Company shall either (i) to the extent permitted by applicable law and any material agreements then in effect to which the Company is a party, commence a tender offer for the aggregate number of shares of Common Stock at least equal to the Number of Shortfall Shares or (ii) call a special meeting of the holders of Common Stock for the purpose of increasing the number of authorized shares of Common Stock in an amount at least equal to the Number of Shortfall Shares. In such an event, the Warrant Exercise Period shall be automatically extended to 60 calendar days after (a) the date on which the tender offer referred to in clause (i) above is successfully completed or (b) the effective date of the increase in the number of authorized shares of Common Stock referred to in clause (ii) above.

(c) The Company covenants that all shares of Common Stock which may be issued upon exercise of Warrants will, upon issue, be fully paid, nonassessable, free of preemptive rights, free from all taxes and free from all liens, charges and security interests, created by or through the Company, with respect to the issue thereof.

SECTION 3.8 Compliance with Law. (a) Notwithstanding anything in this Agreement to the contrary, in no event shall a Holder be entitled to exercise a Warrant unless (i) a registration statement filed under the Securities Act in respect of the issuance of the Warrant Shares is then effective or (ii) an exemption from such registration requirements is available to all Holders under the Securities Act at the time of such exercise.

(b) If any shares of Common Stock required to be reserved for purposes of exercise of Warrants require, under any other Federal or state law or applicable governing rule or regulation of any national securities exchange or stock market, registration with or approval of any governmental authority, or listing on any such national securities exchange or stock market before such shares may be issued upon exercise, the Company will cause such shares to be duly registered or approved by such governmental authority or listed on the relevant national securities exchange or stock market.

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ARTICLE 4.

Adjustments

SECTION 4.1 Reclassifications, Redesignations or Reorganizations of Common Stock. (a) In the event that at any time or from time to time after the date hereof the Company shall issue by reclassification, redesignation or reorganization of the shares of Common Stock any shares of capital stock of the Company then, in any such event, the Holders shall have the right to receive upon exercise of each Warrant the number of shares of such capital stock of the Company equal to the Adjusted Litigation Recovery divided by the Maximum Number of Warrants divided by the aggregate Adjusted Market Value of the capital stock of the Company that one share of Common Stock was exchanged for or converted into as a result of such reclassification, redesignation or reorganization.

(b) The proportion and type of capital stock of the Company that the Holders shall have the right to receive in the circumstance set forth in Section 4.2(a) shall be in the same proportion and type as one share of Common Stock was exchanged for or converted into as a result of such reclassification, redesignation or reorganization. Such adjustment shall become effective immediately after the effective date of such reclassification, redesignation or reorganization. In the event of the occurrence of more than one of the foregoing, such adjustments shall be made successively.

SECTION 4.2 Combination. (a) Except as provided in Section 4.2(c), in the event of a Combination, the Holders shall have the right to receive upon exercise of each Warrant the number of shares of capital stock or other securities or an amount of property equal to the Adjusted Litigation Recovery divided by the Maximum Number of Warrants divided by the aggregate Adjusted Market Value of the capital stock, other securities or property that one share of Common Stock was exchanged for or converted into as a result of such Combination.

(b) The proportion and type of capital stock, other securities or property that the Holders shall have the right to receive in the circumstance set forth in Section 4.2(a) will be in the same proportion and type as one share of Common Stock was exchanged for or converted into as a result of such Combination. The provisions of this Section 4.2 shall similarly apply to successive Combinations involving any Successor Company.

(c) In the event of a Combination where consideration is payable to holders of Common Stock in exchange for their shares solely in cash, the Holders shall have the right to receive upon exercise of each Warrant cash in an amount equal to the Adjusted Litigation Recovery divided by the Maximum Number of Warrants, less the Exercise Price.

In case of any Combination described in this Section 4.2(c), the surviving or acquiring Person shall promptly after the occurrence of the Triggering Event deposit with the Warrant Agent the funds necessary to pay to the Holders of the Warrants the amounts to which they are entitled as described above. After such funds and the surrendered Warrant Certificates are received, the Warrant Agent shall make payment to the Holders by delivering a check in such

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amount as is appropriate to such Person or Persons as it may be directed in writing by the Holders surrendering such Warrants.

(d) The Company shall provide that the surviving or acquiring Person (the "Successor Company") in any Combination shall enter into an agreement with the Warrant Agent confirming the Holders' rights pursuant to this Section 4.2 and providing for adjustments, which shall be as nearly equivalent as may be practicable to the adjustments provided for in this Article 4.

SECTION 4.3 Exercise Price Adjustment. In case of any reclassification, redesignation or reorganization described in Section 4.1 or any Combination described in Section 4.2, the Exercise Price of one Warrant after such reclassification, redesignation, reorganization or Combination will equal (i) if the Warrants are exercisable into stock only, the per share par value of such stock multiplied by the number of shares of stock into which one Warrant is exercisable, (ii) if the Warrants are exercisable for cash or property only, an amount equal to a fraction the numerator of which is the amount of cash or Fair Market Value of property into which one Warrant is exercisable and the denominator of which is the amount of cash or Fair Market Value of property one share of Common Stock was exchanged for in such Combination and (iii) if the Warrants are exercisable for cash or property and stock, an amount equal to the Exercise Price determined by clause (i) above with respect to the stock portion and the Exercise Price determined by clause (ii) with respect to the cash or property portion.

SECTION 4.4 Examples. (a) If the Company were to effect a reclassification, redesignation or reorganization in which one share of its Common Stock was converted into a one share of class A common stock and two shares of class B common stock, then, after giving effect to such event, the

Holders shall have the right to receive upon exercise of one Warrant shares of class A common stock and class B common stock equal to the Adjusted Litigation Recovery divided by the Maximum Number of Warrants divided by the aggregate Adjusted Market Value of one share of class A common stock and two shares of class B common stock. Accordingly, pursuant to Section 4.1(b), if the Adjusted Litigation Recovery were $500 million, the Maximum Number of Warrants was 85,759,465 and the Adjusted Market Value of one share of class A common stock and two shares of class B common stock were $30, then one Warrant would be exercisable for 0.0648 of a share of class A common stock and 0.1296 of a share of class B common stock. The Exercise Price of one Warrant would be the par value of the class A common stock multiplied by 0.0648, plus the par value of the class B common stock multiplied by 0.1296.

(b) In the case of a Combination described in Section 4.2(a), if as a result of such Combination one share of Common Stock is exchanged for one share of Surviving Company common stock and $15, then, after giving effect to such event, the Holders shall have the right to receive upon exercise of one Warrant shares of Surviving Company common stock and cash equal to the Adjusted Litigation Recovery divided by the Maximum Number of Warrants divided by the sum of the Adjusted Market Value of one share of Surviving Company common stock plus $15. Accordingly, pursuant to Section 4.2(b), if the Adjusted Litigation Recovery were $500 million and the Adjusted Market Value of one share of
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Surviving Company common stock were $15, then one Warrant would be exercisable for 0.1943 of a share of Class A Common Stock and $2.915 ($15 multiplied by 0.1943). The Exercise Price of one Warrant would be the par value of the Surviving Company Common Stock multiplied by .1943, plus $.1943.

(c) In the case of a Combination described in Section 4.2(c), if as a result of such Combination one share of Common Stock is exchanged for $30, then, after giving effect to such event, the Holders shall have the right to receive upon exercise of one Warrant cash equal to the Adjusted Litigation Recovery divided by the Maximum Number of Warrants, less the Exercise Price of the Warrant. Accordingly, if the Adjusted Litigation Recovery were $500 million, then one Warrant would be exercisable for $5.636. The Exercise Price of one Warrant would be $.1943.

SECTION 4.5 Other Events. If any event occurs as to which the foregoing provisions of this Article 4 are not strictly applicable or, if strictly applicable, would not, in the good faith judgment of the Board, fairly and adequately protect the purchase rights of the Holders of the Warrants in accordance with the essential intent and principles of such provisions, then the Board may make, without the consent of the Holders, such adjustments to the terms of this Article 4, in accordance with such essential intent and principles, as shall be reasonably necessary, in the good faith opinion of such Board, to protect such purchase rights as aforesaid.

SECTION 4.6 Notice of Certain Transactions. In the event that the Company shall publicly announce a plan (a) to effect any reclassification, redesignation or reorganization of its shares of Common Stock, (b) to effect any capital reorganization, consolidation or merger or (c) to effect the voluntary or involuntary dissolution, liquidation or winding-up of the Company, the Company shall within 5 calendar days after such public announcement send to the Warrant Agent and the Warrant Agent shall within 5 calendar days after receipt thereof send the Holders a notice (in such form as shall be furnished to the Warrant Agent by the Company) of such proposed action, such notice to be mailed by the Warrant Agent to the Holders at their addresses as they appear in the Certificate Register, which notice shall specify the expected date that such issuance or event is to take place and the expected date of participation therein by the holders of Common Stock and shall briefly indicate the effect of such action on the Common Stock and on the number and kind of any other shares of stock and on other securities or property, if any, and the number of shares of Common Stock and other securities or property, if any, purchasable upon exercise of each Warrant and the Exercise Price after giving effect to any adjustment which will be required as a result of such action.

SECTION 4.7 Adjustment to Warrant Certificate. The form of Warrant Certificate need not be changed because of any adjustment made pursuant to this Article 4, and Warrant Certificates issued after such adjustment may have the same terms and conditions as are stated in any Warrant Certificates issued prior to the adjustment. The Company, however, may at any time in its sole discretion make any change in the form of Warrant Certificate that it may deem appropriate to give effect to such adjustments and that does not affect the substance of the Warrant Certificate, and any Warrant Certificate thereafter
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issued or countersigned, whether in exchange or substitution for an outstanding Warrant Certificate or otherwise, may be in the form as so changed.

ARTICLE 5.

Warrant Agent

Section 5.1 Nature of Duties and Responsibilities Assumed. The Company hereby appoints the Warrant Agent to act as agent of the Company as set forth in

this Agreement. The Warrant Agent hereby accepts the appointment as agent of the Company and agrees to perform that agency upon the terms and conditions herein set forth, by all of which the Company and the Warrant Holders, by their acceptance thereof, shall be bound.

Whenever in the performance of its duties under this Agreement, the Warrant Agent shall deem it necessary or desirable that any fact or matter be proved or established by the Company prior to taking or suffering any action hereunder, such fact or matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a certificate signed by an Officer and delivered to the Warrant Agent; and such certificate shall be full authorization to the Warrant Agent for any action taken or suffered in good faith by it under the provisions of this Agreement in reliance upon such certificate.

The Warrant Agent shall be liable hereunder only for its own negligence, bad faith or willful misconduct. The Warrant Agent shall not be liable for or by reason of any of the statements of fact or recitals contained in this Agreement or in the Warrant Certificates (except its countersignature on the Warrant Certificates and such statements or recitals as described the Warrant Agent or action taken or to be taken by it) or be required to verify the same, but all such statements and recitals are and shall be deemed to have been made by the Company only. The Warrant Agent shall not have any liability or responsibility in respect of the legality, validity or enforceability of this Agreement or the execution and delivery hereof (except the due execution hereof by the Warrant Agent) or in respect of the validity or execution of any Warrant Certificate (except its countersignature thereof); nor shall it be responsible or liable for any breach by the Company of any covenant or condition contained in this Agreement or in any Warrant Certificate; nor shall it be responsible or liable for the making of any change in the number of shares of Common Stock required under the provisions of Article 4 or responsible for the manner, method or amount of any such change or the ascertaining of the existence of any facts that would require any such adjustment or change; nor shall it by any act hereunder be deemed to make any representation or warranty as to the authorization or reservation of any shares of Common Stock to be issued pursuant to this Agreement or any Warrant Certificate or as to whether any shares of Common Stock will, when issued, by validly issued, fully paid and nonassessable.

The Warrant Agent shall be under no obligation to institute any action, suit or legal proceeding or take any other action likely to involve expense unless the Company or one or more Holders of Warrants shall furnish the Warrant Agent with reasonable security and indemnity for any costs and expenses which may be incurred. All rights of action under
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this Agreement or under any of the Warrants may be enforced by the Warrant Agent without the possession of any of the Warrants or the production thereof at any trial or other proceeding relative thereto, and any such action, suit or proceeding instituted by the Warrant Agent shall be brought in its name as Warrant Agent and any recovery of judgment shall be for the ratable benefit of the Holders of the Warrants, as their respective rights or interests may appear. The Warrant Agent shall promptly notify the Company in writing of any claim made or action, suit or proceeding instituted against it arising out of or in connection with this Agreement.

The Warrant Agent is hereby authorized and directed to accept written instructions with respect to the performance of its duties hereunder from an Officer, and to apply to any such Officer for advice or instructions in connection with the Warrant Agent's duties, and it shall not be liable for any action taken or suffered to be taken or omitted by it in good faith in accordance with the instructions of any such Officer.

The Warrant Agent will not be responsible or liable for any failure of the Company to comply with any of the covenants contained in this Agreement or in the Warrant Certificates to be complied with by the Company. The Warrant Agent will not incur any liability or responsibility to the Company or to any Warrant Holder for any action taken, or any failure to take action, in reliance on any notice, resolution, waiver, consent, order, certificate, or other paper, document or instrument reasonably believed by the Warrant Agent to be genuine and to have been signed, sent or presented by the proper party or parties.

The Warrant Agent may execute and exercise any of the rights and powers hereby vested in it or perform any duty hereunder either itself or by or through its attorneys, agents or employees, provided reasonable care has been exercised in the selection and in the continued employment of any such attorney, agent or employee.

The Company will perform, execute, acknowledge and deliver or cause to be performed, executed, acknowledged and delivered all such further acts, instruments and assurances as may reasonably be required by the Warrant Agent in order to enable it to carry out or perform its duties under this Agreement.

The Warrant Agent will act hereunder solely as agent of the Company in a ministerial capacity, and its duties will be determined solely by the provisions hereof. The Warrant Agent will not be liable for anything which it may do or refrain from so doing in connection with this Agreement except for its own negligence, bad faith or willful conduct.

Section 5.2 Right to Consult Counsel. The Warrant Agent may at any time
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consult with legal counsel satisfactory to it (who may be legal counsel for the Company) and the opinion of such counsel shall be full and complete authorization and protection to the Warrant Agent as to any action taken,

suffered or omitted by it in good faith in accordance with such opinion; provided, however, that the Warrant Agent shall have exercised reasonable care in the selection of such counsel.

Section 5.3 Compensation and Reimbursement. The Company agrees to pay to the Warrant Agent from time to time compensation for all services rendered by it hereunder as the Company and the Warrant Agent may agree from time to time, and to reimburse the Warrant Agent for reasonable expenses and disbursements incurred in connection with the execution and administration of this Agreement (including the reasonable compensation and the expenses of its counsel), and further agrees to indemnify the Warrant Agent for, and to hold it harmless against, any loss, liability or expenses incurred without negligence, bad faith or willful misconduct on its part, arising out of or in connection with the acceptance and administration of this Agreement, including the costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers or duties hereunder. In no case will the Warrant Agent be liable for special, indirect, incidental or consequential loss or damages of any kind whatsoever (including, but not limited to, lost profits), even if the Warrant Agent has been advised of the possibility of such damages. Any liability of the Warrant Agent will be limited to the amount of fees paid by the Company hereunder.

Section 5.4 Warrant Agent May Hold Company Securities. The Warrant Agent and any stockholder, director, officer or employee of the Warrant Agent may buy, sell or deal in any of the Warrants or other securities of the Company or its affiliates or have a pecuniary interest in any transaction in which the Company or its affiliates may be interested, or contract with or lend money to the Company or its affiliates or otherwise act as fully and freely as though it were not the Warrant Agent under this Agreement. Nothing herein shall preclude the Warrant Agent from acting in any other capacity for the Company or for any other legal entity.

Section 5.5 Change of Warrant Agent. The Warrant Agent may resign and be discharged from its duties under this Agreement upon 90 calendar days' prior notice in writing mailed, by registered or certified mail, to the Company. The Company may remove the Warrant Agent or any successor warrant agent upon 60 calendar days' prior notice in writing, mailed to the Warrant Agent or successor warrant agent, as the case may be, by registered or certified mail. If the Warrant Agent shall resign or be removed or shall otherwise become incapable of acting, the Company shall appoint a successor to the Warrant Agent and shall, within 30 calendar days following such appointment, give notice thereof in writing to each registered holder of the Warrant Certificates. If the Company shall fail to make such appointment within a period of 30 calendar days after giving notice of such removal or after it has been notified in writing of such resignation or incapacity by the resigning or incapacitated Warrant Agent, then the Company agrees to perform the duties of the Warrant Agent hereunder until a successor warrant agent is appointed. After appointment the successor warrant agent shall be vested with the same powers, rights, duties and responsibilities as if it had been originally named as Warrant Agent without further act or deed; but the former Warrant Agent shall deliver and transfer to the successor Warrant Agent any property at the time held by it hereunder, and execute and deliver any further assurance, conveyance, act or deed necessary for this purpose. Failure to give any notice provided for in this Section, however, or any defect therein shall not affect the legality or validity of the resignation or removal of the Warrant Agent or the appointment of the successor warrant agent, as the case may be.

ARTICLE 6.

Miscellaneous

SECTION 6.1 Information. As soon as any Warrant becomes outstanding, the Company shall promptly deliver to the Warrant Agent and the Holders its annual report to stockholders and such other information as is provided to any holders of equity securities of the Company in their capacity as holders of such securities.

SECTION 6.2 Persons Benefitting. Nothing in this Agreement is intended or shall be construed to confer upon any Person other than the Company, the Warrant Agent and the Holders any right, remedy or claim under or by reason of this agreement or any part hereof.

SECTION 6.3 Rights of Holders. (a) No Holder, as such, shall be entitled to vote or to receive dividends or shall otherwise be deemed to be the holder of shares of Common Stock for any purpose, nor shall anything contained herein or in any Warrant Certificate be construed to confer upon any Holder, as such, any of the rights of a shareholder of the Company or any right to vote upon or give or withhold consent to any action of the Company (whether upon any reorganization, issuance of securities, reclassification or conversion of Common Stock, consolidation, merger, sale, lease, conveyance or otherwise), receive notice of meetings or other action affecting stockholders (except for notices

expressly provided for in this Agreement) or receive dividends or subscription rights, unless and until such Warrant Certificate shall have been surrendered for exercise as provided in this Agreement, payment in respect of such exercise shall have been received by the Warrant Agent, and shares of Common Stock shall have become issuable thereunder and such person shall have been deemed to have become a holder of record of such shares. No Holder shall, upon the exercise of Warrants, be entitled to any dividends if the record date with respect to payment of such dividends shall be a date prior to the date such shares of Common Stock became issuable upon the exercise of such Warrants.

(b) All rights of action in respect of the Warrants will be vested in the respective Holders; provided, however, that no Holder will have the right to enforce, institute or maintain any suit, action or proceeding against the Company to enforce, or otherwise act in respect of, the Warrants, unless (i) such Holder has previously given written notice to the Company of the substance of such dispute, and the Holders of at least 25% of the issued and outstanding Warrants have given written notice to the Company of their support for the institution of such proceeding to resolve such dispute, (ii) written notice of the substance of such dispute and of the support for the institution of such proceeding by such Holders has been provided by the Company to the Warrant Agent and (iii) the Warrant Agent has not instituted appropriate proceedings with respect to such dispute within 30 days following the date of such written notice to the Warrant Agent, it being understood and intended that no one or more Holders will have the right in any manner whatsoever to affect, disturb or prejudice the rights of any other Holders, or to obtain or to seek to obtain priority or preference over any other Holders or to enforce any rights of the Holders, except in the

manner described in this Section 6.3(b) for the equal and ratable benefit of all Holders. Except as described above, no Holder will have the right to enforce, institute or maintain any suit, action or proceeding to enforce, or otherwise act in respect of, the Warrants.

(c) The Bank will retain sole and exclusive control of the Litigation and will retain 100% of any recovery from the Litigation. The Holders will not have any right to control or manage the course or disposition of the Litigation or the proceeds of any recovery therefrom.

(d) The determination of the Board of the Adjusted Litigation Recovery, the number of shares of Common Stock issuable upon exercise of a Warrant and the Exercise Price shall be final, conclusive and binding upon the Holders.

SECTION 6.4 Amendment. This Agreement may be amended by the parties hereto without the consent of any Holder for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained herein or making any other provisions with respect to matters or questions arising under this Agreement as the Company and the Warrant Agent may deem necessary or desirable; provided, however, that such action shall not affect adversely the rights of the Holders. Any amendment or supplement to this Agreement that has an adverse effect on the interests of the Holders shall require the written consent of the Holders of a majority of the then outstanding Warrants. The consent of each Holder affected shall be required for any amendment pursuant to which the Exercise Price would be increased or the number of Warrant Shares purchasable upon exercise of Warrants would be decreased (other than pursuant to adjustments provided for herein). In determining whether the Holders of the required number of Warrants have concurred in any direction, waiver or consent, Warrants owned by the Company or by any Person directly or indirectly controlling or controlled by or under direct or indirect common control with the Company shall be disregarded and deemed not to be outstanding, except that, for the purpose of determining whether the Warrant Agent shall be protected in relying on any such direction, waiver or consent, only Warrants which the Warrant Agent knows are so owned shall be so disregarded. Also, subject to the foregoing, only Warrants outstanding at the time shall be considered in any such determination.

SECTION 6.5 Notices. Any notice or communication shall be in writing and delivered in Person or mailed by first-class mail addressed as follows:

if to the Company:	Golden State Bancorp Inc. 414 North Central Avenue Glendale, CA 91203 Attention: Chief Financial Officer

	Telecopy: (818) 409-3151
if to the Warrant Agent:	ChaseMellon Shareholder Services L.L.C. Reorganization Department 450 West 33rd Street, 15th Floor New York, New York 10001 Attention: Telecopy:

The Company or the Warrant Agent by notice to the other may designate additional or different addresses for subsequent notices or communications.

Any notice or communication mailed to a Holder shall be mailed to the Holder at the Holder's address as it appears on the Certificate Register and shall be sufficiently given if so mailed within the time prescribed.

Failure to mail a notice or communication to a Holder or any defect in it shall not affect its sufficiency with respect to other Holders. If a notice or communication is mailed in the manner provided above, it is duly given, whether or not the addressee receives it.

SECTION 6.6 Governing Law. This Agreement and the Warrant Certificates shall be governed by, and construed and interpreted in accordance with, the laws of the State of California.

SECTION 6.7 Successors. All agreements of the Company in this Agreement and the Warrant Certificates shall bind its successors. All agreements of the Warrant Agent in this Agreement shall bind its successors.

SECTION 6.8 Counterparts. The parties may sign any number of copies of this Agreement. Each signed copy shall be an original, but all of them together represent the same agreement. One signed copy is enough to prove this Agreement.

SECTION 6.9 Table of Contents. The table of contents and headings of the Articles and Sections of this Agreement have been inserted for convenience of reference only, are not intended to be considered a part hereof and shall not modify or restrict any of the terms or provisions hereof.

SECTION 6.10 Severability. The provisions of this Agreement are severable, and if any clause or provision shall be held invalid, illegal or unenforceable in whole or in part in any jurisdiction, then such invalidity or unenforceability shall affect in that jurisdiction only such clause or provision, or part thereof, and shall not in any manner affect such clause or provision in any other jurisdiction or any other clause or provision of this Agreement in any jurisdiction.
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IN WITNESS WHEREOF, the parties have caused this Agreement to be duly executed as of the date first written above.

GOLDEN STATE BANCORP INC.

By: /s/ John Haynes
Name: John Haynes
Title: Chief Financial Officer

CHASEMELLON SHAREHOLDER SERVICES L.L.C., as Warrant Agent,

By: /s/ Michael Dzieciolowski
Name: Michael Dzieciolowski
Title: Assistant Vice President

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EXHIBIT A TO
WARRANT AGREEMENT

[FORM OF FACE OF WARRANT CERTIFICATE]

[Unless and until it is exchanged in whole or in part for Warrants in definitive form, this Warrant may not be transferred except as a whole by the depositary to a nominee of the depositary or by a nominee of the depositary to the depositary or another nominee of the depositary or by the depositary or any such nominee to a successor depositary or a nominee of such successor depositary. The Depository Trust Company ("DTC") (55 Water Street, New York, New York) shall act as the depositary until a successor shall be appointed by the Company and the Warrant Agent. Unless this certificate is presented by an authorized representative of DTC to the issuer or its agent for registration of transfer, exchange or payment, and any certificate issued is registered in the name of Cede & Co. or such other name as requested by an authorized representative of DTC (and any payment is made to Cede & Co. or such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.]/1/
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No. ___ Certificate for __ Warrants

WARRANTS TO PURCHASE COMMON STOCK OF
GOLDEN STATE BANCORP INC.

THIS CERTIFIES THAT, _____, or registered assigns, is the registered holder of the number of Warrants set forth above (the "Warrants"). Each Warrant entitles the holder thereof (the "Holder"), at its option and subject to the provisions contained herein and in the Warrant Agreement referred to below, to purchase from GOLDEN STATE BANCORP INC., a Delaware corporation ("the Company"),

the number of shares of Common Stock, par value of $1.00 per share, of the Company (the "Common Stock") having an Adjusted Market Value equal to the Adjusted Litigation Recovery divided by the Maximum Number of Warrants at an exercise price per Warrant equal to the number of shares of Common Stock for which one Warrant is exercisable multiplied by $1.00 (the "Exercise Price"). This Warrant Certificate shall terminate and become void on the earliest of (i) the Close of Business on the last day of the Warrant Exercise Period, (ii) the Close of Business on the date the Litigation has been disposed of in a manner such that no shares of Common Stock or other securities or property will be issuable under the terms of the Warrants and (iii) the time and date such Warrant is exercised.

This Warrant Certificate is issued under and in accordance with a Warrant Agreement dated as of May 4, 1998 (the "Warrant Agreement"), between the Company and ChaseMellon Shareholder Services L.L.C. (the "Warrant Agent", which term includes any successor Warrant Agent under the Warrant Agreement), and is subject to the terms and provisions contained in the Warrant Agreement, to all of which terms and provisions the Holder of this Warrant Certificate consents by acceptance hereof. The Warrant Agreement is

- ---
/1/ To be included only if the Warrant is in global form.
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hereby incorporated herein by reference and made a part hereof. Reference is hereby made to the Warrant Agreement for a full statement of the respective rights, limitations of rights, duties and obligations of the Company, the Warrant Agent and the Holders of the Warrants. Capitalized terms used but not defined herein shall have the meanings ascribed thereto in the Warrant Agreement. A copy of the Warrant Agreement may be obtained for inspection by the Holder hereof upon written request to the Warrant Agent at [_____].

Subject to the terms of the Warrant Agreement, the Warrants may be exercised in whole or in part by surrender of this Warrant Certificate with the form of election to purchase Warrant Shares attached hereto duly executed and with the simultaneous payment of the Exercise Price in cash (subject to adjustment) to the Warrant Agent for the account of the Company at the office of the Warrant Agent. Payment of the Exercise Price shall be made by certified or official bank check or personal check payable to the order of the Company or by wire transfer of funds to an account designated by the Company for such purpose.

As provided in the Warrant Agreement and subject to the terms and conditions therein set forth, each Warrant shall be exercisable at any time from and from time to time during the Warrant Exercise Period only and shall not be exercisable after the expiration of the Warrant Exercise Period.

In the event the Company enters into a Combination, the Holder hereof will be entitled to receive upon exercise of the Warrants shares of capital stock or other securities or other property such that each Warrant shall be exercisable for a number of shares of capital stock or other securities or an amount of property equal to the Adjusted Litigation Recovery divided by the Maximum Number of Warrants divided by the aggregate Adjusted Market Value of the capital stock, other securities or property that one share of Common Stock was exchanged for or converted into as a result of such Combination; provided, --------
however, that in the event that, in connection with such Combination,
- -------
consideration to holders of Common Stock in exchange for their shares is payable solely in cash, the Holder hereof will be entitled to receive cash in an amount equal to the Adjusted Litigation Recovery divided by the Maximum Number of Warrants, less the Exercise Price. The amount and type of capital stock, other securities or property that the Holders shall have the right to receive in the circumstance set forth in the preceding sentence shall be the same amount and type as one share of Common Stock was exchanged for or converted into as a result of such Combination.

The Company may require payment of a sum sufficient to pay all taxes, assessments and other governmental charges in connection with the transfer or exchange of the Warrant Certificates pursuant to Section 2.5 of the Warrant Agreement but not for any exchange or original issuance (not involving a transfer) with respect to temporary Warrant Certificates, the exercise of the Warrants or the Warrant Shares.

Upon any partial exercise of the Warrants, there shall be countersigned and issued to the Holder hereof a new Warrant Certificate in respect of the shares of Common Stock as to which the Warrants shall not have been exercised. This Warrant Certificate may be exchanged at the office of the Warrant Agent by presenting this Warrant Certificate
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properly endorsed with a request to exchange this Warrant Certificate for other Warrant Certificates evidencing an equal number of Warrants. No fractional Warrant Shares will be issued upon the exercise of the Warrants, but the Company shall pay an amount in cash equal to the Adjusted Market Value for one Warrant Share on the Determination Date, multiplied by such fraction, computed to the nearest whole cent.

All shares of Common Stock issuable by the Company upon the exercise of the Warrants shall, upon such issue, be duly and validly issued and fully paid

and non-assessable.

The holder in whose name the Warrant Certificate is registered may be deemed and treated by the Company and the Warrant Agent as the absolute owner of the Warrant Certificate for all purposes whatsoever and neither the Company nor the Warrant Agent shall be affected by notice to the contrary.

THE WARRANTS REPRESENT A CONTINGENT RIGHT TO PURCHASE SHARES OF COMMON STOCK WITH AN AGGREGATE VALUE BASED ON A PORTION OF ANY PROCEEDS THAT MAY BE RECEIVED BY THE BANK FROM THE LITIGATION. THE WARRANTS DO NOT PROVIDE TO THE HOLDERS THEREOF ANY RIGHTS IN THE LITIGATION INCLUDING ANY RIGHTS TO RECEIVE ANY CASH OR PROPERTY RECEIVED BY THE BANK IN CONNECTION THEREWITH, OR TO CONTROL THE LITIGATION. THERE CAN BE NO ASSURANCE AS TO WHEN THE LITIGATION WILL BE RESOLVED OR THE AMOUNT OF PROCEEDS, IF ANY, THE BANK WILL RECEIVE THEREFROM. THE BANK WILL RETAIN SOLE AND EXCLUSIVE CONTROL OF THE LITIGATION AND WILL RETAIN 100% OF ANY RECOVERY FROM THE LITIGATION. THE HOLDERS WILL NOT HAVE ANY RIGHT TO CONTROL OR MANAGE THE COURSE OR DISPOSITION OF THE LITIGATION OR THE PROCEEDS OF ANY RECOVERY THEREFROM.

The Warrants do not entitle any holder hereof to any of the rights of a shareholder of the Company.

This Warrant Certificate shall not be valid or obligatory for any purpose until it shall have been countersigned by the Warrant Agent.

GOLDEN STATE BANCORP INC.

By _____

[SEAL]

Attest: _____
Secretary

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DATED:

Countersigned:
CHASEMELLON SHAREHOLDER SERVICES L.L.C.
as Warrant Agent,

_____

by _____
Authorized Signatory

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EXHIBIT B TO
WARRANT AGREEMENT

FORM OF ELECTION TO PURCHASE WARRANT SHARES
(to be executed only upon exercise of Warrants)

GOLDEN STATE BANCORP INC.

The undersigned hereby irrevocably elects to exercise [ ] Warrants at an exercise price per Warrant of $[ ] to acquire [ ] shares of Common Stock, par value $1.00 per share, of Golden State Bancorp Inc. (the "Company"), on the terms and conditions specified in the within Warrant Certificate and the Warrant Agreement therein referred to, surrenders this Warrant Certificate and all right, title and interest therein to the Company, and directs that the shares of Common Stock deliverable upon the exercise of such Warrants be registered and delivered in the name and at the address specified below and delivered thereto.

Date: _____, __

/1/
-

(Signature of Owner)

(Street Address)

(City) (State) (Zip Code)

Signature Guaranteed by:

- ---

/1/ The signature must correspond with the name as written upon the face of
- the within Warrant Certificate in every particular, without alteration or enlargement or any change whatever, and must be guaranteed by a national bank or trust company or by a member firm of any national securities exchange.

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Securities and/or check to be issued to:

Name:

Social security or Federal tax identification number:

Street Address:

City, State and Zip Code:

Any unexercised Warrants evidenced by the within Warrant Certificate to be issued to:

Name:

Social security or Federal tax identification number:

Street Address:

City, State and Zip Code:

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EXHIBIT C TO
WARRANT AGREEMENT

The following exchanges of a part of this Global Warrant for definitive Warrants have been made:

CERTIFICATE TO BE DELIVERED UPON EXCHANGE OR
REGISTRATION OF TRANSFER OF WARRANTS

Re: Warrants to Purchase Common Stock (the "Warrants") of Golden State Bancorp Inc. (the "Company")

This Certificate relates to _____ Warrants held in definitive form by _____ (the "Transferor").

The Transferor has requested the Warrant Agent by written order to exchange or register the transfer of a Warrant or Warrants. The Warrant Agent and the Company are entitled to rely upon this Certificate and are irrevocably authorized to produce this Certificate or a copy hereof to any interested party in any administrative or legal proceedings or official inquiry with respect to the matters covered hereby.

[INSERT NAME OF TRANSFEROR]

by _____

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON SEPTEMBER 29, 1998

REGISTRATION NO. 333-

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

GOLDEN STATE HOLDINGS INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE (STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	6035 (PRIMARY STANDARD INDUSTRIAL CLASSIFICATION CODE NUMBER)	13-3990512 (I.R.S. EMPLOYER IDENTIFICATION NUMBER)

---

135 MAIN STREET
SAN FRANCISCO, CALIFORNIA 94105
(415) 904-1100
(ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES)

CHRISTIE S. FLANAGAN, ESQ.
GOLDEN STATE HOLDINGS INC.
135 MAIN STREET
SAN FRANCISCO, CALIFORNIA 94105
(415) 904-1100
(NAME, ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF AGENT FOR SERVICE)

Copies to:

STACY J. KANTER, ESQ.
SKADDEN, ARPS, SLATE, MEAGHER & FLOM LLP
919 THIRD AVENUE
NEW YORK, NEW YORK 10022
(212) 735-3000

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. /x/

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act of 1933, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. / /

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act of 1933, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. / /

If delivery of the prospectus is expected to be made pursuant to Rule 434 under the Securities Act of 1933, please check the following box. / /

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED	PROPOSED MAXIMUM OFFERING PRICE PER UNIT	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE	AMOUNT OF REGISTRATION FEE
Floating Rate Notes Due 2003.....	$ 250,000,000	100%	$ 250,000,000	$ 73,750
6 3/4% Senior Notes Due 2001.....	$ 350,000,000	100%	$ 350,000,000	$103,250
7% Senior Notes Due 2003.....	$ 600,000,000	100%	$ 600,000,000	$177,000
7 1/8% Senior Notes Due 2005.....	$ 800,000,000	100%	$ 800,000,000	$236,000
Total.....	$2,000,000,000	100%	$ 2,000,000,000	$590,000

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THIS REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

Information contained herein is subject to completion or amendment. A registration statement relating to these securities has been filed with the Securities and Exchange Commission. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This prospectus shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any State in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such State.

SUBJECT TO COMPLETION DATED SEPTEMBER 29, 1998

PROSPECTUS

OFFER FOR ALL OUTSTANDING FLOATING RATE NOTES DUE 2003, 6 3/4% SENIOR NOTES DUE 2001, 7% SENIOR NOTES DUE 2003 AND 7 1/8% SENIOR NOTES DUE 2005 IN EXCHANGE FOR FLOATING RATE NOTES DUE 2003, 6 3/4% SENIOR NOTES DUE 2001, 7% SENIOR NOTES DUE 2003 AND 7 1/8% SENIOR NOTES DUE 2005, RESPECTIVELY, WHICH HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED

of

GOLDEN STATE HOLDINGS INC.

THE EXCHANGE OFFER WILL EXPIRE AT 5:00 P.M., NEW YORK CITY TIME, ON , 1998, UNLESS EXTENDED.

Golden State Holdings Inc., a Delaware corporation (the "Issuer" or "Golden State Holdings"), hereby offers, upon the terms and subject to the conditions set forth in this Prospectus and the accompanying Letter of Transmittal (which together constitute the "Exchange Offer"), to exchange (i) an aggregate principal amount of up to $250,000,000 of its Floating Rate Notes Due 2003 (the "New Floating Rate Notes"), which have been registered under the Securities Act of 1933, as amended (the "Securities Act"), for a like principal amount of its issued and outstanding Floating Rate Notes Due 2003 (the "Old Floating Rate Notes" and, together with the New Floating Rate Notes, the "Floating Rate Notes") from the holders thereof, (ii) an aggregate principal amount of up to $350,000,000 of its 6 3/4% Senior Notes Due 2001 (the "New 2001 Notes"), which have been registered under the Securities Act, for a like principal amount of its issued and outstanding 6 3/4% Senior Notes Due 2001 (the "Old 2001 Notes" and, together with the New 2001 Notes, the "2001 Notes") from the holders thereof, (iii) an aggregate principal amount of up to $600,000,000 of its 7% Senior Notes Due 2003 (the "New 2003 Notes"), which have been registered under the Securities Act, for a like principal amount of its issued and outstanding 7% Senior Notes Due 2003 (the "Old 2003 Notes" and, together with the New 2003 Notes, the "2003 Notes") from the holders thereof and (iv) an aggregate principal amount of up to $800,000,000 of its 7 1/8% Senior Notes Due 2005 (the "New 2005 Notes" and, together with the New 2001 Notes and the New 2003 Notes, the "New Fixed Rate Notes" and, together with the New Floating Rate Notes, the "New Notes"), which have been registered under the Securities Act, for a like principal amount of its issued and outstanding 7 1/8% Senior Notes Due 2005 (the "Old 2005 Notes" and, together with the New 2005 Notes, the "2005 Notes") from the holders thereof.

The Old Floating Rate Notes, the Old 2001 Notes, the Old 2003 Notes and the Old 2005 Notes, are collectively referred to herein as the "Old Notes," and the Old Notes and the New Notes are collectively referred to herein as the "Notes." The terms of the New Notes are identical in all material respects to the Old Notes, except for certain transfer restrictions and registration rights relating to the Old Notes and except that, if the Exchange Offer is not consummated by March 13, 1999, the interest rate on the Old Notes from and including such date until but excluding the date of consummation of the Exchange Offer will increase by 0.5%. The Old Notes were originally issued by GS Escrow Corp. ("Escrow Corp.") on August 6, 1998 pursuant to an offering (the "Offering"), which was exempt from registration under the Securities Act. Escrow Corp. was merged with and into Golden State Holdings (the "Escrow Corp. Merger") on September 14, 1998, and Golden State Holdings assumed the obligations of Escrow Corp. under the Old Notes and related indenture, as supplemented (the "Indenture").

The Floating Rate Notes bear interest at a rate equal to three-month LIBOR (as defined herein) plus 100 basis points per annum, except that the initial rate was 6 3/4% per annum, which was based on six-month LIBOR (which initial interest rate will be reset on the first interest payment date and, thereafter, reset on a quarterly basis), and will mature on August 1, 2003. The first interest payment date for the Floating Rate Notes will be February 1, 1999. Thereafter, interest on the Floating Rate Notes will be payable quarterly on each May 1, August 1, November 1 and February 1. The 2001 Notes will mature on August 1, 2001. The 2003 Notes will mature on August 1, 2003. The 2005 Notes will mature on August 1, 2005.

(Continued on following page)

SEE "RISK FACTORS" COMMENCING ON PAGE 29 OF THIS PROSPECTUS FOR A DESCRIPTION OF CERTAIN RISKS TO BE CONSIDERED BY HOLDERS WHO TENDER THEIR OLD NOTES IN THE EXCHANGE OFFER.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this Prospectus is , 1998.

(continued from cover page)

The Old Notes were originally offered to fund, in part, a series of refinancings (the "Refinancing Transactions") that occurred following a series of mergers and an asset transfer (the "Golden State Acquisition") that combined the separate businesses operated by California Federal Bank, A Federal Savings Bank ("Cal Fed" or the "Bank"), and Glendale Federal Bank, Federal Savings Bank ("Glendale Federal"). Golden State Holdings directly owns 100% of the common stock of the combined Bank. See "Summary--The Refinancing Transactions" and "--The Golden State Acquisition." Pending the Golden State Acquisition, the Refinancing Transactions and the Escrow Corp. Merger, the proceeds of the Offering were deposited with an escrow agent (the "Escrow Agent"). On September 14, 1998, a portion of such funds were used to fund the Refinancing Transactions and the balance was released to Golden State Holdings.

The Floating Rate Notes are not redeemable prior to August 1, 2000 except in the case of a Change of Control (as defined herein). Thereafter, the Floating Rate Notes will be redeemable at the option of the Issuer, in whole or in part, at any time prior to maturity at the redemption prices set forth herein plus accrued interest, if any, to the date of redemption. In the event of a Change of Control occurring prior to August 1, 2000, the Floating Rate Notes will be redeemable, in whole but not in part, at the option of the Issuer at a redemption price equal to the sum of the principal amount of the Floating Rate Notes to be redeemed, plus accrued and unpaid interest, if any, to the date of redemption, plus the excess, if any, of (i) the sum of the present values of the redemption price for the Floating Rate Notes on August 1, 2000 and the scheduled interest payments that would be required from the redemption date to August 1, 2000 in respect of such Floating Rate Notes to be redeemed if the Applicable LIBOR Rate (as defined herein) were the Designated Fixed Rate (as defined herein), using in each case a discount rate equal to the Treasury Rate (as defined herein) plus 50 basis points, over (ii) the outstanding principal amount of the Floating Rate Notes to be redeemed.

The Fixed Rate Notes are redeemable, at the option of the Issuer, in whole or in part, at any time prior to maturity at a redemption price equal to the sum of the principal amount of the Fixed Rate Notes to be redeemed, plus accrued and unpaid interest, if any, to the date of redemption, plus the excess, if any, of (a) the sum of the present values of the remaining scheduled payments on the Fixed Rate Notes (as defined herein) to be redeemed of principal and interest discounted to the redemption date at the Treasury Rate plus a spread of (x) 40 basis points with respect to the 2001 Notes, (y) 50 basis points with respect to the 2003 Notes, and (z) 50 basis points with respect to the 2005 Notes (in each case, the "Make Whole Amount"), over (b) the outstanding principal amount of the portion of Fixed Rate Notes to be redeemed. See "Description of the Notes--Optional Redemption."

Upon a Change of Control, each holder of the Notes will have the right to require the Issuer to repurchase all or a portion of such holder's Notes at a price equal to 101% of the principal amount thereof plus accrued and unpaid interest to the date of repurchase. See "Description of the Notes."

The Old Notes are, and the New Notes will be, senior unsecured obligations of Golden State Holdings and the Old Notes rank, and the New Notes will rank, pari passu in right of payment with all existing and future Senior Indebtedness (as defined herein) of Golden State Holdings. At June 30, 1998, after giving effect to the Golden State Acquisition, the Refinancing Transactions (assuming all outstanding debt securities of FNH (as defined herein) are acquired in the Refinancing Transactions) and the Escrow Corp. Merger, Golden State Holdings would have had outstanding $2.0 billion of Senior Indebtedness, consisting solely of the Notes. The Old Notes are, and the New Notes will be, effectively subordinated to (i) all existing and future liabilities, including deposits, indebtedness and trade payables, of the subsidiaries of Golden State Holdings, including the Bank, and (ii) all preferred stock issued by the Bank and its subsidiaries.

For each Old Note accepted for exchange, the holder of such Old Note will receive a New Note having a principal amount equal to that of the surrendered Old Note. The New Notes will bear interest from the most recent date to which interest has been paid on the Old Notes or, if no interest has been paid on the Old Notes, from August 6, 1998. Accordingly, if the relevant record date for interest payment occurs after the consummation of the Exchange Offer, registered holders of New Notes on such record date will receive interest accruing from the most recent date to which interest has been paid or, if no interest has been paid, from August 6, 1998. If, however, the relevant record date for interest payment occurs prior to the consummation of the Exchange Offer,

registered holders of Old Notes on such record date will receive interest accruing from the most recent date to which interest has been paid or, if no interest has been paid, from August 6, 1998. Old Notes accepted for exchange will cease to accrue interest from and after the date of the consummation of the Exchange Offer, except as set forth in the immediately preceding sentence. Holders of Old Notes whose Old Notes are accepted for exchange will not receive any payment in respect of interest on such Old Notes otherwise payable on any interest payment date the record date for which occurs on or after consummation of the Exchange Offer.

The New Notes are being offered hereunder in order to satisfy certain obligations of the Issuer contained in the Registration Agreement dated August 6, 1998 among the Issuer and the other signatories thereto (the "Registration Agreement"). Based on interpretations by the staff of the Securities and Exchange Commission (the "Commission") as set forth in no-action letters issued to third parties, the Issuer believes that New Notes issued pursuant to the Exchange Offer in exchange for Old Notes may be offered for resale, resold and otherwise transferred by holders thereof (other than any such holder which is an "affiliate" of the Issuer within the meaning of Rule 405 under the Securities Act) without compliance with the registration and prospectus delivery provisions of the Securities Act, provided that such New Notes are acquired in the ordinary course of such holder's business and such holder has no arrangement with any person to participate in the distribution of such New Notes. However, the Issuer does not intend to request the Commission to consider, and the Commission has not considered, the Exchange Offer in the context of a no-action letter and there can be no assurance that the staff of the Commission would make a similar determination with respect to the Exchange Offer as in such other circumstances. Each holder, other than a broker-dealer, must acknowledge that it is not engaged in, and does not intend to engage in, a distribution of such New Notes and has no arrangement or understanding to participate in a distribution of New Notes. Each broker-dealer that receives New Notes for its own account pursuant to the Exchange Offer must acknowledge that it will deliver a prospectus in connection with any resale of such New Notes. The Letter of Transmittal states that by so acknowledging and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act. This Prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of New Notes received in exchange for Old Notes where such Old Notes were acquired by such broker-dealer as a result of market-making activities or other trading activities. The Issuer has agreed that, for a period of 180 days after the Expiration Date (as defined herein), it will make this Prospectus available to any broker-dealer for use in connection with any such resale. See "Plan of Distribution."

The Issuer will not receive any proceeds from the Exchange Offer. The Issuer will pay all the expenses incident to the Exchange Offer. Tenders of Old Notes pursuant to the Exchange Offer may be withdrawn at any time prior to the Expiration Date. In the event the Issuer terminates the Exchange Offer and does not accept for exchange any Old Notes, the Issuer will promptly return the Old Notes to the holders thereof. See "The Exchange Offer."

Following consummation of the Exchange Offer, the Issuer may, in its sole discretion, commence one or more additional exchange offers to holders of Old Notes who did not exchange their Old Notes for New Notes in the Exchange Offer on terms which may differ from those contained in the Registration Agreement. This Prospectus, as it may be amended or supplemented from time to time, may be used by the Issuer in connection with any such additional exchange offers.

There is no existing trading market for the New Notes, and there can be no assurance regarding the future development of a market for the New Notes, or the ability of holders of the New Notes to sell their New Notes or the price at which such holders may be able to sell their New Notes. Salomon Brothers Inc, Goldman, Sachs & Co., Bear, Stearns & Co. Inc., Lehman Brothers Inc., Chase Securities Inc. and NationsBanc Montgomery Securities LLC (the "Initial Purchasers") have advised the Issuer that they currently intend to make a market in the New Notes. The Initial Purchasers are not obligated to do so, however, and any market-making with respect to the New Notes may be discontinued at any time without notice. The Issuer does not intend to apply for listing or quotation of the New Notes on any securities exchange or stock market.

AVAILABLE INFORMATION

The Issuer has filed with the Commission a Registration Statement on Form S-1 (the "Registration Statement") under the Securities Act, with respect to the New Notes being offered by this Prospectus. This Prospectus does not contain all the information set forth in the Registration Statement and the exhibits thereto, to which reference is hereby made. Any statements made in this Prospectus concerning the provisions of certain documents are not necessarily complete and, in each instance, reference is made to the copy of such document filed as an exhibit to the Registration Statement.

The Registration Statement and the exhibits thereto may be inspected and copied at the public reference facilities maintained by the Commission at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549 and will also be available for inspection and copying at the regional offices of the Commission located at 7 World Trade Center, New York, New York 10048 and at Citicorp Center, 500 West Madison Street (Suite 1400), Chicago, Illinois 60661. Copies of such material may also be obtained from the Public Reference Section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. The Issuer is not currently subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). As a result of the Exchange Offer, the Issuer will become subject to such requirements, and in accordance therewith will file periodic reports and other information with the Commission. The Commission maintains a Web site that contains reports, proxy and information statements and other information regarding registrants, such as the Issuer, that file electronically with the Commission and the address of such site is http://www.sec.gov. In the event the Issuer is not required to be subject to the reporting requirements of the Exchange Act in the future, the Issuer will be required under the Indenture, pursuant to which the Old Notes have been, and the New Notes will be, issued, to continue to file with the Commission and to furnish to holders of the Notes the information, documents and other reports specified in Sections 13 and 15(d) of the Exchange Act, including reports on Forms 10-K, 10-Q and 8-K, for so long as any Notes are outstanding.

The Prospectus includes "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. All statements other than statements of historical facts included in the Prospectus, including, without limitation, statements regarding (a) cost savings that are expected to be realized from the Golden State Acquisition, (b) the reductions of interest expense and preferred stock dividend requirements to be realized from the Refinancing Transactions, (c) the pro forma assets and deposits of the combined Bank and (d) the financial condition, results of operations and business of the Issuer and its subsidiaries following consummation of the Golden State Acquisition, the Refinancing Transactions and the Escrow Corp. Merger, are forward-looking statements. Although the Issuer believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. Important factors that could cause actual results to differ materially from the Issuer's expectations ("Cautionary Statements") are disclosed under "Risk Factors" and elsewhere in the Prospectus including, without limitation, in conjunction with the forward-looking statements included in the Prospectus. All subsequent written and oral forward-looking statements attributable to the Issuer or persons acting on its behalf are expressly qualified in their entirety by the cautionary statements.

PROSPECTUS SUMMARY

The following summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information and the consolidated financial statements and the notes thereto contained elsewhere in this Prospectus.

As described herein, Cal Fed has grown substantially over the past five years through a series of acquisitions. On January 3, 1997, First Nationwide Bank, A Federal Savings Bank, merged with and into Cal Fed (the "Cal Fed Acquisition"), and, on September 11, 1998, Glendale Federal merged with and into Cal Fed. See "--The Golden State Acquisition."

Unless the context otherwise indicates:

- The "Issuer" refers to (i) Golden State Holdings, as the surviving corporation in the Escrow Corp. Merger and the successor obligor on the Notes, for periods after the Escrow Corp. Merger and (ii) Escrow Corp., as the initial obligor on the Notes, for periods prior to the Escrow Corp. Merger;

- "Golden State Holdings" refers to Golden State Holdings Inc., which was formerly known as New First Nationwide Holdings Inc.;

- The "Bank" or "Cal Fed" refers to California Federal Bank, A Federal Savings Bank, as the surviving entity after the consummation of each of the Cal Fed Acquisition and the Golden State Acquisition, and to First Nationwide Bank, A Federal Savings Bank, and its predecessors with respect to the period prior to the Cal Fed Acquisition; and

- "Old Cal Fed" and "Old California Federal" refer to Cal Fed Bancorp Inc. and California Federal Bank, A Federal Savings Bank, respectively, with respect to the period prior to the consummation of the Cal Fed Acquisition.

An index of defined terms used in this Prospectus begins on page 247.

THE ISSUER AND THE BANK

The Issuer

Golden State Holdings is a holding company whose only significant asset is all of the common stock of the Bank. Golden State Holdings was formed to acquire all of the assets of First Nationwide Holdings Inc. ("FNH") (including all of the common stock of the Bank) as part of the Golden State Acquisition. FNH was a holding company whose only significant asset was all of the common stock of the Bank. As such, the principal business operations of FNH were, and the principal business operations of Golden State Holdings are, conducted by the Bank and its subsidiaries.

The Bank

The Bank, which is headquartered in San Francisco, California, is a diversified financial services company whose principal business consists of (i) operating retail deposit branches to serve consumers in California and, to a lesser extent, in Nevada, (ii) originating and/or purchasing, on a nationwide basis, 1-4 unit residential loans and, to a lesser extent, certain commercial real estate and consumer loans, for investment and (iii) conducting mortgage banking activities, including originating and servicing 1-4 unit residential loans for others. Recently, with its entry into the non-prime automobile finance business, Cal Fed broadened its complement of consumer lending products. These operating activities are financed principally with customer deposits, secured short-term and long-term borrowings, collections on loans, asset sales and retained earnings. As of June 30, 1998, Cal Fed had approximately $34.0 billion in assets and approximately $16.0 billion in deposits and operated retail branch offices at 225 locations in three states.

The Bank is chartered as a federal stock savings bank under the Home Owners' Loan Act ("HOLA") and regulated by the Office of Thrift Supervision (the "OTS") and the Federal Deposit Insurance Corporation ("FDIC"), which, through the Savings Association Insurance Fund ("SAIF"), insures the deposit accounts of

Cal Fed, up to applicable limits. The Bank is also a member of the Federal Home Loan Bank System ("FHLBS"). See "Business--The Issuer--The Bank."

THE GOLDEN STATE ACQUISITION

General

On February 4, 1998, First Nationwide (Parent) Holdings Inc. ("Parent Holdings") entered into an Agreement and Plan of Reorganization (the "Merger Agreement") with FNH, First Gibraltar Holdings Inc. ("First Gibraltar Holdings"), Hunter's Glen/Ford, Ltd. ("Hunter's Glen"), Golden State Bancorp Inc. ("Golden State"), and Golden State Financial Corporation ("Golden State Financial"). On September 11, 1998, pursuant to or as contemplated by the Merger Agreement, (i) FNH contributed all of its assets (including all of the common stock of Cal Fed) to Golden State Holdings (the "FNH Asset Transfer"), (ii) Parent Holdings, which then owned 80% of the common stock of FNH, merged with and into Golden State, which indirectly owned 100% of the common stock of Glendale Federal (the "Golden State Merger"), (iii) FNH merged with and into Golden State Financial, which owned 100% of the common stock of Glendale Federal (the "FNH Merger" and, together with the Golden State Merger, the "Holding Company Mergers") and (iv) Glendale Federal merged with and into Cal Fed (the "Subsidiary Bank Merger"). The FNH Asset Transfer, the Holding Company Mergers and the Subsidiary Bank Merger are referred to collectively herein as the "Golden State Acquisition." See "The Golden State Acquisition."

Glendale Federal and Golden State

Glendale Federal, formerly headquartered in Glendale, California, was a federal stock savings bank. On a pro forma basis at June 30, 1998, after giving effect to the acquisition of RedFed (as defined herein), Glendale Federal had approximately $19.2 billion in assets and $11.6 billion in deposits and operated 205 banking offices and 26 loan offices throughout California. Glendale Federal offered a broad range of consumer financial services including demand and term deposits, mortgage, consumer and small business loans, and insurance and investment products. Golden State is a Delaware chartered savings and loan holding company whose only significant asset was the indirect ownership of all of the common stock of Glendale Federal. Golden State is a publicly owned corporation whose common shares are traded on the New York Stock Exchange (the "NYSE") under the symbol "GSB."

Golden State completed the acquisition of CENFED Financial Corporation ("CENFED"), the parent company of CenFed Bank, A Federal Savings Bank ("CenFed Bank"), through the merger on April 21, 1998 of CENFED with and into Golden State Financial and the merger on May 8, 1998 of CenFed Bank with and into Glendale Federal (collectively, the "CENFED Merger"). At April 21, 1998, CENFED, through CenFed Bank, had total assets of $1.9 billion and deposits of $1.4 billion and operated 18 branch offices located in Los Angeles, Orange, Riverside and San Bernardino Counties in Southern California. The CENFED Merger was accounted for using the purchase method of accounting.

On July 13, 1998, Golden State completed the acquisition of RedFed Bancorp, Inc. ("RedFed"), and its federal savings bank subsidiary, Redlands Federal Bank, through the mergers of RedFed with and into Golden State Financial and Redlands Federal Bank with and into Glendale Federal (collectively, the "RedFed Merger"). At June 30, 1998, RedFed had total assets of $1.0 billion and deposits of $864 million and operated 15 banking offices in Southern California's Riverside and San Bernardino Counties. The RedFed Merger was accounted for using the purchase method of accounting. See "Business--Glendale Federal."

Benefits

Management of the Issuer and Cal Fed believes the Golden State Acquisition will produce the following substantial strategic benefits compared to what Cal Fed and Glendale Federal could achieve on their own:

- Increased Size. The combined bank resulting from the Golden State Acquisition creates California's largest community bank and would be, based on published sources, the fourth largest depository institution in California. On a pro forma basis after giving effect to the Golden State Acquisition at June 30, 1998, the combined bank would have approximately $54 billion in assets and $28 billion in

deposits (including the $1.4 billion in deposits sold on September 14, 1998 in the Florida Branch Sale (as defined herein)). Of the $28 billion in pro forma deposits, $26 billion are California retail deposits, representing a 6.0% statewide market share.

- Strong Complementary Abilities. The Golden State Acquisition combines Glendale Federal's lower-cost deposit generation ability with Cal Fed's strong asset origination ability. On a pro forma basis at June 30, 1998, cost of funds for the combined bank would be 4.85%, three basis points lower than the Federal Home Loan Bank ("FHLB") 11th District Cost of Funds at the same date. In addition, the combined mortgage banking business will rank in the top 10 nationally, with a pro forma mortgage servicing portfolio of approximately $96 billion at June 30, 1998, and pro forma combined residential loan originations expected to exceed $13 billion in 1998.

- Expanded Consumer Base and Business Banking Franchise. The Golden State Acquisition broadens the base from which to expand Cal Fed's consumer and business banking franchise. At June 30, 1998, Cal Fed had total business banking loans of $25.4 million. On a pro forma basis, total business banking loans at June 30, 1998 would be approximately $520 million, more than a 20-fold increase. The total consumer loan portfolio, on a pro forma basis, increases approximately 30% to $1.1 billion at June 30, 1998. It is estimated that the combined bank will service 2.2 million deposit accounts, representing 1.5 million households.

- Sustained Credit Quality. The Golden State Acquisition provides growth without compromising asset quality. Both Cal Fed and Glendale Federal have exemplary credit quality relative to their savings bank peer group, with a pro forma ratio of allowance for loan losses to non-performing loans at June 30, 1998 of approximately 218%. The pro forma ratio of non-performing assets to total assets of the Bank at June 30, 1998 approximates 0.71%.

- Increased Pre-Tax Income. Without giving effect to the Refinancing Transactions, the Golden State Acquisition, on a pro forma basis, increases pre-tax income by $110.6 million and $190.9 million, or approximately 59% and 64%, for the six months ended June 30, 1998 and the year ended December 31, 1997, respectively. The impact of the Golden State Acquisition on after-tax earnings reflected in the pro forma statement of income is much less significant because of the change in FNH's effective tax rate from 12.78% to 42.15%.

- Economies of Scale. The Golden State Acquisition is expected to result in economies of scale with estimated pre-tax cost savings of $131 million annually (after being fully phased in). Further, Golden State estimates that the CENFED and RedFed Mergers will result in an additional $31 million of annual cost savings. The estimated cost savings have not been reflected in the pro forma statements of income. With 45% of Glendale Federal branches within two miles of a Cal Fed branch, it is anticipated that approximately 60 branches will be consolidated. Back office and other administrative efficiencies are expected to result in the elimination of approximately 1,100 full-time equivalent positions from the total workforce of the combined bank.

THE REFINANCING TRANSACTIONS

On August 6, 1998, the proceeds of the Offering were deposited with the Escrow Agent pursuant to an escrow agreement. On September 14, 1998, such funds were released from escrow, with approximately $552.2 million used to finance the Parent Holdings Defeasance (as defined herein) and the balance delivered to the Issuer. Concurrently with such release, Golden State Financial, as the successor obligor, gave a 30-day notice of redemption for all of the outstanding $455 million aggregate principal amount of 12 1/2% Senior Notes Due 2003 of Parent Holdings (the "Parent Holdings Notes"), and irrevocably deposited in trust money or government obligations in an amount sufficient to pay the redemption price therefor, together with any accrued and unpaid interest to the date of redemption, for the purpose of defeasing the Parent Holdings Notes (the "Parent Holdings Defeasance").

On August 17, 1998, FNH commenced cash tender offers (the "Bank Preferred Stock Tender Offers") for each of the Bank's two outstanding series of Bank Preferred Stock (as defined herein) which together had a total aggregate liquidation preference of $473.2 million. The Bank Preferred Stock Tender Offers expired on

September 14, 1998 and 222,721 shares of the 10 5/8% Preferred Stock (as defined herein), constituting approximately 13% of the shares of 10 5/8% Preferred Stock outstanding, and 995,437 shares of the 11 1/2% Preferred Stock (as defined herein), constituting approximately 33% of the shares of 11 1/2% Preferred Stock outstanding, were purchased by the Issuer pursuant thereto for an aggregate purchase price of approximately $135.8 million. On September 14, 1998, Golden State Holdings commenced cash tender offers and executed supplemental indentures to effect the Amendments (collectively, the "Debt Tender Offers") for each of its three outstanding series of FNH Notes (as defined herein) which together had a total aggregate principal amount of $915 million. On September 17, 1998, Golden State Holdings purchased $137,445,000 aggregate principal amount of the FNH 12 1/4% Senior Notes (as defined herein), $109,555,000 aggregate principal amount of the FNH 9 1/8% Senior Subordinated Notes (as defined herein) and $488,820,000 aggregate principal amount of the FNH 10 5/8% Senior Subordinated Notes (as defined herein) tendered by Salomon Smith Barney Inc. in the FNH Debt Tender Offers. The Debt Tender Offers expired on October , 1998, and approximately $ million principal amount of FNH Notes were purchased pursuant thereto for an aggregate purchase price of approximately $ million.

The Issuer financed the Debt Tender Offers, the Bank Preferred Stock Tender Offers and the Parent Holdings Defeasance with the net proceeds of the Offering and a cash dividend from the Bank of $ million (the "Bank Dividend"). The Offering, the Bank Dividend, the Debt Tender Offers, the Bank Preferred Stock Tender Offers and the Parent Holdings Defeasance are referred to collectively herein as the "Refinancing Transactions."

The $ million principal amount of FNH 12 1/4% Senior Notes that remain outstanding rank pari passu with the Notes and the $ million principal amount of FNH 9 1/8% Senior Subordinated Notes and $ principal amount of FNH 10 5/8% Senior Subordinated Notes that remain outstanding are subordinated in right of payment to the Notes.

The Issuer may from time to time continue to purchase Bank Preferred Stock in one or more open market or privately negotiated transactions. The Issuer expects to purchase the outstanding Bank Preferred Stock not acquired in the Bank Preferred Stock Tender Offers or such other transactions once it becomes redeemable (April 1, 1999 in the case of the 10 5/8% Preferred Stock and September 1, 1999 in the case of the 11 1/2% Preferred Stock).

As a result of the Refinancing Transactions (assuming that (i) 100% of the FNH Notes are acquired in the Debt Tender Offers and (ii) all outstanding Bank Preferred Stock is acquired in the Bank Preferred Stock Tender Offers or is subsequently purchased by the Issuer), (i) the interest expense at FNH, (ii) the interest expense at Parent Holdings (now Golden State) and (iii) the preferred stock dividend requirement of the Bank was reduced as follows (in thousands):

	PRE-TAX	AFTER-TAX
Old Debt and Bank Preferred Stock:		
FNH Notes	$ 98,369	$ 56,907
Parent Holdings Notes	56,875	32,902
Bank Preferred Stock	52,912	52,912
	208,156	142,721
New Debt:		
Notes	140,910	81,516
Annual Savings	$ 67,246	$ 61,205

The pro forma statements of income of the Issuer included elsewhere in this Prospectus do not include the reduction in interest expense relative to the Parent Holdings Notes, which is expected to increase annual pre-tax earnings at Parent Holdings (now Golden State) by approximately $56.9 million. Prior to the Parent Holdings Defeasance, such interest expense had been financed by dividends from the Bank to FNH and from FNH to Parent Holdings. Annual interest expense of approximately $32.1 million (on a pre-tax basis) is included in pro forma earnings for the portion of the Notes that was used to refinance the Parent Holdings Notes.

As a result of the Refinancing Transactions, the average life of the Notes is longer than the average life of the debt that was refinanced. As a result of the reduction in the consolidated Parent Holdings annual debt service, there is a greater opportunity for accumulation of retained earnings at the Bank level. Furthermore, the Debt Tender Offers and the Parent Holdings Defeasance eliminated all of the restrictive covenants contained in the existing indentures of FNH and Parent Holdings which would otherwise have precluded the assumption by Golden State Holdings of the Notes and otherwise limited certain activities of the Issuer and its subsidiaries, including the Bank. As a result of the Refinancing Transactions, the Issuer and its subsidiaries, including the Bank, have greater financial and operating flexibility.

The following table illustrates the sources and uses of funds in the Refinancing Transactions (assuming that (i) 100% of the FNH Notes are acquired in the Debt Tender Offers and (ii) all outstanding Bank Preferred Stock is acquired in the Bank Preferred Stock Tender Offers or is subsequently purchased by the Issuer) (in thousands):

SOURCES OF FUNDS:	
Sale of the Notes	$1,993,919
Bank Dividend (a)	122,923
	$2,116,842
USES OF FUNDS:	
Debt Tender Offers:	
FNH 12 1/4% Senior Notes	$ 200,000
FNH 9 1/8% Senior Subordinated Notes	140,000
FNH 10 5/8% Senior Subordinated Notes	575,000
Bank Preferred Stock Tender Offers:	
11 1/2% Preferred Stock	300,730
10 5/8% Preferred Stock	172,500
Parent Holdings Defeasance	455,000
	1,843,230
Expenses of the Refinancing Transactions	273,612
	$2,116,842

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(a) Alternatively, the Issuer may borrow up to $200 million under a new short-term senior unsecured credit facility, which borrowings are expected to be repaid by the Issuer from payments received from the Bank under the Tax Sharing Agreement (as defined herein). The Bank Dividend will be reduced by the amount borrowed, if any, under such new credit facility. See "Risk Factors--Tax Sharing Agreement; Availability of Net Operating Loss Carryovers."

BUSINESS STRATEGY

The Bank will continue to execute its business plan to increase profitability, grow earnings, and diversify the sources of fee revenue while preserving credit quality. Key elements of the business plan include:

- o Cal Fed will continue its transition toward a more "bank-like" institution. In particular, the traditional savings bank activities of the Bank will be supplemented and expanded by the following initiatives:

  - -- Continuing to market demand deposit and transaction accounts as the primary account relationship. The corollary reduction in emphasis on certificates of deposits will contribute to a lower overall cost of funds. Transaction account relationships also tend to generate greater fee income.

  - -- Offering a broader range of retail products. Mutual funds, insurance and annuity products, mortgage and home equity loans are currently available to Bank customers. The Bank has only recently begun a concerted marketing effort to realize the opportunity to sell more products and services to its customers.

  - -- Expanding small business lending. The Bank generally ranks as one of the top four depository institutions in most of the markets it serves. This high profile positions the Bank to compete very effectively to provide services to small businesses. Local, small business lending generates wider margins than commercial lending.

- o Cal Fed will continue to enhance operating efficiency by, among other things, further expanding its customer base, increasing transaction volumes and reducing costs through consolidation of administrative and managerial functions. Management has achieved substantial progress in reducing the Bank's efficiency ratio, which represents the ratio of noninterest expense to net interest income and noninterest income (excluding certain non-recurring items and goodwill amortization), from 63.47% for the year ended December 31, 1995 to 48.46% for the six months ended June 30, 1998.

- o First Nationwide Mortgage Corporation ("FNMC") will continue to increase noninterest income and obtain incremental efficiencies in its mortgage banking operations. In particular, FNMC will seek to maintain the expected level of servicing of just over one million mortgage loans in its Frederick, Maryland facility after the Golden State Acquisition.

- o The Bank will continue to focus on risk management by seeking to protect the credit quality of its assets through, among other things, continuing to originate primarily residential loans in accordance with the Bank's carefully developed underwriting standards, which have resulted in non-performing assets of 0.67% of the Bank's total assets at June 30, 1998. Non-performing assets as a percentage of total assets of the Bank was 0.87% and 1.36% at December 31, 1997 and 1996, respectively. The ratio for Glendale Federal at June 30, 1998 and December 31, 1997 was 0.74% and 0.95%, respectively.

- o The Bank will retain the best practices of both merger partners. Cal Fed contributes an efficient back office operation, a large-scale mortgage banking business, and proven merger integration skills. Glendale Federal offers complementary attributes including consumer marketing skills, a growing small business lending practice, and an attractive retail mortgage origination network.

- o The Bank will mitigate interest rate risk by adding primarily adjustable rate mortgages ("ARMs") to its loan portfolio.

- o The Bank will continue to evaluate external growth and revenue diversification through selective acquisitions which are consistent with its business strategy. This growth may include acquisitions of businesses that management believes offer the potential for higher growth and margin expansion, such as non-prime automobile and non-prime mortgage loan origination. Since the FN Acquisition (as defined herein) in 1994, the Bank's business strategy has been executed through three types of transactions, as the information set forth in the tables below illustrates:

  - -- Acquisitions which complement the Bank's geographic and business line strategies, such as the Golden State Acquisition;

  - -- Divestitures of branches outside the Bank's primary geographic region; and

  - -- Expansion of the Bank's mortgage servicing operations.

The implementation of the preceding strategies is subject to numerous contingencies beyond management's control. These contingencies include general and regional economic conditions, competition and changes in the regulatory framework affecting the Bank and interest rates. Accordingly, no assurance can be given that any of the Bank's strategies will prove to be effective or that the Bank's goals will be achieved. See "Risk Factors."

The following tables summarize the selective acquisitions, opportunistic divestitures and expansions of mortgage servicing operations consummated by the Bank since 1994 in furtherance of its business strategy:

Acquisitions

DATE	DEPOSITS	ACQUISITION
April 1995	$13 million	Deposits from East-West Federal Bank, a federal savings bank located in Tiburon, California (the "Tiburon Purchase")
August 1995	$356 million	Three retail branches of ITT Federal Bank, fsb located in Orange County, California (the "ITT Purchase")
December 1995	$144 million	Four retail branches of Citizens Federal Bank, a Federal Savings Bank located in Sonoma County, California (the "Sonoma Purchase" and, collectively with the Tiburon Purchase and the ITT Purchase, the "Branch Purchases")
February 1996	$2.7 billion	San Francisco Federal Savings and Loan Association ("San Francisco Federal"), and its parent holding company, SFFed Corp. ("SFFed") which had approximately $4.0 billion in assets and operated 35 branches in the Northern California area (the "SFFed Acquisition")
June 1996	$632 million	Home Federal Savings and Loan Association of San Francisco ("Home Federal"), and its parent holding company, Home Federal Financial Corporation ("HFFC") which had approximately $717 million in assets and operated 15 branches in Northern California (the "Home Federal Acquisition" and, together with the SFFed Acquisition, the "1996 Acquisitions")
January 1997	$8.9 billion	Old California Federal which had approximately $14.1 billion in assets and operated 119 branches in California and Nevada
September 1997	N/A	Auto One Acceptance Corporation ("Auto One"), the origination, processing and servicing capabilities of a Dallas-based automobile finance company, primarily engaged in indirect non-prime automobile financing activities, providing loan processing, funding and loan servicing for over 800 franchised automobile dealers (the "Auto One Acquisition")
February 1998	N/A	Gulf States Acceptance Company, a Houston-based finance company that had non-prime automobile loans of approximately $113 million purchased from franchised dealers (the "GSAC Acquisition")
September 1998	$11.6 billion (pro forma)	Golden State and Glendale Federal which had, on a pro forma basis at June 30, 1998, after giving effect to the RedFed Merger, approximately $19.2 billion in assets and operated 205 banking offices and 26 loan offices throughout California

Branch Sales

DATE	DEPOSITS	DESCRIPTION
January 1996	$1.4 billion	Sale of 28 branches located in Ohio (the "Ohio Branch Sale")
January to March 1996	$2.4 billion	Sale of 30 branches located in New York and New Jersey (the "Northeast Branch Sales")
June 1996	$799 million	Sale of 21 branches located in Michigan (the "Michigan Branch Sale" and, collectively with the Ohio Branch Sale and the Northeast Branch Sales, the "Branch Sales")
September 1998	$1.4 billion	Sale of 24 branches located in Florida (the "Florida Branch Sale")

Mortgage Servicing Operations

DATE	AMOUNT OF PORTFOLIO ACQUIRED OR SOLD	DESCRIPTION
February 1995	$11.4 billion	Acquisition of a 1-4 unit residential loan servicing portfolio (the "Maryland Acquisition")
October 1995/ January 1996	$5.6 billion (master servicing portfolio) $25.2 billion (servicing portfolio)	Acquisition of a loan servicing portfolio of approximately $11.1 billion and a portfolio of mortgage servicing rights ("MSRs") of approximately $2.9 billion from Lomas Mortgage USA, Inc. ("LMUSA")(the "LMUSA 1995 Purchase") Acquisition of LMUSA's remaining loan servicing portfolio of approximately $14.1 billion, together with a master servicing portfolio of approximately $2.7 billion and other assets (the "LMUSA 1996 Purchase" and, together with the LMUSA 1995 Purchase, the "LMUSA Purchases")
May 1997	$3.2 billion	Acquisition of a 1-4 unit residential loan servicing portfolio from WMC Mortgage Corporation (the "Weyerhaeuser Purchase")
September 1997	$2.3 billion	Sale of MSRs for approximately 52,000 loans (the "Servicing Sale")

These transactions have expanded and strengthened the Bank's presence on the West Coast, providing additional economies of scale and diversity of operations within its target California markets. Management believes that consummation of the Golden State Acquisition will further strengthen the Bank's competitive position. The Bank's retail deposits in California will have increased from $2.3 billion at the time of the FN Acquisition in October 1994 to $26.0 billion at June 30, 1998, on a pro forma basis after giving effect to the Golden State Acquisition. The Bank's retail deposits outside California will have decreased from $6.9 billion at the time of the FN Acquisition to $0.6 billion at June 30, 1998 on a pro forma basis after giving effect to the Golden State Acquisition and the Florida Branch Sale.

The Bank believes that the 1996 Acquisitions, the Branch Sales and the Cal Fed Acquisition have enabled it to enhance, and expects that the Golden State Acquisition will enable it to further enhance, the value of its franchise and improve its operating efficiency through the consolidation or elimination of duplicative back office operations and administrative and management functions.

The Bank's acquisitions of loan servicing portfolios have enabled it to increase the percentage of its income represented by noninterest income through fees generated from its mortgage servicing operations. Because the Bank had excess servicing capacity and existing servicing expertise, it was able to accommodate the loan servicing portfolios acquired in these transactions without the need for significant additional investment. Since the FN Acquisition, the Bank's mortgage servicing portfolio will have increased from $6.7 billion to $96 billion at June 30, 1998 on a pro forma basis after giving effect to the Golden State Acquisition.

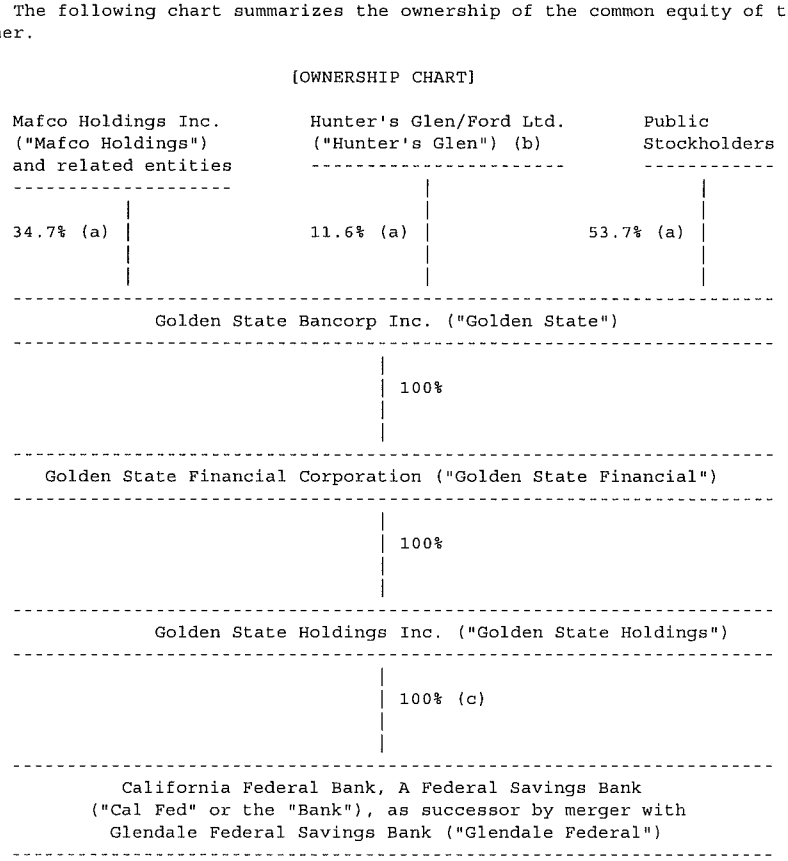
The Bank applies carefully developed underwriting standards in originating 1-4 unit residential loans, commercial real estate and consumer loans, as well as in evaluating acquisition opportunities. The Bank has a specialized credit risk management group that is charged with the development of credit policies and performing credit risk analyses for all asset portfolios.

OWNERSHIP

Golden State Holdings is an indirect wholly owned subsidiary of Golden State. MacAndrews & Forbes Holdings Inc. ("MacAndrews Holdings"), a corporation wholly owned through Mafco Holdings Inc. ("Mafco Holdings," and together with MacAndrews Holdings, "MacAndrews & Forbes"), by Ronald O. Perelman, owns 34.7% of the common stock of Golden State and Hunter's Glen, a limited partnership controlled by Gerald J. Ford, Chairman of the Board, Chief Executive Officer and a director of the Bank, owns 13.2% of the common stock of Golden State, with the balance of the common stock of Golden State being publicly held. In addition, pursuant to the Merger Agreement, Mafco Holdings and Hunter's Glen will be entitled to receive contingent consideration based on certain conditions, which contingent consideration could cause the ownership percentages of Mafco Holdings and Hunter's Glen to increase. See "The Golden State Acquisition." The board of directors of Golden State is composed of 15 directors, with ten directors initially designated by MacAndrews & Forbes. See "Ownership of the Common Stock" and "Certain Relationships and Related Transactions--Transactions with Mr. Ford."

The following chart summarizes the ownership of the common equity of the Issuer.

[OWNERSHIP CHART]



(a) Pursuant to the Merger Agreement, Mafco Holdings and Hunter's Glen will be entitled to receive contingent consideration following the Golden State Merger based on certain conditions, which contingent consideration could cause the actual ownership percentages of Mafco Holdings and Hunter's Glen to exceed the amounts set forth above. See "The Golden State Acquisition."

(b) Hunter's Glen is a limited partnership controlled by Gerald J. Ford, Chairman of the Board, Chief Executive Officer and a director of the Bank. See "Ownership of the Common Stock."

(c) Immediately prior to the consummation of the Golden State Acquisition, the charter of the Bank was amended to provide that each share of Bank Preferred Stock is entitled to one vote and each CALGZ (as defined herein) and each CALGL (as defined herein) has 1/5 of one vote with the holders of the common stock of the Bank, the Bank Preferred Stock, the CALGZs and the CALGLs voting together as a single class. In addition, after giving effect to a stock split of the common stock of the Bank, Golden State Holdings' ownership of 100% of the common stock represents approximately 90% of the total voting power of voting securities of the Bank. In addition to its common stock ownership of the Bank, Golden State Holdings owns the $121.8 million liquidation value of Bank Preferred Stock purchased in the Bank Preferred Stock Tender Offers.

THE EXCHANGE OFFER

Securities Offered.....	Up to $250,000,000 aggregate principal amount of Floating Rate Notes Due 2003, up to $350,000,000 aggregate principal amount of 6 3/4% Senior Notes Due 2001, up to $600,000,000 aggregate principal amount of 7% Senior Notes Due 2003 and up to $800,000,000 aggregate principal amount of 7 1/8% Senior Notes Due 2005, each of which has been registered under the Securities Act. The terms of the New Notes and the Old Notes are identical in all material respects, except for certain transfer restrictions and registration rights relating to the Old Notes and except that, if the Exchange Offer is not consummated by March 15, 1999, the interest rate on the Old Notes from and including such date until but excluding the date of consummation of the Exchange Offer will increase by 0.5%. See "--Summary Description of the New Notes" and "Description of the Notes--Registration Rights."
The Exchange Offer.....	The New Notes are being offered in exchange for a like aggregate principal amount of Old Notes. The issuance of the New Notes is intended to satisfy obligations of the Issuer contained in the Registration Agreement. For procedures for tendering the Old Notes, see "The Exchange Offer--Procedures for Tendering Old Notes."
Tenders; Expiration Date; Withdrawal.....	The Exchange Offer will expire at 5:00 p.m., New York City time, on , 1998, or such later date and time to which it is extended (the "Expiration Date"). The tender of Old Notes pursuant to the Exchange Offer may be withdrawn at any time prior to the Expiration Date. Any Old Note not accepted for exchange for any reason will be returned without expense to the tendering holder thereof as promptly as practicable after the expiration or termination of the Exchange Offer. See "The Exchange Offer--Terms of the Exchange Offer; Period for Tendering Old Notes" and "The Exchange Offer--Withdrawal Rights."
Certain Conditions to Exchange Offer.....	The Issuer shall not be required to accept for exchange, or to issue New Notes in exchange for, any Old Notes and may terminate or amend the Exchange Offer if at any time before the acceptance of the Old Notes for exchange or the exchange of the New Notes for such Old Notes certain events have occurred, which, in the reasonable judgment of the Issuer, make it inadvisable to proceed with the Exchange Offer and/or with such acceptance for exchange or with such exchange. Such events include (i) any threatened, instituted or pending action seeking to restrain or prohibit the Exchange Offer, (ii) a general suspension of trading in securities on any national securities exchange or in the over-the-counter market, (iii) a general banking moratorium, (iv) the commencement of a war or armed hostilities involving the United States and (v) a material adverse change or development involving a prospective material adverse change in the Issuer's business, properties, assets, liabilities, financial condition, operations, results of operations or prospects that may affect the value of the Old Notes or the New Notes. In addition, the Issuer will not accept for exchange any Old Notes

	tendered, and no New Notes will be issued in exchange for any such Old Notes, at any such time as any stop order shall be threatened or in effect with respect to the Registration Statement of which this Prospectus constitutes a part or the qualification of the Indenture under the Trust Indenture Act of 1939, as amended. See "The Exchange Offer--Certain Conditions to the Exchange Offer."
Federal Income Tax Consequences.....	The exchange pursuant to the Exchange Offer will not result in gain or loss to the holders or the Issuer for federal income tax purposes. See "Certain U.S. Federal Income Tax Considerations."
Use of Proceeds.....	There will be no proceeds to the Issuer from the exchange pursuant to the Exchange Offer. See "Use of Proceeds."
Exchange Agent.....	The Bank of New York is serving as exchange agent (the "Exchange Agent") in connection with the Exchange Offer.

CONSEQUENCES OF EXCHANGING OR FAILING TO EXCHANGE OLD NOTES

Holders of Old Notes who do not exchange their Old Notes for New Notes pursuant to the Exchange Offer will continue to be subject to the provisions in the Indentures regarding transfer and exchange of the Old Notes and the restrictions on transfer of such Old Notes as set forth in the legend thereon as a consequence of the issuance of the Old Notes pursuant to exemptions from, or in transactions not subject to, the registration requirements of the Securities Act and applicable state securities laws. In general, the Old Notes may not be offered or sold, unless registered under the Securities Act, except pursuant to an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities laws. The Issuer does not currently anticipate that it will register Old Notes under the Securities Act. See "Description of the Notes--Registration Rights." Based on interpretations by the staff of the Commission, as set forth in no-action letters issued to third parties, the Issuer believes that New Notes issued pursuant to the Exchange Offer in exchange for Old Notes may be offered for resale, resold or otherwise transferred by holders thereof (other than any holder which is an "affiliate" of the Issuer within the meaning of Rule 405 under the Securities Act) without compliance with the registration and prospectus delivery provisions of the Securities Act, provided that such New Notes are acquired in the ordinary course of such holders' business and such holders have no arrangement with any person to participate in the distribution of such New Notes. However, the Issuer does not intend to request the Commission to consider, and the Commission has not considered, the Exchange Offer in the context of a no-action letter and there can be no assurance that the staff of the Commission would make a similar determination with respect to the Exchange Offer as in such other circumstances. Each holder, other than a broker-dealer, must acknowledge that it is not engaged in, and does not intend to engage in, a distribution of New Notes and has no arrangement or understanding to participate in a distribution of New Notes. If any holder is an affiliate of the Issuer, is engaged in or intends to engage in or has any arrangement or understanding with respect to the distribution of the New Notes to be acquired pursuant to the Exchange Offer, such holder (i) could not rely on the applicable interpretations of the staff of the Commission and (ii) must comply with the registration and prospectus delivery requirements of the Securities Act in connection with any resale transaction. Each broker-dealer that receives New Notes for its own account in exchange for Old Notes must acknowledge that such Old Notes were acquired by such broker-dealer as a result of market-making activities or other trading activities and that it will deliver a prospectus in connection with any resale of such New Notes. The Letter of Transmittal states that by so acknowledging and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act. This Prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of New Notes received in exchange for Old Notes where such Old Notes were acquired by such broker-dealer as a result of market-making activities or other trading activities. The Issuer has agreed that, for a period of 180 days after the Expiration Date, it will make this Prospectus available to any broker-dealer for use in connection with any such resale. See "Plan of Distribution." In addition, to comply with the state securities laws, the New Notes may not be offered or sold in any state unless they have been registered or qualified for sale in such state or an exemption from registration or qualification is available and is complied with. The offer and sale of the New Notes to "qualified institutional

buyers" (as such term is defined under Rule 144A of the Securities Act) is generally exempt from registration or qualification under the state securities laws. The Issuer currently does not intend to register or qualify the sale of the New Notes in any state where an exemption from registration or qualification is required and not available. See "The Exchange Offer--Consequences of Exchanging or Failing to Exchange Old Notes" and "Description of the Notes--Registration Rights."

SUMMARY DESCRIPTION OF THE NEW NOTES

The terms of the New Notes and the Old Notes are identical in all material respects, except for certain transfer restrictions and registration rights relating to the Old Notes and except that, if the Exchange Offer is not consummated by March 13, 1999, the interest rate on the Old Notes from and including such date until but excluding the date of consummation of the Exchange Offer will increase by 0.5%. The New Notes will bear interest from the most recent date to which interest has been paid on the Old Notes or, if no interest has been paid on the Old Notes, from August 6, 1998. Accordingly, if the relevant record date for interest payment occurs after the consummation of the Exchange Offer, registered holders of New Notes on such record date will receive interest accruing from the most recent date to which interest has been paid or, if no interest has been paid, from August 6, 1998. If, however, the relevant record date for interest payment occurs prior to the consummation of the Exchange Offer, registered holders of Old Notes on such record date will receive interest accruing from the most recent date to which interest has been paid or, if no interest has been paid, from August 6, 1998. Old Notes accepted for exchange will cease to accrue interest from and after the date of consummation of the Exchange Offer, except as set forth in the immediately preceding sentence. Holders of Old Notes whose Old Notes are accepted for exchange will not receive any payment in respect of interest on such Old Notes otherwise payable on any interest payment date the record date for which occurs on or after consummation of the Exchange Offer.

Securities Offered.....	Up to $250 million aggregate principal amount of Floating Rate Senior Notes Due 2003, which have been registered under the Securities Act. Up to $350 million aggregate principal amount of 6 3/4% Senior Notes Due 2001, which have been registered under the Securities Act. Up to $600 million aggregate principal amount of 7% Senior Notes Due 2003, which have been registered under the Securities Act. Up to $800 million aggregate principal amount of 7 1/8% Senior Notes Due 2005, which have been registered under the Securities Act.
Maturity Date.....	The Floating Rate Notes will mature on August 1, 2003. The 2001 Notes will mature on August 1, 2001. The 2003 Notes will mature on August 1, 2003. The 2005 Notes will mature on August 1, 2005.
Interest Payment Dates.....	Interest on the Floating Rate Notes will accrue from the Issue Date (as defined herein). The first interest payment date will be February 1, 1999. Thereafter, interest will be payable quarterly in arrears on each May 1, August 1, November 1 and February 1. The interest rate on the Floating Rate Notes will be equal to three-month LIBOR plus 100 basis points per annum, except that the initial rate will be 6 3/4%, which is based on six-month LIBOR. The initial interest rate will remain in effect until, and will be reset on, the first interest payment date, and, thereafter, the interest rate will be reset quarterly.

Interest on each of the 2001 Notes, the 2003 Notes and the 2005 Notes will accrue from the Issue Date and is payable semi-annually in arrears on each February 1 and August 1, commencing February 1, 1999.

Ranking..... The Old Notes constitute, and the New Notes will constitute, unsecured and unsubordinated obligations of Golden State Holdings and the Old Notes rank, and the New Notes will rank, pari passu in right of payment with all other unsubordinated and unsecured indebtedness ("Senior Indebtedness") of Golden State Holdings.

Sinking Fund..... None.

Optional Redemption..... The Floating Rate Notes are not redeemable prior to August 1, 2000 except in the event of a Change of Control. Thereafter, the Floating Rate Notes will be redeemable at the option of the Issuer, in whole or in part, at any time prior to maturity at the redemption prices set forth herein plus accrued interest, if any, to the date of redemption. In the event that the redemption date will occur following the next scheduled Interest Reset Date (as defined herein), the rate of interest on the Floating Rate Notes for the period from the Notice Date (as defined herein) to the redemption date will be the higher of (x) the Applicable LIBOR Rate on the Floating Rate Notes in effect on the Notice Date and (y) the Applicable LIBOR Rate that is determined by using the second London Banking Day (as defined herein) preceding the Notice Date as the Interest Rate Determination Date (as defined herein). In such case, the Applicable LIBOR Rate will not be reset on the Interest Reset Date which follows the Notice Date and precedes the redemption date, although accrued interest will remain due and payable on the related Floating Rate Interest Payment Date (as defined herein). In the event of a Change of Control occurring prior to August 1, 2000, the Floating Rate Notes are redeemable, in whole but not in part, at the option of the Issuer at a redemption price equal to the sum of the principal amount of the Floating Rate Notes to be redeemed, plus accrued and unpaid interest, if any, to the date of redemption, plus the excess, if any, of (i) the sum of the present values of the redemption price for the Floating Rate Notes on August 1, 2000 and the remaining scheduled interest payments from the redemption date to August 1, 2000 in respect of such Floating Rate Notes to be redeemed if the Applicable LIBOR Rate were the Designated Fixed Rate, using in each case a discount rate equal to the Treasury Rate plus 50 basis points, over (ii) the outstanding principal amount of the Floating Rate Notes to be redeemed. The Fixed Rate Notes are redeemable, at the option of the Issuer, in whole or in part, at any time prior to maturity at a redemption price equal to the sum of the principal amount of the Fixed Rate Notes to be redeemed, plus accrued and unpaid interest, if any, to the date of redemption, plus the excess, if any, of (a) the sum of the present values of the remaining scheduled payments on the Fixed Rate Notes of principal and interest discounted to the redemption date at the Treasury Rate plus a spread of (x) 40 basis points with respect to the 2001 Notes, (y) 50 basis points with respect to the 2003 Notes, and (z) 50 basis points with respect to the 2005 Notes (in each case, the "Make Whole Amount"), over (b) the outstanding principal amount of the portion of Fixed Rate Notes to

	be redeemed. See "Description of the Notes--Optional Redemption."
Change of Control.....	Upon a Change of Control each holder of the Notes will have the right to require the Issuer to repurchase all or a portion of such holder's Notes at a price equal to 101% of the principal amount thereof, plus accrued and unpaid interest, if any, to the date of repurchase. See "Description of the Notes--Optional Redemption--Change of Control."
Certain Covenants.....	The Indenture for the Notes contains limitations on, among other things, (i) the creation of certain indebtedness, (ii) the creation of certain Liens, (iii) the merger of, or sale of assets or capital stock of the Bank, (iv) any change in the insured status of the Bank, (v) the making of certain Restricted Payments, including Investments in Affiliates, (vi) the creation of payment restrictions affecting Subsidiaries and (vii) transactions with Affiliates (the foregoing capitalized terms are defined in "Description of the Notes--Certain Definitions"). All of these limitations are subject to a number of important qualifications. See "Description of the Notes--Certain Covenants."
Exchange Offer; Registration Rights.....	Holders of New Notes are not entitled to any registration rights with respect to the New Notes. Pursuant to the Registration Agreement, the Issuer has agreed that it would, at its cost, use its best efforts to cause a registration statement to be declared effective under the Securities Act for the exchange of Old Notes for registered notes. The Registration Statement of which this Prospectus is a part constitutes the registration statement for purposes of the Registration Agreement. See "Description of the Notes--Registration Rights."
Use of Proceeds.....	The Issuer will not receive any proceeds from the Exchange Offer. The Issuer used the net proceeds of the Offering, which were approximately $1,965.3 million (net of discounts to the Initial Purchasers and fees and expenses), to finance the Refinancing Transactions. See "Use of Proceeds."

RISK FACTORS

Prospective holders of New Notes should consider carefully all of the information set forth in this Prospectus and, in particular, should evaluate the specific factors set forth under "Risk Factors" before making a decision to tender their Old Notes in the Exchange Offer.

SUMMARY PRO FORMA FINANCIAL DATA

The following summary pro forma financial data gives effect to the Golden State Acquisition, the CENFED Merger, the RedFed Merger and the Refinancing Transactions (assuming that (i) 100% of the FNH Notes are acquired in the Debt Tender Offers and (ii) all outstanding Bank Preferred Stock is acquired in the Bank Preferred Stock Tender Offers or is subsequently purchased by the Issuer).

The following summary pro forma financial data as of and for the six months ended June 30, 1998 are based on (i) the historical consolidated balance sheet of FNH giving effect to the Golden State Acquisition, the RedFed Merger and the Refinancing Transactions as if such transactions occurred on June 30, 1998, and (ii) the historical consolidated statement of income of FNH for the six months ended June 30, 1998 giving effect to the Golden State Acquisition, the CENFED Merger, the RedFed Merger and the Refinancing Transactions as if such transactions occurred on January 1, 1997. The following summary pro forma financial data for the year ended December 31, 1997 is based on the historical consolidated statement of income of FNH for the year ended December 31, 1997 giving effect to the Golden State Acquisition, the CENFED Merger, the RedFed Merger and the Refinancing Transactions as if such transactions occurred on January 1, 1997. However, for purposes of computing the purchase price, the daily volume weighted average price of Golden State common stock and the Litigation Tracking Warrants(Trademark) for the three days ended September 10, 1998 was used, as such prices are considered to provide more relevant information to investors. For purposes of pro forma presentation, Glendale Federal's consolidated statements of operations have been recast to conform to the calendar year end used by FNH. The pro forma adjustments are based on available information and upon certain assumptions that management believes are reasonable under the circumstances. The Golden State Acquisition, the CENFED Merger and the RedFed Merger are accounted for under the purchase method of accounting. Under this method of accounting, the purchase price has been allocated to the assets and liabilities acquired based on preliminary estimates of fair value. The actual fair value is determined as of the consummation of each respective acquisition. The summary pro forma financial data do not necessarily reflect the results of operations or the financial position of the Issuer that actually would have resulted had the Golden State Acquisition, the CENFED Merger, the RedFed Merger and the Refinancing Transactions occurred at the dates indicated, or project the results of operations or financial position of the Issuer for any future date or period.

The summary pro forma financial data should be read in conjunction with the notes accompanying the "Pro Forma Financial Data" included elsewhere in this Prospectus. In addition, the summary pro forma financial data should be read in conjunction with the Consolidated Financial Statements of FNH and the notes thereto included elsewhere in this Prospectus and the Consolidated Financial Statements of Glendale Federal and the notes thereto included elsewhere in this Prospectus. See "Selected Historical Financial Data," and "Pro Forma Financial Data."

GOLDEN STATE HOLDINGS
UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET
AS OF JUNE 30, 1998
(IN THOUSANDS)

	FNH (HISTORICAL)	GLENDALE FEDERAL(1) (PRO FORMA)	GOLDEN STATE ACQUISITION ADJUSTMENTS	REFINANCING TRANSACTIONS ADJUSTMENTS	PRO FORMA COMBINED
ASSETS					
Cash and amounts due from banks	$ 345,921	$ 361,175	$ --	$ (45,002)	$ 662,094
Federal funds sold	--	172,000	--	--	172,000
Other investments	879,071	136,305	--	--	1,015,376
Loans receivable, net	20,351,922	14,685,298	6,807	--	35,044,027
Mortgage-backed securities, net	9,180,282	2,385,605	6,962	--	11,572,849
Real estate held for sale or investment	--	6,327	--	--	6,327
Real estate acquired in settlement of loans	64,892	44,109	--	--	109,001
Investment in capital stock of FHLB, at cost	540,127	310,073	--	--	850,200
Mortgage servicing assets	669,056	243,314	54,243	--	966,613
Goodwill and other intangible assets	656,177	229,230	61,875	--	947,282
Other assets	1,348,509	615,385	184,446	(28,847) 28,625 9,958	2,158,076
	$ 34,035,957	$19,188,821	$ 314,333	$ (35,266)	$53,503,845
LIABILITIES, MINORITY INTEREST AND STOCKHOLDER'S EQUITY					
Deposits	$ 16,044,288	$11,566,018	$ 2,588	$ --	$27,612,894
Securities sold under agreements to repurchase	2,861,604	175,551	--	--	3,037,155
Borrowings from the FHLB	10,993,707	5,683,537	1,194	--	16,678,438
Other borrowings	1,282,580	8,763	993	(915,000) 2,000,000 (6,081)	2,371,255
Other liabilities	729,131	327,987	563,578	(12,159) 13,228	1,621,765
Minority interest	986,296	--	--	(486,458)	499,838
Stockholder's equity	1,138,351	1,426,965	(254,020)	(134,600) (494,196)	1,682,500
	$ 34,035,957	$19,188,821	$ 314,333	$ (35,266)	$53,503,845

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(1) Represents the historical balance sheet for Glendale Federal, adjusted for the RedFed Merger, accounted for as a purchase, together with related pro forma purchase accounting adjustments.

See the accompanying Notes to Unaudited Pro Forma Condensed Combined Financial Statements under "Pro Forma Financial Data."

GOLDEN STATE HOLDINGS

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 1998
(DOLLARS IN THOUSANDS)

	FNH (HISTORICAL)	GLENDALE FEDERAL (PRO FORMA)(1)	GOLDEN STATE ACQUISITION ADJUSTMENTS	REFINANCING TRANSACTIONS ADJUSTMENTS	PRO FORMA COMBINED
Interest income	$1,091,523	$667,194	$ (5,129)	$ (1,238)	$1,752,350
Interest expense	752,596	403,571	(1,616)	(49,185) 70,455 818	1,176,639
Net interest income	338,927	263,623	(3,513)	(23,326)	575,711
Provision for loan losses	20,000	(2,917)	--	--	17,083
Net interest income after provision for loan losses	318,927	266,540	(3,513)	(23,326)	558,628
Other income:					
Fee income	71,363	53,359	(4,068)	--	120,654
Gain (loss) on sale of loans, net	36,124	796	--	--	36,920
Gain on sale of mortgage-backed securities, net	--	5,155	--	--	5,155
Other income, net	62,685	367	--	--	63,052
Total other income	170,172	59,677	(4,068)	--	225,781
Other expenses:					
Compensation and employee benefits	127,620	88,782	--	--	216,402
Occupancy expense, net	41,406	19,493	--	--	60,899
Regulatory insurance	5,054	4,601	--	--	9,655
Advertising and promotion	9,914	10,819	--	--	20,733
Furniture, fixtures and equipment	--	8,109	--	--	8,109
Other general and administrative expenses	99,611	48,806	--	(3,336) 2,754	147,835
Total general and administrative expenses	283,605	180,610	--	(582)	463,633
Restructuring charges	--	8,213	--	--	8,213
Legal expense--goodwill lawsuit	--	9,068	--	--	9,068
Operations of real estate held for sale or investment	--	46	--	--	46
Operations of real estate acquired in settlement of loans	(5,138)	(1,914)	--	--	(7,052)
Amortization of goodwill and other intangible assets	23,229	9,932	2,063	--	35,224
Total other expense	301,696	205,955	2,063	(582)	509,132
Earnings (loss) before income tax provision (benefit)	187,403	120,262	(9,644)	(22,744)	275,277
Income tax provision (benefit)	(221,134)	49,075	56,415	(9,552)	(125,196)
Earnings (loss) before minority interest	408,537	71,187	(66,059)	(13,192)	400,473
Minority interest	45,614	--	(6,666)	(26,456)	12,492
Net earnings (loss)	$ 362,923	$ 71,187	$(59,393)	$ 13,264	$ 387,981
Memo Item:					
Common dividends necessary for debt service on the Parent Holdings Notes	$ 28,438	--	--	$(28,438)	--
Effective tax rate	12.78%	N/A	N/A	N/A	42.15%

(1) Represents the historical statement of income for Glendale Federal, adjusted for the CENFED Merger and the RedFed Merger, each accounted for as a purchase, together with related pro forma purchase accounting adjustments.

See the accompanying Notes to Unaudited Pro Forma Condensed Combined Financial Statements under "Pro Forma Financial Data."

GOLDEN STATE HOLDINGS

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 1997
(DOLLARS IN THOUSANDS)

	FNH (HISTORICAL)	GLENDALE FEDERAL (PRO FORMA)(1)	GOLDEN STATE ACQUISITION ADJUSTMENTS	REFINANCING TRANSACTIONS ADJUSTMENTS	PRO FORMA COMBINED
Interest income	$2,127,490	$1,357,054	$ (10,256)	$ (2,475)	$3,471,813
Interest expense	1,440,804	859,760	(3,231)	(98,369)	2,341,510
				140,910	
				1,636	
Net interest income	686,686	497,294	(7,025)	(46,652)	1,130,303
Provision for loan losses	79,800	19,154	--	--	98,954
Net interest income after provision for loan losses	606,886	478,140	(7,025)	(46,652)	1,031,349
Other income:					
Fee income	143,919	110,771	(8,136)	--	246,554
Gain (loss) on sale of loans, net	24,721	(347)	--	--	24,374
Gain on sale of mortgage-backed securities, net	--	1,803	--	--	1,803
Other income, net	171,054	2,466	--	--	173,520
Total other income	339,694	114,693	(8,136)	--	446,251
Other expenses:					
Compensation and employee benefits	256,448	154,143	--	--	410,591
Occupancy expense, net	81,914	46,300	--	--	128,214
Regulatory insurance	10,680	11,382	--	--	22,062
Advertising and promotion	20,186	24,854	--	--	45,040
Furniture, fixtures and equipment	--	13,649	--	--	13,649
Other general and administrative expenses	233,642	80,940	--	(6,672)	313,417
				5,507	
Total general and administrative expenses	602,870	331,268	--	(1,165)	932,973
SAIF special assessment	--	(3,153)	--	--	(3,153)
Legal expense--goodwill lawsuit	--	28,517	--	--	28,517
Operations of real estate held for investment	--	(387)	--	--	(387)
Operations of real estate acquired in settlement of loans	(3,304)	6,766	--	--	3,462
Restructuring charges	--	2,884	--	--	2,884
Amortization of goodwill and other intangible assets	49,153	16,789	4,125	--	70,067
Total other expense	648,719	382,684	4,125	(1,165)	1,034,363
Earnings (loss) before income tax provision (benefit)	297,861	210,149	(19,286)	(45,487)	443,237
Income tax provision (benefit)	47,148	86,914	92,230	(19,105)	207,187
Earnings (loss) before minority interest	250,713	123,235	(111,516)	(26,382)	236,050
Minority interest	89,344	--	(12,331)	(52,912)	24,101
Net earnings (loss)	$ 161,369	$ 123,235	$ (99,185)	$ 26,530	$ 211,949
Memo Item:					
Common dividends necessary for debt service on the Parent Holdings Notes	$ 56,875	--	--	$(56,875)	--
Effective tax rate	12.78%	N/A	N/A	N/A	42.15%

(1) Represents the historical statement of income for Glendale Federal, adjusted for the CENFED Merger and the RedFed Merger, each accounted for as a purchase, together with related pro forma purchase accounting adjustments.

See the accompanying Notes to Unaudited Pro Forma Condensed Combined Financial Statements under "Pro Forma Financial Data."

SUMMARY HISTORICAL FINANCIAL DATA

The summary historical financial data presented under the captions "Selected Operating Data" and "Selected Financial Data," have been derived from the Consolidated Financial Statements of FNH and the Consolidated Financial Statements of Glendale Federal.

The following data should be read in conjunction with the Consolidated Financial Statements of FNH and the notes thereto and the Consolidated Financial Statements of Glendale Federal and the notes thereto included elsewhere in this Prospectus. See "Selected Historical Financial Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this Prospectus.

FNH

	SIX MONTHS ENDED JUNE 30,		YEAR ENDED DECEMBER 31,	
	1998	1997(1)	1997(1)	1996(2)
	(DOLLARS IN THOUSANDS)			
SELECTED OPERATING DATA				
Interest income	$1,076,961	$1,040,588	$2,102,700	$1,233,799
Interest expense	752,596	706,056	1,440,804	807,800
Net interest income	324,365	334,532	661,896	425,999
Provision for loan losses	20,000	39,900	79,800	39,600
Noninterest income	184,734	161,287	364,484	653,378
Noninterest expense	301,696	324,475	648,719	490,569
Income before income taxes, extraordinary item and minority interest	187,403	131,444	297,861	549,208
Income tax expense (benefit)(3)	(221,134)	21,891	47,148	(73,131)
Income before extraordinary item and minority interest	408,537	109,553	250,713	622,339
Extraordinary item--gain on early extinguishment of FHLB advances, net	--	--	--	(1,586)
Income before minority interest	408,537	109,553	250,713	620,753
Minority interest(4)	45,614	42,993	89,344	43,230
Net income	362,923	66,560	161,369	577,523
SELECTED PERFORMANCE RATIOS				
Return on average assets(5)	2.25%	0.44%	0.52%	3.37%
Return on average common equity(6)	76.84	15.25	19.11	72.71
Average equity to average assets	2.95	2.92	2.83	4.85
Yield on interest-earning assets(7)	7.41	7.55	7.53	7.76
Cost of interest-bearing liabilities(8)	5.18	5.17	5.16	5.15
Net interest margin(9)	2.19	2.38	2.37	2.68
Efficiency ratio of the Bank(10)	48.46	53.40	51.16	54.48

(Footnotes on next page)

	AT JUNE 30,	DECEMBER 31,	
	1998	1997	1996
	(DOLLARS IN THOUSANDS)		
SELECTED FINANCIAL DATA			
Securities available for sale	$ 783,029	$ 813,085	$ 542,019
Securities held to maturity	58,557	58,299	4,272
Mortgage-backed securities available for sale	8,037,170	5,076,598	1,598,652
Mortgage-backed securities held to maturity	1,143,112	1,337,877	1,621,662
Loans receivable, net	18,626,425	19,424,410	10,212,583
Total assets	34,035,957	31,347,079	16,618,168
Deposits	16,044,288	16,202,605	8,501,883
Securities sold under agreements to repurchase	2,861,604	1,842,442	1,583,387
Borrowings	12,276,287	10,769,594	4,902,696
Total liabilities	31,911,310	29,517,116	15,389,575
Minority interest	986,296	986,456	309,376
Stockholders' equity	1,138,351	843,507	919,217
REGULATORY CAPITAL RATIOS OF THE BANK			
Tangible capital	5.46%	5.65%	7.17%
Core capital	5.46	5.65	7.17
Risk-based capital:			
Core capital	10.37	10.14	11.50
Total capital	12.15	11.93	13.62
SELECTED OTHER DATA			
Number of full service customer facilities	225	225	116
Loans serviced for others(11)	$48,037,154	$47,933,469	$44,034,194
Approximate number of employees	5,486	5,235	3,547
Non-performing assets as a percentage of the Bank's total assets	0.67%	0.87%	1.36%

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

(2) On January 31, 1996, FNMC consummated the LMUSA 1996 Purchase, acquiring a $14.1 billion loan servicing portfolio. On February 1, 1996, the Bank acquired SFFed, with assets at fair values totalling approximately $4 billion and liabilities (including deposit liabilities) with fair values totalling approximately $3.8 billion. During the year ended December 31, 1996, the Bank closed the Branch Sales, with associated deposit accounts totalling $4.6 billion. Noninterest income for the year ended December 31, 1996 includes pre-tax gains of $363.3 million related to the Branch Sales. Noninterest expense for the year ended December 31, 1996 includes a pre-tax charge of $60.1 million for the Special SAIF Assessment (as defined herein).

(3) Income tax benefit for the six months ended June 30, 1998 includes a $250 million reduction of the valuation allowance related to FNH's deferred tax asset, offset by federal alternative minimum tax ("AMT") reduced, to the extent of 90%, by net operating loss carryovers, and state tax at an assumed rate of 11%. Income tax benefit for 1996 includes the recognition of a deferred tax benefit of $125 million, offset by federal AMT reduced, to the extent of 90%, by net operating loss carryovers and state tax

(Footnotes continued on next page)

(Footnotes continued from previous page)

generally at an assumed rate of 8%. Income tax expense for 1997 and 1998 represents federal AMT reduced, to the extent of 90%, by net operating loss carryovers, and state tax at an assumed rate of 11%.

(4) Represents dividends on the REIT Preferred Stock (as defined herein), net of related tax benefit and the Bank Preferred Stock. The REIT Preferred Stock was issued on January 31, 1997. Minority interest for the six months ended June 30, 1998 also includes a 20% minority interest in Auto One.

(5) Return on average assets represents net income as a percentage of average assets for the periods presented. For the periods ended June 30, 1998 and 1997, return on average assets is annualized.

(6) Return on average common equity represents net income available to common stockholders as a percentage of average common equity for the periods presented. For the periods ended June 30, 1998 and 1997, return on average common equity is annualized.

(7) Yield on interest-earning assets represents interest income as a percentage of average interest-earning assets. For the periods ended June 30, 1998 and 1997, yield on interest-earning assets is annualized.

(8) Cost of interest-bearing liabilities represents interest expense as a percentage of average interest-bearing liabilities. For the periods ended June 30, 1998 and 1997, cost of interest-bearing liabilities is annualized.

(9) Net interest margin represents net interest income as a percentage of average interest-earning assets. For the periods ended June 30, 1998 and 1997, net interest margin is annualized.

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

(11) Includes loans serviced by the Bank and its subsidiaries, excluding loans serviced for the Bank by FNMC.

	YEAR ENDED JUNE 30,		
	1998	1997	1996
	(DOLLARS IN THOUSANDS)		
SELECTED OPERATING DATA			
Interest income	$1,157,945	$1,072,956	$1,080,035
Interest expense	717,321	693,972	746,970
Net interest income	440,624	378,984	333,065
Provision for loan losses	(1,727)	25,204	40,350
Net interest income after provision for loan losses	442,351	353,780	292,715
Other income			
Fee income	98,076	90,696	69,977
Loss on sale of loans, net	605	(291)	(690)
Gain (loss) on sale of mortgage-backed securities, net	4,562	(1,804)	(34,222)
Other income (loss), net	1,643	62	(707)
Total other income	104,886	88,663	34,358
Other expenses			
Compensation and employee benefits	135,966	114,270	101,502
Occupancy expense, net	34,215	31,777	29,698
Regulatory insurance	7,843	16,317	27,491
Other general and administrative expenses	115,665	100,860	88,244
Total general and administrative expenses	293,689	263,224	246,935
SAIF special assessment	--	55,519	--
Legal expense--goodwill lawsuit	19,045	24,058	1,929
Acquisition and restructuring costs	6,939	--	--
Operations of real estate held for sale or investment	(664)	935	1,242
Operations of real estate acquired in settlement of loans	(3,111)	6,623	8,426
Amortization of goodwill and other intangible assets	9,151	5,530	5,147
Total other expenses	325,049	355,889	263,679
Earnings before income tax provision	222,188	86,554	63,394
Income tax provision	93,113	36,131	21,342
Net earnings	$ 129,075	$ 50,423	$ 42,052
Earnings applicable to common shareholder:			
Net earnings	$ 129,075	$ 50,423	$ 42,052
Dividends declared on preferred stock(1)	(10,108)	(10,841)	(16,156)
Premium on exchange of preferred stock for common stock	--	(4,173)	(9,443)
Earnings applicable to common shareholder	$ 118,967	$ 35,409	$ 16,453
SELECTED PERFORMANCE RATIOS			
Return on average assets	0.78%	0.33%	0.28%
Return on average equity	11.65	5.14	4.45
Efficiency ratio(2)	54.52	56.04	61.27

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(1) On July 24, 1997, Glendale Federal was reorganized into a holding company structure which resulted in Glendale Federal becoming a wholly owned subsidiary of Golden State. As part of the reorganization Golden State issued its preferred stock in exchange for the Glendale Federal preferred stock with substantially the same terms.

(2) Defined as total general and administrative expenses divided by the sum of net interest income before provision for loan losses plus fee income.

SELECTED FINANCIAL DATA

	JUNE 30,	
	1998	1997
	(DOLLARS IN THOUSANDS)	
ASSETS:		
Cash and amounts due from banks	$ 289,978	$ 221,557
Federal funds sold and assets purchased under resale agreements	172,000	632,000
Other investments	128,308	31,799
Loans receivable, net	13,774,580	11,905,093
Mortgage-backed securities, net	2,375,363	2,279,534
Real estate held for sale or investment	6,327	8,689
Real estate acquired in settlement of loans	37,393	61,500
Investment in capital stock of FHLB, at cost	300,339	259,587
Mortgage servicing assets	243,314	284,472
Goodwill and other intangible assets	180,463	99,533
Other assets	587,331	434,495
	$18,095,396	$16,218,259
LIABILITIES AND STOCKHOLDER'S EQUITY:		
Deposits	$10,701,157	$ 9,356,909
Securities sold under agreements to repurchase	175,551	768,682
Borrowings from the FHLB	5,613,458	4,788,000
Other borrowings	70	10,782
Other liabilities	326,761	281,812
Stockholder's equity(1)	1,278,399	1,012,074
	$18,095,396	$16,218,259
REGULATORY CAPITAL RATIOS		
Tangible capital	6.02%	5.67%
Core capital	6.02%	5.67%
Risk-based capital	11.54%	11.17%
SELECTED OTHER DATA		
Common shares outstanding	57,754,480	50,348,509
Interest rate spread	2.90%	2.68%
Ratio of non-performing assets to total assets	0.74%	1.26%
Average equity to average assets	6.68%	6.45%
Number of full service customer facilities	195	166

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(1) Glendale Federal was a publicly held company at June 30, 1997. On July 24, 1997, Glendale Federal was reorganized into a holding company structure which resulted in Glendale Federal becoming a wholly owned subsidiary of Golden State.

RISK FACTORS

Prospective holders of New Notes should consider carefully all of the information set forth in this Prospectus and, in particular, should evaluate the following risks before tendering their Old Notes in the Exchange Offer, although the risk factors set forth below (other than "--Consequences of Failure to Exchange") are generally applicable to the Old Notes as well as the New Notes. In addition, certain statements contained in this Prospectus, including without limitation, statements containing the words "believes," "anticipates," "intends,""expects" and words of similar import, constitute "forward-looking statements." Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the respective entity or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following: general economic and business conditions; changes in the interest rate environment; existing government regulations and changes in, or the failure to comply with, government regulations; liability and other claims; significant increases in competitive pressure in the banking and financial services industry; deposit attrition or customer loss; changes in operating strategy or development plans; the ability to attract and retain qualified personnel; and other factors referenced in this Prospectus. Certain of these factors are discussed in more detail elsewhere in this Prospectus, including, without limitation, under the captions "Summary," "Risk Factors," "The Golden State Acquisition," "The Refinancing Transactions," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business." Such statements reflect the current views of management with respect to future events and are subject to certain risks, uncertainties and assumptions, including those matters discussed in the risk factors set forth below and elsewhere in this Prospectus. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, expected or intended. Given these uncertainties, prospective investors are cautioned not to place undue reliance on such forward-looking statements. The Issuer disclaims any obligation to update any such factors or to publicly announce the result of any revisions to any of the forward-looking statements contained herein to reflect future events or developments.

CONSEQUENCES OF FAILURE TO EXCHANGE

Holders of Old Notes who do not exchange their Old Notes for New Notes pursuant to the Exchange Offer will continue to be subject to the provisions in the Indenture regarding transfer and exchange of the Old Notes and the restrictions on transfer of such Old Notes as set forth in the legend thereon as a consequence of the issuance of the Old Notes pursuant to exemptions from, or in transactions not subject to, the registration requirements of the Securities Act and applicable state securities laws. In general, the Old Notes may not be offered or sold, unless registered under the Securities Act, except pursuant to an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities laws. The Issuer does not currently anticipate that it will register the Old Notes under the Securities Act or under any applicable state securities laws. See "The Exchange Offer--Consequences of Exchanging or Failing to Exchange Old Notes."

HOLDING COMPANY STRUCTURE; RESTRICTIONS ON ABILITY OF SUBSIDIARIES TO PAY DIVIDENDS

The Issuer is a holding company with no significant business operations of its own. The Issuer's only significant asset is all of the common stock of the Bank. The Issuer's only source of cash to pay interest on and principal of the Notes and the outstanding FNH Notes (which FNH Notes will mature prior to the Notes) is expected to be distributions from the Bank. As of June 30, 1998, on an unconsolidated basis after giving effect to the Golden State Acquisition, the Refinancing Transactions (assuming all outstanding debt securities of FNH are acquired in the Refinancing Transactions) and the Escrow Corp. Merger, the Issuer's total indebtedness would have been $2.0 billion, consisting solely of the Notes. See "Consolidated Capitalization." The annual interest payable on the Notes is approximately $140.9 million. Although the Issuer expects that distributions from the Bank will be sufficient to pay interest when due, distributions from the Bank may not be sufficient to pay the principal amount of the Notes at maturity or prior to maturity upon the occurrence of an Event of Default (as defined herein) or to redeem or repurchase the Notes upon a Change of Control Put Event. In addition, the Issuer may use such distributions to make dividends, distributions or other payments. In addition, there can be no assurance that the earnings from the Bank will be sufficient to make distributions to the Issuer to enable it to pay

interest on the Notes when due or principal of the Notes at maturity or that such distributions will be permitted by the terms of any debt instruments of the Issuer's subsidiaries then in effect, by the terms of any class of preferred stock issued by the Bank and its subsidiaries, including any Bank Preferred Stock or under applicable federal thrift laws or regulations.

The federal thrift laws, including the regulations of the OTS, limit the Bank's ability to pay dividends to the Issuer. The Bank generally may not declare dividends or make any other capital distribution if, after the payment of such dividend or other distribution, it would fall within any of the three undercapitalized categories under the prompt corrective action standards of the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"). Other limitations apply to the Bank's ability to pay dividends, the magnitude of which depends upon current earnings and the extent to which the Bank meets its regulatory capital requirements. In addition, the HOLA requires every savings association subsidiary of a savings and loan holding company to give the OTS at least 30 days' advance notice of any proposed dividends to be made on its guarantee, permanent or othernon-withdrawable stock or else such dividend will be invalid. Further, the OTS may prohibit any capital distribution that it determines would constitute an unsafe or unsound practice. See "Regulation--Regulation of the Bank--Capital Distribution Regulation" and "Business--The Issuer--Dividend Policy of the Bank."

As a holding company, any right of the Issuer and its creditors to participate in the assets of any of the Issuer's subsidiaries, including the Bank, upon any liquidation, receivership or reorganization of any such subsidiary will be subject to the prior claims of that subsidiary's creditors, including the Bank's depositors and trade creditors (except to the extent that the Issuer may itself be a creditor of such subsidiary). Accordingly, the Notes will be effectively subordinated to (i) all existing and future liabilities, including deposits, indebtedness and trade payables, of the Issuer's subsidiaries, including the Bank, and (ii) all preferred stock issued by the Bank, including the Bank Preferred Stock not purchased by Golden State Holdings in the Bank Preferred Stock Tender Offers. At June 30, 1998, after giving effect to the Golden State Acquisition and the Refinancing Transactions, the outstanding interest-bearing liabilities, including deposits, of such subsidiaries would have been approximately $47.7 billion, the other liabilities of such subsidiaries, including trade payables and accrued expenses, would have been approximately $1.6 billion.

ABILITY TO PAY PRINCIPAL ON THE NOTES

The Issuer currently anticipates that, in order to pay the principal amount of the Notes upon the occurrence of an Event of Default or to redeem or repurchase the Notes upon a Change of Control Put Event or, in the event that earnings from the Bank are not sufficient to make distributions to the Issuer to enable it to pay the principal amount of the Notes at maturity, the Issuer may be required to adopt one or more alternatives, such as borrowing funds, selling its equity securities, or the equity securities or assets of the Bank, or seeking capital contributions or loans from its affiliates. None of the affiliates of the Issuer is required to make any capital contributions or other payments to the Issuer with respect to the Issuer's obligations on the Notes. There can be no assurance that any of the foregoing actions could be effected on satisfactory terms, that any of the foregoing actions would enable the Issuer to pay the principal amount of the Notes or that any of such actions would be permitted by the terms of the Indenture or any other debt instruments of the Issuer or the Issuer's subsidiaries then in effect, by the terms of the Bank Preferred Stock, or under applicable federal thrift laws or regulations.

RESTRICTIONS IMPOSED BY TERMS OF THE ISSUER'S INDEBTEDNESS; CONSEQUENCES OF FAILURE TO COMPLY

The terms and conditions of the Indenture impose restrictions that affect, among other things, the ability of the Issuer to incur debt, pay dividends or make distributions, create liens, sell assets and make certain investments. The ability of the Issuer to comply with the foregoing provisions can be affected by events beyond the Issuer's control. The breach of any of these covenants could result in a default under one or more of the debt instruments of the Issuer. In the event of a default under any indebtedness of the Issuer or the Issuer's subsidiaries, the holders of such indebtedness could elect to declare all amounts outstanding under their respective debt instruments to be due and payable. Any such declaration under a debt instrument of the Issuer or the Issuer's subsidiaries is likely to result in an event of default under one or more of the other debt instruments of the Issuer or the Issuer's subsidiaries. If indebtedness of the Issuer or the Issuer's subsidiaries were to be accelerated, there could be no assurance that the assets of the Issuer or the Issuer's subsidiaries, as the case may be, would be sufficient to repay in full borrowings under all of such debt instruments, including the Notes. See

"--Ability to Pay Principal on the Notes," "Business--The Issuer--Sources of Funds" and "Description of the Notes."

CONCENTRATION OF BUSINESS IN CALIFORNIA; EFFECT ON ASSET QUALITY

The Bank's loan portfolio is concentrated in California 1-4 unit residential real estate. As a result, the financial condition of the Bank will be subject to general economic conditions in California and, in particular, to conditions in the California 1-4 unit residential real estate market. As of June 30, 1998, the Bank had 74% of its loan portfolio secured by 1-4 unit residential real estate located in California. As of June 30, 1998, after giving effect to the Golden State Acquisition the Bank would have had 75% of its loan portfolio secured by 1-4 unit residential real estate located in California. The Bank may find it difficult to originate a sufficient volume of high-quality 1-4 unit residential loans or maintain its asset quality, either of which could negatively impact future performance. In addition, any downturn in the economy generally, and in California in particular, could further reduce real estate values and the volume of loans originated. Real estate values in California could also be affected by earthquakes or other catastrophic events.

As a result of the Auto One and GSAC Acquisitions, the Bank is engaging in non-prime auto financing. Accordingly, the ratio of non-performing assets to total assets could increase. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--FNH--Impact of Other Acquisitions and Dispositions."

INTEREST RATE RISK

It is expected that the Bank will continue to realize income primarily from the differential or "spread" between the interest earned on loans, securities and other interest-earning assets, and interest paid on deposits, borrowings and other interest-bearing liabilities. Net interest spreads are affected by the difference between the maturities and repricing characteristics of interest-earning assets and interest-bearing liabilities. In addition, loan volume and yields are affected by market interest rates on loans, and rising interest rates generally are associated with a lower volume of loan originations. It is expected that a substantial majority of the Bank's assets will continue to be indexed to changes in market interest rates and a substantial majority of its liabilities will continue to be short term. Although the Bank's management believes that this fact should mitigate the negative effect of a decline in yield on its assets, there can be no assurance that the Bank's interest rate risk will be minimized or eliminated. At June 30, 1998, the Bank had $22.1 billion in assets indexed to changes in market rates and $21.7 billion in liabilities maturing or repricing within one year. At June 30, 1998, after giving effect to the Golden State Acquisition, the Bank would have had $28.9 billion in assets indexed to changes in market rates and $35.3 billion in liabilities maturing or repricing within one year. In addition, the lag in implementing repricing terms on the Bank's adjustable rate assets may result in a decline in net interest income in a rising interest rate environment. In addition, an increase in the general level of interest rates may adversely affect the ability of certain borrowers to pay the interest on and principal of their obligations. Accordingly, changes in levels of market interest rates could materially adversely affect the Bank's net interest spread, asset quality, loan origination volume and overall results of operations.

MORTGAGE PORTFOLIO AND MORTGAGE SERVICING RIGHTS ("MSRS")

At June 30, 1998, the Bank held a 1-4 unit residential loan portfolio with a carrying value of approximately $13.4 billion, and MSRs on a 1-4 unit residential loan portfolio with outstanding loan balances totalling approximately $61.5 billion, including Bank owned loans serviced by FNMC. The Bank's MSRs had a carrying value of $669.1 million at June 30, 1998. At June 30, 1998, on a pro forma basis after giving effect to the Golden State Acquisition, the Bank would have held a 1-4 unit residential loan portfolio with a carrying value of approximately $22.2 billion, and MSRs on a 1-4 unit residential loan portfolio with outstanding loan balances totalling approximately $96 billion. The Bank's MSRs would have had a carrying value of $966.6 million at June 30, 1998 on a pro forma basis after giving effect to the Golden State Acquisition. A decline in long-term interest rates generally results in an acceleration in mortgage loan prepayments, and higher than anticipated levels of prepayments generally cause the accelerated amortization of MSRs and generally will result in reductions in the market value of the MSRs and in the Bank's servicing fee income. There can be no assurances that long-term interest rates will not decline or that the rate of mortgage loan prepayments will not exceed management's

estimates, resulting in a charge to earnings in the period of adjustment and reductions in the market value of the MSRs and in loan servicing fee income, or that management will be able to reinvest the cash from mortgage loan prepayments in assets earning yields comparable to the yields on the prepaid mortgages.

REGULATION

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

ELIMINATION OF THE SAVINGS ASSOCIATION CHARTER

Congress has been considering legislation in various forms that would require federal savings associations, such as the Bank, to convert their charters to national bank charters. In the absence of appropriate "grandfather" provisions, legislation eliminating the savings association charter could have a material adverse effect on the Bank and its parent holding companies because, among other things, the regulatory capital and accounting treatment for bank holding companies and savings and loan holding companies differ in certain significant respects. The Bank cannot determine whether, or in what form, such legislation may eventually be enacted and there can be no assurance that any legislation that is enacted would contain adequate grandfather rights for the Bank and its parent holding companies.

THE YEAR 2000 ISSUE

The "Year 2000 issue" arises from the widespread use of computer programs that rely on two-digit date codes to perform computations or decision-making functions. Many of these programs may fail due to an inability to interpret properly date codes beginning January 1, 2000. The Bank has developed and is currently executing a comprehensive plan to make its computer systems, applications and facilities Year 2000 ready. It is expected that, by December 31, 1998, all issues related to Year 2000 will be addressed. Extensive testing is expected to occur during 1999. Although management believes there is no material risk that the Bank will fail to address Year 2000 issues in a timely manner, there can be no assurance that it will eliminate any potential Year 2000 issues in a timely manner or as to the ultimate cost of doing so. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--FNH--Year 2000."

TAX SHARING AGREEMENT; AVAILABILITY OF NET OPERATING LOSS CARRYOVERS

FNH, Mafco Holdings and the Bank were parties to a tax sharing agreement effective as of January 1, 1994 (the "Tax Sharing Agreement"), which was subsequently amended in connection with the Golden State Acquisition. See "Certain Relationships and Related Transactions--Tax Sharing Agreement." Prior to the Golden State Acquisition, pursuant to the Tax Sharing Agreement, (i) the Bank paid to FNH amounts equal to the income taxes that the Bank would have been required to pay if it were to file a return separately from the affiliated group for which Mafco Holdings was the common parent (the "Mafco Group") and (ii) FNH paid to Mafco Holdings amounts equal to the income taxes that FNH would be required to pay if it were to file a consolidated return on behalf of itself and the Bank separately from the Mafco Group. The Tax Sharing Agreement allowed the Bank to take into account, in determining its liability to FNH, any net operating loss carryovers that it would have been entitled to utilize if it had filed separate returns for each year since the formation of the Bank. The Tax Sharing Agreement also allowed FNH to take into account, in determining its liability to Mafco Holdings, any net operating loss carryovers that it would have been entitled to utilize if it had filed a consolidated return on behalf of itself and the Bank for each year since the formation of the Bank. Accordingly, pursuant to the Tax Sharing Agreement, the benefits of any net operating loss carryovers generated by the Bank since its formation are retained by the Bank and FNH.

As a result of the transfer of assets, including the stock of the Bank, by FNH to Golden State Holdings as part of the Golden State Acquisition, the Issuer succeeded to the tax attributes of FNH. As a result of this transaction, the net operating losses included in the tax attributes are subject to annual limitation under Section

382 of the Code (as defined herein). In addition, pursuant to an amendment to the Tax Sharing Agreement dated as of September 11, 1998, and in accordance with the Merger Agreement, for any taxable period ending after the Golden State Acquisition, (i) Golden State replaced Mafco Holdings under the Tax Sharing Agreement and assumed all of the rights and obligations of Mafco Holdings under the Tax Sharing Agreement with respect to such taxable periods; (ii) the Issuer replaced FNH under the Tax Sharing Agreement and assumed all of the rights and obligations of FNH under the Tax Sharing Agreement with respect to such taxable periods; and (iii) the Bank continues to be bound by the Tax Sharing Agreement.

If for any reason the Bank and the Issuer were to deconsolidate from the group, only the amount of the net operating loss carryovers of the Bank and the Issuer not utilized by the group (up to the end of the taxable year of the group in which the deconsolidation took place) would be available to offset the taxable income of the Bank and the Issuer subsequent to the date of deconsolidation. If the Bank and the Issuer had deconsolidated as of December 31, 1997 (i.e., the close of the prior Mafco Group taxable year), the Bank and the Issuer would have had approximately $970 million of regular net operating loss carryforwards available to offset the taxable income of the Bank and the Issuer subsequent to the date of deconsolidation. As a result of the deconsolidation of the Bank and the Issuer from the Mafco Group due to the Golden State Acquisition, and the anticipated use by the Mafco Group of additional regular net operating loss carryforwards available to offset the taxable income of the Mafco Group for the taxable year ending December 31, 1998, the net operating loss carryforwards of the Bank and the Issuer will decrease. Similarly, if for any reason the Bank and the Issuer were to deconsolidate from the consolidated group for which Golden State is the common parent (the "Golden State Group"), only the amount of the net operating loss carryovers of the Bank and the Issuer, not utilized by the Golden State Group up to the end of the taxable year in which the deconsolidation took place, would be available to offset the taxable income of the Bank and the Issuer subsequent to the date of deconsolidation. If for any reason the Bank were to deconsolidate from the Issuer, with the Issuer remaining a member of the Golden State Group, the net operating loss carryovers of the Bank not utilized by the Golden State Group, until the close of the taxable year in which the deconsolidation took place would be available to offset the taxable income of the Bank subsequent to the date of deconsolidation, but would no longer be available to offset the taxable income of the Issuer subsequent to the date of deconsolidation. It cannot be predicted to what extent the Golden State Group will utilize the net operating loss carryovers of the Issuer and/or the Bank in the future or the amount, if any, of net operating loss carryforwards that the Issuer or the Bank may have upon deconsolidation. The net operating loss carryovers are subject to review and potential disallowance, in whole or in part, by the IRS. Any disallowance of the Bank's net operating loss carryovers may increase the amounts that the Bank would be required to pay to FNH or the Issuer under the Tax Sharing Agreement and that FNH or the Issuer would be required to pay to the Golden State Group, and would therefore decrease the earnings of the Bank available for distribution to Issuer. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--FNH--Provision for Federal and State Income Taxes."

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

TAXATION OF THE BANK

As a result of the Small Business Job Protection Act of 1996 (the "Act"), which provided for the repeal of the Section 593 reserve method of accounting for bad debts by thrift institutions which are treated as large banks, the Bank will generally be required to take into income the balance of its post-1987 bad debt reserves over a six year period beginning in 1996 subject to a two year deferral if certain residential loan tests are satisfied. As of December 31, 1997, the Bank and Golden State had remaining post-1987 bad debt reserves totaling $116 million and $48 million, respectively, that are subject to recapture into income, all of which has been provided for in

deferred tax liabilities. Consequently, the Bank may be required to make payments to the Issuer under the Tax Sharing Agreement if the Bank has insufficient expenses and losses to offset such income.

In addition, the Act further provided that base year bad debt reserves are not recaptured into income unless certain events occur. The base year reserves are generally the balance of tax bad debt reserves as of December 31, 1987, reduced proportionately for reductions in the Bank's loan portfolio since that date. In accordance with Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes," a deferred tax liability has not been recognized for the base year reserves of the Bank or Golden State. At December 31, 1997, the amount of the base year reserves were approximately $152 million and $188 million for the Bank and Golden State (including CENFED and RedFed), respectively. The amount of unrecognized deferred tax liability at December 31, 1997 was approximately $53 million and $66 million for the Bank and Golden State, respectively.

TAX EFFECTS OF DIVIDEND PAYMENTS BY THE BANK

Dividend distributions made to the Issuer, as the sole owner of the Bank's common stock, and to holders of the Bank Preferred Stock, in excess of the Bank's accumulated earnings and profits, as well as certain distributions in dissolution or in redemption of stock, may cause the Bank to recognize a portion of its base year reserves as income. Accordingly, the Bank may be required to make payments to the Issuer under the Tax Sharing Agreement. Likewise, the Issuer may be required to make payments to Golden State under the Tax Sharing Agreement if the Issuer has insufficient expenses and losses to offset such income. See "--Tax Sharing Agreement; Availability of Net Operating Loss Carryovers."

LACK OF A PUBLIC MARKET FOR THE NOTES

The New Notes are being offered to the holders of the Old Notes. The Old Notes were issued on August 6, 1998 to a small number of institutional investors and are eligible for trading in the Private Offering, Resale and Trading through Automated Linkages (PORTAL) Market, the National Association of Securities Dealers' screenbased, automated market for trading of securities eligible for resale under Rule 144A. To the extent that Old Notes are tendered and accepted in the Exchange Offer, the trading market for the remaining untendered Old Notes could be adversely affected. There is no existing trading market for the New Notes, and there can be no assurance regarding the future development of a market for the New Notes, or the ability of holders of the New Notes to sell their New Notes or the price at which such holders may be able to sell their New Notes. Although the Initial Purchasers have informed the Issuer that they currently intend to make a market in the New Notes, they are not obligated to do so, and any such market-making may be discontinued at any time without notice. As a result, the market price of the New Notes could be adversely affected. The Issuer does not intend to apply for listing or quotation of the New Notes on any securities exchange or stock market.

CONTROL BY MACANDREWS & FORBES

The Issuer is indirectly wholly owned by Golden State. Golden State is 34.7% indirectly owned through MacAndrews & Forbes by Ronald O. Perelman and 13.2% indirectly owned by Hunter's Glen, a limited partnership controlled by Gerald J. Ford, the Chairman of the Board, Chief Executive Officer and a director of the Bank. See "Ownership of the Common Stock." In addition, the board of directors of Golden State is composed of 15 directors, with ten directors initially designated by MacAndrews & Forbes. As a result, MacAndrews & Forbes may be able to direct and control the policies of the Issuer and its subsidiaries, including mergers, sales of assets and similar transactions. See "Certain Relationships and Related Transactions--Relationship with MacAndrews & Forbes."

USE OF PROCEEDS

The Issuer will not receive any proceeds from the Exchange Offer. The net proceeds of the Offering, which were approximately $1,965.3 million, were used together with the Bank Dividend to fund the Refinancing Transactions. As part of the Refinancing Transactions, Golden State Holdings repaid a portion of the three issues of FNH Notes (as defined herein) and funded the Parent Holdings Defeasance. The FNH 12 1/4% Senior Notes mature on May 15, 2001 and bear interest at the rate of 12 1/4% per annum. The FNH 9 1/8% Senior Subordinated Notes mature on January 15, 2003 and bear interest at the rate of 9 1/8% per annum. The FNH 10 5/8% Senior Subordinated Notes mature on October 1, 2003 and bear interest at the rate of 10 5/8% per annum. The Parent Holdings Notes mature on April 15, 2003 and bear interest at the rate of 12 1/2% per annum. Dividends on the Bank Preferred Stock are noncumulative and are payable, (i) in the case of the 11 1/2% Preferred Stock, at an annual rate of 11 1/2% per share and (ii) in the case of the 10 5/8% Preferred Stock, at an annual rate of 10 5/8% per share, if, when and as declared by the Board of Directors of the Bank. See "Business--The Issuer--Sources of Funds."

THE GOLDEN STATE ACQUISITION

The Merger Agreement

On February 4, 1998, Parent Holdings entered into the Merger Agreement with FNH, First Gibraltar Holdings, Hunter's Glen, Golden State and Golden State Financial. The Merger Agreement provided for, among other things, the FNH Asset Transfer, the merger of Parent Holdings with and into Golden State in the Golden State Merger and the merger of FNH with and into Golden State Financial in the FNH Merger. On September 11, 1998, pursuant to or as contemplated by the Merger Agreement, FNH contributed all of its assets (including all of the outstanding common stock of Cal Fed) to Golden State Holdings in the FNH Asset Transfer, and immediately following the Holding Company Mergers, Glendale Federal merged with and into Cal Fed in the Subsidiary Bank Merger. The Holding Company Mergers and the Subsidiary Bank Merger are referred to herein collectively as the "Mergers."

Pursuant to the Merger Agreement, First Gibraltar Holdings and Hunter's Glen received at the closing of the Holding Company Mergers, in consideration of their interests as stockholders of Parent Holdings and FNH, 56,722,988 shares of common stock, par value $1.00 per share, of Golden State ("Golden State Common Stock"), that constitute, in the aggregate, 47.9% of the common stock of the combined company outstanding, immediately after giving effect to the Holding Company Mergers.

In addition, the Merger Agreement provides that First Gibraltar Holdings and Hunter's Glen will be entitled to receive contingent merger consideration, through the issuance by Golden State of additional shares of Golden State Common Stock ("Contingent Shares") to First Gibraltar Holdings and Hunter's Glen, based on (i) the use by the combined company of certain potential tax benefits resulting from certain net operating loss carryforwards of the consolidated group of which Parent Holdings is a part, and the realization of certain other potential tax assets and liabilities of Golden State and Parent Holdings and (ii) Cal Fed's net after-tax recovery in certain specified litigation, including a percentage of the net after-tax recovery, if any, in Cal Fed's goodwill litigation against the United States (following payment by Cal Fed of all amounts due on May 29, 1998, to the holders of its contingent litigation recovery participation interests (the "CALGZs") and its secondary contingent litigation recovery participation interests (the "CALGLs") and the retention by the combined company of certain amounts of such recovery as provided in the Merger Agreement). The Merger Agreement provides generally that the amount of the net after-tax recovery, if any, resulting from Cal Fed's goodwill lawsuit which will be excluded in determining the number of Contingent Shares issuable in respect thereof will be based on the 15% of the value of the net after-tax recovery in Glendale Federal's goodwill lawsuit against the United States (the "Glendale Goodwill Litigation") to be excluded for purposes of determining the number of shares of Golden State Common Stock issuable upon exercise of the Litigation Tracking WarrantsTM, adjusted to reflect the pro forma ownership interest of First Gibraltar Holdings and Hunter's Glen in the combined company at the time of consummation of the Holding Company Mergers. The Litigation Tracking WarrantsTM, which were distributed by Golden State to its stockholders on May 29, 1998, represent in the aggregate the right to receive upon exercise thereof Golden State Common Stock having an aggregate market value equal to 85% of the net after-tax recovery, if any, in the

Glendale Goodwill Litigation. The parties to the Merger Agreement have amended the Merger Agreement (the "Merger Agreement Amendment") to provide that in the calculation of the tax benefits, the deductions arising from the Refinancing Transactions will be excluded. The Merger Agreement Amendment also provides that the federal net tax benefits will include any federal income tax savings resulting from the utilization of any tax attributes of the consolidated group of which Mafco Holdings is the common parent in connection with the Florida Branch Sale.

The number of Contingent Shares cannot be determined at the present time, as such number depends upon factors that are not subject to determination at this time. These factors include, among other things, the net value to the combined company of certain contingent assets and liabilities of Golden State and Parent Holdings (including potential recoveries in the Glendale Goodwill Litigation, the California Federal Litigation (as defined herein) and certain other litigation to which affiliates of Parent Holdings are parties, and potential tax benefits resulting from certain net operating loss carryforwards of the consolidated group of which Parent Holdings formerly was a member and other contingent tax assets and liabilities of Golden State and Parent Holdings) and the market price of the common stock of the combined company at such times as issuance of Contingent Shares would be required under the Merger Agreement.

The board of directors of Golden State, as the surviving corporation in the Golden State Merger, is composed of 15 directors, with five directors designated by Golden State and the remaining ten directors designated by Parent Holdings.

Litigation Management Agreement

In connection with the execution of the Merger Agreement, Golden State, Glendale Federal and Cal Fed entered into a litigation management agreement (the "Litigation Management Agreement") with Stephen J. Trafton, Chairman, President and Chief Executive Officer of Golden State, and Richard A. Fink, Vice Chairman of Golden State. Pursuant to the Litigation Management Agreement, which became effective at the closing of the Mergers, Messrs. Trafton and Fink, subject to the provisions of the Litigation Management Agreement, manage Glendale Federal's and Cal Fed's respective goodwill lawsuits against the United States. See "Certain Relationships and Related Transactions--Litigation Management Agreement."

Certain Litigation

Following the public announcement on February 5, 1998 of the Merger Agreement and the proposed Mergers, several separate purported class action lawsuits (collectively, the "Delaware Litigation") were filed by certain stockholders of Golden State naming Golden State, its individual directors and, in certain cases, FNH and MacAndrews & Forbes as defendants. The Delaware Litigation was consolidated into one action in the Court of Chancery in Delaware captioned In re Golden State Bancorp Inc. Shareholders Litigation, Consolidated C.A. No. 16175NC. The plaintiffs in the Delaware Litigation have alleged, among other things, that the individual members of Golden State's board of directors have breached their fiduciary duties to Golden State's stockholders by entering into the Merger Agreement. The plaintiffs are seeking, on behalf of themselves and all similarly situated stockholders of Golden State, among other things, (i) class certification, (ii) an order enjoining, preliminarily and permanently, the Mergers, or, in the event the Mergers are consummated prior to the entry of a final order, rescission of the Mergers and/or damages, including rescissory damages, and (iii) costs and disbursements, including attorneys' fees. In addition, several purported class action complaints alleging substantially similar claims, and seeking substantially similar relief, have been filed in Los Angeles Superior Court in the State of California. The plaintiffs in such actions have agreed to a stay of such actions pending disposition of the Delaware Litigation. A settlement in principle has been reached among counsel for the parties in both the Delaware Litigation and the California litigation, subject to court approval and other conditions. The terms of the proposed settlement provided, among other things, that Golden State supply certain additional information to shareholders in the proxy statement disseminated in connection with the special meeting of Golden State shareholders held on August 17, 1998 and such information was included. Defendants have agreed, in connection with the contemplated settlement, not to oppose an award of attorney's fees to plaintiffs' counsel in an amount provided for in the agreement. Such amount is not material to Golden State.

CONSOLIDATED CAPITALIZATION

The following table sets forth the actual consolidated capitalization of FNH at June 30, 1998 and the capitalization of the Issuer on a consolidated basis at such date as adjusted to give effect to the Golden State Acquisition, the Refinancing Transactions and the Escrow Corp. Merger. The following table should be read in conjunction with "Pro Forma Financial Data" and the Consolidated Financial Statements of FNH and the notes thereto included elsewhere in this Prospectus.

	FNH	GOLDEN STATE ACQUISITION ADJUSTMENTS	REFINANCING TRANSACTIONS ADJUSTMENTS	CAPITALIZATION	CONSOLIDATED CAPITALIZATIO OF THE ISSUER AS ADJUSTED
			(IN THOUSANDS)		
Deposits	$16,044,288	$11,568,606 (a)	$ --	$ --	$27,612,894
Borrowings:					
Securities sold under agreements to repurchase	$ 2,861,604	$ 175,551 (a)	$ --	$ --	$ 3,037,155
Other borrowings (primarily FHLB advances)	11,206,252	5,694,487 (a)	--	--	16,900,739
Total	$14,067,856	$ 5,870,038	$ --	$ --	$19,937,894
Long-term notes:					
Notes, net	$ --	$ --	$1,993,919 (b)	$ --	$ 1,993,919
FNH 12 1/4% Senior Notes	200,000	--	(200,000) (c)	--	--
FNH 9 1/8% Senior Subordinated Notes	140,000	--	(140,000) (c)	--	--
FNH 10 5/8% Senior Subordinated Notes	575,000	--	(575,000) (c)	--	--
Other notes	155,035	--	--	--	155,035
Total long-term notes	1,070,035	--	1,078,919	--	2,148,954
Minority interest	986,296	--	(486,458) (c)	--	499,838
Stockholder's equity:					
Class A common stock (par value $1.00 per share; 800 shares authorized, issued and outstanding)	1	--	--	(1)	--
Class B common stock (par value $1.00 per share; 200 shares authorized, issued and outstanding)	--	--	--	--	--
Common stock, $1.00 par value per share, 1,000 shares authorized, issued and outstanding	--	--	--	1	1
Preferred stock, Series E, $1.00 par value per share (8,050,000 shares authorized; 4,621,982 shares issued and outstanding)	--	4,622 (a)	--	--	4,622
Additional paid-in capital	32,677	1,169,935 (a)	--	--	1,202,612
Net unrealized holding gain (loss) on securities available for sale	28,101	(1,612) (a)	--	--	26,489
Retained earnings	1,077,572	-- (a)	(628,796) (d)	--	448,776
Total stockholder's equity	1,138,351	1,172,945	(628,796)	--	1,682,500
Total capitalization	$ 3,194,682	$ 1,172,945	$ (36,335)	$ --	$ 4,331,292

(a) Represents deposits, borrowed funds (including accrued interest payable on all borrowings) and equity accounts of Glendale Federal to be assumed by the Issuer at their approximate respective fair values at June 30, 1998.

(b) Represents the issuance of the Notes, net of original issue discount.

(c) Assumes that all of the FNH Notes and Bank Preferred Stock are tendered in the Debt Tender Offers and the Bank Preferred Stock Tender Offers or that any Bank Preferred Stock not acquired in the Bank Preferred Stock Tender Offers is subsequently redeemed by the Issuer.

(d) Represents (i) a dividend to be made to Parent Holdings, representing the principal amount of the Parent Holdings Notes, (ii) the after-tax expenses related to the write-off of the deferred issuance costs on the outstanding

FNH Notes, and (iii) the after-tax expenses related to the Debt Tender Offers, the Bank Preferred Stock Tender Offers and the Parent Holdings Defeasance.

THE REFINANCING TRANSACTIONS

On August 6, 1998, the proceeds of the Offering were deposited with the Escrow Agent pursuant to an escrow agreement. On September 14, 1998, such funds were released from escrow, with approximately $552.2 million used to finance the Parent Holdings Defeasance and the balance delivered to the Issuer. Concurrently with such release, Golden State Financial, as the successor obligor following the Golden State Acquisition, gave a 30-day notice of redemption for all of the outstanding $455 million aggregate principal amount of the Parent Holdings Notes and irrevocably deposited in trust money or government obligations in an amount sufficient to pay the redemption price therefor, together with any accrued and unpaid interest to the date of redemption, for the purpose of defeasing the Parent Holdings Notes (the "Parent Holdings Defeasance"). The Parent Holdings Defeasance constituted "covenant defeasance" for purposes of the indenture governing the Parent Holdings Notes (the "Parent Holdings Notes Indenture"). As a result, Golden State Financial and its subsidiaries, including Golden State Holdings, are not required to comply with substantially all of the covenants and other obligations under the Parent Holdings Notes Indenture. All of the outstanding Parent Holdings Notes were redeemed on October 14, 1998.

On September 14, 1998, Golden State Holdings commenced the Debt Tender Offers for all of its $200 million aggregate principal amount of 12 1/4% Senior Notes Due 2001 (the "FNH 12 1/4% Senior Notes"), its $140 million aggregate principal amount of 9 1/8% Senior Subordinated Notes Due 2003 (the "FNH 9 1/8% Senior Subordinated Notes") and its $575 million aggregate principal amount of 10 5/8% Senior Subordinated Notes Due 2003 (the "FNH 10 5/8% Senior Subordinated Notes" and, together with the FNH 12 1/4% Senior Notes and the FNH 9 1/8% Senior Subordinated Notes, the "FNH Notes"). Prior to commencing the Debt Tender Offers, the Issuer solicited and obtained the consent of the requisite holders of each series of the FNH Notes to certain amendments (the "Amendments") to the applicable indentures governing the FNH Notes (collectively, the "FNH Indentures"), and executed supplemental indentures to effect the Amendments. The Amendments eliminated certain restrictive covenants contained in the FNH Indentures. For a description of the current terms of the FNH Notes, see "Business--The Issuer--Sources of Funds--FNH 12 1/4% Senior Notes," "--FNH 9 1/8% Senior Subordinated Notes" and "--FNH 10 5/8% Senior Subordinated Notes." On September 17, 1998, Golden State Holdings purchased $137,445,000 aggregate principal amount of the FNH 12 1/4% Senior Notes, $109,555,000 aggregate principal amount of the FNH 9 1/8% Senior Subordinated Notes and $488,820,000 aggregate principal amount of the FNH 10 5/8% Senior Subordinated Notes tendered by Salomon Smith Barney Inc. in the FNH Debt Tender Offers. The Debt Tender Offers expired on October , 1998, and approximately $ million principal amount of FNH Notes were purchased pursuant thereto for an aggregate purchase price of approximately $ million.

On August 17, 1998, FNH commenced cash offers to purchase (the "Bank Preferred Stock Tender Offers") all of the Bank's 11 1/2% Noncumulative Perpetual Preferred Stock, Series C, par value $100 per share (the "11 1/2% Preferred Stock"), having an aggregate liquidation preference of approximately $300.7 million, and all of the Bank's 10 5/8% Noncumulative Perpetual Preferred Stock, Series B, par value $100 per share (the "10 5/8% Preferred Stock" and, together with the 11 1/2% Preferred Stock, the "Bank Preferred Stock"), having an aggregate liquidation preference of approximately $172.5 million. For a description of the terms of the Bank Preferred Stock, see "Business--The Issuer--Sources of Funds--11 1/2% Preferred Stock--Minority Interest" and "--10 5/8% Preferred Stock--Minority Interest."

The Bank Preferred Stock Tender Offer expired on September 14, 1998 and 222,721 shares of the 10 5/8% Preferred Stock, constituting approximately 13% of the shares of 10 5/8% Preferred Stock outstanding, and 995,437 shares of the 11 1/2% Preferred Stock, constituting approximately 33% of the shares of 11 1/2% Preferred Stock outstanding, were purchased by the Issuer (which assured FNH's payment obligations) pursuant thereto for an aggregate purchase price of approximately $135.8 million.

The $ million principal amount of FNH 12 1/4% Senior Notes that remain outstanding rank pari passu with the Notes and the $ million principal amount of FNH 9 1/8% Senior Subordinated Notes or FNH 10 5/8% Senior Subordinated Notes that remain outstanding after the consummation of the Debt Tender Offers are subordinated in right of payment to the Notes.

The Issuer may from time to time continue to purchase Bank Preferred Stock in one or more open market or privately negotiated transactions. The Issuer expects to purchase the outstanding Bank Preferred Stock not

acquired in the Bank Preferred Stock Tender Offers or such other transactions once it becomes redeemable (April 1, 1999 in the case of the 10 5/8% Preferred Stock and September 1, 1999 in the case of the 11 1/2% Preferred Stock).

As a result of the Refinancing Transactions (assuming that (i) 100% of the FNH Notes are acquired in the Debt Tender Offers and (ii) all outstanding Bank Preferred Stock is acquired in the Bank Preferred Stock Tender Offers or is subsequently purchased by the Issuer), (i) the interest expense at FNH, (ii) the interest expense at Parent Holdings (now Golden State) and (iii) the preferred stock dividend requirement of the Bank will be reduced as follows (in thousands):

	PRE-TAX	AFTER-TAX
Old Debt and Bank Preferred Stock:		
FNH Notes	$ 98,369	$ 56,907
Parent Holdings Notes	56,875	32,902
Bank Preferred Stock	52,912	52,912
	208,156	142,721
New Debt:		
Notes	140,910	81,516
Annual Savings	$ 67,246	$ 61,205

The pro forma statements of income of the Issuer included elsewhere in this Prospectus do not include the reduction in interest expense relative to the Parent Holdings Notes, which is expected to increase annual pre-tax earnings at Parent Holdings by approximately $56.9 million. Prior to the Parent Holdings Defeasance, such interest expense had been financed by dividends from the Bank to FNH and from FNH to Parent Holdings. Annual interest expense of approximately $32.1 million (on a pre-tax basis) is included in pro forma earnings for the portion of the Notes that was used to refinance the Parent Holdings Notes.

As a result of the Refinancing Transactions, the average life of the Notes is longer than the average life of the debt that was refinanced. As a result of the reduction in the consolidated Parent Holdings annual debt service, there is a greater opportunity for accumulation of retained earnings at the Bank level. Furthermore, the Debt Tender Offers and the Parent Holdings Defeasance eliminated all of the restrictive covenants contained in the FNH Indentures and the Parent Holdings Notes Indenture which would otherwise have precluded the assumption by Golden State Holdings of the Notes and otherwise limit certain activities of the Issuer and its subsidiaries, including the Bank. As a result of the Refinancing Transactions, the Issuer and its subsidiaries, including the Bank, have greater financial and operating flexibility.

The following table illustrates the sources and uses of funds in the Refinancing Transactions (assuming that (i) 100% of the FNH Notes are acquired in the Debt Tender Offers and (ii) all outstanding Bank Preferred Stock is acquired in the Bank Preferred Stock Tender Offers or is subsequently purchased by the Issuer) (in thousands):

SOURCES OF FUNDS:	
Sale of the Notes	$1,993,919
Bank Dividend(a)	122,923
	$2,116,842
USES OF FUNDS:	
Debt Tender Offers:	
FNH 12 1/4% Senior Notes	$ 200,000
FNH 9 1/8% Senior Subordinated Notes	140,000
FNH 10 5/8% Senior Subordinated Notes	575,000
Bank Preferred Stock Tender Offers:	
11 1/2% Preferred Stock	300,730
10 5/8% Preferred Stock	172,500
Parent Holdings Defeasance	455,000
	1,843,230
Expenses of the Refinancing Transactions	273,612
	$2,116,842

(a) Alternatively, the Issuer may borrow up to $200 million under a new short-term senior unsecured credit facility, which borrowings are expected to be repaid by the Issuer from payments received from the Bank under the Tax Sharing Agreement. The Bank Dividend will be reduced by the amount borrowed, if any, under such new credit facility. See "Certain Relationships and Related Transactions--Tax Sharing Agreement."

The Issuer financed the Debt Tender Offers, the Bank Preferred Stock Tender Offers and the Parent Holdings Defeasance with the net proceeds of the Offering and the Bank Dividend of $ million. The Offering, the Bank Dividend, the Debt Tender Offers, the Bank Preferred Stock Tender Offers and the Parent Holdings Defeasance are referred to collectively herein as the "Refinancing Transactions."

PRO FORMA FINANCIAL DATA

The following pro forma financial data gives effect to the Golden State Acquisition, the CENFED Merger, the RedFed Merger and the Refinancing Transactions (assuming that (i) 100% of the FNH Notes are acquired in the Debt Tender Offers and (ii) all outstanding Bank Preferred Stock is acquired in the Bank Preferred Stock Tender Offers or is subsequently purchased by the Issuer).

The following pro forma financial data as of and for the six months ended June 30, 1998 are based on (i) the historical consolidated balance sheet of FNH giving effect to the Golden State Acquisition, the RedFed Merger and the Refinancing Transactions as if such transactions occurred on June 30, 1998, and (ii) the historical consolidated statement of income of FNH for the six months ended June 30, 1998 giving effect to the Golden State Acquisition, the CENFED Merger, the RedFed Merger and the Refinancing Transactions as if such transactions occurred on January 1, 1997. The following pro forma financial data for the year ended December 31, 1997 is based on the historical consolidated statement of income of FNH for the year ended December 31, 1997 giving effect to the Golden State Acquisition, the CENFED Merger, the RedFed Merger and the Refinancing Transactions as if such transactions occurred on January 1, 1997. However, for purposes of computing the purchase price, the daily volume weighted average price of Golden State common stock and the Litigation Tracking Warrants(Trademark) for the three days ended September 10, 1998 was used, as such prices are considered to provide more relevant information to investors. See Note B. For purposes of pro forma presentation, Glendale Federal's consolidated statements of operations have been recast to conform to the calendar year end used by FNH. The pro forma adjustments are based on available information and upon certain assumptions that management believes are reasonable under the circumstances. The Golden State Acquisition, the CENFED Merger and the RedFed Merger are accounted for under the purchase method of accounting. Under this method of accounting, the purchase price has been allocated to the assets and liabilities acquired based on preliminary estimates of fair value. The actual fair value is determined as of the consummation of the Golden State Acquisition. The pro forma financial data do not necessarily reflect the results of operations or the financial position of the Issuer that actually would have resulted had the Golden State Acquisition, the CENFED Merger, the RedFed Merger and the Refinancing Transactions occurred at the dates indicated, or project the results of operations or financial position of the Issuer for any future date or period.

The pro forma financial data should be read in conjunction with the Consolidated Financial Statements of FNH and the notes thereto, and the Consolidated Financial Statements of Glendale Federal and the notes thereto, included elsewhere in this Prospectus. See "Selected Historical Financial Data."

GOLDEN STATE HOLDINGS

UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET

AS OF JUNE 30, 1998
(DOLLARS IN THOUSANDS)

	FNH (HISTORICAL)	GLENDALE FEDERAL (HISTORICAL)	REDFED(1)	GOLDEN STATE ACQUISITION ADJUSTMENTS (NOTE D)	PRO FORMA BEFORE REFINANCING TRANSACTIONS	REFINANCING TRANSACTIONS ADJUSTMENTS (NOTE G)	PRO FORMA COMBINED
ASSETS							
Cash and amounts due from banks	$ 345,921	$ 289,978	$ 71,197	$ --	$ 707,096	$ (45,002)	$ 662,094
Federal funds sold and assets purchased under resale agreements	--	172,000	--	--	172,000	--	172,000
Other investments	879,071	128,308	7,997	--	1,015,376	--	1,015,376
Loans receivable, net	20,351,922	13,774,580	910,718	6,807	35,044,027	--	35,044,027
Mortgage-backed securities, net	9,180,282	2,375,363	10,242	6,962	11,572,849	--	11,572,849
Real estate held for sale or investment	--	6,327	--	--	6,327	--	6,327
Real estate acquired in settlement of loans	64,892	37,393	6,716	--	109,001	--	109,001
Investment in capital stock of FHLB, at cost	540,127	300,339	9,734	--	850,200	--	850,200
Mortgage servicing assets	669,056	243,314	--	54,243	966,613	--	966,613
Goodwill and other intangible assets	656,177	180,463	48,767	61,875	947,282	--	947,282
Other assets	1,348,509	587,331	28,054	184,446	2,148,340	(28,847) 28,625 9,958	2,158,076
	$ 34,035,957	$ 18,095,396	$ 1,093,425	$314,333	$53,539,111	$ (35,266)	$53,503,845
LIABILITIES, MINORITY INTEREST AND STOCKHOLDER'S EQUITY							
Deposits	$ 16,044,288	$ 10,701,157	$ 864,861	$ 2,588	$27,612,894	$ --	$27,612,894
Securities sold under agreements to repurchase	2,861,604	175,551	--	--	3,037,155	--	3,037,155
Borrowings from the FHLB	10,993,707	5,613,458	70,079	1,194	16,678,438	--	16,678,438
Other borrowings	1,282,580	70	8,693	993	1,292,336	(915,000) 2,000,000 (6,081)	2,371,255
Other liabilities	729,131	326,761	1,226	563,578	1,620,696	(12,159) 13,228	1,621,765
Minority interest	986,296	--	--	--	986,296	(486,458)	499,838
Stockholder's equity	1,138,351	1,278,399	148,566	(254,020)	2,311,296	(134,600) (494,196)	1,682,500
	$ 34,035,957	$ 18,095,396	$ 1,093,425	$314,333	$53,539,111	$ (35,266)	$53,503,845

(1) Represents the RedFed Merger, accounted for as a purchase, together with related pro forma purchase accounting adjustments.

See accompanying Notes to Unaudited Pro Forma Condensed Combined Financial Statements.

GOLDEN STATE HOLDINGS

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 1998
(DOLLARS IN THOUSANDS)

	FNH (HISTORICAL)	GLENDALE FEDERAL (HISTORICAL)	CENFED AND REDFED(1)	GOLDEN STATE ACQUISITION ADJUSTMENTS (NOTE D)	PRO FORMA BEFORE REFINANCING TRANSACTIONS	REFINANCING TRANSACTIONS ADJUSTMENTS (NOTE G)	PRO FORMA COMBINED
Interest income.....	$1,091,523	$581,626	$85,568	$ (5,129)	$1,753,588	$ (1,238)	$1,752,35
Interest expense.....	752,596	353,826	49,745	(1,616)	1,154,551	(49,185)	1,176,63
						70,455	
						818	
Net interest income.....	338,927	227,800	35,823	(3,513)	599,037	(23,326)	575,71
Provision for loan losses.....	20,000	(3,721)	804	--	17,083	--	17,08
Net interest income after provision for loan losses.....	318,927	231,521	35,019	(3,513)	581,954	(23,326)	558,62
Other income:							
Fee income.....	71,363	48,357	5,002	(4,068)	120,654	--	120,65
Gain (loss) on sale of loans, net.....	36,124	796	--	--	36,920	--	36,92
Gain on sale of mortgage-backed securities, net.....	--	4,430	725	--	5,155	--	5,15
Other income, net.....	62,685	209	158	--	63,052	--	63,05
Total other income....	170,172	53,792	5,885	(4,068)	225,781	--	225,78
Other expenses:							
Compensation and employee benefits.....	127,620	70,449	18,333	--	216,402	--	216,40
Occupancy expense, net.....	41,406	16,887	2,606	--	60,899	--	60,89
Regulatory insurance....	5,054	4,015	586	--	9,655	--	9,65
Advertising and promotion.....	9,914	10,434	385	--	20,733	--	20,73
Furniture, fixtures and equipment.....	--	8,109	--	--	8,109	--	8,10
Other general and administrative expenses.....	99,611	40,288	8,518	--	148,417	(3,336)	147,83
						2,754	
Total general and administrative expenses.....	283,605	150,182	30,428	--	464,215	(582)	463,63
Restructuring charges...	--	4,452	3,761	--	8,213	--	8,21
Legal expense--goodwill lawsuit.....	--	9,068	--	--	9,068	--	9,06
Operations of real estate held for sale or investment.....	--	46	--	--	46	--	4
Operations of real estate acquired in settlement of loans...	(5,138)	(4,329)	2,415	--	(7,052)	--	(7,05
Amortization of goodwill and other intangible assets.....	23,229	5,052	4,880	2,063	35,224	--	35,22
Total other expense...	301,696	164,471	41,484	2,063	509,714	(582)	509,13
Earnings (loss) before income tax provision (benefit).....	187,403	120,842	(580)	(9,644)	298,021	(22,744)	275,27
Income tax provision (benefit).....	(221,134)	49,195	(120)	56,415 (2)	(115,644)	(9,552)(4)	(125,19
Earnings (loss) before minority interest.....	408,537	71,647	(460)	(66,059)	413,665	(13,192)	400,47
Minority interest.....	45,614	--	--	(6,666)(3)	38,948	(26,456)(5)	12,49
Net earnings (loss).....	$ 362,923	$ 71,647	$ (460)	$(59,393)	$ 374,717	$ 13,264 (6)	$ 387,98

Memo Item:

Common dividends necessary for debt service on the Parent Holdings Notes...	$ 28,438	--	--	--	$ 28,438	$(28,438)	-
Effective tax rate.....	12.78%	N/A	N/A	N/A	42.15%	--	42.1

(Footnotes on next page)

See accompanying Notes to Unaudited Pro Forma Condensed Combined Financial Statements.

GOLDEN STATE HOLDINGS

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF INCOME--(CONTINUED)

FOR THE SIX MONTHS ENDED JUNE 30, 1998
(DOLLARS IN THOUSANDS)

(Footnotes from previous page)

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(1) Represents the CENFED Merger and/or the RedFed Merger, each accounted for as a purchase, together with related pro forma purchase accounting adjustments.

(2) The adjustment to income tax expense includes adjustments for nondeductible goodwill amortization and to adjust FNH's historical effective tax rate to 42%.

(3) Reflects a 42% effective tax rate related to the REIT Preferred Stock.

(4) Represents tax expense at 42% related to pro forma refinancing adjustments.

(5) Represents historical dividends paid related to the Bank Preferred Stock. On July 24, 1997, Glendale Federal was reorganized into a holding company structure which resulted in Glendale Federal becoming a wholly owned subsidiary of Golden State. As part of the reorganization Golden State issued its preferred stock in exchange for the Glendale Federal preferred stock with substantially the same terms. Therefore, preferred stock dividends declared by Glendale Federal after the reorganization have not been reported.

(6) Does not reflect the interest expense savings of approximately $28.4 million (pre-tax) for the six months ended June 30, 1998 relating to the Parent Holdings Notes. In addition, does not reflect the extraordinary loss that will be realized as a result of the Refinancing Transactions. See Note G to the Unaudited Pro Forma Financial Statements.

(7) Pro forma combined net earnings for the six months ended June 30, 1998 includes the recognition of a $250 million tax benefit, representing a reduction in the valuation allowance established against FNH's deferred tax asset. If this $250 million tax benefit is not considered, net earnings for the six months ended June 30, 1998 would be as follows (in thousands):

FNH (Historical)	$112,923
Pro Forma before Refinancing Transactions	124,717
Pro Forma Combined	137,981

See accompanying Notes to Unaudited Pro Forma Condensed Combined Financial Statements.

GOLDEN STATE HOLDINGS

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF INCOME

FOR THE YEAR ENDED DECEMBER 31, 1997
(DOLLARS IN THOUSANDS)

	FNH (HISTORICAL)	GLENDALE FEDERAL (HISTORICAL)	CENFED AND REDFED(1)	GOLDEN STATE ACQUISITION ADJUSTMENTS (NOTE D)	PRO FORMA BEFORE REFINANCING TRANSACTIONS	REFINANCING TRANSACTIONS ADJUSTMENTS (NOTE G)	PRO FORMA COMBINED
Interest income	$2,127,490	$1,121,021	$236,033	$ (10,256)	$3,474,288	$ (2,475)	$3,471,813
Interest expense	1,440,804	711,807	147,953	(3,231)	2,297,333	(98,369)	2,341,510
						140,910	
						1,636	
Net interest income	686,686	409,214	88,080	(7,025)	1,176,955	(46,652)	1,130,303
Provision for loan losses	79,800	12,015	7,139	--	98,954	--	98,954
Net interest income after provision for loan losses	606,886	397,199	80,941	(7,025)	1,078,001	(46,652)	1,031,349
Other income:							
Fee income	143,919	96,867	13,904	(8,136)	246,554	--	246,554
Gain (loss) on sale of loans, net	24,721	(363)	16	--	24,374	--	24,374
Gain on sale of mortgage-backed securities, net	--	(226)	2,029	--	1,803	--	1,803
Other income, net	171,054	1,217	1,249	--	173,520	--	173,520
Total other income	339,694	97,495	17,198	(8,136)	446,251	--	446,251
Other expenses:							
Compensation and employee benefits	256,448	124,693	29,450	--	410,591	--	410,591
Occupancy expense, net	81,914	33,468	12,832	--	128,214	--	128,214
Regulatory insurance	10,680	8,949	2,433	--	22,062	--	22,062
Advertising and promotion	20,186	22,708	2,146	--	45,040	--	45,040
Furniture, fixtures and equipment	--	13,649	--	--	13,649	--	13,649
Other general and administrative expenses	233,642	71,221	9,719	--	314,582	(6,672)	313,417
						5,507	
Total general and administrative expenses	602,870	274,688	56,580	--	934,138	(1,165)	932,973
SAIF special assessment	--	(3,153)	--	--	(3,153)	--	(3,153
Legal expense--goodwill lawsuit	--	28,517	--	--	28,517	--	28,517
Operations of real estate held for investment	--	(387)	--	--	(387)	--	(387
Operations of real estate acquired in settlement of loans	(3,304)	4,021	2,745	--	3,462	--	3,462
Restructuring charges	--	2,487	397	--	2,884	--	2,884
Amortization of goodwill and other intangible assets	49,153	7,056	9,733	4,125	70,067	--	70,067
Total other expense	648,719	313,229	69,455	4,125	1,035,528	(1,165)	1,034,363
Earnings (loss) before income tax provision (benefit)	297,861	181,465	28,684	(19,286)	488,724	(45,487)	443,237
Income tax provision (benefit)	47,148	76,851	10,063	92,230 (2)	226,292	(19,105) (4)	207,187
Earnings (loss) before minority interest	250,713	104,614	18,621	(111,516)	262,432	(26,382)	236,050
Minority interest	89,344	--	--	(12,331) (3)	77,013	(52,912) (5)	24,101
Net earnings (loss)	$ 161,369	$ 104,614	$ 18,621	$ (99,185)	$ 185,419	$ 26,530 (6)	$ 211,949

Memo Item:							
Common dividends necessary for debt service on the Parent Holdings Notes...	$ 56,875	--	--	--	$ 56,875	$(56,875)	--
Effective tax rate.....	12.78%	N/A	N/A	N/A	42.15%	N/A	42.15

(Footnotes on next page)

See accompanying Notes to Unaudited Pro Forma Condensed Combined Financial Statements.

GOLDEN STATE HOLDINGS

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF INCOME--(CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 1997
(DOLLARS IN THOUSANDS)

(Footnotes from previous page)

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(1) Represents the CENFED Merger and the RedFed Merger, each accounted for as a purchase, together with related pro forma purchase accounting adjustments.

(2) The adjustment to income tax expense includes adjustments for nondeductible goodwill amortization and to adjust FNH's historical effective tax rate to 42%.

(3) Reflects a 42% effective tax rate related to the REIT Preferred Stock.

(4) Represents tax expense at 42% related to pro forma refinancing adjustments.

(5) Represents historical dividends paid related to the Bank Preferred Stock. On July 24, 1997, Glendale Federal was reorganized into a holding company structure which resulted in Glendale Federal becoming a wholly owned subsidiary of Golden State. As part of the reorganization Golden State issued its preferred stock in exchange for the Glendale Federal preferred stock with substantially the same terms. Therefore, preferred stock dividends declared by Glendale Federal after the reorganization have not been reported.

(6) Does not reflect the interest expense savings of approximately $56.9 million (pre-tax) for the year ended December 31, 1997 relating to the Parent Holdings Notes. In addition, does not reflect the extraordinary loss that will be realized as a result of the Refinancing Transactions. See Note G to the Unaudited Pro Forma Financial Statements.

See accompanying Notes to Unaudited Pro Forma Condensed Combined Financial Statements.

GOLDEN STATE HOLDINGS

NOTES TO UNAUDITED PRO FORMA
CONDENSED COMBINED FINANCIAL STATEMENTS

AS OF JUNE 30, 1998 AND FOR THE SIX MONTHS AND THE YEAR
ENDED JUNE 30, 1998 AND DECEMBER 31, 1997, RESPECTIVELY
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

NOTE A: BASIS OF PRESENTATION

The Unaudited Pro Forma Condensed Combined Balance Sheet combines the historical consolidated balance sheets of Glendale Federal and FNH as of June 30, 1998, as if the Golden State Acquisition, the RedFed Merger and the Refinancing Transactions were consummated on June 30, 1998. The Unaudited Pro Forma Condensed Combined Statement of Income for the six months ended June 30, 1998 combines the historical consolidated statements of income of Glendale Federal and FNH for the six months ended June 30, 1998, as if the Golden State Acquisition, the RedFed Merger, the CENFED Merger and the Refinancing Transactions were consummated on January 1, 1997. The Unaudited Pro Forma Condensed Combined Statement of Income for the year ended December 31, 1997 combines the historical statements of income of Glendale Federal and FNH as if the Golden State Acquisition, the RedFed Merger, the CENFED Merger and the Refinancing Transactions were consummated on January 1, 1997. Certain items in the unaudited pro forma condensed combined financial statements related to FNH have been reclassified to conform to the Glendale Federal presentation.

The Golden State Acquisition will be accounted for using the "purchase" method of accounting. Glendale Federal is treated as the acquired corporation for financial reporting purposes. Glendale Federal's assets, liabilities, and other items will be adjusted to their estimated fair value at the closing date of the Golden State Acquisition and combined with the historical book values of the assets and liabilities of FNH. Applicable income tax effects of such adjustments are included as a component of the combined entity's deferred tax asset/liability. The difference between the estimated fair value of the assets, liabilities and other items, adjusted as discussed above, and the purchase price, is recorded as goodwill.

For purposes of the Unaudited Pro Forma Condensed Combined Financial Statements, estimates relating to the fair value of certain assets, liabilities and other items have been made as of June 30, 1998. However, for purposes of computing the purchase price, the daily volume weighted average price of Golden State common stock and the Litigation Tracking Warrants(Trademark) for the three days ended September 10, 1998 was used, as such prices are considered to provide more relevant information to investors. See Note B. Actual adjustments will be made on the basis of actual assets, liabilities and other items as of the date of the respective mergers on the basis of appraisals and evaluations made as of that time and, therefore, actual fair value amounts are expected to differ from those reflected in the Unaudited Pro Forma Condensed Combined Financial Statements.

It should be noted that management's expectations of cost savings and other operating efficiencies are not reflected in the Unaudited Pro Forma Condensed Combined Financial Statements. Further, it should be noted that net interest income may increase or decrease from historical levels based upon changes in the shape of the yield curve and current market conditions. The pro forma financial data do not necessarily reflect the results of operations or the financial position of the Issuer that actually would have resulted had the Golden State Acquisition, the CENFED Merger, the RedFed Merger and the Refinancing Transactions occurred at the dates indicated, or project the results of operations or financial position of the Issuer for any future date or period.

NOTE B: PURCHASE PRICE

The terms of the Merger Agreement call for the existing Golden State stockholders to own 58% of the common stock of the combined entity outstanding, immediately after giving effect to the Golden State Acquisition, on a fully-diluted basis (without giving effect to shares issuable pursuant to the Litigation Tracking Warrants(Trademark) or the issuance of Contingent Shares). The Merger Agreement also provides for the contingent issuance to First Gibraltar Holdings and Hunter's Glen of additional shares of Golden State Common Stock in connection with (i) the use by Golden State of certain tax benefits of Parent Holdings and the realization of certain other potential tax benefits and liabilities of Golden State and Parent Holdings and (ii) the receipt by the

NOTE B: PURCHASE PRICE--(CONTINUED)

combined company of a net after-tax recovery in certain litigation, including a portion of the net recovery, if any, in the California Federal Goodwill Litigation against the United States government.

Using the daily volume weighted average price of $18.875 and $4.776 for the fully diluted Golden State common stock and Litigation Tracking Warrants(Trademark), respectively, for the three days ended September 10, 1998, Golden State's fully diluted outstanding shares, as of June 30, 1998, applying the treasury method under Statement of Financial Accounting Standards No. 128, "Earnings Per Share," as required by the Merger Agreement, would be as follows:

Golden State	
Common shares outstanding as of June 30, 1998	55,485,151
Treasury shares to be issued as part of RedFed Merger	4,565,534
Shares issuable pursuant to outstanding Series A Preferred Stock convertible to common stock (i)	11,099,721
Shares issuable pursuant to outstanding 5 Year Warrants on common stock (ii)	1,278
Shares issuable pursuant to outstanding 7 Year Warrants on common stock (iii)	5,305,443
Shares issuable pursuant to outstanding Stock Options on common stock (iv)	581,900
Total--fully diluted outstanding shares	77,039,027

(i) Based on 4,617,484 shares, each convertible into 2.404 shares of Golden State Common Stock.
(ii) Warrants convertible at an exchange rate of 10 warrants for one share of Golden State Common Stock.
(iii) 10,769,807 warrants with $12.00 exercise price per warrant.
(iv) Based on 2,778,508 stock options with a weighted average exercise price per share of Golden State Common Stock of $15.111.

Purchase Price:	
Number of Golden State fully diluted outstanding shares	77,039,027
Price per share	x $18.875
Purchase price	$1,454,112

NOTE C: PURCHASE ACCOUNTING ADJUSTMENTS

Golden State stockholders' equity, giving effect to the RedFed Merger	$1,375,497
Goodwill due to the Golden State Acquisition (Note D)	61,875
Fair value adjustments, net of taxes (Note D)	36,677
Golden State Acquisition costs, net of taxes (Note E)	(84,867)
Goodwill litigation proceeds participation (Note F)	64,930
Total purchase price	$1,454,112

GOLDEN STATE HOLDINGS

NOTES TO UNAUDITED PRO FORMA
CONDENSED COMBINED FINANCIAL STATEMENTS--(CONTINUED)

AS OF JUNE 30, 1998 AND FOR THE SIX MONTHS AND THE YEAR
ENDED JUNE 30, 1998 AND DECEMBER 31, 1997, RESPECTIVELY
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

NOTE D: PURCHASE ACCOUNTING ADJUSTMENTS

The estimated purchase accounting adjustments relating to the Golden State Acquisition are detailed below:

	INTEREST-EARNING ASSETS	MORTGAGE SERVICING ASSETS	GOODWILL	OTHER ASSETS	INTEREST-BEARING LIABILITIES	OTHER LIABILITIES	STOCKHOLDER'S EQUITY
Purchase price in excess of Golden State's net stockholders' equity, giving effect to the RedFed Merger	$ --	$ --	$ 78,615	$ --	$ --	$ --	$ 78,615
Fair value adjustments, net of taxes	13,769	54,243	(36,677)	--	4,775	26,560	--
Golden State Acquisition costs, net of taxes (Note E)	--	--	84,867	41,433	--	126,300	--
Other integration costs, net of taxes (Note E)	--	--	--	31,065	--	73,700	(42,635)
Value of Golden State Holdings' retained participation in the Glendale Goodwill Litigation after issuance of the Litigation Tracking Warrants(Trademark) (Note F)	--	--	(64,930)	111,948	--	47,018	--
Dividend of tax benefits to First Gibraltar Holdings as a result of deconsolidation caused by the Golden State Acquisition	--	--	--	--	--	290,000	(290,000)
	$ 13,769	$54,243	$ 61,875	$184,446	$ 4,775	$ 563,578	$(254,020)
Increase/(decrease) in pre-tax earnings for:							TOTAL
Six months ended June 30, 1998	$ (5,129)	$(4,068)	$ (2,063)	$ --	$ 1,616	$ --	$ (9,644)
Year ended December 31, 1997	$ (10,256)	$(8,136)	$ (4,125)	$ --	$ 3,231	$ --	$ (19,286)

	AMOUNT	INCREASE/(DECREASE) IN PRE-TAX EARNINGS: SIX MONTHS ENDED JUNE 30, 1998
Interest-earning assets:		
Loans receivable, net	$ 6,807	$(4,144)
Mortgage-backed securities	6,962	(985)
	$ 13,769	$(5,129)
Interest-bearing liabilities		
Deposits	$ 2,588	$ 599
Borrowings from the FHLB	1,194	520
Other borrowings	993	497

	$ 4,775	$ 1,616

	YEAR ENDED DECEMBER 31, 1997
Interest-earning assets:	
Loans receivable, net	$ (8,287)
Mortgage-backed securities	(1,969)
	$ (10,256)
Interest-bearing liabilities	
Deposits	$ 1,198
Borrowings from the FHLB	1,040
Other borrowings	993
	$ 3,231

NOTE D: PURCHASE ACCOUNTING ADJUSTMENTS--(CONTINUED)

Premiums relating to mortgage-backed securities and loans receivable are amortized to interest income using an interest method over the weighted average life of the related asset. The premium on mortgage servicing assets is amortized in proportion to, and over the period of, estimated net servicing income. Goodwill is amortized on a straight line basis over fifteen years. Premiums relating to deposits and borrowings are amortized to interest expense using an interest method over the weighted average life of the related liability.

NOTE E: MERGER AND INTEGRATION COSTS

The table below reflects the Issuer's current estimate, for purposes of pro forma presentation, of the aggregate merger and integration costs, net of taxes, expected to be incurred in connection with the Golden State Acquisition. While a portion of these costs may be required to be recognized in the combined entity's results of operations as incurred, the current estimate of these costs has been reflected in the pro forma condensed combined statement of financial condition to disclose the effect of these activities on the Issuer's pro forma condensed combined financial position.

	GROSS COSTS	RELATED TAX BENEFIT	NET COSTS
Merger costs:			
Severance costs	$ 55,000	$23,183	$ 31,817
Contract termination costs	23,100	9,737	13,363
Investment banking, legal and other professional fees	40,000	5,058	34,942
Benefit plan termination costs	5,000	2,107	2,893
Branch consolidation costs	3,200	1,348	1,852
Subtotal--merger costs included in the allocation of the purchase price	126,300	41,433	84,867
Other integration costs:			
Conversion costs	27,900	11,760	16,140
Branch consolidation costs	9,600	4,046	5,554
Transition staffing expenses	17,000	7,166	9,834
Officer benefits	10,000	4,215	5,785
Other costs	9,200	3,878	5,322
Subtotal--other integration costs reflected as an adjustment to stockholders' equity	73,700	31,065	42,635
Total merger and integration costs	$200,000	$72,498	$127,502

The Issuer's cost estimates are forward looking statements. While the costs represent management's current estimate of merger and integration costs that will be incurred, the ultimate level and timing of recognition of such costs will be based on the final merger and integration plan to be completed in the coming months; the types and amounts of actual costs incurred could vary materially from these estimates if future developments differ from the underlying assumptions used by management in determining its current estimate of these costs.

GOLDEN STATE HOLDINGS

NOTES TO UNAUDITED PRO FORMA
CONDENSED COMBINED FINANCIAL STATEMENTS--(CONTINUED)

AS OF JUNE 30, 1998 AND FOR THE SIX MONTHS AND THE YEAR
ENDED JUNE 30, 1998 AND DECEMBER 31, 1997, RESPECTIVELY
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NOTE F: LITIGATION TRACKING WARRANTS(TRADEMARK)

Represents the estimated fair value of the 15% interest in the after-tax recovery, if any, in the Glendale Goodwill Litigation to be excluded in calculating the number of shares issuable upon exercise of the Litigation Tracking Warrants(Trademark), as follows:

Fully diluted Litigation Tracking Warrants(Trademark) outstanding as of June 30, 1998	77,039,027
Daily volume weighted average price of Litigation Tracking Warrants(Trademark) for the three days ended September 10, 1998	$ 4.776
Market value of Litigation Tracking Warrants(Trademark)	$ 367,938
Percent of Goodwill Litigation owned by Litigation Tracking Warrants(Trademark) holders	85%
Total market value of Glendale Goodwill Litigation	$ 432,869
Percent of Glendale Goodwill Litigation owned by Golden State Holdings	15%
Estimated fair value of Glendale Goodwill Litigation owned by Golden State Holdings	$ 64,930

The amount of the litigation proceeds reflected above is provided for illustrative purposes only. Such amount does not necessarily represent management's evaluation of the likely outcome of the Glendale Goodwill Litigation.

NOTE G: REFINANCING TRANSACTIONS ADJUSTMENTS

In connection with the Refinancing Transactions, Golden State Holdings commenced cash tender offers for the following issues of debt and preferred stock and, following such tender offers, will redeem any debt or preferred stock which is not tendered or otherwise purchased in open market or privately negotiated transactions:

	BALANCE 6/30/98		IMPACT ON PRE-TAX EARNINGS			
			SIX MONTHS ENDED 6/30/98		YEAR ENDED 12/31/97	
	PRINCIPAL/ LIQUIDATION PREFERENCE	DEFERRED ISSUANCE COSTS	INTEREST EXPENSE/ DIVIDEND	AMORTIZATION OF DEFERRED ISSUANCE COSTS	INTEREST EXPENSE/ DIVIDEND	AMORTIZATION OF DEFERRED ISSUANCE COSTS
FNH 12 1/4% Senior Notes	$ 200,000	$ 9,704	$ 12,250	$1,482	$ 24,500	$2,964
FNH 9 1/8% Senior Subordinated Notes	140,000	4,457	6,388	426	12,775	852
FNH 10 5/8% Senior Subordinated Notes	575,000	14,686	30,547	1,428	61,094	2,856
Total Debt Reduction	$ 915,000	$ 28,847	$ 49,185	$3,336	$ 98,369	$6,672
11 1/2% Preferred Stock	$ 300,730		$ 17,292		$ 34,584	
10 5/8% Preferred Stock	172,500		9,164		18,328	
plus: Accrued and Unpaid Dividends	13,228		--		--	
Total Preferred Stock Reduction (Minority Interest)	$ 486,458		$ 26,456		$ 52,912	

The deferred issuance costs reflected above, net of tax of approximately $12,159, will be written off as part of the Refinancing Transactions. These items and the tender premiums paid will be reflected as an extraordinary item--early extinguishment of debt on Golden State Holdings' financial statements in an amount totalling approximately $134,600 on an after-tax basis.

NOTE G: REFINANCING TRANSACTIONS ADJUSTMENTS--(CONTINUED)

The following debt was issued:

			IMPACT ON PRE-TAX EARNINGS			
			SIX MONTHS ENDED 6/30/98		YEAR ENDED 12/31/97	
	PRINCIPAL	DEFERRED ISSUANCE COSTS	INTEREST EXPENSE	AMORTIZATION OF DEFERRED ISSUANCE COSTS	INTEREST EXPENSE	AMORTIZATION OF DEFERRED ISSUANCE COSTS
Total Notes in multiple-tranche transaction; 7.0455% aggregate yield, net of original issue discount of $6,081	$1,993,919	$ 28,625	$70,455	$2,754	$140,910	$5,507

The use of proceeds from the Refinancing Transactions is estimated as follows:

Sale of the Notes		$ 1,993,919
Tender Offers:		
FNH 12 1/4% Senior Notes	$200,000	
FNH 9 1/8% Senior Subordinated Notes	140,000	
FNH 10 5/8% Senior Subordinated Notes	575,000	
11 1/2% Preferred Stock	300,730	
10 5/8% Preferred Stock	172,500	(1,388,230)
Redemption and Defeasance:		
Parent Holdings Notes		(455,000)
Tender and Make-Whole Premiums, Fees and Other Expenses (net of taxes)		(195,691)
Net cash payment to be made from Golden State Holdings (from the Bank Dividend)		$ (45,002)

At the time the Notes were issued, a dividend was paid to Parent Holdings totalling $494,196, representing the principal amount of the Parent Holdings Notes and the after-tax expenses related to the redemption of such notes.

At an assumed rate of 5.5%, the net cash payment made by FNH of $45,002 will reduce earnings by approximately $1,238 and $2,475 for the six months ended June 30, 1998 and the year ended December 31, 1997, respectively.

The hedging transaction effected under the Rate Lock Agreements (as defined herein) resulted in a net loss of approximately $9,958, which will be deferred and amortized over the life of the related Fixed Rate Notes through interest expense. This amortization will reduce pre-tax earnings by approximately $818 and $1,636 for the six months ended June 30, 1998 and the year ended December 31, 1997, respectively. See "Certain Relationships and Related Transactions--Rate Lock Agreements."

There can be no assurance that all of the outstanding FNH Notes will be tendered to and purchased in the Debt Tender Offers. The Issuer does not expect that all of the Bank Preferred Stock will be purchased in the Bank Preferred Stock Tender Offers. The Issuer expects to purchase any outstanding Bank Preferred Stock not acquired in the Bank Preferred Stock Tender Offers in open market or privately negotiated transactions or once it becomes redeemable (April 1, 1999 in the case of the 10 5/8% Preferred Stock and September 1, 1999 in the case of the

NOTE G: REFINANCING TRANSACTIONS ADJUSTMENTS--(CONTINUED)

11 1/2% Preferred Stock). The pro forma financial results assume that 100% of the outstanding principal amount of the FNH Notes and all of the Bank Preferred Stock is tendered and purchased in the Refinancing Transactions or, in the case of the Bank Preferred Stock, subsequently purchased. As shown below, results will vary if less than 100% of the FNH Notes or Bank Preferred Stock is purchased and assuming that excess proceeds from the Refinancing Transactions are invested at 5.5% per annum.

% PURCHASED		REFINANCING TRANSACTIONS ADJUSTMENTS	
FNH NOTES	BANK PREFERRED STOCK	FOR SIX MONTHS ENDED JUNE 30, 1998	FOR YEAR ENDED DECEMBER 31, 1997
100%	100%	$ 13,264	$26,530
95%	80%	9,067	18,135
90%	75%	7,490	14,981
80%	65%	4,308	8,618

NOTE H: INTEREST COVERAGE

If 100% of the outstanding principal amount of the FNH Notes and all of the Bank Preferred Stock is tendered and purchased in the Refinancing Transactions, the Issuer's pro forma interest coverage ratio (calculated as the amount available for debt service divided by interest expense on the Notes) on a cash basis and a GAAP (as defined herein) basis would be as follows for the periods indicated:

	SIX MONTHS ENDED JUNE 30, 1998		YEAR ENDED DECEMBER 31, 1997	
	GAAP	CASH	GAAP	CASH
Pre-Tax Income	$275,296	$275,296	$443,237	$443,237
Add: Goodwill Amortization	--	35,224	--	70,067
Add: Interest Expense on the Notes	70,455	70,455	140,910	140,910
Less: Dividends on the REIT Preferred Stock (pre-tax)	(22,813)	(22,813)	(45,625)	(45,625)
Available for Debt Service	$322,938	$358,162	$538,522	$608,589
Interest Coverage Ratio	4.6x	5.1x	3.8x	4.3x

SELECTED HISTORICAL FINANCIAL DATA

FNH

Prior to the Golden State Acquisition, FNH was a holding company whose only significant asset was all of the common stock of the Bank. As such, FNH's principal business operations were conducted by the Bank and its subsidiaries. The selected historical financial data for FNH presented under the captions "Selected Operating Data" and "Selected Financial Data" have been derived from the Consolidated Financial Statements of FNH.

The following data should be read in conjunction with the Consolidated Financial Statements of FNH and the notes thereto included elsewhere in this Prospectus and "Management's Discussion and Analysis of Financial Condition and Results of Operations--FNH."

	SIX MONTHS ENDED JUNE 30,		YEAR ENDED DECEMBER 31,				
	1998	1997(1)	1997(1)	1996(2)	1995	1994(3)	1993(4)
	(DOLLARS IN THOUSANDS)						
SELECTED OPERATING DATA							
Interest income	$1,076,961	$1,040,588	$2,102,700	$1,233,799	$1,075,845	$293,139	$ 95,26
Interest expense	752,596	706,056	1,440,804	807,800	734,815	199,845	74,72
Net interest income	324,365	334,532	661,896	425,999	341,030	93,294	20,53
Provision for loan losses	20,000	39,900	79,800	39,600	37,000	6,226	1,40
Noninterest income	184,734	161,287	364,484	653,378	150,973	41,158	190,87
Noninterest expense	301,696	324,475	648,719	490,569	332,553	96,298	63,39
Income before income taxes, extraordinary item and minority interest	187,403	131,444	297,861	549,208	122,450	31,928	146,61
Income tax expense (benefit)(5)	(221,134)	21,891	47,148	(73,131)	(57,185)	2,558	2,50
Income before extraordinary item and minority interest	408,537	109,553	250,713	622,339	179,635	29,370	144,11
Extraordinary item: (loss) gain on early extinguishment of FHLB advances, net	--	--	--	(1,586)	1,967	1,376	-
Income before minority interest	408,537	109,553	250,713	620,753	181,602	30,746	144,11
Minority interest(6)	45,614	42,993	89,344	43,230	34,584	--	-
Net income	362,923	66,560	161,369	577,523	147,018	30,746	144,11
SELECTED PERFORMANCE RATIOS							
Return on average assets(7)	2.25%	0.44%	0.52%	3.37%	1.00%	0.69%	7.8
Return on average common equity(8)	76.84	15.25	19.11	72.71	39.33	16.05	69.4
Average equity to average assets	2.95	2.92	2.83	4.85	2.54	3.90	11.3
Yield on interest-earning assets(9)	7.41	7.55	7.53	7.76	7.71	6.85	5.4
Cost of interest-bearing liabilities(10)	5.18	5.17	5.16	5.15	5.35	4.83	4.7
Net interest margin(11)	2.19	2.38	2.37	2.68	2.44	2.18	1.1
Efficiency ratio of the Bank(12)	48.46	53.40	51.16	54.88	63.47	N/A	N/
RATIO OF EARNINGS TO COMBINED FIXED CHARGES, MINORITY INTEREST AND PREFERRED STOCK DIVIDENDS(13)							
Excluding interest on deposits	1.32x	1.21x	1.24x	2.13x	1.27x	1.32x	9.5
Including interest on deposits	1.18	1.11	1.13	1.58	1.11	1.16	3.0

	AT JUNE 30,	AT DECEMBER 31,				
	1998	1997(1)	1996(2)	1995	1994(3)	1993(4)
	(DOLLARS IN THOUSANDS)					
SELECTED FINANCIAL DATA						
Securities available for sale(14)	$ 783,029	$ 813,085	$ 542,019	$ 348,561	$ 45,000	$ --
Securities held to maturity(14)	58,557	58,299	4,272	1,455	411,859	15,118
Mortgage-backed securities available for sale	8,037,170	5,076,598	1,598,652	1,477,514	--	--
Mortgage-backed securities held to maturity(14)	1,143,112	1,337,877	1,621,662	1,524,488	3,153,812	341,224
Loans receivable, net	18,626,425	19,424,410	10,212,583	8,829,974	9,966,886	29,244
Covered assets, net	--	--	--	39,349	311,603	592,593
Total assets	34,035,957	31,347,079	16,618,168	14,666,781	14,683,559	1,125,222
Deposits	16,044,288	16,202,605	8,501,883	10,241,628	9,196,656	431,788
Securities sold under agreements to repurchase	2,861,604	1,842,442	1,583,387	969,510	1,883,490	119,144
Borrowings	12,276,287	10,769,594	4,902,696	2,392,862	2,808,979	440,792
Total liabilities	31,911,310	29,517,116	15,389,575	13,903,635	14,029,957	1,012,328
Minority interest	986,296	986,456	309,376	300,730	300,730	--
Stockholders' equity	1,138,351	843,507	919,217	462,416	352,872	112,894
REGULATORY CAPITAL RATIOS OF THE BANK						
Tangible capital	5.46%	5.65%	7.17%	5.84%	5.50%	9.50%
Core capital	5.46	5.65	7.17	5.84	5.50	9.50
Risk-based capital:						
Core capital	10.37	10.14	11.50	9.14	8.86	67.71
Total capital	12.15	11.93	13.62	11.34	11.01	68.97
SELECTED OTHER DATA						
Number of full service customer facilities	225	225	116	160	156	4
Loans serviced for others(15)	$ 48,037,154	$47,933,469	$44,034,194	$27,900,528	$ 7,475,119	$ 327,449
Approximate number of employees	5,486	5,235	3,547	3,619	3,573	317
Non-performing assets as a percentage of the Bank's total assets	0.67%	0.87%	1.36%	1.50%	1.49%	0.98%

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

(2) On January 31, 1996, FNMC consummated the LMUSA 1996 Purchase, acquiring a $14.1 billion loan servicing portfolio. On February 1, 1996, the Bank acquired SFFed, with assets at fair values totalling approximately $4 billion and liabilities (including deposit liabilities) with fair values totalling approximately $3.8 billion. During the year ended December 31, 1996, the Bank closed the Branch Sales, with associated deposit accounts totalling $4.6 billion. Noninterest income for the year ended December 31, 1996 includes pre-tax gains of $363.3 million related to the Branch Sales. Noninterest expense for the year ended December 31, 1996 includes a pre-tax charge of $60.1 million for the Special SAIF Assessment.

(Footnotes continued on next page)

(Footnotes continued from previous page)

(3) On October 3, 1994, effective immediately following the close of business on September 30, 1994, the Bank acquired assets with fair values totalling approximately $14.1 billion and liabilities (including deposit liabilities) with fair values totalling approximately $13.4 billion from Old FNB (as defined herein).

(4) During the first quarter of 1993, FNH sold certain assets, liabilities, and substantially all of its branch operations located in Texas, including $829 million of loans and 130 branches with $6.9 billion in deposits, in the BAC Sale (as defined herein). A net gain of $141 million was recorded in connection with this sale.

(5) Income tax expense of $2.5 million was recorded in the first quarter of 1993 representing AMT (as defined herein) expense related to the gain recognized on the BAC Sale (see Footnote 4). Income tax expense recorded in 1994 after the FN Acquisition represents federal AMT reduced, to the extent of 90%, by net operating loss carryovers, and state tax at an assumed rate of 8%. Income tax benefit for 1996 and 1995 includes the recognition of a deferred tax benefit of $125 million and $69 million, respectively, offset by federal AMT tax reduced, to the extent of 90%, by net operating loss carryovers and state tax generally at an assumed rate of 8%. Income tax expense for 1997 represents federal AMT reduced, to the extent of 90%, by net operating loss carryovers, and state tax at an assumed rate of 11%. Income tax expense for the six months ended June 30, 1998 includes a $250 million reduction of the valuation allowance related to FNH's deferred tax asset, offset by federal AMT reduced, to the extent of 90%, by net operating loss carryovers, and state tax at an assumed rate of 11%.

(6) Represents dividends on the REIT Preferred Stock, net of related tax benefit and the Bank Preferred Stock. The REIT Preferred Stock was issued on January 31, 1997. Minority interest for the six months ended June 30, 1998 also includes a 20% minority interest in Auto One.

(7) Return on average assets represents net income as a percentage of average assets for the periods presented. For the periods ended June 30, 1998 and 1997, return on average assets is annualized.

(8) Return on average common equity represents net income available to common stockholders as a percentage of average common equity for the periods presented. For the periods ended June 30, 1998 and 1997, return on average common equity is annualized.

(9) Yield on interest-earning assets represents interest income as a percentage of average interest-earning assets. For the periods ended June 30, 1998 and 1997, yield on interest-earning assets is annualized.

(10) Cost of interest-bearing liabilities represents interest expense as a percentage of average interest-bearing liabilities. For the periods ended June 30, 1998 and 1997, cost of interest-bearing liabilities is annualized.

(11) Net interest margin represents net interest income as a percentage of average interest-earning assets. For the periods ended June 30, 1998 and 1997, net interest margin is annualized.

(12) Efficiency ratio represents noninterest expense reduced by goodwill amortization as a percentage of net interest income plus noninterest income (adjusted for non-recurring and expected non-recurring items). The efficiency ratio is not meaningful to FNH's operations in 1993 and 1994 due to the limited nature of such operations during those periods. See Footnotes 3 and 4.

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

(14) Fluctuation in securities and mortgage-backed securities held to maturity and securities and mortgage-backed securities available for sale from December 31, 1994 to December 31, 1995 resulted from the reclassification of substantially all securities and mortgage-backed securities (except for mortgage-backed securities resulting from the securitization with recourse of certain of the Bank's loans) from held to maturity to securities available for sale on December 29, 1995.

(15) Includes loans serviced by the Bank, and its subsidiaries, excluding loans serviced for the Bank by FNMC.

GLENDALE FEDERAL

The selected historical financial data for Glendale Federal presented under the captions "Selected Operating Data" and "Selected Financial Data" have been derived from the Consolidated Financial Statements of Glendale Federal.

The following data should be read in conjunction with the Consolidated Financial Statements of Glendale Federal and the notes thereto included elsewhere in this Prospectus.

	YEARS ENDED JUNE 30,				
	1998	1997	1996	1995	1994
	(DOLLARS IN THOUSANDS)				
SELECTED OPERATING DATA					
Interest income	$1,157,945	$1,072,956	$1,080,035	$1,086,658	$ 989,945
Interest expense	717,321	693,972	746,970	768,939	678,664
Net interest income	440,624	378,984	333,065	317,719	311,281
Provision for loan losses	(1,727)	25,204	40,350	66,150	139,726
Net interest income after provision for loan losses	442,351	353,780	292,715	251,569	171,555
Other income					
Fee income	98,076	90,696	69,977	69,311	60,513
Gain (loss) on sale of loans, net	605	(291)	(690)	146	665
Gain (loss) on sale of mortgage-backed securities, net	4,562	(1,804)	(34,222)	(11,725)	1,099
Gain on sale of banking operations	--	--	--	73,713	--
Other income (loss), net	1,643	62	(707)	3,001	(1,936)
Total other income	104,886	88,663	34,358	134,446	60,341
Other expenses					
Compensation and employee benefits	135,966	114,270	101,502	105,218	126,037
Occupancy expense, net	34,215	31,777	29,698	31,433	37,691
Regulatory insurance	7,843	16,317	27,491	29,077	38,233
Other general and administrative expenses	115,665	100,860	88,244	77,744	89,701
Total general and administrative expenses	293,689	263,224	246,935	243,472	291,662
SAIF special assessment	--	55,519	--	--	--
Legal expense--goodwill lawsuit	19,045	24,058	1,929	369	304
Acquisition and restructuring costs	6,939	--	--	--	--
Operations of real estate held for sale or investment	(664)	935	1,242	(31)	2,690
Operations of real estate acquired in settlement of loans	(3,111)	6,623	8,426	15,034	24,089
Amortization of goodwill and other intangible assets	9,151	5,530	5,147	1,724	9,764
Write-off of assets held for Florida disposition	--	--	--	--	136,209
Total other expenses	325,049	355,889	263,679	260,568	464,718
Earnings (loss) before income tax provision (benefit) and extraordinary items	222,188	86,554	63,394	125,447	(232,822)
Income tax provision (benefit)	93,113	36,131	21,342	52,146	(10,171)
Earnings (loss) before extraordinary items	129,075	50,423	42,052	73,301	(222,651)
Extraordinary items, net	--	--	--	1,755	14,092
Net earnings (loss)	$ 129,075	$ 50,423	$ 42,052	$ 75,056	$(208,559)
Earnings (loss) applicable to common shareholder:					
Net earnings (loss)	$ 129,075	$ 50,423	$ 42,052	$ 75,056	$(208,559)
Dividends declared on preferred stock(1)	(10,108)	(10,841)	(16,156)	(17,668)	(13,759)
Premium on exchange of preferred stock for common stock	--	(4,173)	(9,443)	--	--
Earnings (loss) applicable to common shareholder	$ 118,967	$ 35,409	$ 16,453	$ 57,388	$(222,318)
SELECTED PERFORMANCE RATIOS					
Return on average assets	0.78%	0.33%	0.28%	0.46%	(1.19)%
Return on average equity	11.65	5.14	4.45	8.26	(22.18)
Efficiency ratio(2)	54.52	56.04	61.27	62.91	78.45

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(1) On July 24, 1997, Glendale Federal was reorganized into a holding company

structure which resulted in Glendale Federal becoming a wholly owned subsidiary of Golden State. As part of the reorganization Golden State issued its preferred stock in exchange for the Glendale Federal preferred stock with substantially the same terms.

(2) Defined as total general and administrative expenses divided by the sum of net interest income before provision for loan losses plus fee income.

SELECTED FINANCIAL DATA

	JUNE 30,				
	1998	1997	1996	1995	1994
	(DOLLARS IN THOUSANDS)				
ASSETS					
Cash and amounts due from banks	$ 289,978	$ 221,557	$ 153,608	$ 139,697	$ 164,57
Federal funds sold and assets purchased under resale agreements	172,000	632,000	433,000	296,000	315,96
Other investments	128,308	31,799	18,877	42,326	166,04
Loans receivable, net	13,774,580	11,905,093	10,727,909	9,899,297	9,595,78
Mortgage-backed securities, net	2,375,363	2,279,534	2,240,790	4,723,457	5,363,77
Real estate held for sale or investment	6,327	8,689	12,072	13,303	16,99
Real estate acquired in settlement of loans	37,393	61,500	78,249	105,730	146,83
Investment in capital stock of FHLB, at cost	300,339	259,587	192,842	185,799	139,67
Mortgage servicing assets	243,314	284,472	127,399	99,122	68,71
Goodwill and other intangible assets	180,463	99,533	59,216	63,538	47,78
Assets held for Florida disposition, net	--	--	--	--	257,36
Other assets	587,331	434,495	412,602	475,977	519,52
	$18,095,396	$16,218,259	$14,456,564	$16,044,246	$16,803,03
LIABILITIES AND STOCKHOLDER'S EQUITY					
Deposits	$10,701,157	$ 9,356,909	$ 8,723,976	$ 8,734,880	$10,919,80
Securities sold under agreements to repurchase	175,551	768,682	758,050	2,695,176	2,306,27
Borrowings from the FHLB	5,613,458	4,788,000	3,838,000	3,495,000	2,443,42
Other borrowings	70	10,782	10,599	28,883	96,89
Other liabilities	326,761	281,812	168,488	148,460	158,41
Stockholder's equity(1)	1,278,399	1,012,074	957,451	941,847	878,21
	$18,095,396	$16,218,259	$14,456,564	$16,044,246	$16,803,03
REGULATORY CAPITAL RATIOS					
Tangible capital	6.02%	5.67%	6.29%	5.44%	4.2
Core capital	6.02%	5.67%	6.29%	5.44%	4.6
Risk-based capital	11.54%	11.17%	11.93%	11.15%	9.6
SELECTED OTHER DATA					
Common shares outstanding	57,754,480	50,348,509	46,729,698	40,719,718	37,737,43
Interest rate spread	2.90%	2.68%	2.41%	1.83%	2.1
Ratio of non-performing assets to total assets	0.74%	1.26%	1.90%	2.22%	3.9
Average equity to average assets	6.68%	6.45%	6.24%	5.52%	5.3
Number of full service customer facilities	195	166	150	148	21

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(1) For periods presented prior to June 30, 1998, Glendale Federal was a publicly held company. On July 24, 1997, Glendale Federal was reorganized into a holding company structure which resulted in Glendale Federal becoming a wholly owned subsidiary of Golden State.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the Consolidated Financial Statements of FNH and of Glendale Federal and the notes thereto included elsewhere in this Prospectus. The following discussion includes historical information relating to FNH, including the effect of the Cal Fed Acquisition for the period since consummation on January 3, 1997. Golden State Holdings acquired all of the assets and liabilities of FNH in the FNH Asset Transfer that was consummated on September 11, 1998 as part of the Golden State Acquisition.

FNH

GENERAL

FNH is a diversified financial services company whose principal business, through the Bank, consists of (i) operating retail deposit branches to serve consumers in California and, to a lesser extent, in Florida and Nevada, (ii) originating and/or purchasing, on a nationwide basis, 1-4 unit residential loans and, to a lesser extent, certain commercial real estate and consumer loans, for investment and (iii) mortgage banking activities, including originating and servicing 1-4 unit residential loans for others. Revenues are derived primarily from interest earned on loans, interest received on government and agency securities and mortgage-backed securities, gains on sales of loans and other investments, and fees received in connection with loan servicing, securities brokerage and other customer service transactions. Expenses primarily consist of interest on customer deposit accounts, interest on short-term and long-term borrowings, provisions for losses, general and administrative expenses consisting of compensation and benefits, occupancy and equipment, advertising and marketing, loan expenses, professional fees, data processing and other general and administrative expenses.

The following is a description of the significant acquisitions and dispositions which have occurred since the FN Acquisition. Each of the acquisitions was recorded using the purchase method of accounting. Under this method of accounting, the purchase price of the acquisition is allocated to the assets and liabilities acquired based on their fair market values as of the date of the acquisition.

The Cal Fed Acquisition

On January 3, 1997, FNH acquired Old Cal Fed and Old California Federal for approximately $1.2 billion in cash and the issuance of the CALGLs. At December 31, 1996, Old California Federal had approximately $14.1 billion in assets, $8.9 billion in deposits and operated 119 branches in California and Nevada. Upon consummation of the Cal Fed Acquisition, the Bank merged with Old California Federal, with Old California Federal surviving.

As a result of the Cal Fed Acquisition, FNH gained a substantial presence in Southern California. In order to realize economies of scale and cost reduction opportunities presented by the Cal Fed Acquisition, FNH began to consolidate or eliminate duplicative back office operations and administrative and management functions. FNH presently estimates that, as a result of these measures, it saved approximately $68 million in noninterest expense during the first twelve months of operations following the Cal Fed Acquisition as compared to operating Old California Federal on a stand-alone basis.

As a result of the Cal Fed Acquisition, the Bank became obligated with respect to the following outstanding debt securities of Old California Federal: (i) $50 million of the 10.668% Subordinated Notes (as defined herein), (ii) $2.6 million of the 6 1/2% Convertible Subordinated Debentures (as defined herein) and (iii) $4.3 million of the 10% Subordinated Debentures Due 2003 (as defined herein). See "Business--The Issuer--Sources of Funds."

Impact of Other Acquisitions and Dispositions

On February 28, 1995, FNMC consummated the Maryland Acquisition and acquired a 1-4 unit residential loan servicing portfolio of approximately $11.4 billion, including a subservicing portfolio of $1.8 billion, and certain assets and liabilities for approximately $178 million. FNH's consolidated statement of income for the year ended December 31, 1995 includes the results of operations of the acquired mortgage servicing operation for the period from March 1, 1995 through December 31, 1995.

In April, August and December 1995, FNH acquired seven retail branches with approximately $513 million in deposits located in California (the "Branch Purchases"). The weighted average deposit premium paid in connection with the Branch Purchases was 3.78%. The results of operations of the acquired retail deposit operations are included in FNH's consolidated statement of income for the year ended December 31, 1995 from the date each of the transactions was consummated.

On October 2, 1995, FNMC consummated the LMUSA 1995 Purchase, acquiring a loan servicing portfolio of approximately $11.1 billion (including a subservicing portfolio of $3.1 billion), a master servicing portfolio of $2.9 billion and other assets, principally existing loans and loan production operations for approximately $100 million and the assumption of certain indebtedness secured by the acquired loan portfolio totalling approximately $274 million. FNH's consolidated statement of income for the year ended December 31, 1995 includes the results of operations of the acquired mortgage servicing operations for the period from October 3, 1995 through December 31, 1995.

On January 31, 1996, FNMC consummated the LMUSA 1996 Purchase, acquiring a loan servicing portfolio of approximately $14.1 billion (including a subservicing portfolio of $2.4 billion), a master servicing portfolio of $2.7 billion, LMUSA's real estate acquired through loan foreclosures in connection with its servicing operations and LMUSA's trade names for approximately $160.0 million, subject to certain adjustments, and the assumption of certain of LMUSA's obligations secured by its mortgage servicing operations. FNH's consolidated statement of income for the year ended December 31, 1996 includes the results of operations of the acquired mortgage servicing operations for the period from February 1, 1996 through December 31, 1996.

On February 1, 1996, FNH consummated the SFFed Acquisition involving assets totalling $4.0 billion and retail deposits totalling $2.7 billion. FNH's consolidated statement of income for the year ended December 31, 1996 includes the results of operations of the acquired operations of SFFed for the period from February 1, 1996 through December 31, 1996.

On June 1, 1996, FNH consummated the Home Federal Acquisition, involving approximately $717 million in assets and $632 million in deposits. FNH's consolidated statement of income for the year ended December 31, 1996 includes the results of operations of the acquired operations of HFFC for the period from June 1, 1996 through December 31, 1996.

During the first half of 1996, FNH closed the Branch Sales with associated deposit accounts totalling $4.6 billion, resulting in pre-tax gains totalling $363.3 million, which represented an average premium of 7.96% of the approximately $4.6 billion of deposits sold. FNH's consolidated statement of income for the year ended December 31, 1996 includes the results of operations of those branches sold in the Branch Sales for the period prior to sale.

On May 9, 1997, FNH consummated the sale of deposit accounts and retail banking assets comprised of cash on hand, loans on deposits and facilities totalling $21.7 million to Humbolt Bank (the "Garberville Branch Sale"). The Garberville Branch Sale was effected at a gross purchase price representing a deposit premium of 4.5%, resulting in a net gain on sale of $1.1 million.

On May 31, 1997, FNMC consummated the Weyerhaeuser Purchase, acquiring a 1-4 unit residential mortgage loan servicing portfolio of approximately $3.2 billion for $37.1 million. FNH's consolidated statement of income for the year ended December 31, 1997 includes the results of operations of the acquired 1-4 unit residential loan servicing operations for the period from June 1, 1997 through December 31, 1997.

On September 1, 1997, FNH consummated the Auto One Acquisition. No loans were purchased in this transaction. Auto One primarily engages in indirect sub-prime auto financing activities, providing loan processing, funding and loan servicing for over 800 franchised automobile dealers. Auto One is a licensed lender in 47 states. Auto One is headquartered in Dallas, Texas, and operates as a subsidiary of the Bank.

On September 30, 1997, FNH sold MSRs for approximately 52,000 loans with an unpaid principal balance of approximately $2.3 billion in the Servicing Sale. A pre-tax gain of $14.0 million was recorded in connection with this transaction.

On December 12, 1997, FNH closed the Texas Branch Sale (as defined herein), which included the sale of retail deposits totalling $57.6 million at a gross price representing a deposit premium of 4.1%. The Texas Branch Sale resulted in a net pre-tax gain on sale of $2.5 million.

On February 4, 1998, FNH consummated the GSAC Acquisition. The aggregate consideration paid in connection with the GSAC Acquisition was approximately $13.6 million and a 20% interest in the common stock of Auto One.

On February 4, 1998, Parent Holdings and Hunter's Glen entered into the Merger Agreement with Golden State, pursuant to which Parent Holdings, Hunter's Glen and Golden State agreed to the Golden State Acquisition. On September 11, 1998, the Golden State Acquisition was consummated. See "The Golden State Acquisition."

On September 11, 1998, FNH consummated the sale of its Florida bank franchise (consisting of 24 branches with deposits of $1.4 billion) to Union Planters Bank of Florida, a wholly owned subsidiary of Union Planters Corp. (the "Florida Branch Sale"). FNH expects to record a pre-tax gain of approximately $108 million in connection with the Florida Branch Sale, representing a deposit premium of approximately 7.5%. It is not expected that there will be any material impact on the financial condition or ongoing result of operations as a result of the Florida Branch Sale.

Accounting Changes

On June 28, 1996, the FASB (as defined herein) issued SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" ("SFAS No. 125"). SFAS No. 125 provides accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities based on consistent application of a financial-components approach that focuses on control. Under that approach, after a transfer of financial assets, an entity recognizes the financial and servicing assets it controls and the liabilities it has incurred, derecognizes financial assets when control has been surrendered, and derecognizes liabilities when extinguished. This statement provides consistent standards for distinguishing transfers of financial assets that are sales from transfers that are secured borrowings.

In December 1996, the FASB issued SFAS No. 127, "Deferral of the Effective Date of Certain Provisions of FASB Statement No. 125" ("SFAS No. 127"). SFAS No. 127 defers for one year the effective date (i) of paragraph 15 of SFAS No. 125 and (ii) of paragraphs 9-12 and 237(b) of SFAS No. 125 for repurchase agreement, dollar-roll, securities lending and similar transactions. SFAS No. 127 provides additional guidance on the types of transactions for which the effective date of SFAS No. 125 has been deferred. It also requires that if it is not possible to determine whether a transaction occurring during calendar-year 1997 is part of a repurchase agreement, dollar-roll, securities lending, or similar transaction, then paragraphs 9-12 of SFAS No. 125 should be applied to that transfer. FNH adopted SFAS No. 125, as amended by SFAS No. 127, on January 1, 1997. Such adoption did not have a material impact on FNH's consolidated financial statements.

In June 1997, the FASB issued SFAS No. 130, "Reporting Comprehensive Income" ("SFAS No. 130"). SFAS No. 130 establishes standards for reporting and display of comprehensive income and its components (revenues, expenses, gains and losses) in a full set of general purpose financial statements. SFAS No. 130 requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. It does not require a specific format for that financial statement but requires that an enterprise display an amount representing total comprehensive income for the period in that financial statement. This statement is effective for fiscal years beginning after December 15, 1997. Reclassification of financial statements for earlier periods provided for comparative purposes is required. This statement has no impact on the financial condition or results of operations of FNH, but does impact FNH's disclosure requirements. FNH has adopted this statement effective October 1, 1997.

In June 1997, the FASB issued SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information" ("SFAS No. 131"). SFAS No. 131 establishes standards for the way that public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports issued to

shareholders. SFAS No. 131 also establishes standards for related disclosures about products and services, geographic areas, and major customers. This statement supersedes SFAS No. 14, "Financial Reporting for Segments of a Business Enterprise," but retains the requirement to report information about major customers. It amends SFAS No. 94, "Consolidation of All Majority-Owned Subsidiaries," to remove the special disclosure requirements for previously unconsolidated subsidiaries. This statement is effective for fiscal years beginning after December 15, 1997. In the initial year of application, comparative information for earlier years is to be restated. This statement need not be applied to interim financial statements in the initial year of application, but comparative information for interim periods in the initial year of application is to be reported in financial statements for interim periods in the second year of application. This statement has no impact on the financial condition or results of operations of FNH, but will require changes in FNH's disclosure requirements.

In February 1998, the FASB issued Statement of Financial Accounting Standards No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits" ("SFAS No. 132"), an amendment of FASB Statements No. 87, 88 and 106. SFAS No. 132 revises employers' disclosures about pension and other postretirement benefit plans. It does not change the measurement or recognition of those plans. It standardizes the disclosure requirements for pensions and other postretirement benefits to the extent practicable, requires additional information on changes in the benefit obligations and fair values of plan assets that will facilitate financial analysis, and eliminates certain disclosures that are no longer useful as they were when FASB Statements No. 87, Employers' Accounting for Pensions, No. 88, Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits, and No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions, were issued. SFAS No. 132 is effective for fiscal years beginning after December 15, 1997 and requires restatement of disclosures for earlier periods provided for comparative purposes, if available. It is not expected that FNH will experience any material revision in its disclosures when SFAS No. 132 is adopted.

In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"). SFAS No. 133 establishes standards for derivative instruments and for hedging activities, and requires that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. Under SFAS No. 133, an entity that elects to apply hedge accounting is required to establish at the inception of the hedge the method it will use for assessing the effectiveness of the hedging derivative and the measurement approach for determining the ineffective aspect of the hedge. SFAS No. 133 applies to all entities and amends FASB Statement No. 107, Disclosures About Fair Values of Financial Instruments, to include in Statement 107 the disclosure provisions about concentrations of credit risk from Statement 105. SFAS No. 133 supersedes FASB Statements No. 80, Accounting for Futures Contracts, No. 105, Disclosure of Information about Financial Instruments with Off-Balance Sheet Risk and Financial Instruments with Concentrations of Credit Risk, and No. 119, Disclosure about Derivative Financial Instruments and Fair Value of Financial Instruments. SFAS No. 133 also nullifies or modifies the consensuses reached in a number of issues addressed by the Emerging Issues Task Force. SFAS No. 133 is effective for all fiscal quarters of fiscal years beginning after June 15, 1999. Initial application of this statement should be as of the beginning of an entity's fiscal quarter; on that date, hedging relationships must be designated anew and documented pursuant to the provisions of this statement. Earlier application of all of the provisions of SFAS No. 133 is encouraged, but is permitted only as of the beginning of any fiscal quarter that begins after issuance of this statement. SFAS No. 133 should not be applied retroactively to financial statements of prior periods. Management has not yet completed its analysis of SFAS No. 133 and is unable to determine the effect, if any, implementation may have on FNH's consolidated financial statements.

RESULTS OF OPERATIONS

The period-to-period comparisons set forth below, including the changes in magnitude of the various items between periods, have been affected by the acquisitions and dispositions described above and consummated during the periods involved.

The following table sets forth, for the periods and at the dates indicated, information regarding FNH's consolidated average balance sheets, together with the total dollar amounts of interest income and interest expense and the weighted average interest rates for the periods presented. Average balances are calculated on a daily basis. The information presented represents the historical activity of FNH.

	SIX MONTHS ENDED JUNE 30, 1998		
	AVERAGE BALANCE	INTEREST	AVERAGE RATE
	(DOLLARS IN MILLIONS)		
ASSETS			
Interest-earning assets(1):			
Securities and interest-bearing deposits in banks(2)	$ 1,016	$ 32	6.18%
Mortgage-backed securities available for sale	5,716	178	6.25
Mortgage-backed securities held to maturity	1,236	47	7.67
Loans held for sale, net	1,641	58	7.10
Loans receivable, net	19,462	762	7.82
Total interest-earning assets	29,071	1,077	7.41%
Noninterest-earning assets	3,208		
Total assets	$32,279		
LIABILITIES, MINORITY INTEREST AND STOCKHOLDERS' EQUITY			
Interest-bearing liabilities:			
Deposits	$16,206	355	4.42%
Securities sold under agreements to repurchase	2,028	57	5.59
Borrowings(3)	11,039	341	6.22
Total interest-bearing liabilities	29,273	753	5.18%
Noninterest-bearing liabilities	1,068		
Minority interest	985		
Stockholders' equity	953		
Total liabilities, minority interest and stockholders' equity	$32,279		
Net interest income		$ 324	
Interest rate spread			2.23%
Net interest margin			2.19%
Average equity to average assets			2.95%

	SIX MONTHS ENDED JUNE 30, 1997		
	AVERAGE BALANCE	INTEREST	AVERAGE RATE
	(DOLLARS IN MILLIONS)		
ASSETS			
Interest-earning assets(1):			
Securities and interest-bearing deposits in banks(2)	$ 1,005	$ 30	5.97%
Mortgage-backed securities available for sale	3,953	134	6.80
Mortgage-backed securities held to maturity	1,549	59	7.60
Loans held for sale, net	1,066	37	7.05
Loans receivable, net	19,997	780	7.80
Total interest-earning assets	27,570	1,040	7.55%
Noninterest-earning assets	2,934		
Total assets	$30,504		
LIABILITIES, MINORITY INTEREST AND STOCKHOLDERS' EQUITY			
Interest-bearing liabilities:			
Deposits	$16,845	375	4.49%
Securities sold under agreements to repurchase	2,548	73	5.68
Borrowings(3)	8,134	258	6.41
Total interest-bearing liabilities	27,527	706	5.17%
Noninterest-bearing liabilities	1,193		
Minority interest	894		
Stockholders' equity	890		
Total liabilities, minority interest and stockholders' equity	$30,504		
Net interest income		$ 334	
Interest rate spread			2.38%
Net interest margin			2.38%
Average equity to average assets			2.92%

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

(2) The information presented includes securities held to maturity, securities available for sale and interest-bearing deposits in other banks.

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

	YEAR ENDED DECEMBER 31,								
	1997			1996			1995		
	AVERAGE BALANCE	INTEREST	AVERAGE RATE	AVERAGE BALANCE	INTEREST	AVERAGE RATE	AVERAGE BALANCE	INTEREST	AVERA RATE
	(DOLLARS IN MILLIONS)								
ASSETS									
Interest-earning assets(1):									
Securities and interest-bearing deposits in banks(2)	$1,015	$ 62	6.11%	$ 566	$ 35	6.15%	$ 435	$ 28	6.4
Mortgage-backed securities available for sale(3)	4,485	298	6.64	1,697	116	6.83	--	--	-
Mortgage-backed securities held to maturity(3)	1,482	113	7.65	1,766	135	7.65	2,985	213	7.1
Loans held for sale	1,068	77	7.15	855	62	7.20	290	24	8.3
Loans receivable, net	19,859	1,553	7.82	10,994	885	8.05	10,072	800	7.9
Covered assets, net	--	--	--	26	1	5.41	165	11	6.6
Total interest-earning assets	27,909	2,103	7.53%	15,904	1,234	7.76%	13,947	1,076	7.7
Noninterest-earning assets	2,847			1,210			751		
Total assets	$30,756			$17,114			$14,698		
LIABILITIES, MINORITY INTEREST AND STOCKHOLDERS' EQUITY									
Interest-bearing liabilities:									
Deposits	$16,728	$ 747	4.47%	$9,360	$ 419	4.48	$9,959	$ 447	4.4
Securities sold under agreements to repurchase	2,512	141	5.52	2,109	120	5.70	1,577	105	6.6
Borrowings(4)	8,702	553	6.36	4,220	269	6.38	2,210	183	8.2
Total interest-bearing liabilities	27,942	1,441	5.16%	15,689	808	5.15%	13,746	735	5.3
Noninterest-bearing liabilities	1,011			286			277		
Minority interest	932			309			301		
Stockholders' equity	871			830			374		
Total liabilities, minority interest and stockholders' equity	$30,756			$17,114			$14,698		
Net interest income		$ 662			$ 426			$ 341	
Interest rate spread			2.37%			2.61%			2.3
Net interest margin			2.37%			2.68%			2.4
Average equity to average assets			2.83%			4.85%			2.5

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(1) Nonaccruing assets are included in the average balances for the periods indicated.

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

(3) Substantially all securities held to maturity (except for mortgage-backed securities resulting from the securitization with recourse of certain of the Bank's loans) were reclassified to securities available for sale on December 29, 1995. The average balance of such securities for three days in 1995 is not material and is therefore not presented. Average balances presented for 1996 and 1997 represent the original amortized cost of the securities without the effect of unrealized gains and losses recorded as a result of the available for sale classification.

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

The following table presents certain information regarding changes in interest income and interest expense of FNH during the periods indicated. The

dollar amount of interest income and interest expense fluctuates depending upon changes in the respective interest rates and upon changes in the respective amounts (volume) of FNH's interest-earning assets and interest-bearing liabilities. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (i) changes in volume (changes in average outstanding balances multiplied by the prior period's rate) and (ii) changes in rate (changes in average interest rate multiplied by the prior period's volume). Changes attributable to both volume and rate have been allocated proportionately.

	SIX MONTHS ENDED JUNE 30, 1998 VS. 1997		
	INCREASE (DECREASE) DUE TO		
	VOLUME	RATE	NET
	(IN MILLIONS)		
INTEREST INCOME:			
Securities and interest-bearing deposits in banks	$ --	$ 2	$ 2
Mortgage-backed securities available for sale	54	(10)	44
Mortgage-backed securities held to maturity	(13)	1	(12)
Loans held for sale	21	--	21
Loans receivable, net	(20)	2	(18)
Total	42	(5)	37
INTEREST EXPENSE:			
Deposits	(14)	(6)	(20)
Securities sold under agreements to repurchase	(15)	(1)	(16)
Borrowings	90	(7)	83
Total	61	(14)	47
Change in net interest income	$(19)	$ 9	$(10)

	YEAR ENDED DECEMBER 31,					
	1997 VS. 1996			1996 VS. 1995		
	INCREASE (DECREASE) DUE TO			INCREASE (DECREASE) DUE TO		
	VOLUME	RATE	NET	VOLUME	RATE	NET
	(IN MILLIONS)					
INTEREST INCOME:						
Securities and interest-bearing deposits in banks	$ 28	$ (1)	$ 27	$ 8	$ (1)	$ 7
Mortgage-backed securities available for sale	185	(3)	182	116	--	116
Mortgage-backed securities held to maturity	(22)	--	(22)	(94)	16	(78)
Loans held for sale	15	--	15	41	(3)	38
Loans receivable, net	692	(24)	668	74	11	85
Covered assets, net	(1)	--	(1)	(8)	(2)	(10)
Total	897	(28)	869	137	21	158
INTEREST EXPENSE:						
Deposits	329	(1)	328	(27)	(1)	(28)
Securities sold under agreements to repurchase	24	(3)	21	26	(11)	15
Borrowings	285	(1)	284	115	(29)	86
Total	638	(5)	633	114	(41)	73
Change in net interest income	$259	$(23)	$236	$ 23	$ 62	$ 85

The volume variances in total interest income and total interest expense for the six months ended June 30, 1998 compared to the corresponding period in 1997 are largely due to increased purchases of mortgage-backed securities funded with FHLB advances. The positive total rate variance of $9 million is primarily attributed to the lower cost of funds on deposits and lower interest rates paid on new borrowings, partially offset by the comparatively lower market rates on mortgage-backed securities purchased in 1998 and 1997, and prepayments of higher rate interest-earning assets.

The volume variances in total interest income and total interest expense for the year ended December 31, 1997 compared to the corresponding period in 1996 were largely due to the additional $17.0 billion in interest-earning assets acquired and $16.9 billion in interest-bearing liabilities assumed in the Cal Fed Acquisition and the 1996 Acquisitions, as well as the assumption of the FNH 10 5/8% Senior Subordinated Notes. The negative total rate variance of $23 million was primarily attributable to assets from the Cal Fed Acquisition generally having a lower yield than the rest of the portfolio, the assumption of

the FNH 10 5/8% Senior Subordinated Notes, the issuance of the FNH 9 1/8% Senior Subordinated Notes and the impact of the additional wholesale borrowings used to finance the Branch Sales.

The volume variances in total interest income and total interest expense between the year ended December 31, 1995 to the corresponding period in 1996 were largely due to the additional $4.2 billion in interest-earning assets acquired and $4.4 billion in interest-bearing liabilities assumed in the 1996 Acquisitions. The overall volume change in net interest income was positive primarily due to the 1996 Acquisitions and Branch Sales. The positive total rate variance of $62 million was primarily attributable to increasing rates on adjustable-rate assets and the decrease in overall market rates on interest-bearing liabilities between the two periods, offset slightly by the impact of the additional wholesale borrowings used to finance the Branch Sales. During the year ended December 31, 1996, deposits totalling $4.6 billion with a weighted average rate of 4.59% were sold and replaced with $4.1 billion of FHLB advance borrowings and securities sold under agreements to repurchase with a weighted average rate of 5.45%.

SIX MONTHS ENDED JUNE 30, 1998 VERSUS SIX MONTHS ENDED JUNE 30, 1997

Net Income. FNH reported net income for the six months ended June 30, 1998 of $362.9 million compared with net income of $66.6 million for the corresponding period in 1997. Net income for the six months ended June 30, 1998 includes a $250 million reduction of the valuation allowance related to FNH's deferred tax asset. Without consideration of this $250 million tax benefit, net income for the six months ended June 30, 1998 would be $112.9 million, $46 million or 70% higher than the same period in 1997.

Net interest income was $324.4 million for the six months ended June 30, 1998, compared to $334.5 million during the same period in 1997. The decrease in 1998 over 1997 is primarily due to a reduction in the net interest margin resulting from prepayments of higher rate interest-earning assets being replaced with interest-earning assets having comparatively lower rates, reflecting the relatively low level of interest rates in 1997 and 1998 and management's steps to limit interest rate risk.

Interest Income. Total interest income was $1.1 billion for the six months ended June 30, 1998, an increase of $36.4 million from the six months ended June 30, 1997. Total interest-earning assets for the six months ended June 30, 1998 averaged $29.1 billion, compared to $27.6 billion for the corresponding period in 1997. The yield on total interest-earning assets during the six months ended June 30, 1998 decreased to 7.41% from 7.55% for the six months ended June 30, 1997, primarily due to the lower market rates on new mortgage-backed securities purchased in 1998 and 1997 and prepayments of higher rate interest-earning assets.

FNH earned $761.3 million of interest income on loans receivable for the six months ended June 30, 1998, a decrease of $18.3 million from the six months ended June 30, 1997. The average balance of loans receivable was $19.5 billion for the six months ended June 30, 1998, compared to $20.0 billion for the same period in 1997. The weighted average rate on loans receivable increased to 7.82% for the six months ended June 30, 1998 from 7.80% for the six months ended June 30, 1997. The decline in the average volume is primarily due to an increase in prepayments.

FNH earned $58.2 million of interest income on loans held for sale for the three months ended June 30, 1998, an increase of $20.6 million from the six months ended June 30, 1997. The average balance of loans held for sale was $1.6 billion for the six months ended June 30, 1998, an increase of $575 million from the comparable period in 1997, primarily due to increased originations and longer holding periods for jumbo loans during the six months ended June 30, 1998. The weighted average yield on loans held for sale increased to 7.10% for the six months ended June 30, 1998 from 7.05% for the six months ended June 30, 1997, primarily due to a higher percentage of comparatively higher fixed-rate portfolio in 1998 compared to 1997.

Interest income on mortgage-backed securities available for sale was $178.5 million for the six months ended June 30, 1998, an increase of $44.1 million from the six months ended June 30, 1997. The average portfolio balances increased $1.8 billion, to $5.7 billion, during the six months ended June 30, 1998 compared to the same period in 1997. The weighted average yield on these assets decreased from 6.80% for the six months ended June 30, 1997 to 6.25% for the six months ended June 30, 1998. The increase in the volume and decrease in the weighted average yield is primarily due to the purchases of $4.1 billion of mortgage-backed securities during the six months ended June 30, 1998 and $.9 billion during the last six months of 1997 at comparatively lower market rates, as well as prepayments of higher rate mortgage-backed securities since June 30, 1997.

Interest income on mortgage-backed securities held to maturity was $47.4 million for the six months ended June 30, 1998, a decrease of $11.4 million from the six months ended June 30, 1997. The average portfolio balance decreased $313 million, to $1.2 billion,during the six months ended June 30, 1998, primarily attributed to an increase in principal payments.

There was no material variance between the six months ended June 30, 1998 and the six months ended June 30, 1997 with respect to interest income from securities and interest-bearing deposits in banks.

Interest Expense. Total interest expense was $752.6 million for the six months ended June 30, 1998, an increase of $46.5 million from the six months ended June 30, 1997. The increase is primarily the result of increased borrowings on FHLB advances and a slightly higher cost of funds, partially offset by a decline in the average balance of deposits resulting from net deposit run-off.

Interest expense on customer deposits, including Brokered Deposits (as defined herein), was $355.2 million for the six months ended June 30, 1998, a decrease of $19.6 million from the six months ended June 30, 1997. The average balance of customer deposits outstanding decreased from $16.8 billion to $16.2 billion for the six months ended June 30, 1997 and 1998, respectively. The decrease in the average balance is primarily due to net deposit run-off, anticipated following the Cal Fed Acquisition. The overall weighted average cost of deposits was 4.42% for the six months ended June 30, 1998 and 4.49% for the six months ended June 30, 1997, primarily due to higher average balances of lower rate custodial transaction accounts in 1998.

Interest expense on securities sold under agreements to repurchase totalled $57.0 million for the six months ended June 30, 1998, a decrease of $15.7 million from the six months ended June 30, 1997. The average balance of such borrowings for six months ended June 30, 1998 and 1997 was $2.0 billion and $2.5 billion, respectively. The decrease in the average balance is primarily attributed to maturities refinanced with FHLB advances at more favorable rates. The weighted average interest rate on these instruments increased to 5.59% during the six months ended June 30, 1998 from 5.68% for the six months ended June 30, 1997, primarily due to a decrease in rates on new borrowings compared to such borrowings during 1997.

Interest expense on borrowings totalled $340.3 million for the six months ended June 30, 1998, an increase of $81.9 million from the six months ended June 30, 1997. The increase is primarily attributed to the increase in FHLB advances used to fund the purchases of mortgage-backed securities and replace reverse repurchase agreements which matured. The average balance outstanding for the six months ended June 30, 1998 and 1997 was $11.0 billion and $8.1 billion, respectively. The weighted average interest rate on these instruments decreased to 6.22% during the six months ended June 30, 1998 from 6.41% for the six months ended June 30, 1997, primarily due to the lower rates in effect as a result of the flatter yield curve at June 30, 1998 compared to June 30, 1997.

Net Interest Income. Net interest income was $324.4 million for the six months ended June 30, 1998, a decrease of $10.2 million from the six months ended June 30, 1997. The interest rate spread decreased to 2.23% for the six months ended June 30, 1998 from 2.38% for the six months ended June 30, 1997, primarily as a result of prepayments of higher rate interest-earning assets being replaced with interest-earning assets having comparatively lower yields, reflecting the flattening of the yield curve during the second half of 1997 and year to date in 1998.

Noninterest Income. Total noninterest income, consisting primarily of loan servicing fees, customer banking fees, gains on sales of loans and dividends on FHLB stock, was $184.7 million for the six months ended June 30, 1998, an increase of $23.4 million from the six months ended June 30, 1997. Income for the six months ended June 30, 1998 reflects a $24.8 million increase in gain on sales of loans attributed to early payoffs of commercial loans with unamortized discounts and gains from residential loan sales during the six months ended June 30, 1998 compared to the same period in 1997.

Loan servicing fees, net of amortization of mortgage servicing rights, were $71.4 million for the six months ended June 30, 1998, compared to $75.0 million for the six months ended June 30, 1997. The single-family residential loan servicing portfolio, excluding loans serviced for the Bank, decreased from $47.4 billion at June 30, 1997 to $46.8 billion at June 30, 1998. During the six months ended June 30, 1998, FNH sold $4.5 billion in single-family mortgage loans originated for sale as part of its ongoing mortgage banking operations compared to $3.0 billion of such sales for the corresponding period in 1997.

Gain on sales of loans was $36.1 million for the six months ended June 30, 1998, compared to $11.4 million for the six months ended June 30, 1997. The increase in 1998 is primarily attributed to early payoffs of commercial loans with unamortized discounts and additional gains from residential loan sales.

Dividends on FHLB stock were $14.6 million for the six months ended June 30, 1998, an increase of $2.6 million from the six months ended June 30, 1997, representing an increase in the amount of such stock owned by the Bank, primarily as a result of an increase in borrowings on FHLB advances.

There were no material variances between the six months ended June 30, 1998 and the comparable period in 1997 with respect to customer banking fees, gain (loss) on sales of assets and other noninterest income.

Noninterest Expense. Total noninterest expense was $301.7 million for the six months ended June 30, 1998, a decrease of $22.8 million from the six months ended June 30, 1997. The variance between the two periods is primarily attributed to 1997 transition expenses (primarily reflected in other noninterest expense) related to the Cal Fed Acquisition and a $19.0 million provision for unreimbursable costs related to the foreclosure of single-family loans serviced for others (reflected as loan expense and professional fees) also recorded during the six months ended June 30, 1997.

Provision for Income Tax. During the six months ended June 30, 1998 and 1997, FNH recorded an income tax benefit of $221.1 million and income tax expense of $21.9 million, respectively. Based on resolutions of federal income tax audits and favorable future earnings expectations, management changed its judgment about the realizability of FNH's deferred tax asset and reduced its valuation allowance by $250 million in addition to the amount used to offset income during the period. For the six months ended June 30, 1998 and 1997, FNH's valuation allowance was reduced by $330.2 million and $62.8 million, respectively. FNH's effective Federal tax rate was (131)% and 2% during the six months ended June 30, 1998 and 1997, respectively, while its statutory Federal tax rate was 35% during both periods. The difference between the effective and statutory rates was primarily the result of the reductions in the deferred tax asset valuation allowance. FNH's effective state tax rate was 13% and 15% during the six months ended June 30, 1998 and 1997, respectively. It is expected that, beginning July 1, 1998, FNH's effective tax rate for future periods will be 42%.

Minority Interest. Dividends on the REIT Preferred Stock totalling $22.8 million and $19.1 million were declared and paid during the six months ended June 30, 1998 and 1997, respectively. Minority interest relative to the REIT Preferred Stock is reflected on the consolidated statements of income net of the income tax benefit of $2.9 million and $2.4 million for the six months ended June 30, 1998 and 1997, respectively, which will inure to FNH as a result of the deductibility of such dividends for income tax purposes. Dividends on the Bank Preferred Stock of $26.5 million and $26.3 million were also recorded during the six months ended June 30, 1998 and 1997, respectively. Minority interest for the six months ended June 30, 1998 also includes $.8 million representing that portion of Auto One's loss attributable to the 20% interest in the common stock of Auto One that was issued as part of the GSAC Acquisition.

YEAR ENDED DECEMBER 31, 1997 VERSUS YEAR ENDED DECEMBER 31, 1996

Net Income. FNH reported net income for the year ended December 31, 1997 of $161.4 million compared with net income of $577.5 million in 1996. Net income for the year ended December 31, 1997 included pre-tax gains of $25.0 million from the sale of the remaining ACS stock, $14.0 million on the sale of mortgage servicing rights and $3.6 million on the sales of branches, partially offset by a $29.0 million provision for professional fees and additional unreimbursable costs related to the foreclosure of 1-4 unit residential mortgage loans serviced for others. Net income for the year ended December 31, 1996 included $363.3 million in pre-tax gains on sales of branches, $40.4 million in pre-tax gains from the sale of ACS stock, $25.6 million in pre-tax income recognized in connection with the termination of the Assistance Agreement (as defined herein) and the recognition of a $125.0 million deferred tax benefit, partially offset by a $60.1 million charge for the Special SAIF Assessment. Excluding non-recurring and expected non-recurring items, net income for the years ended December 31, 1997 and 1996 totalled $160.5 million and $146.7 million, respectively.

Interest Income. Total interest income was $2.1 billion for the year ended December 31, 1997, an increase of $869 million from the year ended December 31, 1996. The interest-earning assets acquired in the Cal Fed Acquisition and the 1996 Acquisitions resulted in total interest-earning assets for the year of 1997 averaging

$27.9 billion, compared to $15.9 billion for the corresponding period in 1996. The weighted average yield on total interest-earning assets during the year ended December 31, 1997 decreased to 7.53% compared to 7.76% for the year ended December 31, 1996, primarily due to assets from the Cal Fed Acquisition generally having a lower yield than the rest of the portfolio.

FNH earned $1.6 billion of interest income on loans receivable for the year ended December 31, 1997, an increase of $668 million from the year ended December 31, 1996. The loans acquired in the Cal Fed Acquisition and the 1996 Acquisitions contributed most of the additional interest income in 1997 and resulted in an increase in the average balance of loans receivable to $19.9 billion for the year ended December 31, 1997 from $11.0 billion for the year ended December 31, 1996. The weighted average yield on loans receivable decreased to 7.82% for the year ended December 31, 1997 from 8.05% for the comparable period in 1996, due primarily to the addition of $10.1 billion in loans from the Cal Fed Acquisition generally having a lower yield than the rest of the portfolio.

In addition, FNH earned $77 million of interest income on loans held for sale for the year ended December 31, 1997, an increase of $15 million from the year ended December 31, 1996. The average balance of loans held for sale was $1.1 billion for the year ended December 31, 1997, an increase of $213 million from the comparable period in 1996, due primarily to increased originations. The weighted average yield on loans held for sale decreased slightly to 7.15% for the year ended December 31, 1997 from 7.20% for the year ended December 31, 1996, primarily due to the portfolio consisting of a higher percentage of lower-rate adjustable rate loans in 1997 compared to a predominantly fixed-rate portfolio in 1996.

Interest income on mortgage-backed securities available for sale was $298 million for the year ended December 31, 1997, an increase of $182 million from the year ended December 31, 1996. The average portfolio balances increased $2.8 billion, to $4.5 billion, during the year ended December 31, 1997 compared to the same period in 1996. The weighted average yield on these assets decreased from 6.83% for the year ended December 31, 1996 to 6.64% for the year ended December 31, 1997. The increase in the volume and decrease in the weighted average yield was primarily due to the acquisition of $2.0 billion in mortgage-backed securities from the Cal Fed Acquisition and the purchase of $2.6 billion in other mortgage-backed securities during 1997.

Interest income on mortgage-backed securities held to maturity was $113 million for the year ended December 31, 1997, a decrease of $22 million from the year ended December 31, 1996. The average portfolio balance decreased $284 million, to $1.5 billion, during the year ended December 31, 1997 compared to the same period in 1996.

There was no interest income from Covered Assets (as defined herein) for the year ended December 31, 1997, as a result of the disposal of all remaining Covered Assets in August 1996.

Interest income from securities and interest-bearing deposits in banks was $62 million for the year ended December 31, 1997, an increase of $27 million from the year ended December 31, 1996. The average portfolio balance increased to $1.0 billion, an increase of $449 million from the year ended December 31, 1996, primarily due to the assets acquired in the Cal Fed Acquisition and purchases of short-term investment securities made by FNH during 1997 to meet liquidity needs. The weighted average yield on these assets decreased to 6.11% for the year ended December 31, 1997 from 6.15% for the year ended December 31, 1996, primarily due to a shift in the mix to lower-rate interest-bearing deposits acquired in the Cal Fed Acquisition, along with a decline in yields earned on interest-bearing deposits in other banks.

Interest Expense. Total interest expense was $1.4 billion for the year ended December 31, 1997, an increase of $633 million from the year ended December 31, 1996. The increase was the result of additional interest-bearing liabilities assumed in the Cal Fed Acquisition and the 1996 Acquisitions, the assumption of the FNH 10 5/8% Senior Subordinated Notes, the issuance of the FNH 9 1/8% Senior Subordinated Notes and incrementally higher rates paid on the additional borrowings used to replace the retail deposits sold in the Branch Sales.

Interest expense on customer deposits, including Brokered Deposits, was $747 million for the year ended December 31, 1997, an increase of $328 million from the year ended December 31, 1996. The average balance of customer deposits outstanding increased from $9.4 billion to $16.7 billion for the years ended December 31, 1996 and 1997, respectively, primarily due to $9.0 billion in deposits assumed in the Cal Fed Acquisition. The overall

weighted average cost of deposits was 4.47% for the year ended December 31, 1997 and 4.48% for the year ended December 31, 1996.

Interest expense on securities sold under agreements to repurchase totalled $141 million for the year ended December 31, 1997, an increase of $21 million from the year ended December 31, 1996. The average balance of such borrowings for the years ended December 31, 1997 and 1996 was $2.5 billion and $2.1 billion, respectively. The increase in the average balance was primarily attributable to $1.1 billion of such liabilities assumed in the Cal Fed Acquisition and the 1996 Acquisitions, partially offset by maturities and payoffs that were refinanced with FHLB advances and deposits acquired in the Cal Fed and Home Federal Acquisitions. The weighted average interest rate on these instruments decreased to 5.52% during the year ended December 31, 1997 from 5.70% for the year ended December 31, 1996, primarily due to a decrease in rates on new borrowings compared to such borrowings during 1996.

Interest expense on borrowings totalled $553 million for the year ended December 31, 1997, an increase of $284 million from the year ended December 31, 1996. The increase was attributable to the net effect of borrowings assumed in the Cal Fed Acquisition and the 1996 Acquisitions, the assumption of the FNH 10 5/8% Senior Subordinated Notes, the issuance of the FNH 9 1/8% Senior Subordinated Notes and additional borrowings to replace deposits sold in the Branch Sales, partially offset by the impact of a slight decrease in the rates paid on such borrowings. The average balance of borrowings outstanding for the years ended December 31, 1997 and 1996 was $8.7 billion and $4.2 billion, respectively. The weighted average interest rate on these borrowings decreased to 6.36% during the year ended December 31, 1997 from 6.38% for the year ended December 31, 1996, primarily due to the shorter average maturity of the portfolio during the year ended December 31, 1997 compared to the corresponding period in 1996, partially offset by the higher rates paid on the FNH 10 5/8% Senior Subordinated Notes and the FNH 9 1/8% Senior Subordinated Notes.

Net Interest Income. Net interest income was $662 million for the year ended December 31, 1997, an increase of $236 million from the year ended December 31, 1996. The interest rate spread decreased to 2.37% for the year ended December 31, 1997 from 2.61% for the year ended December 31, 1996.

Noninterest Income. Total noninterest income, consisting primarily of loan servicing fees, customer banking fees, management fees and gains on the sales of branches and on sales of residential mortgage loans and MSRs, was $364 million for the year ended December 31, 1997, a decrease of $289 million from the year ended December 31, 1996. Income for the year ended December 31, 1997 included a $14.0 million gain from the Servicing Sale, a $25.0 million gain from the sale of the remaining ACS stock and a $3.6 million gain on the sales of branches. The activities in 1996 included (i) gains on the Branch Sales of $363.3 million, (ii) gain from the sale of ACS stock of $40.4 million, (iii) income recognized in connection with the termination of the Assistance Agreement of $25.6 million, and (iv) gain from the sale of consumer loans of $7.5 million.

Loan servicing fees, net of amortization of mortgage servicing rights, were $144 million for the year ended December 31, 1997, compared to $124 million for the year ended December 31, 1996. This increase was primarily due to the addition of the mortgage servicing portfolios acquired in the Cal Fed Acquisition, the 1996 Acquisitions, the LMUSA 1996 Purchase and the Weyerhaeuser Purchase, as well as MSRs originated through the increased origination capacity provided by the Cal Fed Acquisition, partially offset by portfolio paydowns. The single-family residential loan servicing portfolio, excluding loans serviced for the Bank, increased from $43.1 billion at December 31, 1996 to $46.6 billion at December 31, 1997. During the year ended December 31, 1997, FNH sold $5.5 billion in single-family mortgage loans originated for sale as part of its ongoing mortgage banking operations compared to $4.9 billion of such sales for the corresponding period in 1996.

Customer banking fees and service charges related to retail banking operations, consisting of depositor fees for transaction accounts, overdrafts, and miscellaneous other fees, were $100 million for the year ended December 31, 1997, compared to $45 million for the year ended December 31, 1996. The increase was primarily attributable to the impact of increased revenues from the retail banking operations acquired in the Cal Fed Acquisition and the 1996 Acquisitions, partially offset by the impact of the Branch Sales.

Management fees totalled $6 million for the year ended December 31, 1997, compared to $10 million for the year ended December 31, 1996. The decrease was attributable principally to the reduced number of commercial

real estate assets under management for others as a result of an increase in dispositions of assets and contracts which have expired.

Gain on sales of loans was $25 million for the year ended December 31, 1997, compared to a gain of $18 million for the year ended December 31, 1996. The increase was primarily attributed to early pay-offs of commercial loans with unamortized discounts, partially offset by a $7.5 million gain from the sale of $298.0 million of consumer loans during 1996.

Gain on sales of assets was $38 million for the years ended December 31, 1997 and 1996. The gain in 1997 was primarily attributable to a $14.0 million gain related to the Servicing Sale and a $25.0 million gain on the sale of the Bank's remaining shares of ACS stock. The gain in 1996 was primarily the result of a $40.4 million gain from the sale of ACS stock, partially offset by a permanent impairment in the mortgage-backed securities available-for-sale portfolio.

Gain on sale of branches was $4 million for the year ended December 31, 1997, attributable primarily to the Texas Branch Sale. For information on the 1996 gain on Branch Sales, see "Business--The Issuer--Background."

Gain from the termination of the Assistance Agreement was $25.6 million for the year ended December 31, 1996.

Dividends on FHLB stock were $25 million for the year ended December 31, 1997, an increase of $13 million from the year ended December 31, 1996, representing an increase in the amount of such stock owned by Cal Fed, primarily as a consequence of the Cal Fed Acquisition.

Other noninterest income was $23 million for the year ended December 31, 1997, an increase of $5 million from the year ended December 31, 1996. The increase was primarily attributable to a settlement received related to the condemnation of a building, an increase in disbursement float interest income and the recognition of a previously deferred gain on sale of certain retail operations, partially offset by the favorable outcome of an arbitration hearing during the year ended December 31, 1996, related to the FN Acquisition.

Noninterest Expense. Total noninterest expense was $649 million for the year ended December 31, 1997, an increase of $158 million from the year ended December 31, 1996. The increase was principally due to the growth of FNH through the Cal Fed Acquisition and the 1996 Acquisitions and a $29.0 million provision recorded in 1997 for professional fees and unreimbursable costs related to the foreclosure of single-family loans serviced for others, partially offset by a $60.1 million charge recorded in 1996 for the Special SAIF Assessment.

Total compensation and employee benefits expense was $256 million for the year ended December 31, 1997, an increase of $52 million from the year ended December 31, 1996. The increase in expense was primarily attributable to the presence of 1,688 additional employees at December 31, 1997 compared to December 31, 1996 as a result of the Cal Fed Acquisition, partially offset by a reduction in expense from December 31, 1996 to December 31, 1997 of $23.3 million related to a management incentive plan ("Incentive Plan") between FNH and certain executive officers of the Bank. FNH has no employees of its own.

Occupancy and equipment expense was $82 million for the year ended December 31, 1997, an increase of $30 million from the year ended December 31, 1996, attributable primarily to the Cal Fed Acquisition and the 1996 Acquisitions, partially offset by operations sold in the Branch Sales.

SAIF deposit insurance premiums decreased $70 million, to $11 million, for the year ended December 31, 1997 compared to the corresponding period in 1996, due to a decrease in the quarterly assessment rate from 23 cents to 6.42 cents per $100 of deposits, partially offset by an increase in the deposit assessment base as a result of the net impact of the Cal Fed Acquisition, the 1996 Acquisitions and the Branch Sales. In addition, the year ended December 31, 1996 included a $60.1 million charge for the Special SAIF Assessment.

On September 30, 1996, the Economic Growth and Regulatory Paperwork Reduction Act of 1996 (the "Reduction Act") was enacted. The Reduction Act provided for a special assessment (the "Special SAIF Assessment"), which was levied based on a rate of 65.7 cents per $100 of SAIF-insured domestic deposits held as of March 31, 1995. As a result of the Reduction Act, SAIF deposit insurance premiums included a $60.1 million pre-tax charge for the Special SAIF Assessment for the year ended December 31, 1996. The

portion of the assessment related to deposits sold in Ohio, New York, New Jersey and Michigan was borne, pursuant to each sales contract, by the respective purchasers and, accordingly, such amounts were not included in the expense recorded by FNH.

Loan expense, including foreclosure costs and loan servicing expenses, was $60 million for the year ended December 31, 1997, an increase of $29 million from the year ended December 31, 1996. The increase includes a $25.0 million provision for unreimbursable costs related to the foreclosure of single family loans serviced for others. The increase was also attributed to additional expenses associated with the higher volume of loans serviced, and higher outside appraisal fees, inspection fees and provision for loss on Federal Housing Administration and Veterans Administration loans serviced.

Marketing expense was $20 million for the year ended December 31, 1997, an increase of $9 million from the year ended December 31, 1996, attributed primarily to the Cal Fed Acquisition and the 1996 Acquisitions, partially offset by reduced nationwide marketing efforts as a result of the Branch Sales.

Professional fees increased $30 million, to $49 million, for the year ended December 31, 1997 compared to the corresponding period in 1996. This increase included additional legal, consulting and audit expenses related to the Cal Fed Acquisition and the 1996 Acquisitions, as well as $4.0 million in higher fees paid to professional firms in connection with the foreclosure of loans serviced for others.

Data processing expense was $12 million for the year ended December 31, 1997, an increase of $2 million from the year ended December 31, 1996, attributed primarily to the Cal Fed Acquisition.

Foreclosed real estate operations, including gains on sales, resulted in a net gain of $3 million for the year ended December 31, 1997 compared to a net gain of $7 million for the same period in 1996. The change was primarily attributable to an increase in post-foreclosure write-downs of residential and commercial foreclosed real estate.

Amortization of intangible assets increased to $49 million for the year ended December 31, 1997 from $9 million for the corresponding period in 1996, primarily due to the amortization of additional intangible assets recorded in connection with the Cal Fed Acquisition and the 1996 Acquisitions.

Other noninterest expense was $112 million for the year ended December 31, 1997, an increase of $33 million from the year ended December 31, 1996, primarily due to amortization of deferred issuance costs related to the 10 5/8% Notes and an increase in provisions for telecommunications, postage, office supplies, insurance, retail branch and subservicing losses, OTS assessments and travel expenses, all of which are attributable primarily to the Cal Fed Acquisition and the 1996 Acquisitions.

Provision for Income Tax. During the year ended December 31, 1997 and 1996, FNH recorded income tax expense of $47.1 million and income tax benefit of $73.1 million, respectively. FNH's effective federal income tax rate was 2% and (20)% during the year ended December 31, 1997 and 1996, respectively, while its statutory federal income tax rate was 35% during both periods. The difference between the effective and statutory rates was primarily the result of the utilization of net operating loss carryforwards for both periods and the recognition of a $125 million deferred tax benefit in the second quarter of 1996. FNH's effective state income tax rate, before extraordinary item and minority interest, increased to 14% from 7% during the year ended December 31, 1997 compared to the corresponding period in 1996, primarily as a result of FNH's increased presence in California where the state tax rate is generally higher than in other states and nondeductible goodwill amortization from the Cal Fed Acquisition and the 1996 Acquisitions.

Extraordinary Item. During the year ended December 31, 1996, FNH repurchased $44 million aggregate principal amount of the 11.20% Senior Notes (as defined herein), resulting in a loss of $1.6 million, net of income taxes.

Minority Interest. Dividends on the REIT Preferred Stock totalling $41.9 million were declared and paid during the year ended December 31, 1997. Minority interest relative to the REIT Preferred Stock is reflected on the consolidated statement of income net of the income tax benefit of $5.3 million which will inure to FNH as a result of the deductibility of such dividends for income tax purposes. Dividends on the Bank Preferred Stock of $52.7 million and $43.2 million were also recorded during the years ended December 31, 1997 and 1996, respectively.

YEAR ENDED DECEMBER 31, 1996 VERSUS YEAR ENDED DECEMBER 31, 1995

Net Income. FNH reported net income of $578 million for the year ended December 31, 1996, compared with net income of $147 million in 1995. Net income for the year ended December 31, 1996 included $363.3 million in pre-tax gains on sales of branches, $40.4 million in pre-tax gains from the sale of ACS stock, $25.6 million in pre-tax gain recognized in connection with the termination of the Assistance Agreement and the recognition of a $125.0 million deferred tax benefit, partially offset by a $60.1 million charge for the Special SAIF Assessment. Net income, excluding the aforementioned items, Incentive Plan charges and extraordinary loss on early extinguishment of debt, totalled $146.7 million for the year ended December 31, 1996.

Interest Income. Total interest income was $1.2 billion for the year ended December 31, 1996, an increase of $158 million from the year ended December 31, 1995. The interest-earning assets acquired in the 1996 Acquisitions resulted in total interest-earning assets for 1996 averaging $15.9 billion, compared to $13.9 billion for 1995. In addition, the weighted average yields on total interest-earning assets during 1996 increased to 7.76% from the 7.71% weighted average yield on total interest-earning assets during 1995.

FNH earned $885 million of interest income on loans receivable for the year ended December 31, 1996, an increase of $85 million from the year ended December 31, 1995. The loans acquired in the 1996 Acquisitions contributed most of the increased interest income in 1996, and resulted in an increase in the average balance of loans receivable to $11.0 billion from $10.1 billion for the year ended December 31, 1995. The weighted average yield on loans receivable increased to 8.05% for the year ended December 31, 1996 from 7.94% for 1995 due to upward rate adjustments on adjustable rate 1-4 unit residential loans.

FNH earned $62 million of interest income on loans held for sale for the year ended December 31, 1996, an increase of $38 million from the year ended December 31, 1995. The increased income was the net effect of a higher average volume of loans held for sale due to increased originations from the operations acquired in the Maryland Acquisition and the LMUSA Purchases, partially offset by a decrease in the weighted average rate of such loans. The average balance of loans held for sale was $855 million for the year ended December 31, 1996, an increase of $565 million from 1995. The weighted average yield on loans held for sale decreased to 7.20% for the year ended December 31, 1996 from 8.35% during 1995 due to generally decreasing market rates during the period and the portfolio consisting of a higher percentage of comparatively lower-rate adjustable rate loans in 1996 compared to a higher fixed rate portfolio in 1995.

Interest income on mortgage-backed securities available for sale was $116 million for the year ended December 31, 1996. The average balance of mortgage-backed securities available for sale was $1.7 billion with a weighted average yield of 6.83% for the year ended December 31, 1996.

Interest income on mortgage-backed securities held to maturity was $135 million for the year ended December 31, 1996, a decrease of $78 million from the year ended December 31, 1995. The average balance of mortgage-backed securities held to maturity decreased to $1.8 billion during the year ended December 31, 1996, compared to $3.0 billion during 1995. The weighted average yield on mortgage-backed securities held to maturity increased to 7.65% during 1996 from 7.14% during 1995, primarily due to the upward rate adjustments of adjustable rate mortgage-backed securities.

Interest income from Covered Assets declined $10 million, to $1 million, for the year ended December 31, 1996. The decline is due to a reduction in the average volume of Covered Assets (which were acquired by the FDIC as part of the FDIC Purchase (as defined herein) in June 1995) and the termination of the related Assistance Agreement in August 1996.

Interest income from securities (other than those discussed above), including the available-for-sale portfolio and securities held to maturity, and interest-bearing deposits in other banks was $35 million for the year ended December 31, 1996, an increase of $7 million from the year ended December 31, 1995. The average portfolio balances during the years ended December 31, 1996 and 1995 increased to $566 million from $435 million, respectively, primarily due to assets acquired in the 1996 Acquisitions. The weighted average yield on these assets decreased to 6.15% during 1996 from 6.42% during 1995, primarily due to an overall decline in market interest rates.

Interest Expense. Total interest expense was $808 million for the year ended December 31, 1996, an increase of $73 million from the year ended December 31, 1995. The increase was the result of additional interest-bearing liabilities assumed in the 1996 Acquisitions, the issuance of the FNH 9 1/8% Senior Subordinated Notes and incrementally higher rates paid on the additional borrowings incurred to replace the retail deposits sold in the Branch Sales.

Interest expense on customer deposits, including Brokered Deposits, was $419 million for the year ended December 31, 1996, a decrease of $28 million from the year ended December 31, 1995. The average balance of customer deposits outstanding decreased from $10.0 billion to $9.4 billion for the years ended December 31, 1995 and 1996, respectively. The overall weighted average cost of deposits decreased from 4.49% for the year ended December 31, 1995 to 4.48% for the year ended December 31, 1996, due principally to the impact of higher average balances of lower rate custodial transaction accounts related to the additional MSRs acquired in the Maryland Acquisition and the LMUSA Purchases, partially offset by slight increases in the market rates of interest paid for Brokered Deposits.

Interest expense on securities sold under agreements to repurchase totalled $120 million for the year ended December 31, 1996, an increase of $15 million from the year ended December 31, 1995. The average balance of such borrowings for the year ended December 31, 1996 and 1995 was $2.1 billion and $1.6 billion, respectively. The increase was attributable to $.8 billion of such liabilities acquired in the 1996 Acquisitions together with $1.5 billion in additional short-term borrowings to fund the Branch Sales during 1996, partially offset by maturities and payoffs that were refinanced with deposits acquired from the Home Federal Acquisition and FHLB advances. The weighted average interest rate on these borrowings decreased to 5.70% in 1996 from 6.66% for 1995, primarily due to the impact of decreases in overall market interest rates.

Interest expense on borrowings totalled $269 million for the year ended December 31, 1996, an increase of $86 million from the year ended December 31, 1995. The increase was attributable to the net effect of a volume increase for borrowings assumed in the 1996 Acquisitions, the issuance of the FNH 9 1/8% Senior Subordinated Notes and additional borrowings to replace the deposits sold in the Branch Sales, partially offset by the impact of decreases in the rates paid on such borrowings largely due to the shorter weighted average maturity of the borrowings at December 31, 1996 compared to December 31, 1995. The average balance outstanding for the year ended December 31, 1996 and 1995 was $4.2 billion and $2.2 billion, respectively. The weighted average interest rate on these borrowings decreased to 6.38% during the year ended December 31, 1996 from 8.26% for the year ended December 31, 1995, primarily due to the impact of decreases in overall market interest rates and the shorter average maturity of the portfolio.

Net Interest Income. Net interest income was $426 million for the year ended December 31, 1996, an increase of $85 million from the year ended December 31, 1995. The interest rate spread increased to 2.61% for the year ended December 31, 1996 from 2.36% for the year ended December 31, 1995.

Noninterest Income. Total noninterest income, consisting primarily of loan servicing fees, customer banking fees, management fees and gains on the Branch Sales and on sales of loans and loan servicing rights, was $653 million for the year ended December 31, 1996, an increase of $502 million from the year ended December 31, 1995. This increase included (i) gains on sales of branches of $363.3 million, (ii) gain from the sale of ACS stock of $40.4 million and (iii) gains recognized in connection with the termination of the Assistance Agreement of $25.6 million.

Loan servicing fees, net of amortization of MSRs, were $124 million for the year ended December 31, 1996, compared to $70 million for the year ended December 31, 1995. This increase was due to the addition of the mortgage servicing portfolios acquired in the Maryland Acquisition, the LMUSA Purchases and the 1996 Acquisitions, as well as MSRs originated through the increased origination capacity provided by these acquisitions. The 1-4 unit residential loan servicing portfolio, excluding loans serviced for the Bank, increased from $7.4 billion at January 1, 1995 to $27.0 billion at January 1, 1996 and to $43.1 billion at December 31, 1996. During the year ended December 31, 1996, FNH sold $4.9 billion in 1-4 unit residential loans originated for sale as part of its ongoing mortgage banking operations compared to $1.2 billion of such sales for 1995.

Customer banking fees and service charges related to retail banking operations, consisting of depositor fees for transaction accounts, overdrafts, and miscellaneous other fees, were $45 million for the year ended

December 31, 1996, compared to $47 million for the year ended December 31, 1995. The decrease was attributable to the impact of decreased revenues associated with the Branch Sales, partially offset by the increased revenues from the retail banking operations acquired in the Branch Purchases and the 1996 Acquisitions.

Management fees totaled $10 million for the year ended December 31, 1996 compared to $15 million for the year ended December 31, 1995. The decrease was attributable principally to a reduction in the amount of assets under management as a result of the expiration of contracts with the Resolution Trust Corporation and other third parties.

Gain on sales of branches was $363.3 million for the year ended December 31, 1996. See Note 3 to the Notes to Consolidated Financial Statements of FNH contained elsewhere in this Prospectus for additional information regarding the Branch Sales.

Gain on sales of loans was $18 million for the year ended December 31, 1996. The increase was attributable in part to a gain of $7.5 million on the sale of $298.0 million of consumer loans during the first quarter of 1996. In addition, FNH experienced increased gains on sales of 1-4 unit residential loans due to the adoption of Statement of Financial Accounting Standards No. 122, "Accounting for Mortgage Servicing Rights, an amendment to Statement No. 65" ("SFAS No. 122") on April 1, 1995. See "--Mortgage Banking Operations."

Gain on sales of assets was $38 million for the year ended December 31, 1996. The gain was primarily the result of a $40.4 million gain from the sale of ACS stock, partially offset by a writedown recorded on certain collateralized mortgage obligations ("CMOs") in the mortgage-backed securities available-for-sale portfolio determined to have a permanent impairment in value.

Dividends on FHLB stock were $12 million for the year ended December 31, 1996, an increase of $5 million from the year ended December 31, 1995. The increase was primarily attributable to the 1996 Acquisitions and an increase in FHLB advances as a result of the Branch Sales.

Gain from the termination of the Assistance Agreement was $26 million for the year ended December 31, 1996.

Other noninterest income was $18 million for the year ended December 31, 1996, an increase of $7 million from the year ended December 31, 1995. The increase was primarily attributable to a $3 million increase in disbursement float interest income and $2 million of interest received related to the favorable outcome of an arbitration hearing.

Noninterest Expense. Total noninterest expense was $491 million for the year ended December 31, 1996, an increase of $158 million from the year ended December 31, 1995. The increase was principally due to additional compensation, loan expense, deposit insurance premiums and other noninterest expenses which were primarily related to the growth of FNH through the various acquisitions in 1995 and the first half of 1996 and the Special SAIF Assessment.

Total compensation and employee benefits expense was $205 million for the year ended December 31, 1996, an increase of $51 million from the year ended December 31, 1995, primarily attributable to $35.6 million of Incentive Plan accruals. The number of full time employees decreased to 3,547 for the year ended December 31, 1996, compared to 3,619 for the year ended December 31, 1995. This decrease was primarily due to the net impact of a reduction in employees as a result of the Branch Sales and FNH's cost reduction program, partially offset by employee additions in the mortgage banking operations related to the servicing portfolios acquired in the LMUSA Purchases and an increase in retail banking employees attributed to the 1996 Acquisitions.

Occupancy and equipment expense was $52 million for the year ended December 31, 1996, an increase of $2 million from the year ended December 31, 1995, attributed primarily to increased expenses resulting from the Maryland and 1996 Acquisitions and the LMUSA Purchases, partially offset by the net effect of operations sold in the Branch Sales.

SAIF deposit insurance premiums increased $59 million, to $81 million, for the year ended December 31, 1996. The increase was primarily due to the $60 million Special SAIF Assessment.

Loan expense was $31 million for the year ended December 31, 1996, an increase of $19 million from the year ended December 31, 1995. The increase related to additional expenses associated with the higher volume of loans serviced due to the LMUSA Purchases, the Maryland Acquisition and increased loan production. Such expenses included subservicing fees paid on acquired servicing portfolios prior to conversion to FNMC's systems and increased pass-through interest expense for loan payoffs in serviced loan pools. In addition, such expenses also included outside appraisal fees, inspection fees, and provision for losses on loans insured by the Federal Housing Administration or guaranteed by the Veterans Administration.

Professional fees increased $8 million, to $19 million, for the year ended December 31, 1996. This increase included additional expenses related to the loan servicing portfolios acquired in the LMUSA Purchases, as well as additional accruals for various legal and litigation expenses.

Foreclosed real estate operations, including gains on sales, resulted in a net gain of $7 million for the year ended December 31, 1996 compared to a net gain of $1 million for the same period in 1995. The change was attributable to a higher volume of sales in 1996 at comparatively higher prices to carrying values.

Amortization of intangible assets increased to $9 million for the year ended December 31, 1996 from $1 million for 1995, primarily due to the amortization of $132.1 million in goodwill recorded in connection with the 1996 Acquisitions.

Other noninterest expense was $79 million for the year ended December 31, 1996, an increase of $18 million from the year ended December 31, 1995, principally due to increased telecommunications, postage, office supplies, insurance, OTS assessments and travel expenses, all of which are attributed primarily to the increased loan servicing activity that resulted from the Maryland Acquisition and the LMUSA Purchases.

Provision for Income Taxes. During the years ended December 31, 1996 and 1995, FNH recorded income tax benefit of $73.1 million and $57.2 million, respectively. Based on a favorable earnings trend since the consummation of the FN Acquisition and future earnings expectations, management changed its judgment of FNH's ability to realize its deferred tax assets and recognized a deferred tax benefit (i.e., a reduction in the valuation allowance) of $69 million in the fourth quarter of 1995 and an additional $125 million in the second quarter of 1996. Management believes that the realization of such asset is more likely than not, based on the expectation that FNH will generate the necessary amount of taxable income in future periods. Included in tax expense for the year ended December 31, 1995 is the reversal of 1993 and 1994 over-accruals of federal taxes totalling $1.7 million. FNH's effective federal income tax rates before extraordinary items and minority interest were (20)% and (56)% during the years ended December 31, 1996 and 1995, respectively, while its statutory federal income tax rate was 35% during both periods. The difference between the effective and statutory rates was primarily the result of the utilization of net operating loss carryforwards for both periods, the reversal of 1993 and 1994 over accruals for the year ended December 31, 1995 and the recognition of a $125 million and $69 million deferred tax benefit in 1996 and 1995, respectively. FNH's effective state income tax rates before extraordinary items and minority interest were approximately 7% and 9% during the years ended December 31, 1996 and 1995, respectively.

Extraordinary Item. During the year ended December 31, 1996, FNH repurchased $44 million aggregate principal amount of the $50 million in 11.20% Senior Notes assumed in the SFFed Acquisition, resulting in a loss of $1.6 million, net of income taxes. During the year ended December 31, 1995, FNH recorded a gain of $2.0 million on the early extinguishment of $250 million in FHLB advances, net of income taxes.

Minority Interest. Dividends on the 11 1/2% Preferred Stock of $34.6 million were paid during the year ended December 31, 1996.

PROVISION FOR FEDERAL AND STATE INCOME TAXES

During the six months ended June 30, 1998 and 1997, FNH recorded an income tax benefit of $221.1 million and income tax expense of $21.9 million, respectively. Based on resolutions of federal income tax audits and favorable future earnings expectations, management changed its judgment about the realizability of FNH's deferred tax asset and reduced its valuation allowance by $250 million in addition to the amount used to offset income during the period. For the six months ended June 30, 1998 and 1997, FNH's valuation allowance was reduced by $330.2 million and $62.8 million, respectively. FNH's effective Federal tax rate was (131)% and

2% during the six months ended June 30, 1998 and 1997, respectively, while its statutory Federal tax rate was 35% during both periods. The difference between the effective and statutory rates was primarily the result of the reductions in the deferred tax asset valuation allowance. FNH's effective state tax rate was 13% and 15% during the six months ended June 30, 1998 and 1997, respectively. It is expected that, beginning July 1, 1998, FNH's effective tax rate for future periods will be 42%.

During the years ended December 31, 1997, 1996 and 1995, FNH recorded income tax expense (benefit), excluding the tax effects associated with extraordinary items and minority interest in 1997, 1996 and 1995, of $47.1 million, $(73.1) million, and $(57.2) million, respectively. FNH's effective income tax rates were 16%, (13)%, and (47)%, in 1997, 1996 and 1995, respectively. FNH's federal statutory income tax rate was 35% in each of 1997, 1996, and 1995. The difference between effective and statutory rates was primarily the result of offsetting certain deductions and losses with the receipt of non-taxable FSLIC/RF (as defined herein) assistance payments and, in 1996 and 1995, the recognition of a deferred tax benefit totalling $125 million and $69 million, respectively.

For federal income tax purposes, FNH is included in the Mafco Group and accordingly, its federal taxable income and loss will be included in the consolidated federal income tax return filed by Mafco Holdings.

Prior to the Golden State Acquisition, FNH, Mafco Holdings and the Bank were parties to the Tax Sharing Agreement, which was subsequently amended in connection with the Golden State Acquisition, pursuant to which (i) the Bank paid to FNH amounts equal to the income taxes that the Bank would have been required to pay if it were to file a return separately from the Mafco Group and (ii) FNH paid to Mafco Holdings amounts equal to the income taxes that FNH would be required to pay if it were to file a consolidated return on behalf of itself and the Bank separately from the Mafco Group. The Tax Sharing Agreement allowed the Bank to take into account, in determining its liability to FNH, any net operating loss carryovers that it would have been entitled to utilize if it had filed separate returns for each year since the formation of the Bank. The Tax Sharing Agreement also allowed FNH to take into account, in determining its liability to Mafco Holdings, any net operating loss carryovers that it would have been entitled to utilize if it had filed a consolidated return on behalf of itself and the Bank for each year since the formation of the Bank. Accordingly, pursuant to the Tax Sharing Agreement, the benefits of any net operating loss carryovers generated by the Bank since its formation are retained by the Bank and FNH.

As a result of the transfer of assets, including the stock of the Bank, by FNH to Golden State Holdings as part of the Golden State Acquisition, the Issuer succeeded to the tax attributes of FNH. In addition, pursuant to an amendment to the Tax Sharing Agreement dated as of September 11, 1998, and in accordance with the Merger Agreement, for any taxable period ending after the Golden State Acquisition, (i) Golden State replaced Mafco Holdings under the Tax Sharing Agreement and assumed all of the rights and obligations of Mafco Holdings under the Tax Sharing Agreement with respect to such taxable periods; (ii) the Issuer replaced FNH under the Tax Sharing Agreement and assumed all of the rights and obligations of FNH under the Tax Sharing Agreement with respect to such taxable periods; and (iii) the Bank continues to be bound by the Tax Sharing Agreement.

The Bank has generated significant federal income tax net operating losses since it was organized in December 1988. This is due, in part, to the fact that, under applicable federal income tax law, certain financial assistance received by the Bank pursuant to the Assistance Agreement was excluded from the taxable income of the Bank. In addition to such tax-free financial assistance, the Bank had been entitled to its normal operating deductions, including interest expense and certain losses relating to its loan portfolio. As a result, the Bank generated significant net operating losses for federal income tax purposes even though its operations were profitable. Furthermore, under the reorganization provisions of the Code (as defined herein), the Bank succeeded to certain net operating loss carryovers of the Texas Closed Branches (as defined herein).

At December 31, 1997, if FNH had filed a consolidated tax return on behalf of itself (as the common parent) and its subsidiaries for each year since the formation of the Bank, it would have had approximately $2.0 billion of regular net operating losses and approximately $789 million of AMT tax net operating losses, both of which FNH would have been entitled to utilize. A portion of such losses, to the extent not previously used to offset income, would expire in the year 2004 and in each year thereafter, and would fully expire in 2010. Under applicable tax law, only 90% of a corporation's alternative minimum taxable income may be offset by carryovers from other years. Thus, 10% of the alternative minimum taxable income earned by the Bank in the current period will be

subject to federal income tax at an effective rate of 20%. Under the Tax Sharing Agreement, FNH has eliminated a significant portion of the amounts that it otherwise would be required to pay to Mafco in respect of federal income tax. Payments made by FNH under the Tax Sharing Agreement with the Mafco Group during the years ended December 31, 1997, 1996 and 1995 totalled $18.6 million, $14.1 million and $3.1 million, respectively. Such payments may increase significantly at the time that the net operating losses described above are either used in full to offset income or expire.

If for any reason the Bank and the Issuer were to deconsolidate from the group, only the amount of the net operating loss carryovers of the Bank and the Issuer not utilized by the group (up to the end of the taxable year of the group in which the deconsolidation took place) would be available to offset the taxable income of the Bank and the Issuer subsequent to the date of deconsolidation. If the Bank and the Issuer had deconsolidated as of December 31, 1997 (i.e., the close of the prior Mafco Group taxable year), the Bank and the Issuer would have had approximately $970 million of regular net operating loss carryforwards available to offset the taxable income of the Bank and the Issuer subsequent to the date of deconsolidation. As a result of the deconsolidation of the Bank and the Issuer from the Mafco Group due to the Golden State Acquisition, and the anticipated use by the Mafco Group of additional regular net operating loss carryforwards available to offset the taxable income of the Mafco Group for the taxable year ending December 31, 1998, the net operating loss carryforwards of the Bank and the Issuer will decrease. Similarly, if for any reason the Bank and the Issuer were to deconsolidate after the Golden State Acquisition from the Golden State Group, only the amount of the net operating loss carryovers of the Bank and the Issuer, not utilized by the Golden State Group up to the end of the taxable year in which the deconsolidation took place, would be available to offset the taxable income of the Bank and the Issuer subsequent to the date of deconsolidation. If for any reason the Bank were to deconsolidate from the Issuer, with the Issuer remaining a member of the Golden State Group, the net operating loss carryovers of the Bank not utilized by the Golden State Group, until the close of the taxable year in which the deconsolidation took place would be available to offset the taxable income of the Bank subsequent to the date of deconsolidation, but would no longer be available to offset the taxable income of the Issuer subsequent to the date of deconsolidation. It cannot be predicted to what extent the Golden State Group will utilize the net operating loss carryovers of the Issuer and/or the Bank in the future or the amount, if any, of net operating loss carryforwards that the Issuer or the Bank may have upon deconsolidation. The net operating loss carryovers are subject to review and potential disallowance, in whole or in part, by the IRS. Any disallowance of the Bank's net operating loss carryovers may increase the amounts that the Bank would be required to pay to FNH or the Issuer under the Tax Sharing Agreement and that FNH or the Issuer would be required to pay to the Golden State Group and would therefore decrease the earnings of the Bank available for distribution to the Issuer.

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

On August 20, 1996, the Small Business Job Protection Act of 1996 (the "Act"), was enacted into law generally effective for years beginning after 1995. One provision of the Act repealed the Section 593 reserve method of accounting for bad debts by thrift institutions which are treated as large banks. Another provision of the Act requires FNH to take into income the balance of its post-1987 bad debt reserves over a six year period beginning in 1996 subject to a two-year deferral if certain residential loan tests are satisfied. As of December 31, 1995, FNH had approximately $279 million of post-1987 bad debts reserves that are subject to recapture. FNH had fully provided for the tax related to this recapture.

In accordance with SFAS No. 109, "Accounting for Income Taxes," a deferred tax liability has not been recognized for the base year reserves of FNH. The base year reserves are generally the balance of the tax bad debt reserve as of December 31, 1987 reduced proportionately for reductions in FNH's loan portfolio since that date. At December 31, 1997, the amount of those reserves was approximately $152 million. The amount of the unrecognized deferred tax liability at December 31, 1997 was approximately $53 million. Pursuant to the Act, circumstances that

may require an accrual of this unrecorded tax liability are a failure to meet the definition of a "bank" for federal income tax purposes, dividend payments in excess of tax earnings and profits, and other distributions, dissolution, liquidation or redemption of stock, excluding preferred stock meeting certain conditions.

FNH is subject to taxation in certain states in which it operates, including California. For California franchise tax purposes, savings institutions are taxed as "financial corporations." Financial corporations are taxed at the general corporate franchise tax rate plus an "in lieu" rate based on their statutory exemption from local business and personal property taxes. California has not adopted conforming federal tax law changes to the computation of the bad debt deduction.

TAX EFFECTS OF DIVIDEND PAYMENTS BY THE BANK

Dividend distributions made to FNH, as the sole owner of the Bank's common stock, and to holders of the Bank Preferred Stock, in each case in excess of the Bank's accumulated earnings and profits, as well as certain distributions in dissolution or in redemption or liquidation of stock, may cause the Bank to recognize a portion of its tax bad debt reserves as income, and accordingly, could cause the Bank to make payments to FNH under the Tax Sharing Agreement. As a result, FNH may be required to make payments to Mafco Holdings under the Tax Sharing Agreement if FNH has insufficient expenses and losses to offset such income. See "--Provision for Federal and State Income Taxes." The Bank does not expect to generate substantial amounts of federal taxable income (after taking into account its net operating loss carryovers) from any recapture of its bad debt reserve. Accordingly, the recapture of its bad debt reserve as a result of distributions to stockholders, or of the redemption of stock, would not be expected to have a material adverse effect on the Bank.

PROVISION FOR LOAN LOSSES

The adequacy of the allowance for loan losses is periodically evaluated by management in order to maintain the allowance at a level that is sufficient to absorb expected loan losses. FNH charges current earnings with a provision for estimated credit losses on loans receivable. The provision considers both specifically identified problem loans as well as credit risks not specifically identified in the loan portfolio. FNH established provisions for loan losses of $20.0 million and $39.9 million during the six months ended June 30, 1998 and 1997, respectively. The decrease in the provision for loan losses during the six months ended June 30, 1998 compared to the same period in 1997 is the result of management's evaluation of the adequacy of the allowance based on, among other things, past loan loss experience and known and inherent risks in the portfolio, evidenced in part by the continued decline in FNH's level of non-performing assets. FNH established provisions for loan losses of $80 million, $40 million and $37 million for the years ended December 31, 1997, 1996 and 1995, respectively. The increase in the provision for losses from 1995 through 1997 is due to the increased loan production activity (primarily 1-4 unit residential) and loans acquired through acquisitions in 1996 and 1997. In addition, management's periodic evaluation of the adequacy of the allowance for loan losses considers potential adverse situations that may affect the borrower's ability to repay, the estimated value of underlying collateral, and current and prospective economic conditions. The allowance for loan losses is increased by provisions for loan losses and allowances on acquired loans, while it is decreased by charge-offs (net of recoveries).

Although management believes that its present allowance for loan losses is adequate, it will continue to review its loan portfolio to determine the extent to which any changes in economic conditions or loss experience may require further provisions in the future.

ASSET AND LIABILITY MANAGEMENT

Banks and savings associations are subject to interest rate risk to the degree that their interest-bearing liabilities, consisting principally of deposits, securities sold under agreements to repurchase and FHLB advances, mature or reprice more or less frequently, or on a different basis, than their interest-earning assets. A key element of the banking business is the monitoring and management of liquidity risk and interest rate risk. The process of planning and controlling asset and liability mixes, volumes and maturities to influence the net interest spread is referred to as asset and liability management. The objective of FNH's asset and liability management is to maximize the net interest income over changing interest rate cycles within the constraints imposed by prudent lending and investing practices, liquidity needs and capital planning.

FNH, through the Bank, actively pursues investment and funding strategies to minimize the sensitivity of its earnings to interest rate fluctuations. FNH measures the interest rate sensitivity of its balance sheet through gap and duration analysis, as well as net interest income and market value simulation, and, after taking into consideration both the variability of rates and the maturities of various instruments, evaluates strategies which may reduce the sensitivity of its earnings to interest rate and market value fluctuations. An important decision is the selection of interest-bearing liabilities and the generation of interest-earning assets which best match relative to interest rate changes. In order to reduce interest rate risk by increasing the percentage of interest sensitive assets, FNH has continued its emphasis on the origination of ARM products for its portfolio. Where possible, FNH seeks to originate real estate loans that reprice frequently and that on the whole adjust in accordance with the repricing of its liabilities. At June 30, 1998, approximately 91% of FNH's real estate loan portfolio consisted of ARMs.

ARMs have from time to time been offered with low initial interest rates as marketing inducements. In addition, most ARMs are also subject to periodic interest rate adjustment caps or floors. In a period of rising interest rates, ARMs could reach a periodic adjustment cap while still at a rate significantly below their contractual margin over existing market rates. Since repricing liabilities are typically not subject to such interest rate adjustment constraints, FNH's net interest margin would most likely be negatively impacted in this situation. Certain ARMs now offered by FNH have a fixed monthly payment for a given period, with any changes as a result of market interest rates reflected in the unpaid principal balance through negative amortization.

As a result of the FN and Cal Fed Acquisitions, FNH acquired the rights and assumed obligations related to certain interest rate swap agreements that were entered into to hedge certain FHLB advances. Under the terms of these agreements, FNH pays a variable rate based on LIBOR and receives fixed rates. FNH had no interest rate swap agreements outstanding at June 30, 1998. During the six months ended June 30, 1998, and during 1997, 1996 and 1995, FNH's net interest margin increased (decreased) by $2.1 million, $.6 million, $.6 million and $(12.9) million, respectively, as a result of these interest rate swap agreements, largely due to the amortization of the premium assigned to these agreements in the FN and Cal Fed Acquisitions.

Gains and losses on early termination of these interest rate swap agreements would be included in the carrying amount of the FHLB advances and amortized over the remaining terms of such advances. The requirements that must be satisfied in order to account for the swap agreements in this manner are as follows: (1) the FHLB advances must expose FNH to interest rate risk, and (2) at the inception of the hedge and throughout the hedge period, high correlation of changes in the market value of the swaps and the fair value of the FHLB advances must be probable so that the results of the swaps will substantially offset the effects of interest rate changes on the FHLB advances. If these requirements are not met, the swaps would be considered speculative and marked to market with changes in market value reflected in noninterest income.

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

A traditional measure of interest-rate risk within the savings industry is the interest rate sensitivity gap, which is the sum of all interest-earning assets minus the sum of all interest-bearing liabilities to be repriced within the same period. A gap is considered positive when the amount of interest rate sensitive assets exceeds interest rate sensitive liabilities, while the opposite results in a negative gap. During a period of rising interest rates, a negative gap would tend to adversely affect net interest income, and a positive gap would tend to result in an increase in net interest income, while the opposite would tend to occur in a period of falling rates.

The following table sets forth the projected maturities based upon contractual maturities as adjusted for projected prepayments and "repricing mechanisms" (provisions for changes in the interest rates of assets and liabilities), as of June 30, 1998. Prepayment rates are assumed in each period on substantially all of FNH's loan portfolio based upon expected loan prepayments. Repricing mechanisms on FNH's assets are subject to limitations such as caps on the amount that interest rates and payments on its loans may adjust and, accordingly, such assets may not respond in the same manner or to the same extent to changes in interest rates as FNH's liabilities. In addition, the interest rate sensitivity of FNH's assets and liabilities illustrated in the table would

vary substantially if different assumptions were used or if actual experience differed from the assumptions set forth. FNH's estimated interest rate sensitivity gap at June 30, 1998 is as follows:

	MATURITY/RATE SENSITIVITY				
	WITHIN 1 YEAR	1-5 YEARS	OVER 5 YEARS	NONINTEREST BEARING	TOTAL
	(DOLLARS IN MILLIONS)				
INTEREST-EARNING ASSETS:					
Securities held to maturity, interest-bearing deposits in other banks and short-term investment securities(1)(2)	$ 96	$ --	$ --	$ --	$ 96
Securities available for sale(3)	783	--	--	--	783
Mortgage-backed securities available for sale(3)	8,037	--	--	--	8,037
Mortgage-backed securities held to maturity(1)(4)	1,135	2	--	--	1,137
Loans held for sale, net(3)(5)	1,707	--	--	--	1,707
Loans receivable, net(1)(6)	14,891	3,263	757	--	18,911
Investment in FHLB	540	--	--	--	540
Total interest-earning assets	27,189	3,265	757	--	31,211
Noninterest-earning assets	--	--	--	2,825	2,825
	$27,189	$ 3,265	$757	$ 2,825	$34,036
INTEREST-BEARING LIABILITIES:					
Deposits(7)	$14,395	$ 1,641	$ 8	$ --	$16,044
Securities sold under agreements to repurchase(1)	2,862	--	--	--	2,862
FHLB advances(1)	4,208	6,784	2	--	10,994
Other borrowings(1)	238	351	693	--	1,282
Total interest-bearing liabilities	21,703	8,776	703	--	31,182
Noninterest-bearing liabilities	--	--	--	730	730
Minority interest	--	--	--	986	986
Stockholders' equity	--	--	--	1,138	1,138
	$21,703	$ 8,776	$703	$ 2,854	$34,036
Gap	$ 5,486	$(5,511)	$ 54		$ 29
Cumulative gap	$ 5,486	$ (25)	$ 29		$ 29
Gap as a percentage of total assets	16.1 %	(16.2)%	0.2 %		0.1 %
Cumulative gap as a percentage of total assets	16.1%	(0.1)%	0.1 %		0.1 %

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(1) Based upon (a) contractual maturity, (b) instrument repricing date, if applicable, and (c) projected repayments and prepayments of principal, if applicable. Prepayments were estimated generally by using the prepayment rates forecast by various large brokerage firms as of June 30, 1998. The actual maturity and rate sensitivity of these assets could vary substantially if future prepayments differ from FNH's prepayment estimates.

(2) Consists of $59 million of securities held to maturity, $2 million of interest-bearing deposits in other banks and $35 million of short-term investment securities.

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

(4) Excludes underlying non-performing loans of $6 million.

(5) Excludes non-performing loans of $18 million.

(6) Excludes allowance for loan losses of $421 million and non-performing loans of $136 million.

(7) Fixed rate deposits and deposits with a fixed pricing interval are reflected as maturing in the year of contractual maturity or first repricing date.

Money market deposit accounts, demand deposit accounts and passbook accounts are reflected as maturing within one year.

At June 30, 1998, interest-earning assets of FNH exceeded interest-bearing liabilities by approximately $29 million. At December 31, 1997, interest-earning assets of FNH exceeded interest-bearing liabilities by approximately $154 million.

The maturity/rate sensitivity analysis is a static view of the balance sheet with assets and liabilities grouped into certain defined time periods, and thus only partially depicts the dynamics of FNH's sensitivity to interest rate changes. Since it is measured at a single point in time, this analysis may not fully describe the complexity of relationships between product features and pricing, market rates and future management of the balance sheet mix. FNH utilizes computer modeling, under various interest rate scenarios, to provide a dynamic view of the effects of the changes in rates, spreads, and yield curve shifts on net interest income.

FNH's risk management policies are established by the Asset/Liability Management Committee ("ALCO") of the Bank. ALCO meets monthly to formulate the Bank's investment and risk management strategies. The basic responsibilities of ALCO include management of net interest income and market value of portfolio equity, management of liquidity to provide adequate funding, and the establishment of asset product priorities by formulating performance evaluation criteria, risk evaluation techniques and a system to standardize the analysis and reporting of originations, competitive trends, profitability and risk. On a quarterly basis, the Board of Directors of the Bank is apprised of ALCO strategies adopted and their impact on operations, and, at least annually, the Board of Directors of the Bank reviews the Bank's interest rate risk management policy statements.

On November 15, 1995, the Financial Accounting Standards Board ("FASB") issued a special report, "A Guide to Implementation of Statement 115 on Accounting for Certain Investments in Debt and Equity Securities" (the "Special Report"), which provided all entities an opportunity to reassess their ability and intent to hold securities to maturity and allowed a one-time reclassification of securities from held-to-maturity to available-for-sale without "tainting" the remaining held-to-maturity securities. On December 29, 1995, the Bank reclassified substantially all of its securities and mortgage-backed securities from held-to-maturity to available-for-sale. The impact on the gap schedule of reclassifying securities from the held-to-maturity portfolio to the available-for-sale portfolio was to shorten the maturity and interest rate sensitivity of such assets.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

ALCO, which includes senior management representatives of the Bank, monitors and considers methods of managing the rate and sensitivity repricing characteristics of the balance sheet components consistent with maintaining acceptable levels of changes in net portfolio value ("NPV") and net interest income. A primary purpose of FNH's asset and liability management is to manage interest rate risk to effectively invest FNH's capital and to preserve the value created by its core business operations. As such, certain management monitoring processes are designed to minimize the impact of sudden and sustained changes in interest rates on NPV and net interest income.

FNH's exposure to interest rate risk is reviewed on at least a quarterly basis by the Board of Directors of the Bank and the ALCO. Interest rate risk exposure is measured using interest rate sensitivity analysis to determine FNH's change in NPV and net interest income in the event of hypothetical changes in interest rates, and interest rate sensitivity gap analysis is used to determine the repricing characteristics of FNH's assets and liabilities. If estimated changes to NPV and net interest income are not within the limits established by the Board, the Board may direct management to adjust its asset and liability mix to bring interest rate risk within Board-approved limits.

In order to reduce the exposure to interest rate fluctuations, FNH has developed strategies to manage its liquidity, shorten its effective maturities of certain interest-earning assets, and increase the interest rate sensitivity of its asset base. Management has sought to decrease the average maturity of its assets by emphasizing the origination of adjustable-rate residential mortgage loans and consumer loans, which are retained by FNH for its portfolio. In addition, long-term, fixed-rate single-family residential mortgage loans are underwritten according to guidelines of FHLMC, GNMA and the FNMA (each as defined herein), and are either swapped with the FHLMC, GNMA and the FNMA in exchange for mortgage-backed securities secured by such loans which are then sold, or are sold directly for cash in the secondary market.

Interest rate sensitivity analysis is used to measure FNH's interest rate risk by computing estimated changes in NPV of its cash flows from assets, liabilities and off-balance sheet items in the event of a range of assumed

changes in market interest rates. NPV represents the market value of portfolio equity and is equal to the market value of assets minus the market value of liabilities, with adjustments made for off-balance sheet items. This analysis assesses the risk of loss in market risk sensitive instruments in the event of a sudden and sustained increase or decrease in the market interest rates of one hundred to four hundred basis points. The Bank's Board of Directors has adopted an interest rate risk policy which establishes maximum decreases in the NPV of 15%, 30%, 45% and 60% in the event of a sudden and sustained increase or decrease in market interest rates of one hundred, two hundred, three hundred and four hundred basis points, respectively. The following table presents FNH's projected change in NPV for the various rate shock levels at December 31, 1997. All market risk sensitive instruments presented in this table are held to maturity or available for sale. FNH has no trading securities.

CHANGE IN INTEREST RATES	MARKET VALUE OF PORTFOLIO EQUITY	ACTUAL CHANGE	PERCENT CHANGE ACTUAL	PERCENT CHANGE BOARD LIMIT
	(DOLLARS IN MILLIONS)			
400 basis point rise	$ 1,163	$(605)	(34.2)%	(60)%
300 basis point rise	1,492	(276)	(15.6)	(45)
200 basis point rise	1,744	(24)	(1.4)	(30)
100 basis point rise	1,833	65	3.7	(15)
Base Scenario	1,768	--	--	--
100 basis point decline	1,613	(155)	(8.8)	(15)
200 basis point decline	1,562	(206)	(11.7)	(30)
300 basis point decline	1,581	(187)	(10.6)	(45)
400 basis point decline	1,570	(198)	(11.2)	(60)

The preceeding table indicates that at December 31, 1997, in the event of a sudden and sustained increase in prevailing market interest rates, FNH's NPV, including minority interest, would be expected to decrease, and that in the event of a sudden and sustained decrease in the prevailing market interest rates, FNH's NPV would be expected to experience little change. At December 31, 1997, FNH's estimated changes in NPV were within the targets established by the Board of Directors of the Bank.

The fair market value of portfolio equity decreases in a rising interest rate environment because FNH's interest-bearing liabilities generally reprice faster than its interest-earning assets, and certain interest-earning assets are subject to periodic caps. The reduction in value of the net interest-earning assets is partially offset by an increase in value of MSRs that appreciate in value as rates rise. In a declining interest rate environment, the reduction in value of MSRs generally outweighs the increase in value of the rest of the portfolio resulting from the repricing differences of interest-earning assets and interest-bearing liabilities.

NPV is calculated by FNH pursuant to guidelines established by the OTS. The calculation is based on the net present value of estimated discounted cash flows utilizing market prepayment assumptions and market rates of interest provided by independent broker quotations and other public sources as of December 31, 1997, with adjustments made to reflect the shift in the Treasury yield curve as appropriate.

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

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

In addition, FNH uses interest rate sensitivity gap analysis to monitor the relationship between the maturity and repricing of its interest-earning assets and interest-bearing liabilities, while maintaining an acceptable interest rate spread. See "--Asset and Liability Management."

LIQUIDITY

The standard measure of liquidity in the savings industry is the ratio of cash and short-term U.S. government securities and other specified securities to deposits and borrowings due within one year. Effective November 24, 1997, the OTS established a minimum liquidity requirement for the Bank of 4.00%, a reduction from 5.00%, which had been in effect prior to that date in 1997 and 1996. The Bank has been in compliance with the liquidity regulations during 1998 and 1997.

A major source of FNH's funding is expected to be the Bank's retail deposit branch network, which management believes will be sufficient to meet its long-term liquidity needs. The ability of FNH to retain and attract new deposits is dependent upon the variety and effectiveness of its customer account products, customer service and convenience, and rates paid to customers. FNH also obtains funds from the repayment and maturities of loans and mortgage-backed securities, while additional funds can be obtained from a variety of sources including customer and Brokered Deposits, loan sales, securities sold under agreements to repurchase, FHLB advances, and other secured and unsecured borrowings. It is anticipated that FHLB advances and securities sold under agreements to repurchase will continue to be important sources of funding, and management expects there to be adequate collateral for such funding requirements.

FNH's primary uses of funds are the origination or purchase of loans, the purchase of mortgage-backed securities, the funding of maturing certificates of deposit, demand deposit withdrawals, the repayment of borrowings, and the payment of dividends with respect to the REIT Preferred Stock and the Bank Preferred Stock. Certificates of deposit scheduled to mature during the twelve months ending June 30, 1999 aggregate $8.3 billion. FNH may renew these certificates, attract new replacement deposits, replace such funds with other borrowings, or it may elect to reduce the size of the balance sheet. In addition, at June 30, 1998, FNH had securities sold under agreements to repurchase, FHLB advances and other borrowings aggregating $7.3 billion maturing within twelve months. FNH may elect to pay off such debt or to replace such borrowings with additional FHLB advances or other borrowings at prevailing rates.

During 1994, the Bank issued 3,007,300 shares of the 11 1/2% Preferred Stock. Cash dividends on the 11 1/2% Preferred Stock are noncumulative and are payable at an annual rate of 11 1/2% if, when, and as declared by the Board of Directors of the Bank. The payment of dividends by the Bank is subject to certain federal laws applicable to savings associations. Dividends on the 11 1/2% Preferred Stock totalling $17.3 million and $34.6 million were declared and paid during the six months ended June 30, 1998 and year ended December 31, 1997, respectively.

In the FN Acquisition, FNH assumed $92.1 million of Old FNB's 10% Subordinated Debentures Due 2006 (as defined herein) which have an annual interest cost of $9.2 million. In the SFFed Acquisition, FNH assumed $50 million of the 11.20% Senior Notes. On September 12, 1996, FNH repurchased $44 million aggregate principal amount of the 11.20% Senior Notes at a price of approximately 116.45% of the principal amount, plus the accrued interest thereon. The $6.0 million of 11.20% Senior Notes that remain outstanding have an annual interest cost of $0.7 million.

In the Cal Fed Acquisition, FNH assumed certain indebtedness and the 10 5/8% Preferred Stock, which have an annual interest/dividend cost of $5.9 million and $18.3 million, respectively. Cash dividends on the 10 5/8% Preferred Stock are noncumulative and are payable at an annual rate of 10 5/8%, if, when, and as declared by the Board of Directors of the Bank. Similar to the 11 1/2% Preferred Stock, the payment of dividends by the Bank is subject to certain federal laws applicable to savings associations. Dividends on the 10 5/8% Preferred Stock totalling $9.2 million and $18.3 million were paid during the six months ended June 30, 1998 and year ended December 31, 1997, respectively.

At December 31, 1997, FNH had $25 million of FNH Preferred Stock (as defined herein) which has an annual dividend cost of approximately $2.5 million, not including dividends paid in kind. The FNH Preferred Stock was redeemed in March 1998.

The dividends, net of taxes, on the REIT Preferred Stock were $19.9 million and $36.6 million for the six months ended June 30, 1998 and year ended December 31, 1997, respectively.

As a result of the Golden State Acquisition and the Escrow Corp. Merger, the Issuer assumed the obligations of FNH under the FNH Notes and the obligations of Escrow Corp. under the Notes, which have an annual interest cost of $140.9 million.

As presented in the unaudited consolidated statements of cash flows of FNH included elsewhere in this Prospectus, the sources of liquidity vary between periods. The primary sources of funds during the six months ended June 30, 1998 were net loan repayments of $725.3 million, proceeds from sales of loans of $4.5 billion, $11.8 billion in additional borrowings, a $1.0 billion net increase in securities sold under agreements to repurchase and $1.9 billion in proceeds from principal payments and maturities of securities and mortgage-backed securities available for sale and held to maturity. The primary uses of funds were $10.3 billion in principal payments on borrowings, $4.6 billion in purchases of securities and mortgage-backed securities available for sale, $4.8 billion in originations of loans, $157.9 million from a net decrease in deposits and $82.4 million in dividend payments.

Net cash used in operating activities for the year ended December 31, 1997 totalled $383.4 million, a decrease of $899.3 million from the year ended December 31, 1996. The decrease was principally due to the increase in purchases and originations of loans held for sale.

Net cash provided by operating activities for the year ended December 31, 1996 totalled $515.9 million, an increase of $908.1 million from the year ended December 31, 1995. The increase was principally due to the increase in proceeds from the sale of loans held for sale. Substantially all loan production in 1996 was sold in the secondary market, whereas variable rate loans originated during the first nine months of 1995 were retained by FNH.

Net cash used in operating activities for the year ended December 31, 1995 totalled $392.2 million, an increase of $352.5 million from the year ended December 31, 1994. The increase is principally due to the increase in loans held for sale due to the additional production capacity from the Maryland Acquisition and the LMUSA 1995 Purchase.

Net cash used in investing activities for the year ended December 31, 1997 totalled $1.0 billion, a decrease of $3.2 billion from the year ended December 31, 1996. Cash flows used in investing activities included $198.3 million for acquisitions, purchases of securities of $1.4 billion and purchases of $2.6 billion in mortgage-backed securities. Cash flows provided by investing activities included a net decrease in loans receivable of $514.4 million, principal payments on mortgage-backed securities totalling $1.4 billion and proceeds from maturities of securities of $1.0 billion.

Net cash provided by investing activities for the year ended December 31, 1996 totalled $2.2 billion, an increase of $.4 billion from the year ended December 31, 1995. Cash flows provided by investing activities included a net decrease in loans receivable of $1.5 billion, principal payments on mortgage-backed securities totalling $863.1 million and proceeds from maturities of securities of $243.8 million. Cash flows used in investing activities included a net $52.4 million from acquisitions, purchases of securities of $507.3 million and purchases of $149.7 million in mortgage-backed securities.

Net cash provided by investing activities for the year ended December 31, 1995 totalled $1.7 billion, an increase of $1.7 billion from the year ended December 31, 1994. Cash flows provided by investing activities included $272.3 million from the FDIC Purchase and other dispositions of the Covered Assets, principal payments on mortgage-backed securities totalling $570.9 million and proceeds from maturities of securities of $344.5 million. Proceeds from sales of loans receivable, including loans sold to Granite (as defined herein) pursuant to the Put Agreement (as defined herein) of $199.5 million, totalled $431.2 million. Proceeds from the Branch Purchases provided $501.4 million. Cash flows used in investing activities included $214.7 million for the Maryland Acquisition and LMUSA 1995 Purchase and purchases of securities of $162.8 million.

Net cash provided by financing activities for the year ended December 31, 1997 totalled $1.6 billion. Cash flows provided by financing activities included additional borrowings of $19.6 billion, proceeds of $482.4 million from the issuance of the REIT Preferred Stock and proceeds from the First Nationwide Escrow Merger (as defined herein) of $603.3 million. Cash flows used in financing activities included principal payments on borrowings totalling $17.5 billion and a decrease in deposits of $1.2 billion. Additionally, redemption of

preferred stock totalled $142.3 million and dividends on preferred and common stock, including dividends paid to minority stockholders, totalled $171.2 million.

Net cash used in financing activities for the year ended December 31, 1996 totalled $2.7 billion. Principal payments on borrowings totalled $8.5 billion, funding of the Branch Sales totalled $4.6 billion and the net decrease in securities sold under agreements to repurchase totalled $202.2 million. Additionally, redemption of class C common stock totalled $124.7 million and dividends on common and preferred stock of FNH as well as the 11 1/2% Preferred Stock totalled $110.8 million. Cash flows provided by financing activities included additional borrowings of $10.7 billion and proceeds from the issuance of FNH Preferred Stock of $144.2 million.

Net cash used in financing activities for the year ended December 31, 1995 totalled $1.2 billion. Principal payments on borrowings totalled $6.9 billion and the net decrease in securities sold under agreements to repurchase totalled $913.1 million. Additionally, dividends on and redemption of FNH's class C common stock totalled $29.2 million and $60.8 million, respectively, and dividends on the 11 1/2% Preferred Stock totalled $34.6 million. Cash flows provided by financing activities included increases in deposits (other than the Branch Purchases) of $542.6 million and additional borrowings of $6.2 billion.

The Issuer's only source of cash to pay the interest on and principal of its long-term debt, including the Notes and the outstanding FNH Notes, is expected to be distributions from the Bank. The annual interest expense on the Notes is approximately $140.9 million. Although the Issuer expects that distributions from the Bank will be sufficient to pay interest when due, distributions from the Bank may not be sufficient to pay the principal amount of the Notes at maturity or prior to maturity upon the occurrence of an Event of Default or to redeem or repurchase the Notes upon a Change of Control. In addition, the Issuer may use such distributions to make dividends, distributions or other payments. In addition, there can be no assurance that the earnings from the Bank will be sufficient to make distributions to the Issuer to enable it to pay interest on the Notes when due or principal of the Notes at maturity or that such distributions will be permitted by the terms of any debt instruments of the Issuer's subsidiaries then in effect, by the terms of any class of preferred stock issued by the Bank, including the REIT Preferred Stock and the Bank Preferred Stock, or under applicable federal thrift laws.

The Issuer anticipates that cash and cash equivalents on hand, the cash flow from assets as well as other sources of funds will provide adequate liquidity for its operating, investing and financing needs and the Bank's regulatory liquidity requirements for the foreseeable future. See "Regulation--Regulation of the Bank." In addition to cash and cash equivalents of $383.4 million at June 30, 1998, the Issuer has substantial additional borrowing capacity with the FHLB and other sources.

The terms of the Bank Preferred Stock provide that the Bank may not declare or pay any dividends or other distributions (other than in shares of common stock of the Bank or other classes of equity securities of the Bank ranking junior to the Bank Preferred Stock, as the case may be (collectively, "Bank Junior Stock"), with respect to any Bank Junior Stock or repurchase, redeem or otherwise acquire, or set apart funds for the repurchase, redemption or other acquisition of any Bank Junior Stock (including the common stock to be held by the Issuer) through a sinking fund or otherwise, unless and until: (i) the Bank has paid full dividends on the Bank Preferred Stock, for the four most recent dividend periods or funds have been paid over to the dividend disbursing agent of the Bank for payment of such dividends, and (ii) the Bank has declared a cash dividend on the Bank Preferred Stock, at the annual dividend rate for the current dividend period, and sufficient funds have been paid over to the dividend disbursing agent of the Bank for the payment of a cash dividend for such current dividend period.

The Issuer currently anticipates that, in order to pay the principal amount of the Notes upon the occurrence of an Event of Default or to redeem or repurchase the Notes upon a Change of Control Put Event or, in the event that earnings from the Bank are not sufficient to make distributions to the Issuer to enable it to pay the principal amount of the Notes at maturity, the Issuer may be required to adopt one or more alternatives, such as borrowing funds, selling its equity securities or equity securities or assets of the Bank, or seeking capital contributions or loans from its affiliates. None of the affiliates of the Issuer is required to make any capital contributions or other payments to the Issuer with respect to the Issuer's obligations on the Notes. There can be no assurance that any of the foregoing actions could be effected on satisfactory terms, that any of the foregoing actions would enable the Issuer to pay the principal amount of the Notes or that any of such actions would be permitted by the terms of the Indenture or any other debt instruments of the Issuer or the Issuer's subsidiaries then in effect, by the terms of the Bank Preferred Stock, or under applicable federal thrift laws or regulations. See "Risk Factors--Ability to Pay Principal on the Notes."

As a holding company, any right of the Issuer and its creditors to participate in the assets of any of the Issuer's subsidiaries, including the Bank, upon any liquidation or reorganization of any such subsidiary will be subject to the prior claims of that subsidiary's creditors, including the Bank's depositors and trade creditors (except to the extent that the Issuer may itself be a creditor of such subsidiary). Accordingly, the Notes will be effectively subordinated to (i) all existing and future liabilities, including deposits, indebtedness and trade payable, of the Issuer's subsidiaries, including the Bank, and (ii) all preferred stock issued by the Bank, including the Bank Preferred Stock not purchased by Golden State Holdings in the Bank Preferred Stock Tender Offers. At June 30, 1998, after giving effect to the Golden State Acquisition, the outstanding interest-bearing liabilities, including deposits, of such subsidiaries would have been approximately $47.7 billion, the other liabilities of such subsidiaries, including trade payable and accrued expenses, would have been approximately $1.6 billion.

IMPACT OF INFLATION AND CHANGING PRICES

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

PROBLEM AND POTENTIAL PROBLEM ASSETS

Loans collectively reviewed for impairment by FNH include all 1-4 unit residential loans and performing multi-family and commercial real estate loans under $500,000, excluding loans which have entered the workout process.

FNH considers a loan to be impaired when, based upon current information and events, it believes it is probable that FNH will be unable to collect all amounts due according to the contractual terms of the loan agreement. Any insignificant delay (i.e., 60 days or less) or insignificant shortfall in amount of payments will not cause a loan to be considered impaired. In determining impairment, FNH considers large non-homogeneous loans including non-performing loans, troubled debt restructurings, and performing loans which exhibit, among other characteristics, high loan-to-value ("LTV") ratios, low debt-coverage ratios or other indications that the borrowers are experiencing increased levels of financial difficulty. FNH bases the measurement of collateral-dependent impaired loans on the fair value of the loan's collateral. The amount, if any, by which the recorded investment of the loan exceeds the measure of the impaired loan's value is recognized by recording a valuation allowance.

At June 30, 1998, the carrying value of loans that are considered to be impaired totalled $97.2 million (of which $20.3 million were on non-performing status). The average recorded investment in impaired loans during the six months ended June 30, 1998 was approximately $98.7 million. For the six months ended June 30, 1998, FNH recognized interest income on those impaired loans of $4.4 million, which included $.7 million of interest income recognized using the cash basis method of income recognition.

The following table presents the amounts, net of specific allowances for loan losses and purchase accounting adjustments, of FNH's non-performing loans, foreclosed real estate, repossessed assets, troubled debt restructurings and impaired loans as of the dates indicated. These categories are not mutually exclusive; certain loans are included in more than one classification.

	JUNE 30, 1998		
	NON-PERFORMING	IMPAIRED	RESTRUCTURED
	(IN MILLIONS)		
Real Estate:			
1-4 unit residential	$133	$ --	$ 2
5+ unit residential	10	40	21
Commercial and other	10	56	21
Land	--	--	--
Construction	1	1	--
Total real estate	154	97	44
Non-real estate	6	--	--
Total loans, net	160	$ 97(b)	$ 44(c)
Foreclosed real estate, net	65		
Repossessed assets	2		
Total non-performing assets	$227(a)		

	DECEMBER 31, 1997			DECEMBER 31, 1996		
	NON-PERFORMING	IMPAIRED	RESTRUCTURED	NON-PERFORMING	IMPAIRED	RESTRUCTURED
	(IN MILLIONS)					
Real Estate:						
1-4 unit residential	$165	$ --	$ 2	$146	$ --	$ 3
5+ unit residential	12	43	43	13	47	55
Commercial and other	6	67	26	9	54	28
Land	--	--	--	--	--	1
Construction	2	--	--	1	1	--
Total real estate	185	110	71	169	102	87
Non-real estate	7	--	--	3	--	--
Total loans	192	$110(b)	$ 71(c)	172	$102(b)	$ 87(c)
Foreclosed real estate, net	77			52		
Repossessed assets	3			--		
Total non-performing assets	$272(a)			$224		

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(a) Includes loans securitized with recourse on non-performing status of $5.7 million and $5.2 million at June 30, 1998 and December 31, 1997, respectively, and loans held for sale on non-performing status of $18.4 million and $1.2 million at June 30, 1998 and December 31, 1997.

(b) Includes $20.3 million, $18.6 million and $22.6 million of loans on non-performing status at June 30, 1998, December 31, 1997 and 1996, respectively. Also includes $19.2 million, $17.5 million and $18.3 million of loans classified as troubled debt restructurings at June 30, 1998, December 31, 1997 and 1996, respectively.

(c) Includes non-performing loans of $1.1 million, $2.1 million and $2.4 million at June 30, 1998, December 31, 1997 and 1996, respectively. At June 30, 1998, December 31, 1997 and 1996, $.3 million, $1.7 million and $2.4 million, respectively, of these non-performing troubled debt restructurings were also considered impaired.

There were no accruing loans contractually past due 90 days or more at June 30, 1998, December 31, 1997 or 1996.

FNH's non-performing assets decreased to $227 million at June 30, 1998, from $272 million at December 31, 1997. Non-performing assets as a percentage of the Bank's total assets decreased to .67% at June 30, 1998, from .87% at December 31, 1997. Non-performing assets at December 31, 1997 included $91.3 million of non-performing loans and $32.6 million of foreclosed real estate which were acquired in the Cal Fed Acquisition and the 1996 Acquisitions. FNH's non-performing assets, consisting of nonaccrual loans, net of purchase accounting adjustments, repossessed assets and foreclosed real estate, net, increased slightly to $272 million at December 31, 1997, compared with $224 million at December 31, 1996. On the other hand, non-performing assets as a percentage of the Bank's total assets decreased to .87% at December 31, 1997, from 1.36% of total assets at December 31, 1996. The decrease in the Bank's non-performing assets as a percentage of total assets is due to the level of the Bank's non-performing assets increasing less than the significant increase in total assets over such time period.

FNH, through the Bank, manages its credit risk by regularly assessing the current and estimated future performance of the real estate markets in which it operates. FNH continues to place a high degree of emphasis on the management of its asset portfolio. FNH has three distinct asset management functions: performing loan asset management, problem loan asset management and credit review. These three functions are charged with the responsibility of reducing the risk profile within the residential, commercial and multi-family asset portfolios by applying asset management and risk evaluation techniques that are consistent with FNH's portfolio management strategy and regulatory requirements. In addition to these asset management functions, FNH has a specialized credit risk management group that is charged with the development of credit policies and performing credit risk analyses for all asset portfolios.

The following table presents non-performing real estate assets by geographic region of the country as of June 30, 1998:

	NON-PERFORMING REAL ESTATE LOANS, NET(2)	FORECLOSED REAL ESTATE, NET(2)	TOTAL NON-PERFORMING REAL ESTATE ASSETS	GEOGRAPHIC CONCENTRATION
	(DOLLARS IN MILLIONS)			
Region:				
California	$ 89	$ 39	$128	58.52%
Northeast(1)	28	12	40	18.16
Other regions	37	14	51	23.32
Total	$154	$ 65	$219	100.00%

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(1) Includes Connecticut, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island and Delaware.

(2) Net of purchase accounting adjustments and specific allowances for losses.

At June 30, 1998, FNH's largest non-performing asset was approximately $4.6 million, and it had three non-performing assets over $2 million in size with balances averaging approximately $4.0 million. FNH has 1,358 non-performing assets below $2 million in size, including 1,266 non-performing 1-4 unit residential assets.

The level of non-performing assets is directly affected by economic conditions throughout the country. The following table indicates non-performing real estate loans, net of purchase accounting adjustments and specific allowances for losses, by collateral type, interest rate type and state concentration as of December 31, 1997:

STATE	1-4 UNIT RESIDENTIAL VARIABLE	1-4 UNIT RESIDENTIAL FIXED	5+ UNIT RESIDENTIAL VARIABLE	5+ UNIT RESIDENTIAL FIXED	COMMERCIAL AND OTHER VARIABLE	COMMERCIAL AND OTHER FIXED	TOTAL NONACCRUAL REAL ESTATE LOANS	% OF TOTAL
	(DOLLARS IN MILLIONS)							
California	$ 91	$ 7	$ 9	$ 1	$ 7	$ 1	$ 116	62.7%
New York	16	4	1	--	--	--	21	11.4
Hawaii	8	1	--	--	--	--	9	4.9
Florida	6	3	--	--	--	--	9	4.9
New Jersey	5	1	--	--	--	--	6	3.2
Ohio	2	1	--	--	--	--	3	1.6
Illinois	2	1	--	--	--	--	3	1.6
Connecticut	3	--	--	--	--	--	3	1.6
Texas	1	1	--	--	--	--	2	1.1
Other states(1)	8	4	1	--	--	--	13	7.0
Total	$142	$23	$ 11	$ 1	$ 7	$ 1	$ 185	100.0%

(1) There are 27 states, Puerto Rico and the District of Columbia, of which no one state had non-performing loans in excess of 1% of the total.

The following table indicates outstanding balances of troubled debt restructured loans, net of purchase accounting adjustments and specific allowances for losses, by collateral type, interest rate type and state concentration as of December 31, 1997:

STATE	1-4 UNIT RESIDENTIAL VARIABLE	1-4 UNIT RESIDENTIAL FIXED	5+ UNIT RESIDENTIAL VARIABLE	5+ UNIT RESIDENTIAL FIXED	COMMERCIAL AND OTHER VARIABLE	COMMERCIAL AND OTHER FIXED	TOTAL TROUBLED DEBT RESTRUCTURED	% OF TOTAL
	(DOLLARS IN MILLIONS)							
California	$--	$ 2	$ 22	$ 3	$ 11	$ 2	$ 40	55.3%
New York	--	--	3	11	--	12	26	37.9
Other states(1)	--	--	--	4	--	1	5	6.8
Total	$--	$ 2	$ 25	$18	$ 11	$15	$ 71	100.0%

(1) There are five states of which no one state had troubled debt restructured loans in excess of 1% of the total.

The following table indicates outstanding balances of impaired loans, net of purchase accounting adjustments and specific allowances for losses, by collateral type, interest rate type and state concentration as of December 31, 1997:

STATE	5+ UNIT RESIDENTIAL VARIABLE	5+ UNIT RESIDENTIAL FIXED	COMMERCIAL AND OTHER VARIABLE	COMMERCIAL AND OTHER FIXED	TOTAL IMPAIRED	% OF TOTAL
	(DOLLARS IN MILLIONS)					
California	$ 35	$ 2	$ 47	$ 6	$ 90	81.9%
New York	3	1	2	--	6	5.8
Illinois	--	--	5	--	5	4.4
Hawaii	--	--	4	--	4	3.3
Florida	1	--	2	--	3	2.3
Arizona	--	--	--	1	1	1.0
Other states(1)	1	--	--	--	1	1.3
Total	$ 40	$ 3	$ 60	$ 7	$110	100.0%

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(1) There are four states of which no one state had impaired loans in excess of 1% of the total.

A summary of the activity in the allowance for loan losses by loan type is as follows for the years ended December 31, 1997, 1996 and 1995 and the six months ended June 30, 1998:

	1-4 UNIT RESIDENTIAL	5+ UNIT RESIDENTIAL AND COMMERCIAL REAL ESTATE	CONSUMER AND OTHER	TOTAL
	(DOLLARS IN MILLIONS)			
Balance--December 31, 1994	$ 111	$ 83	$ 9	$ 203
Provision for loan losses	31	3	3	37
Charge-offs	(27)	(1)	(5)	(33)
Recoveries	1	--	2	3
Balance--December 31, 1995	116	85	9	210
Purchases and acquisitions, net	6	32	1	39
Provision for loan losses	34	2	4	40
Charge-offs	(35)	(4)	(6)	(45)
Recoveries	2	--	1	3
Balance--December 31, 1996	123	115	9	247
Purchases and acquisitions, net	55	79	10	144
Provision for loan losses	60	12	8	80
Charge-offs	(38)	(8)	(10)	(56)
Recoveries	2	--	2	4
Balance--December 31, 1997	202	198	19	419
Provision for loan losses	12	5	3	20
Charge-offs	(13)	(3)	(4)	(20)
Recoveries	1	--	1	2
Balance--June 30, 1998	$ 202	$ 200	$ 19	$ 421

The ratio of allowance for loan losses to non-performing loans at June 30, 1998 and December 31, 1997, 1996 and 1995 was 262.0%, 217.8%, 143.2% and 122.8%, respectively. The increase in the ratio is primarily attributed to the Cal Fed Acquisition and the expiration of the Put Agreement.

MORTGAGE BANKING OPERATIONS

Since 1994, FNH, through the Bank's wholly owned mortgage bank subsidiary, FNMC, has significantly expanded its mortgage banking operations. During May 1997 and January 1998, FNMC acquired mortgage servicing assets of $3.2 billion and $3.6 billion, respectively, as a result of four bulk servicing acquisitions. The balance in the servicing portfolio has remained relatively flat as a result of the net effect of a 1997 servicing sale of loans with an unpaid principal balance of $2.3 billion and the higher prepayments on the underlying loans serviced, offset by the bulk purchases in 1997 and 1998, the acquisition of additional 1-4 unit residential loan servicing portfolios in the Cal Fed Acquisition and the originated servicing. The 1-4 unit residential loans serviced for others totalled $46.8 billion at June 30, 1998, a decrease of $.7 billion and $.6 billion from December 31, 1997 and June 30, 1997, respectively. During the six months ended June 30, 1998, FNH, through FNMC, originated $4.8 billion and sold (generally with servicing retained) $4.5 billion of 1-4 unit residential loans. Gross revenues from mortgage loan servicing activities for the six months ended June 30, 1998 totalled $118.8 million, a decrease of $3.6 million from the six months ended June 30, 1997.

A decline in long-term interest rates generally results in an acceleration of mortgage loan prepayments. Higher than anticipated levels of prepayments generally cause the accelerated amortization of MSRs, and generally will result in a reduction in the market value of MSRs and in FNH's servicing fee income. To reduce the sensitivity of its earnings to interest rate and market value fluctuations, FNH hedged the change in value of its MSRs based on changes in interest rates ("MSR Hedge").

At June 30, 1998, FNH, through FNMC, was a party to several interest rate floor contracts maturing from October 2001 through January 2003. FNH paid counterparties a premium in exchange for cash payments in the event that the 10-year constant maturity U.S. treasury rate falls below negotiated strike prices. At June 30, 1998, the notional amount of the interest rate floors was $1.4 billion and the strike prices were between 5.5% and 6.5%. In addition, FNH, through FNMC, was a party to principal-only swap agreements related to principal-only securities and prepayment-linked swap agreements with a remaining notional amount of $107.4 million and $1.2 billion, respectively. The estimated market values of interest rate floor contracts and swaps designated as hedges against MSRs at June 30, 1998 were $28.6 million and $21.3 million, respectively.

The premium paid by the Bank on the interest rate floor contracts is amortized against the carrying value of MSRs based on the option decay rate. Amounts received or paid under the principal-only swap agreements are included in the carrying value of MSRs. Gains and losses on early termination of these hedges would be included in the carrying amount of the related MSRs and amortized over the remaining terms of the assets. Two requirements must be met in order to use these hedge accounting methods: (i) MSRs must expose the Bank to interest rate risk, and (ii) at the inception of the hedge and throughout the hedge period, high correlation of changes in the market value of the interest floor contracts and the principal-only swaps and the fair value of the MSRs must be probable so that the results of the interest floor contracts and the principal-only swaps will substantially offset the effects of interest rate changes on the MSRs. If these requirements are not met, the interest floor contracts and the principal-only swaps would be considered speculative and marked to market with changes in market value reflected in current earnings.

In accounting for its mortgage loan sales prior to April 1, 1995, a gain or loss was recognized by the Bank based on the sum of three components: (i) the difference between the cash proceeds of the loan sales and the Bank's book value of the loans; (ii) the "excess servicing," if any; less (iii) provisions for estimated losses to be incurred from limited recourse obligations, if any. Excess servicing results in a capitalized asset that is amortized as an offset to servicing fee income using the interest method over the estimated remaining lives of the loans sold.

Effective April 1, 1995, the Bank adopted SFAS No. 122, which requires that, when a mortgage loan is sold and MSRs are retained, a portion of the cost of originating a mortgage loan be allocated to the MSRs based on its fair market value. This cost of originating the loan is capitalized and amortized over the period of estimated future net servicing income. The net gains on sales of 1-4 unit residential loans during the six months ended

June 30, 1998, totaled $19.6 million and included amounts related to the capitalization of originated and excess MSRs of $102 million. The net gains on sales of 1-4 unit residential loans during the year ended December 31, 1997 totalled $24.7 million and included amounts related to the capitalization of originated and excess MSRs of $120.5 million.

The following is a summary of activity in MSRs and the MSR Hedge for the year ended December 31, 1997 and the six months ended June 30, 1998 (in thousands):

	MSRS	MSR HEDGE	TOTAL MSR BALANCE
Balance at December 31, 1996	$420,187	$ 3,505	$423,692
Additions--Cal Fed Acquisition	44,497	--	44,497
Additions--Weyerhaeuser Purchase	41,949	--	41,949
Originated servicing	120,465	--	120,465
Additions--other	27,939	--	27,939
Sale--Servicing Sale	(16,792)	--	(16,792)
Sales--Other	(4)	--	(4)
Premium paid on interest rate floor contracts	--	7,088	7,088
Payments received under interest rate floor contracts	--	(471)	(471)
Net received under principal-only swap agreements	--	(1,378)	(1,378)
Amortization	(106,972)	(3,310)	(110,282)
Balance at December 31, 1997	531,269	5,434	536,703
Additions--bulk purchases	57,136	--	57,136
Originated servicing	102,029	--	102,029
Additions--other	21,087	--	21,087
Additions to MSR Hedge	--	13,478	13,478
Payments received under interest rate floor contracts	--	(6,338)	(6,338)
Net payments made under principal-only swap agreements	--	381	381
Net payments made under futures contracts	--	1,654	1,654
Amortization	(54,213)	(2,861)	(57,074)
Balance at June 30, 1998	$657,308	$ 11,748	$669,056

Capitalized mortgage servicing rights are amortized in proportion to, and over the period of, estimated future net servicing income. SFAS No. 125 requires enterprises to measure the impairment of servicing rights based on the difference between the carrying amount of the servicing rights and their current fair value. At June 30, 1998 and December 31, 1997, no allowance for impairment of the mortgage servicing rights was necessary.

CAPITAL RESOURCES

OTS capital regulations require savings associations to satisfy three minimum capital requirements: tangible capital, core (leverage) capital and risk-based capital. In general, an association's tangible capital, which must be at least 1.5% of adjusted total assets, is the sum of common stockholders' equity (including retained earnings), noncumulative perpetual preferred stock and minority interest in equity accounts of fully consolidated subsidiaries, less disallowed intangibles. An association's ratio of core capital to adjusted total assets (the "core capital ratio") must be at least 4%, recently amended from 3% which had been in effect prior to March 1998. Core capital generally is the sum of tangible capital plus certain qualifying intangibles. Under the risk-based capital requirement, a savings association must have total capital (core capital plus supplementary capital) equal to at least 8% of risk-weighted assets (which equals assets plus the credit risk equivalent of certain off-balance sheet items, each multiplied by the appropriate risk weight). Supplementary capital, which may not exceed 100% of core capital for purposes of the risk-based requirements, includes, among other things, certain permanent capital instruments such as qualifying cumulative perpetual preferred stock, as well as some forms of term capital instruments, such as qualifying subordinated debt. The capital requirements are viewed as minimum standards by the OTS, and most associations are expected to maintain capital levels well above the minimum. In addition, the OTS regulations provide that minimum capital levels higher than those provided in the regulations may be established by the OTS for individual savings associations, depending upon their particular circumstances. The

Bank is not subject to any such individual minimum regulatory capital requirement. These capital requirements are applicable to the Bank but not to FNH.

At June 30, 1998, the Bank's regulatory capital levels exceeded the minimum regulatory capital requirements, with tangible, core and risk-based capital ratios of 5.46%, 5.46% and 12.15%, respectively. The following is a reconciliation of the Bank's stockholders' equity to regulatory capital as of June 30, 1998:

	TANGIBLE CAPITAL	CORE CAPITAL	RISK-BASED CAPITAL
	(DOLLARS IN MILLIONS)		
Stockholders' equity of the Bank at June 30, 1998	$ 2,565	$ 2,565	$ 2,565
Minority interest--REIT Preferred Stock	500	500	500
Unrealized holding gain on securities available for sale, net	(28)	(28)	(28)
Non-qualifying MSRs	(67)	(67)	(67)
Non-allowable capital:			
REIT Preferred Stock in excess of 25% of Tier 1 capital	(53)	(53)	(53)
Intangible assets	(656)	(656)	(656)
Goodwill Litigation Asset (as defined herein)	(100)	(100)	(100)
Investment in subsidiaries	(54)	(54)	(54)
Excess deferred tax asset	(319)	(319)	(319)
Supplemental capital:			
Qualifying subordinated debt debentures	--	--	94
General loan loss allowance	--	--	218
Assets required to be deducted:			
Low level recourse deduction	--	--	(2)
Land loans with more than 80% LTV ratio	--	--	(3)
Regulatory capital of the Bank	1,788	1,788	2,095
Minimum regulatory capital requirement	492	1,311	1,380
Excess above minimum capital requirement	$ 1,296	$ 477	$ 715
Regulatory capital of the Bank	5.46%	5.46%	12.15%
Minimum regulatory capital requirement	1.50	4.00	8.00
Excess above minimum capital requirement	3.96%	1.46%	4.15%

The amount of adjusted total assets used for the tangible and core capital ratios is $32.8 billion. Risk-weighted assets used for the risk-based capital ratio amounted to $17.2 billion.

The Bank is also subject to the "prompt corrective action" standards prescribed in the FDICIA and related OTS regulations, which, among other things, define specific capital categories based on an association's capital ratios. The capital categories, in declining order, are "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," and "critically undercapitalized." Associations categorized as "undercapitalized" or worse are subject to certain restrictions, including the requirement to file a capital plan with the OTS, prohibitions on the payment of dividends and management fees, restrictions on executive compensation, and increased supervisory monitoring, among other things. Other restrictions may be imposed on the association either by the OTS or by the FDIC, including requirements to raise additional capital, sell assets, or sell the entire association. Once an association becomes "critically undercapitalized" it is generally placed in receivership or conservatorship within 90 days.

To be considered "well capitalized," a savings association must generally have a leverage capital ratio of at least 5.00%, a Tier 1 (core capital) risk-based capital ratio of at least 6.00%, and a total risk-based capital ratio of at least 10.00%. An association is deemed to be "critically undercapitalized" if it has a tangible equity ratio of

2.00% or less. At June 30, 1998, the Bank's capital levels were sufficient for it to be considered "well capitalized:"

	LEVERAGE CAPITAL	RISK-BASED TIER 1	RISK-BASED TOTAL CAPITAL
Regulatory capital of the Bank	5.46%	10.37%	12.15%
Well capitalized ratio	5.00	6.00	10.00
Excess above well capitalized ratio	0.46%	4.37%	2.15%

Management expects that the Bank will remain a "well capitalized" association under applicable OTS regulations upon consummation of the Golden State Acquisition and the Refinancing Transactions.

OTS capital regulations allow a savings association to include a net deferred tax asset in regulatory capital, subject to certain limitations. To the extent that the realization of a deferred tax asset depends on a savings association's future taxable income, such deferred tax asset is limited for regulatory capital purposes to the lesser of the amount that can be realized within one year or 10 percent of core capital. At June 30, 1998, $319 million of the net tax benefit was determined to be attributable to the amount of taxable income that may be realized in periods beyond one year. Accordingly, such amount has been excluded from regulatory capital at June 30, 1998.

YEAR 2000

During the year ended December 31, 1997, the Bank finalized its plan to address issues related to required changes in computer systems for the year 2000 ("Year 2000"). Issues arise because computer systems and related software may have been designed to recognize only dates that relate to the 20th century. Accordingly, if no changes are implemented, some computer systems would interpret "1/1/00" as January 1, 1900 instead of January 1, 2000. Additionally, some equipment, being controlled by microprocessor chips, may not deal appropriately with a year "00."

The Bank has developed and is currently executing a comprehensive plan to make its computer systems, applications and facilities Year 2000 ready. The plan covers four stages including (i) inventory, (ii) assessment, (iii) remediation and (iv) testing and certification. At year end 1997, the Bank had completed virtually all of the inventory and assessment stages for its Bank-owned systems and applications. The remediation or renovation process is currently underway and the Bank is utilizing both internal and external resosurces to reprogram, or replace where necessary, and test the software for Year 2000 modifications. The remediation process is targeted for completion by year-end 1998, while testing and certification of these systems and applications are currently targeted for completion by March 31, 1999. The Bank is currently assessing risks related to the potential failure of material third parties to be ready for Year 2000.

It is currently expected that costs related to Year 2000 will total approximately $15.8 million over the years 1997 to 2000. Of this, $5.2 million has been incurred since the inception of the Year 2000 project through June 30, 1998. Historically, cost estimates and actual expenses for Year 2000 are as follows:

	YEAR ENDED DECEMBER 31, 1997	SIX MONTHS ENDED JUNE 30, 1998
	(IN MILLIONS)	
Cost Estimates	$ 1.2	$ 3.8
Actual Expenditures	1.2	3.8

It is estimated that expenditures for Year 2000 will total $8.8 million for calendar year 1998.

On the total Year 2000 project costs, $6.4 million are incremental third party expenses, which will be funded through operating cash flows. However, an increase in reprogramming costs would adversely affect this cost estimate. Expenditures in 1998 represent 18% of the total Information and Technology Services unit's ("ITS") budget. No ITS projects have been deferred as a result of Year 2000 efforts. Rather, incremental resources including consultants,

contractors, software utilities and hardware were obtained from outside the Bank to supplement existing staff. The Bank is currently unaware of any asserted or unasserted claims of breach of contract or warranty, and, at present, does not anticipate any assertion of such claims in the future.

The Bank has initiated communications with its critical external relationships to determine the extent to which the Bank may be vulnerable to such parties' failure to remediate their own Year 2000 issues. From its critical service providers, the Bank has obtained written statements indicating they will be Year 2000-ready. However, through the testing and certification stage, the Bank will continue to assess and attempt to mitigate its risks with respect to the failure of these entities to be Year 2000-ready. The effect, if any, on the Bank's results of operations from the failure of such parties to be Year 2000-ready is not reasonably estimable.

It is expected that, by December 31, 1998, all issues related to Year 2000 will be addressed, either by programming changes to the Bank's custom software, by programming changes implemented by third party vendors to purchased systems, or through the upgrading or purchase of Year 2000 compliant hardware and equipment. Extensive testing is expected to occur during 1999. Year 2000 is the highest priority project within the ITS unit of the Bank. Management believes there is no material risk that the Bank will fail to address Year 2000 issues in a timely manner, and little possibility of material changes in its estimates of reserves, allowances for capitalized software costs, litigation and deferred revenue.

In light of normal ongoing field visits by regulatory examiners, there is little chance of enforcement action on FNH's or the Bank's Year 2000 project. FNH does not anticipate material loan losses or acceleration of prepayments due to Year 2000.

FNH and the Bank are currently developing a contingency plan, which will be completed by December 31, 1998, to address a plan of action in the unlikely event FNH or its vendors and/or business partners are not ready for Year 2000.

GLENDALE FEDERAL

OVERVIEW

Earnings Performance

Glendale Federal recorded net earnings of $129.1 million in fiscal 1998, compared to net earnings of $50.4 million in fiscal 1997 and $42.1 million in fiscal 1996.

Net earnings for fiscal 1998 included legal expenses for Glendale Federal's goodwill litigation of $19.0 million ($11.0 million after-tax), and acquisition and restructuring costs of $6.9 million ($4.0 million after-tax) related to the acquisitions of CenFed Bank and RedFed and the distribution of the Litigation Tracking Warrants(Trademark) described below. See "--Business--Glendale Federal--Legal Proceedings," "--Goodwill Litigation Tracking Warrants(Trademark)," "--Acquisitions" and "--Results of Operations--Legal Expenses--Goodwill Lawsuit."

Net earnings for fiscal 1997 included a special assessment by the FDIC of $55.5 million ($31.9 million after-tax) to recapitalize the SAIF and legal expenses for Glendale Federal's goodwill litigation of $24.1 million ($13.8 million after-tax). See "--SAIF Special Assessment."

Net earnings for fiscal 1996 included a loss of $28.2 million ($19.7 million after-tax) on the sale of $1.7 billion of collateralized mortgage obligations ("CMOs"). See "--Sale of CMO Investment Portfolio." Also included in results of operations for fiscal 1996 is an after-tax loss of $1.7 million on the sale of Glendale Federal's former headquarters facility and legal expenses for the goodwill litigation of $1.9 million ($1.3 million after-tax).

During fiscal 1997 and 1996, Glendale Federal exchanged 1.2 million shares and 2.2 million shares, respectively, of its preferred stock for 3.1 million shares and 5.9 million shares, respectively, of common stock of Glendale Federal. These exchanges were made at a premium above the stated conversion rate of 2.404 shares of Glendale Federal's common stock for each share of its preferred stock. See Notes 3 and 18 of the Notes to Consolidated Financial Statements of Glendale Federal included elsewhere in this Prospectus for additional information on these transactions.

Excluding the after-tax impact of the non-operating items mentioned above and the effect of the preferred stock conversions during fiscal 1997 and 1996, adjusted net earnings for fiscal 1998 were $144.1 million, compared to adjusted net earnings for fiscal 1997 and 1996 of $96.2 million and $64.8 million, respectively.

The 50% improvement in adjusted net earnings in fiscal 1998 over fiscal 1997 reflects higher net interest income, lower credit-related costs, increases in other fees and service charges and reduced FDIC insurance premiums, partially offset by decreases in loan servicing income, increases in general and administrative expenses due to expansion of Glendale Federal's business lines, recent acquisitions and franchise expansion, and increases in the amortization of goodwill and other intangible assets due to acquisitions.

Glendale Federal's interest rate spread was 2.90% at June 30, 1998, as compared with 2.68% and 2.41% at June 30, 1997 and 1996, respectively. Glendale Federal's interest rate spread continued to improve in fiscal 1998 primarily due to a decline in Glendale Federal's cost of funds. The decrease in the cost of funds from 4.87% at June 30, 1997 to 4.60% at June 30, 1998 reflects a decline in deposit costs due to a continuing shift in the mix of deposits from higher-cost certificates of deposit to lower-cost checking and other daily access accounts obtained through internally developed growth and the CenFed Bank acquisition. Checking accounts comprised 17.0% of total deposits at June 30, 1998, compared with 12.8% at June 30, 1997.

See "--Results of Operations--Net Interest Income" for additional discussion of Glendale Federal's interest rate spread and the impact possible future interest rate changes could have on Glendale Federal's net interest income.

See Note 1 of the Notes to Consolidated Financial Statements of Glendale Federal included elsewhere in this Prospectus for information on current accounting pronouncements and their impact on Glendale Federal's consolidated financial statements.

Goodwill Litigation Tracking Warrants(Trademark)

On October 28, 1997, Golden State announced plans to distribute Litigation Tracking Warrants(Trademark) (the "Litigation Tracking Warrants(Trademark)" or "LTW(Trademark)s") to its security holders representing the right to receive, upon exercise of the LTW(Trademark)s, Golden State common stock equal in value to 85% of the net after-tax proceeds, if any, from Glendale Federal's pending goodwill lawsuit against the United States government (the "Glendale Goodwill Litigation"). The LTW(Trademark)s would be exercisable after notification by Golden State of its receipt of proceeds from a final judgment in or settlement of the litigation. The LTW(Trademark)s would expire 60 days after such notification is given.

In a special meeting on April 23, 1998, Golden State shareholders approved certain corporate changes necessary to issue the LTW(Trademark)s, including an increase in the total number of authorized shares of common stock from 100 million shares to 250 million shares and amendments to certain terms of Golden State's Noncumulative Convertible Preferred Stock, Series A (the "Series A Preferred Stock"). Following the shareholder meeting on that date, Golden State's Board of Directors declared a distribution of its LTW(Trademark)s for May 29, 1998, to holders of the common stock of Golden State of record on May 7, 1998, on the basis of one LTW(Trademark) for each share held as of the close of business on that date. The Board of Directors also reserved additional LTW(Trademark)s for future issuance in connection with conversions or exercises of Golden State's outstanding Series A Preferred Stock, its two outstanding classes of common stock purchase warrants and employee stock options. The total number of LTW(Trademark)s issued to holders of common stock on May 29, 1998 and reserved for such future issuances is approximately 85.8 million. The distribution of the LTW(Trademark)s will not affect Golden State's diluted shares outstanding prior to the time they become exercisable because the amount of the proceeds from the Glendale Goodwill Litigation and the number of shares of common stock to be issued cannot be determined until the LTW(Trademark)s become exercisable.

The LTW(Trademark)s have traded on the NASDAQ National Market System since June 1, 1998 under the ticker symbol "GSBNZ."

Acquisitions

On April 21, 1998, Golden State acquired CENFED, the parent company of CenFed Bank in a tax-free stock-for-stock merger. Pursuant to the terms of the transaction, Golden State issued 7,390,557 shares of its common stock resulting in a total purchase price of $211.1 million. Under the purchase method of accounting, the goodwill recorded in this transaction will be amortized over 15 years using the straight-line method. At April 21, 1998, CenFed Bank operated 18 branches and had $1.9 billion in assets, including $1.4 billion of loans receivable, net, and $354 million of mortgage-backed securities, net. CENFED's liabilities at April 21, 1998 included $1.4 billion of deposits and $385.1 million of borrowings. The merger of CenFed Bank with Glendale Federal was completed on May 8, 1998.

On July 11, 1998, Golden State acquired RedFed and its federal savings bank subsidiary, Redlands Federal Bank, in a tax-free, stock-for-stock merger. Pursuant to the terms of the transaction, Golden State issued 5,221,995 shares of its common stock resulting in a total recorded purchase price of $158.3 million. The transaction will be accounted for as a purchase. The goodwill of $628 million arising from this transaction will be amortized over 15 years using the straight-line method. At July 11, 1998, RedFed operated 15 banking offices and had $1.0 billion in assets, including $893.7 million of loans receivable, net. RedFed's liabilities at July 11, 1998 included $864.1 million of deposits and $78.7 million of borrowings.

SAIF Special Assessment

On September 30, 1996, President Clinton signed legislation providing for the Special SAIF Assessment. Pursuant to the new law, a one-time fee was payable by all SAIF-insured institutions at the rate of $0.657 per $100 of deposits held by such institutions at March 31, 1995. In the quarter ended September 30, 1996, Glendale Federal recorded a pre-tax accrual of $58.7 million for this assessment. In the fourth quarter ended June 30, 1997, Glendale Federal reversed $3.2 million of this accrual to reflect the actual assessment for fiscal 1997 of $55.5 million. The recapitalization of the SAIF has resulted in lower deposit insurance premiums beginning with the third quarter of fiscal 1997.

Sale of CMO Investment Portfolio

During fiscal 1996, Glendale Federal sold $1.7 billion of its fixed-rate CMO investments (the "CMO Sale") and recorded a pre-tax loss of $28.2 million. Glendale Federal's decision to sell most of its CMO portfolio was part of a strategic realignment of Glendale Federal's mortgage-backed securiites portfolio in which $2.8 billion of mortgage-backed securities were reclassified from "held to maturity" to "available for sale" during the quarter ended December 31, 1995, in compliance with the implementation guidance for SFAS No. 115. The reclassification included Glendale Federal's $1.8 billion fixed-rate CMO portfolio and $1.0 billion of its adjustable-rate pass-through securities portfolio. The realignment of Glendale Federal's mortgage-backed securities portfolio provided Glendale Federal with additional flexibility to manage its interest rate risk exposure.

Capital

Glendale Federal's core capital, Tier 1 risk-based capital and total risk-based capital ratios at June 30, 1998 were 6.02%, 10.57% and 11.54%, respectively, placing Glendale Federal in the "well-capitalized" category as defined by federal regulations, which require 5% core, 6% Tier 1 risk-based and 10% total risk-based capital to assets ratios to qualify for that designation.

BALANCE SHEET ANALYSIS

Glendale Federal's asset size and composition have been determined principally by seeking to balance liquidity, yield, risk and regulatory capital requirements. Consolidated assets of Glendale Federal increased by $1.9 billion, to $18.1 billion, in the twelve months ended June 30, 1998, primarily due to the acquisition of CenFed Bank in April 1998 and the purchase of single-family residential loans in the secondary market.

Consolidated liabilities of Glendale Federal increased by $1.6 billion, to $16.8 billion, in the twelve months ended June 30, 1998. This was mainly attributable to the purchase of $1.4 billion of deposits and $385.1 million of borrowings relating to the acquisition of CenFed Bank.

Mortgage-Backed and Other Debt and Equity Securities

Mortgage-backed securities held to maturity decreased by $248.2 million, to $914.6 million, in the twelve months ended June 30, 1998, primarily due to principal payments received of $245.6 million.

Mortgage-backed securities available for sale increased by $344.1 million, to $1.5 billion, in the twelve months ended June 30, 1998, primarily due to purchases of $588.7 million of mortgage-backed securities issued by various federal agencies, and $356.0 million of mortgage-backed securities acquired in the CENFED Merger, of which $231.8 million were pass-through securities. These increases were partially offset by principal payments received of $457.3 million and sales of $124.8 million.

Other debt and equity securities available for sale increased by $98.3 million, to $126.1 million, in the twelve months ended June 30, 1998, primarily due to $96.9 million of municipal debt securities and $20.0 million of U.S. Government debt securities acquired in the CENFED Merger, offset by maturities of $6.5 million and sales of $2.0 million.

Loans Receivable

Loans receivable held for investment increased by $1.9 billion, to $13.7 billion, in the twelve months ended June 30, 1998. The increase was primarily due to $1.4 billion of loans acquired as part of the CENFED Merger, loans purchased for investment totaling $2.7 billion and loans originated for investment, net of refinances, of $755.6 million, partially offset by principal repayments of $2.9 billion and loans transferred to real estate acquired in settlement of loans ("REO") of $96.4 million. The loan purchases consisted primarily of $663.5 million of single-family residential, adjustable-rate mortgage loans and $2.0 billion of single-family residential, fixed-rate mortgage loans that were purchased in the secondary market.

Loans receivable held for sale increased by $12.9 million, to $31.9 million, in the twelve months ended June 30, 1998, primarily due to the effect of increased fixed-rate loan origination activity during fiscal 1998 compared to fiscal 1997. See Note 2 of the Notes to Consolidated Financial Statements of Glendale Federal included elsewhere in this Prospectus for additional information on the transfer of loans from Glendale Federal's held for investment portfolio.

As of June 30, 1998, commitments of Glendale Federal to purchase loans in the secondary market totaled $75.0 million and were comprised entirely of commitments to purchase fixed-rate loans. At that date, commitments of Glendale Federal to originate loans and sell loans and mortgage-backed securities totaled $97.4 million and $122.8 million, respectively, and Glendale Federal's commitments on outstanding letters of credit totaled $4.8 million.

New commitments under lines of credit that were purchased or generated through Glendale Federal's consumer and commercial lending programs are summarized as follows (in thousands):

	YEARS ENDED JUNE 30,		
	1998	1997	1996
Consumer loans	$173,771	$168,335	$70,718
Commercial loans	285,630	251,749	7,560
	$459,401	$420,084	$78,278

The new commitments under consumer lines of credit during fiscal 1998 and 1997 included $2.4 million and $17.6 million, related to the acquisitions of Cenfed Bank and TransWorld Bancorp ("TransWorld"), respectively. The new commitments under commercial lines of credit during fiscal 1998 included $9.0 million related to the acquisition of CenFed Bank. The new commitments under commercial lines of credit during fiscal 1997 included $92.9 million purchased in the TransWorld and OneCentral Bank ("OneCentral") acquisitions, and $80 million of agricultural loan commitments, of which $50 million were purchased in December 1996.

The following table summarizes the outstanding commitments and related outstanding principal balances on lines of credit under Glendale Federal's consumer and commercial lending programs (in thousands):

	JUNE 30,	
	1998	1997
Consumer loans:		
Credit limit balance	$459,702	$309,013
Outstanding principal balance	114,880	71,847
Commercial loans:		
Credit limit balance	436,034	213,332
Outstanding principal balance	203,620	88,927

Loan originations by property type (including the refinanced portion of Glendale Federal's loans) and loans purchased in the secondary market are summarized as follows (dollars in millions):

	YEARS ENDED JUNE 30,					
	1998		1997		1996	
	AMOUNT	PERCENT OF TOTAL	AMOUNT	PERCENT OF TOTAL	AMOUNT	PERCENT OF TOTAL
Originations:						
Permanent Loans:						
Single-family 1-4 units	$1,493	35.1%	$ 726	23.0%	$ 778	26.9%
Multi-family 5-36 units	15	0.4	22	0.7	26	0.9
Multi-family 37 or more units	--	--	9	0.3	6	0.2
Non-residential	23	0.5	8	0.3	13	0.4
Land	6	0.1	--	--	1	--
Construction Loans:						
Single-family 1-4 units	--	--	4	0.1	16	0.7
Multi-family 5-36 units	--	--	3	0.1	5	0.2
Commercial loans	54	1.3	30	1.0	1	--
Consumer loans	13	0.3	16	0.5	21	0.7
Total	1,604	37.7	818	26.0	867	30.0
Secondary Market Purchases (1-4 units):						
Adjustable	663	15.6	1,136	36.0	2,024	70.0
Fixed	1,985	46.7	1,198	38.0	--	--
Total	2,648	62.3	2,334	74.0	2,024	70.0
Total Originations and Secondary Market Purchases	$4,252	100.0%	$3,152	100.0%	$2,891	100.0%

Term loan originations for fiscal 1998 increased by $786 million or 96%, to $1.6 billion, compared to fiscal 1997. This increase was primarily due to an increase of $786 million, to $1.2 billion, in fixed-rate mortgage lending resulting from a decline in long term interest rates and an improvement in the California housing market. Fixed-rate originations were 75% of total originations in fiscal 1998, compared to 40% in fiscal 1997. Loans refinanced totaled $421.7 million, or 26% of total originations, for the year ended June 30, 1998, compared to $86.6 million, or 11% of total originations, for the year ended June 30, 1997.

Term loan originations for fiscal 1997 declined 6% from fiscal 1996 primarily due to a decline in refinancing activity.

Multi-family residential and non-residential real estate loans have primarily been made to finance the disposition of REO and real estate held for sale or investment ("REI") properties or to refinance maturing loans. The single-family residential and multi-family residential construction loans originated in the prior fiscal years represent outstanding commitments made before Glendale Federal's construction lending program was terminated during fiscal 1997.

Non-Performing Assets ("NPAs") and Restructured Loans

The following table summarizes Glendale Federal's NPAs and restructured loans at the dates indicated (dollars in thousands):

	JUNE 30, 1998 AMOUNT	JUNE 30, 1998 PERCENT OF TOTAL ASSETS	JUNE 30, 1997 AMOUNT	JUNE 30, 1997 PERCENT OF TOTAL ASSETS
Non-accrual loans	$ 95,994	0.53%	$140,295	0.86%
REO and other repossessed assets	38,275	0.21	64,663	0.40
Total NPAs	$134,269	0.74%	$204,958	1.26%
Restructured loans	$ 21,465	0.12%	$ 31,064	0.19%

The following table summarizes NPA and restructured loan activity in fiscal 1998 (in thousands):

	JUNE 30, 1997 BALANCE	ADDITIONS	FORECLOSURES	WRITE-DOWNS	REIN-STATEMENTS	PAYOFFS/ SALES/ OTHER	JUNE 30, 1998 BALANCE
Non-Accrual Loans:							
Single-family 1-4 units	$ 82,989	$ 131,987	$(64,853)	$ --	$(50,286)	$ (29,649)	$ 70,188
Multi-family 5-36 units	21,087	20,130	(18,015)	(900)	(5,056)	(9,631)	7,615
Multi-family 37 or more units	3,121	93	--	--	--	(2,797)	417
Non-residential	30,672	27,490	(14,254)	(2,899)	(5,070)	(21,435)	14,504
Commercial	859	9,350	--	(134)	(4,578)	(3,669)	1,828
Consumer	1,567	836	--	(35)	(5)	(921)	1,442
Total	$140,295	$ 189,886	$(97,122)	$(3,968)	$(64,995)	$ (68,102)	$ 95,994
REO and Other Repossessed Assets:							
Single-family 1-4 units	$ 34,116	$ 7,553	$ 52,653	$(1,019)	$ --	$ (70,297)	$ 23,006
Multi-family 5-36 units	8,414	1,449	13,882	(917)	--	(19,741)	3,087
Multi-family 37 or more units	1,933	--	--	--	--	(1,933)	--
Non-residential	20,169	2,324	13,063	(1,289)	--	(22,085)	12,182
Consumer	31	--	--	--	--	(31)	--
Total	$ 64,663	$ 11,326	$ 79,598	$(3,225)	$ --	$(114,087)	$ 38,275
Total NPAs:							
Single-family 1-4 units	$117,105	$ 139,540	$(12,200)	$(1,019)	$(50,286)	$ (99,946)	$ 93,194
Multi-family 5-36 units	29,501	21,579	(4,133)	(1,817)	(5,056)	(29,372)	10,702
Multi-family 37 or more units	5,054	93	--	--	--	(4,730)	417
Non-residential	50,841	29,814	(1,191)	(4,188)	(5,070)	(43,520)	26,686
Commercial	859	9,350	--	(134)	(4,578)	(3,669)	1,828
Consumer	1,598	836	--	(35)	(5)	(952)	1,442
Total	$204,958	$ 201,212	$(17,524)	$(7,193)	$(64,995)	$(182,189)	$134,269
Restructured Loans:							
Single-family 1-4 units	$ 2,168	$ 1,219	$ --	$ --	$ --	$ (1,249)	$ 2,138
Multi-family 5-36 units	3,676	3,353	--	--	--	(1,955)	5,074
Multi-family 37 or more units	18,331	4,696	--	--	--	(16,245)	6,782
Non-residential	6,889	751	--	--	--	(169)	7,471
Total	$ 31,064	$ 10,019	$ --	$ --	$ --	$ (19,618)	$ 21,465

NPAs decreased $70.7 million, or 34%, in the twelve months ended June 30, 1998, reflecting $114.1 million in sales of REO through Glendale Federal's regular liquidation process, the payoffs/sales/other of $68.1 million in non-accrual loans, the reinstatement to accrual status of $65.0 million in non-accrual loans, and $24.7 million in write-downs (including those related to foreclosures), partially offset by NPA additions of $201.2 million, of which $18.3 million resulted from the CenFed Bank acquisition. For the twelve months ended June 30, 1998, 69% of NPA additions were loans secured by, and REO consisting of, single-family residences. During October 1997, Glendale Federal's largest non-accrual loan in the amount of $11.3 million and secured by a shopping center, was repaid in full, and Glendale Federal's largest REO in the amount of $13.4 million and consisting of land acquired for development, was sold, for a combined reduction in NPAs of $24.7 million.

The $9.6 million decrease in restructured loans for the twelve months ended June 30, 1998 was primarily due to the payoff in November 1997 of Glendale Federal's largest restructured loan in the amount of $16.1 million, partially offset by $10.0 million of new restructured loans transferred from non-accrual status.

Total delinquent loans decreased by $31.0 million, to $184.3 million, in the twelve months ended June 30, 1998. This decrease was attributable primarily to the single-family residential, multi-family (5-36 units) residential and non-residential portfolios, in which delinquent loans declined by $9.4 million, $12.2 million and $9.3 million, to $136.8 million, $17.5 million and $19.1 million, respectively. At June 30, 1998, single-family residential, multi-family (5-36 units) residential and non-residential loans comprised 74%, 9% and 10%, respectively, of total delinquent loans.

Allowance For Loan Losses

Glendale Federal's determination of the level and the allocation of the allowance for loan losses and, correspondingly, the provisions for such losses, was based on various judgments, assumptions and projections regarding a number of factors, including, but not limited to, current and forecasted economic and market conditions, loan portfolio composition, historical loan loss experience, industry experience and asset classifications. Glendale Federal's asset classification process, in accordance with applicable regulations, provided for the classification of assets into the categories of satisfactory, special mention, substandard, doubtful or loss. The allowance for loan losses was adjusted quarterly to reflect management's current assessment of the effect of these considerations on estimated inherent loan losses. While management used all information available to it to estimate inherent losses on loans, future changes to the allowance may become necessary based on changes in loan performance, economic and market conditions. The OTS, as part of its examination process, periodically reviewed Glendale Federal's allowance for loan losses. The OTS may require the Bank to make changes to the allowance based on its examiners' judgments and the information available to them at the time of their examination.

The following table sets forth the allocation of Glendale Federal's allowance for loan losses at June 30, 1998 and 1997 by property type (dollars in thousands):

	JUNE 30, 1998			JUNE 30, 1997		
	ALLOWANCE	GROSS LOAN PORTFOLIO BALANCE	PERCENT OF ALLOWANCE TO LOAN BALANCE	ALLOWANCE	GROSS LOAN PORTFOLIO BALANCE	PERCENT OF ALLOWANCE TO LOAN BALANCE
Single-family 1-4 units	$ 48,568	$10,355,638	0.47%	$ 52,579	$ 8,821,828	0.60%
Multi-family:						
5-36 units	31,087	1,504,858	2.07	43,852	1,477,549	2.97
37 or more units	11,724	313,575	3.74	16,496	345,052	4.78
Non-residential	30,988	1,358,880	2.28	35,280	1,207,013	2.92
Commercial	11,749	290,515	4.04	7,552	160,061	4.72
Consumer	22,366	150,050	14.91	8,000	120,685	6.63
	$ 156,482	$13,973,516	1.12%	$ 163,759	$12,132,188	1.35%

The allocation of the allowance to the above categories is not necessarily indicative of future losses and does not restrict the use of the allowance to absorb losses in any other category. The reallocation of the allowance

among the different portfolios (see tables below) reflects management's current assessment of the shifting of the relative risks of loss inherent in the different portfolios.

Specific valuation allowances for impaired loans totaled $13.4 million and $14.0 million at June 30, 1998 and 1997, respectively, and were included in the allowance for loan losses. Specific valuation allowances were provided when management determined that, for a specific loan, default appeared probable and the amount of the expected loss was measurable. The balances of impaired loans with related specific valuation allowances at June 30, 1998 and 1997 totaled $54.4 million and $78.7 million, respectively. Impaired loans not having related specific valuation allowances at June 30, 1998 and 1997 totaled $55.6 million and $64.1 million, respectively.

The allowance for loan losses declined by $7.3 million, to $156.5 million, in fiscal 1998. The decrease in the allowance during this period reflected improving NPA and delinquency trends, reduced levels of charge-offs, a reduced number of high-risk, large, and multiple loan borrower relationships and an overall improvement in the performance of the total loan portfolio, partially offset by growth in the loan portfolio through whole loan purchases and the addition of $16.9 million of allowance obtained in the acquisition of CenFed Bank. The improvement in credit quality was significant, reflecting the lowest level of NPAs since fiscal 1988, and the lowest level of charge-offs since March 1989. The increase in the allowance allocation to consumer loans reflected growth in that portfolio and in the outstanding commitments on consumer lines of credit, and Glendale Federal's limited experience to date in managing the credit performance of this new line of business. The ratios of allowance to non-accrual loans and total gross loans at June 30, 1998 were 163.0% and 1.1%, respectively, compared to 116.7% and 1.4%, respectively, at June 30, 1997.

A summary of activity in the allowance for loan losses by property type during fiscal 1998 is as follows (in thousands):

	BALANCE JUNE 30, 1997	PROVISION (REALLOCATION)	CHARGE-OFFS	RECOVERIES	ADDITIONS DUE TO ACQUISITIONS	BALANCE JUNE 30, 1998
Single-family 1-4 units..	$ 52,579	$ 992	$ (11,243)	$ 272	$ 5,968	$ 48,568
Multi-family:						
5-36 units.....	43,852	(6,526)	(6,239)	--	--	31,087
37 or more units.....	16,496	(4,507)	(551)	286	--	11,724
Non-residential.....	35,280	(10,393)	(5,619)	799	10,921	30,988
Commercial.....	7,552	1,848	(1,992)	4,341	--	11,749
Consumer.....	8,000	16,859	(3,408)	901	14	22,366
	$163,759	$ (1,727)	$ (29,052)	$6,599	$ 16,903	$156,482

A summary of activity in the allowance for loan losses by property type during fiscal 1997 is as follows (in thousands):

	BALANCE JUNE 30, 1996	ADDITIONS	CHARGE-OFFS	RECOVERIES	ADDITIONS DUE TO ACQUISITIONS	BALANCE JUNE 30, 1997
Single-family 1-4 units.....	$ 56,833	$21,352	$ (25,773)	$ 167	$ --	$ 52,579
Multi-family:						
5-36 units.....	48,628	5,972	(10,756)	8	--	43,852
37 or more units.....	26,062	(3,954)	(5,860)	248	--	16,496
Non-residential.....	47,260	(362)	(12,996)	1,159	219	35,280
Commercial.....	4,699	(4,511)	(68)	3,575	3,857	7,552
Consumer.....	3,274	6,707	(3,043)	1,062	--	8,000
	$186,756	$25,204	$ (58,496)	$ 6,219	$ 4,076	$163,759

The provision for loan losses declined by $26.9 million, to a credit of $1.7 million, in fiscal 1998, compared to fiscal 1997, reflecting management's assessment that there was a decreased risk of loss inherent in the loan portfolio, as evidenced by decreases in NPAs and delinquent loans. The negative balances shown in the

"Provision/(Reallocation)" column in the above tables represent the reallocation of the allowance among the different portfolios and reflected management's assessment of the shifting of the relative risks of loss inherent in the different portfolios.

If the recent economic improvements in Glendale Federal's principal market areas do not continue or if economic conditions in these areas deteriorate, Glendale Federal's loans could be adversely impacted, resulting in increases in NPAs and higher charge-offs. Such increased NPAs and charge-offs could require an increase in the provision for loan losses and a corresponding increase in the allowance for loan losses, which could reduce net earnings.

Mortgage Loan Servicing Activities

Glendale Federal serviced mortgage loans for other loan investors in exchange for servicing fees. Glendale Federal entered into agreements to service loans for others primarily through the purchase of servicing rights from other servicers, and to a lesser extent, through the sale of loans it originated while retaining the right to service the loans. These purchases and the value of the servicing rights arising from the sale of loans with servicing rights retained are recorded on Glendale Federal's statement of financial condition as mortgage servicing assets ("MSA").

MSA, net of valuation allowances, decreased by $41.2 million, to $243.3 million, during fiscal 1998, primarily due to the amortization of MSA of $49.2 million and an increase to the valuation allowance of $6.1 million. These factors were partially offset by MSA additions of $8.3 million and $4.9 million, related to the CenFed Bank acquisition and the sale of loans with servicing rights retained, respectively.

The valuation of MSA is significantly affected by market prepayment expectations of the loans underlying the MSA. If prepayment expectations increase from the levels as of June 30, 1998, recognition of valuation allowances relating to the value of Glendale Federal's MSA and acceleration of the rate of amortization of that asset may be necessary, depending upon the frequency, magnitude and duration of such increases. A decrease in long-term interest rates in the range of 50 to 100 basis points from the June 30, 1998 levels could result in impairment to Glendale Federal's MSA (before the recorded valuation allowance of $10.2 million at June 30, 1998) in the range of $35.0 million to $73.7 million. If interest rates continue to decline or remain at current levels for a protracted period of time, the resulting higher actual and expected prepayments could have an adverse impact on Glendale Federal's operating results.

The following table summarizes Glendale Federal's mortgage loan servicing portfolio:

	JUNE 30, 1998	JUNE 30, 1997
Principal balance (in billions)	$ 25.3	$ 29.6
Number of loans	212,970	240,629
Weighted average interest rate	7.64%	7.66%
Weighted average service fee (in basis points)	31.9	32.1
Weighted average remaining term (in months)	261	310
Percent delinquent 30 days or more	0.98%	1.11%

Liability Composition

Glendale Federal's ratios of deposits and borrowings to total interest-earning liabilities were 65% and 35%, respectively, at June 30, 1998, compared to ratios of 63% and 37%, respectively, at June 30, 1997. Glendale Federal's ratios of deposits and borrowings to total interest-earning liabilities were 63% and 37%, respectively, at June 30, 1997, compared to ratios of 65% and 35%, respectively, at June 30, 1996. Glendale Federal continues to emphasize the attraction of retail deposits, especially low-cost demand deposits. The ratio of deposits to borrowings is, from time to time, impacted by Glendale Federal's ability to fund asset growth with concurrent growth in retail deposits. However, Glendale Federal expects to replace borrowings with retail deposits over time through a combination of retail sales efforts and acquisitions of deposits. See the deposit composition table following for additional information.

Deposits

Glendale Federal used retail deposits as its core source of funds for lending and asset purchase purposes and as a customer base for providing additional financial services. Glendale Federal's total deposits increased by $1.3 billion, to $10.7 billion, in fiscal 1998. Included in fiscal 1998's net deposit inflows in daily access and certificates were $373.4 million and $1.1 billion, respectively, of deposits purchased in the acquisition of CenFed Bank.

Glendale Federal's deposit composition at June 30, 1998 and 1997 was as follows (dollars in thousands):

	JUNE 30,			
	1998		1997	
	AMOUNT	PERCENT OF TOTAL	AMOUNT	PERCENT OF TOTAL
Checking	$ 1,815,761	17.0%	$1,198,011	12.8%
Savings	477,199	4.5	452,225	4.8
Money market	2,379,249	22.2	2,119,553	22.7
Total daily access	4,672,209	43.7	3,769,789	40.3
Short-term certificates (1 year or less)	2,494,525	23.3	2,703,538	28.9
Long-term certificates (over 1 year)	3,199,049	29.9	2,700,906	28.9
Jumbo and brokered certificates	335,374	3.1	182,676	1.9
Total certificates	6,028,948	56.3	5,587,120	59.7
Total deposits	$10,701,157	100.0%	$9,356,909	100.0%

Checking accounts increased by $617.8 million, or 52%, to $1.8 billion during fiscal 1998. The increase was comprised of a $355.6 million increase in retail and business checking accounts and a $262.2 million increase in custodial checking accounts in which borrower payments on loans serviced by Glendale Federal are deposited prior to disbursement to investors, taxing authorities or insurance companies. Jumbo and brokered certificates of deposit increased by $152.7 million, or 84%, to $335.4 million during fiscal 1998, primarily due to the addition of $100 million from the State of California.

Borrowings

Total borrowings increased by $221.6 million, to $5.8 billion, during the year ended June 30, 1998, primarily due to the addition of mainly fixed-rate FHLB borrowings assumed as part of the April 1998 acquisition of CenFed Bank, of which $189.0 million was outstanding at June 30, 1998.

Securities sold under agreements to repurchase, which have typically had a one-month maturity, decreased by $593.1 million, to $175.6 million, during fiscal 1998 and were replaced with a combination of retail deposits and longer-term, fixed-rate FHLB borrowings.

FHLB borrowings increased by $825.5 million, to $5.6 billion, during fiscal 1998. Adjustable-rate FHLB borrowings decreased by $264.0 million, to $2.6 billion, while fixed-rate FHLB borrowings increased by $1.1 billion, to $3.0 billion. Included in the fixed-rate category are $1.0 billion of advances, with a weighted average rate of 5.19%, that have a stated maturity of five years, but which the FHLB has the option to call $700.0 million after one year, $200.0 million after two years and $100.0 million after three years ("callable advances"). Glendale Federal took down these callable advances to take advantage of the substantial rate discount at which these advances were offered as compared with prevailing straight fixed-rate advance rates and rates on other alternative borrowings. As of June 30, 1998, all of the adjustable-rate FHLB borrowings of $2.6 billion and $604.0 million of the fixed-rate FHLB borrowings (excluding the aforementioned $700.0 million of advances that are callable in fiscal 1999) were due within one year.

Stockholders' Equity

Stockholders' equity increased by $266.3 million, to $1.3 billion, during fiscal 1998, primarily due to the issuance to Golden State Financial of 7.4 million shares of common stock, with a value of $193.9 million, in connection with Glendale Federal's acquisition of CenFed Bank, net earnings of $129.1 million, and proceeds of $28.9 million received from the issuance of common stock related to the exercise of stock options. These factors were partially offset by dividends paid to Golden State and Golden State Financial which totalled $85.1 million. As of June 30, 1998, there were 57.8 million shares of common stock issued and outstanding. See Note 18 of the Notes to Consolidated Financial Statements of Glendale Federal included elsewhere in this Prospectus for additional information on Glendale Federal's stockholders' equity.

Regulatory Capital

The following table compares Glendale Federal's regulatory capital at June 30, 1998 to its minimum regulatory capital requirements at that date (dollars in thousands):

	CAPITAL AT JUNE 30, 1998	AS A % OF ASSETS	CAPITAL REQUIRED	AS A % OF ASSETS	EXCESS CAPITAL
Glendale Federal Bank's capital in accordance with generally accepted accounting principles	$ 1,278,399				
Adjustments for tangible and core capital:					
Net unrealized holding loss on available for sale securities	1,612				
Goodwill and other intangible assets	(180,463)				
Disallowed mortgage servicing	(10,788)				
Disallowed capitalized software	(10,094)				
Investments in and advances to non-includable subsidiaries	(782)				
Total tangible capital	$ 1,077,884	6.02%	$268,427	1.50%	$809,457
Adjustment for core capital	--				
Total core capital	$ 1,077,884	6.02%	$536,854*	3.00%*	$541,030*
Adjustments for risk-based capital:					
Allowance for general loan losses**	127,705				
Equity risk investments required to be deducted	(17,735)				
Low level recourse deduction	(10,738)				
Total risk-based capital	$ 1,177,116	11.54%	$816,080*	8.00%*	$361,036*

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* Under the standards for "well capitalized" institutions established pursuant to the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), the corresponding amounts for core capital are $894,756, 5.00% and $183,128, respectively, and the corresponding amounts for risk-based capital are $1,020,099, 10.00% and $157,017, respectively.

** Limited to 1.25% of risk-weighted assets.

LIQUIDITY AND ASSET AND LIABILITY MANAGEMENT

Liquidity

Glendale Federal's primary sources of funds have consisted of retail deposits, borrowings from the FHLB, principal repayments on loans and mortgage-backed securities and sales of assets under agreements to repurchase. Glendale Federal also has obtained funds from its operations. Each of Glendale Federal's sources of liquidity was subject to various uncertainties beyond the control of Glendale Federal. Scheduled loan payments are a relatively stable source of funds, while loan and mortgage-backed security prepayments and deposit flows may vary widely in reaction to changes in interest rates and other market conditions. As a measure of protection against these uncertainties, Glendale Federal generally had back-up sources of funds available to it. At June 30, 1998, funds estimated to be available from these sources totaled approximately $4.4 billion and consisted primarily of funds from the repurchase agreement markets.

During the twelve months ended June 30, 1998, Glendale Federal's cash and cash equivalents decreased by $391.6 million, to $462.0 million. Glendale Federal experienced a net cash outflow from financing activities of $339.4 million, primarily due to the repayments of FHLB advances of $3.5 billion and the maturities of short-term borrowings of $717.2 million, partially offset by the proceeds from FHLB advances of $4.0 billion. Glendale Federal's investing activities during the period resulted in a net cash outflow of $280.3 million, principally due to the purchases of loans and mortgage-backed securities totaling $3.3 billion, and term loan originations of $720.1 million, partially offset by principal payments on loans and mortgage-backed securities of

$3.6 billion and the proceeds from the sale of mortgage-backed securities of $124.8 million. Glendale Federal experienced positive cash flows from operating activities during the period of $228.2 million.

During the month of June 1998, Glendale Federal's average liquidity ratio was 4.38%. The current minimum regulatory requirement for this ratio is 4.00%.

Asset and Liability Management

Savings institutions are subject to interest rate risk to the degree that their interest-bearing liabilities, consisting principally of deposits, FHLB advances and other borrowings, mature or reprice at different frequencies, or on different bases, than their interest-earning assets, which consist predominantly of intermediate or long-term real estate loans and mortgage-backed securities. Interest rate risk is increased by the difference in aggregate amounts of interest-earning assets and interest-bearing liabilities. Institutions that invest in mortgage-backed assets are subject to prepayment risk as the duration and value of such assets are impacted by changes in actual prepayments from projections made at the time of origination or purchase.

Glendale Federal's Asset/Liability Management Committee ("ALCO") was responsible for implementing the interest rate risk management policy adopted by Glendale Federal. Among other things, Glendale Federal's policy statement set forth the limits established by the Board of Directors on acceptable changes in net interest income and net portfolio value resulting from specified changes in interest rates. ALCO reviewed, among other things, economic conditions, the interest rate outlook, the demand for loans, the availability of deposits and Glendale Federal's current operating results, liquidity, capital and interest rate risk exposure. Based on such reviews, ALCO formulated strategies that were intended to implement the objectives set forth in Glendale Federal's annual business plan while prudently managing interest rate risk.

During fiscal 1998, Glendale Federal continued or undertook various strategies to mitigate the adverse earnings impact of a declining and flattening yield curve. Foremost among these strategies was Glendale Federal's focus on shifting the mix of its deposits base towards checking and other daily access accounts and reducing its reliance on higher costing term certificate of deposit funding. For fiscal 1998, checking account balances grew by $617.8 million to $1.8 billion, or 17%, of total deposits at June 30, 1998 as compared to $1.2 billion, or 13%, of total deposits as of June 30, 1997. Total daily access account balances grew by nearly $902.4 million to $4.7 billion, or 43.7%, of total deposits at June 30, 1998 as compared to $3.8 billion, or 40.3%, of total deposits as of June 30, 1997. The shifting deposit mix helped reduce Glendale Federal's cost of deposits by 31 basis points, to 4.06%, at June 30, 1998. Additionally, Glendale Federal increased its investment in fixed-rate loans by $2.0 billion to $5.2 billion, or 37%, of its gross loan portfolio at June 30, 1998 from 26% of the portfolio at June 30, 1997. These strategies, combined with other funding strategies and the generation of prime rate-based business and consumer loans, helped increase Glendale Federal's interest rate spread to 2.90% at June 30, 1998 from 2.68% at June 30, 1997, a period of generally declining interest rates and a flattening of the yield curve. The earnings and capital growth resulting from these strategies positively impacted Glendale Federal's ability to manage its interest rate risk and to deploy its capital prudently in support of its lines of business.

Glendale Federal actively monitored the impact of changes in interest rates on its net interest income. For this purpose, Glendale Federal utilized various dynamic computer simulation models to measure the sensitivity of its net interest income and earnings forecasts to changes in market rates and possible offsetting changes in Glendale Federal's business strategies. Based on such analyses, Glendale Federal developed and implemented short- and long-term strategies to mitigate the effects of adverse operating environments.

The OTS measures interest rate risk through a somewhat similar computer simulation model described in its Thrift Bulletin No. 13, "Interest Rate Risk Exposure: Guidelines on Director and Officer Responsibilities" ("TB 13") as shown below. Under TB 13, institutions are required to establish limits on the sensitivity of their net interest income and net portfolio value to changes in interest rates. Unlike Glendale Federal's analyses, under TB 13 changes in interest rates are defined to consist solely of instantaneous and sustained movements in interest rates in 100 basis point increments and no possible adjustments to a company's business strategies to reflect the

assumed changes in interest rates are permitted to be taken into account. Following are the estimated impacts of a parallel shift in interest rates as calculated by Glendale Federal:

CHANGE IN INTEREST RATES (IN BASIS POINTS)	JUNE 30, 1998 PERCENTAGE CHANGE IN		JUNE 30, 1997 PERCENTAGE CHANGE IN	
	NET INTEREST INCOME(1)	NET PORTFOLIO VALUE(2)	NET INTEREST INCOME(1)	NET PORTFOLIO VALUE(2)
+200	-2%	-24%	-3%	-22%
+100	0%	-11%	-1%	-9%
-100	1%	2%	2%	9%
-200	2%	7%	3%	17%

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(1) The percentage change in this column represents net interest income for 12 months in a stable interest rate environment versus the net interest income in the various rate scenarios.

(2) The percentage change in this column represents the Net Portfolio Value of Glendale Federal in a stable interest rate environment versus the Net Portfolio Value in the various rate scenarios. The OTS defines "Net Portfolio Value" as the present value of expected net cash flows from existing assets minus the present value of expected net cash flows from existing liabilities plus the present value of expected net cash flows from existing off-balance sheet contracts.

The Maturity and Rate Sensitivity Analysis table in "Business--Asset Liability Management and Market Risks" set forth the projected maturities as adjusted for projected prepayments and "repricing mechanisms" (provisions for changes in the interest rates of assets and liabilities), of Glendale Federal's major asset and liability categories as of June 30, 1998 used to calculate Glendale Federal's total and one-year GAP at that date.

The one-year GAP (as defined herein) measures the estimated difference between the amounts of interest-earning assets and interest-bearing liabilities maturing or repricing within one year, based on assumptions as to the expected repayment of assets and liabilities. In its management of interest rate risk, Glendale Federal relied primarily on the aforementioned dynamic computer simulation models to determine its interest rate risk position rather than the static one-year GAP position. See "Business--Glendale Federal--Asset and Liability Management and Market Risk."

The following table is a summary of Glendale Federal's one-year GAP at the dates indicated (dollars in millions):

	JUNE 30,	
	1998	1997
Interest-earning assets maturing or repricing within one year	$ 10,919	$ 11,640
Interest-bearing liabilities maturing or repricing within one year	9,984	9,282
One-year maturity GAP	$ 935	$ 2,358
One-year maturity GAP as a percent of total assets	5.2%	14.5%

A positive one-year GAP tends, in general, to assist Glendale Federal in rising interest rate markets. However, Glendale Federal remains subject to possible interest rate spread compression, which would adversely impact Glendale Federal's net interest income, if interest rates rise. This is primarily due to the lag in the repricing of the indices to which Glendale Federal's adjustable-rate loans and mortgage-backed securities are tied, as well as the repricing frequencies and periodic interest rate caps on such adjustable-rate loans and mortgage-backed securities, and to an increase in the cost of Glendale Federal's liabilities which are subject to monthly repricing. The amount of such interest rate spread compression would depend upon the frequency, severity and duration of such interest rate fluctuations.

RESULTS OF OPERATIONS

Net Interest Income

The following table provides information on net interest income for the past three fiscal years, setting forth average balances of interest-earning assets and interest-bearing liabilities, the interest income earned and interest expense recorded thereon and the resulting average yield-cost ratios (dollars in thousands):

	YEAR ENDED JUNE 30, 1998			YEAR ENDED JUNE 30, 1997			YEAR ENDED JUNE 30, 1996		
	AVERAGE BALANCES (1)	INTEREST INCOME/ EXPENSE	AVERAGE YIELD COST	AVERAGE BALANCES (1)	INTEREST INCOME/ EXPENSE	AVERAGE YIELD COST	AVERAGE BALANCES (1)	INTEREST INCOME/ EXPENSE	AVE YIE CO
Interest-earning assets:									
Loans receivable, net(2).....	$12,382,205	$ 950,265	7.67%	$11,341,678	$ 861,858	7.60%	$10,268,121	$ 803,432	7
Mortgage-backed securities, held to maturity.....	1,050,597	71,012	6.76	N/A	N/A	N/A	N/A	N/A	
Mortgage-backed securities, available for sale(3).....	1,259,371	78,737	6.25	N/A	N/A	N/A	N/A	N/A	
Total mortgage-backed securities, net(4).....	2,309,968	149,749	6.48	2,243,784	149,551	6.67	3,423,747	216,812	6
Total loans and mortgage-backed securities.....	14,692,173	1,100,014	7.49	13,585,462	1,011,409	7.44	13,691,868	1,020,244	7
Federal funds sold and assets purchased under resale agreements.....	613,074	35,504	5.79	665,738	37,237	5.59	674,159	39,347	5
Other debt and equity securities available sale (3).....	44,225	2,308	5.22	N/A	N/A	N/A	N/A	N/A	
Other investments(5)....	281,547	20,119	7.15	N/A	N/A	N/A	N/A	N/A	
Total other investments (4)(6).....	325,772	22,427	6.88	273,471	24,310	8.89	208,057	20,444	9
Total investments.....	938,846	57,931	6.17	939,209	61,547	6.55	882,216	59,791	6
Total interest-earning assets..	15,631,019	1,157,945	7.41	14,524,671	1,072,956	7.39	14,574,084	1,080,035	7
All other assets....	955,391			677,837			578,912		
Total assets.....	$16,586,410			$15,202,508			$15,152,996		

(Table continued on next p

(Table continued from previous page)

	YEAR ENDED JUNE 30, 1998			YEAR ENDED JUNE 30, 1997			YEAR ENDED JUNE 30, 1996		
	AVERAGE BALANCES (1)	INTEREST INCOME/ EXPENSE	AVERAGE YIELD COST	AVERAGE BALANCES (1)	INTEREST INCOME/ EXPENSE	AVERAGE YIELD COST	AVERAGE BALANCES (1)	INTEREST INCOME/ EXPENSE	AVE YIE CO
Interest-bearing liabilities:									
Non-interest-bearing demand deposits...	$ 1,052,029	$ --	0.00%	$ 551,196	$ --	0.00%	$ 315,804	$ --	0
Interest-bearing demand deposits...	460,973	4,610	1.00	404,295	4,099	1.01	390,488	4,290	1
Savings.....	446,704	9,192	2.06	458,070	9,848	2.15	520,129	11,381	2
Money market.....	2,228,241	88,484	3.97	1,924,309	84,149	4.37	1,520,194	69,257	4
Total daily access..	4,187,947	102,286	2.44	3,337,870	98,096	2.94	2,746,615	84,928	3
Certificates.....	5,606,265	306,014	5.46	5,621,222	307,086	5.46	6,085,586	348,906	5
Total deposits.....	9,794,212	408,300	4.17	8,959,092	405,182	4.52	8,832,201	433,834	4
Securities sold under agreements to repurchase.....	660,467	37,591	5.69	335,809	18,642	5.55	1,869,194	108,839	5
FHLB and other borrowings.....	4,755,832	271,430	5.71	4,738,502	270,148	5.70	3,376,056	204,297	6
Total borrowings..	5,416,299	309,021	5.71	5,074,311	288,790	5.69	5,245,250	313,136	5
Total interest-bearing liabilities.....	15,210,511	717,321	4.72	14,033,403	693,972	4.95	14,077,451	746,970	5
All other liabilities.....	268,191			188,772			130,297		
Stockholder's equity..	1,107,708			980,333			945,248		
Total liabilities and stockholder's equity.....	$16,586,410			$15,202,508			$15,152,996		
Difference between average interest-earning assets and interest-bearing liabilities.....	$ 420,508			$ 491,268			$ 496,633		
Net interest income...		$ 440,624			$ 378,984			$ 333,065	
Yield-cost spread.....			2.69%			2.44%			2
Effective net spread(7).....			2.82%			2.61%			2

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(1) Average balances are primarily computed on daily balances during the period. When such balances are not available, average balances are computed on a monthly basis. Average balances include the effect of discounts and premiums on loans, investment securities, deposits and borrowings acquired in acquisitions, as well as deferred loan fees and the effects of hedging transactions.

(2) Non-accrual loans are included in the average balances for the periods, but interest on such loans is not recognized during the periods the loans are non-accrual and is therefore excluded from interest income.

(3) The yields on available for sale securities are based upon historical amortized cost balances without the effects of fair value adjustments.

(4) Prior to fiscal 1998 Glendale Federal aggregated income from all securities (held to maturity and available for sale).

(5) Includes certificates of deposit and investment in capital stock of FHLB for fiscal 1998.

(6) Includes certificates of deposit, other debt and equity securities, and investment in capital stock of FHLB for fiscal 1997 and 1996.

(7) The effective net spread for a period is net interest income divided by average interest-earning assets.

The following rate/volume analysis depicts the increase (decrease) in net interest income attributable to interest rate fluctuations (change in rate multiplied by prior period average balance) and volume fluctuations (change in average balance multiplied by prior period rate) when compared to the preceding year (in thousands):

	YEARS ENDED JUNE 30,					
	1998 VERSUS 1997 CHANGES DUE TO			1997 VERSUS 1996 CHANGES DUE TO		
	VOLUME	RATE	TOTAL	VOLUME	RATE	TOTAL
Interest income:						
Loans receivable, net	$ 80,341	$ 8,066	$ 88,407	$ 81,639	$(23,213)	$ 58,426
Mortgage-backed securities, net	4,437	(4,239)	198	(78,333)	11,072	(67,261)
Total loans and mortgage-backed securities	84,778	3,827	88,605	3,306	(12,141)	(8,835)
Federal funds sold and assets purchased under resale agreement	(3,025)	1,292	(1,733)	(476)	(1,634)	(2,110)
Other investments	4,176	(6,059)	(1,883)	5,964	(2,098)	3,866
Total investments	1,151	(4,767)	(3,616)	5,488	(3,732)	1,756
Total interest income	85,929	(940)	84,989	8,794	(15,873)	(7,079)
Interest expense:						
Deposits--daily access	22,526	(18,336)	4,190	17,469	(4,301)	13,168
Deposits--certificates	(1,072)	--	(1,072)	(25,855)	(15,965)	(41,820)
Total deposits	21,454	(18,336)	3,118	(8,386)	(20,266)	(28,652)
Securities sold under agreements to repurchase	18,467	482	18,949	(85,370)	(4,827)	(90,197)
FHLB and other borrowings	1,111	171	1,282	78,481	(12,630)	65,851
Total borrowings	19,578	653	20,231	(6,889)	(17,457)	(24,346)
Total interest expense	41,032	(17,683)	23,349	(15,275)	(37,723)	(52,998)
Net interest income	$ 44,897	$ 16,743	$ 61,640	$ 24,069	$ 21,850	$ 45,919

Note: The change in interest not due solely to volume or rate has been allocated in proportion to the absolute dollar amounts of the change in each.

Net interest income increased by $61.6 million, to $440.6 million, in fiscal 1998 compared to fiscal 1997. This was attributable to an increase in average interest-earning assets and to an improvement in the yield-cost spread. Average interest-earning assets increased by $1.1 billion during fiscal 1998 and yielded $85.9 million in interest income, while average interest-bearing liabilities increased by $1.2 billion and contributed $41.0 million in interest expense, with the net impact of these volume changes resulting in an increase of $44.9 million to net interest income. The increase in average interest-earning assets was principally attributable to a $1.0 billion increase in average loans receivable. The increase in average interest-bearing liabilities primarily resulted from a $500.8 million increase in the average balance of non-interest-bearing demand deposits, as well as increases of $324.7 million and $303.9 million in the average balances of securities sold under agreements to repurchase and money market accounts.

The yield-cost spread increased by 25 basis points, to 2.69%, in fiscal 1998 as compared to fiscal 1997, contributing $16.7 million to the increase in net interest income. The increase in the yield-cost spread was primarily due to a decrease in Glendale Federal's cost of funds of 23 basis points, to 4.72%, that was attributable to a 35 basis point decrease in the cost of deposits, to 4.17%, partially offset by a 2 basis point increase in the cost of borrowings, to 5.71%. The decrease in the cost of funds reflects a decline in deposit costs due to a continuing shift in the mix of deposits from higher-cost certificates of deposit to lower-cost checking and other daily access accounts, and to the addition of lower-costing checking and daily access accounts obtained in recent acquisitions.

Interest income on loans receivable increased by $88.4 million, to $950.3 million, in fiscal 1998 compared to last year, primarily due to portfolio growth. The average balance of loans receivable, net, increased by $1.0 billion, to $12.4 billion, during the year ended June 30, 1998, contributing $80.3 million to the increase. This

increase was due to Glendale Federal's purchases in the secondary market of $824.1 million of fixed-rate loans with a weighted average yield of 8.02% and $767.9 million of adjustable rate loans with a weighted average yield of 7.43% during the last nine months of fiscal 1997. During the twelve months ended June 30, 1998, Glendale Federal purchased in the secondary market $2.0 billion of fixed-rate loans with a weighted average yield of 7.22% and $663.5 million of adjustable-rate loans with a weighted average yield of 7.32%. Further contributing to the growth in the loan portfolio was the purchase of $1.4 billion in loans with a weighted average yield of 8.48% in the April 1998 acquisition of CenFed Bank, and the purchase of $135.8 million in loans with a weighted average yield of 10.26% in the May 1997 TransWorld acquisition. The growth in the loan portfolio was enhanced by an increase in portfolio yield of 7 basis points, to 7.67%, which contributed $8.1 million to the increase in interest income. The increase in portfolio yield was primarily due to the impact of the aforementioned higher yielding fixed-rate purchases in the secondary market during the last nine months of fiscal 1997, the higher yielding loans acquired from CenFed Bank and TransWorld, and to the favorable effect of a declining level of non-accrual loans.

Glendale Federal did not recognize income on non-accrual loans during the period they were considered non-accrual, but their balances are included in the asset base for yield calculation purposes. The average balances of non-accrual loans in the twelve months ended June 30, 1998 and 1997, respectively, were $114.5 million and $236.8 million. The impact of non-accrual loans was to reduce Glendale Federal's loan yield by 4 and 7 basis points, respectively, in the twelve months ended June 30, 1998 and 1997.

Interest expense on daily access deposits increased by $4.2 million, to $102.3 million, in fiscal 1998, compared to fiscal 1997. The average balance in daily access accounts increased by $850.1 million, or 25%, to $4.2 billion, during the year ended June 30, 1998, compared to the year ended June 30, 1997. This growth in average balance contributed $22.5 million to the increase in interest expense. The growth in average daily access account balances was due to internally developed account growth, the addition of custodial checking accounts in October 1997 arising from Glendale Federal's purchase of servicing rights relating to $11.5 billion of mortgage loans in the fourth quarter of fiscal 1997, and the addition of daily access accounts related to acquisitions. The average cost of daily access accounts declined by 50 basis points, to 2.44%, in the year ended June 30, 1998. The decrease in the average cost of daily access accounts, which contributed $18.3 million to the reduction in interest expense during the year ended June 30, 1998, was due to the generation and acquisition of low cost deposits, consisting primarily of checking accounts.

Interest expense on borrowings increased by $20.2 million, to $309.0 million, in fiscal 1998 compared to fiscal 1997, primarily due to a corresponding increase of $342.0 million, or 7%, to $5.4 billion, in the average balance of borrowings in fiscal 1998 compared to fiscal 1997. The growth in the average balances of borrowings contributed $19.6 million to the increase in interest expense during fiscal 1998.

Net interest income increased by $45.9 million to $379.0 million in fiscal 1997, compared to fiscal 1996, because of favorable volume changes and an improvement in the yield-cost spread. Volume changes, which contributed $24.1 million to the increase in net interest income, were primarily related to changes in the mixes of both deposits and borrowings which resulted in a reduction to interest expense of $15.3 million. On the asset side, an increase in Glendale Federal's investment of FHLB stock and a shift in the mix from mortgage-backed securities to loans receivable increased interest income by $8.8 million.

The yield-cost spread increased by 34 basis points, to 2.44%, in the twelve months ended June 30, 1997, compared to the same period in fiscal 1996, primarily due to a decrease in Glendale Federal's cost of funds of 36 basis points to 4.95%. The decrease in Glendale Federal's cost of funds during the year ended June 30, 1997, compared to last year, was primarily due to a change in the mix of deposits from higher-cost certificates of deposit to lower-cost daily access accounts, the replacement of maturing higher-cost FHLB advances with lower-cost advances and to lower interest rates prevailing during the period compared to last year.

Interest income on loans receivable increased by $58.4 million, to $861.9 million, in fiscal 1997, compared to fiscal 1996, primarily due to portfolio growth. The average balance of loans receivable, net, increased by $1.1 billion, to $11.3 billion, during the year ended June 30, 1997, contributing $81.6 million to the growth. This was due to Glendale Federal's purchases, in the secondary market, of $2.3 billion of loans during fiscal 1997. The effect of growth in the loan portfolio was offset by a decrease in portfolio yield of 22 basis points. The decrease in portfolio yield was due to the effects of the aforementioned lower interest rate environment on Glendale Federal's portfolio of adjustable-rate loans. The effect of declining interest rates was partially offset by

the effect of a declining level of non-accrual loans as Glendale Federal does not recognize income on these assets during the period they are non-accrual, while their balances are included in the asset base for yield calculation purposes. The average balance of non-accrual loans in fiscal 1997 and 1996 was $236.8 million and $302.3 million, respectively. The impact of non-accrual loans on the yield on loans and mortgage-backed securities was a reduction in yield of 7 basis points in fiscal 1997 versus a reduction of 12 basis points in fiscal 1996.

Interest income on mortgage backed securities decreased by $67.3 million, to $149.6 million, in fiscal 1997, compared to fiscal 1996, primarily due to the sale of $1.7 billion of lower-yielding CMOs in the second and third quarters of fiscal 1996. Partially offsetting the effect of portfolio reductions, was an increase in the yield on mortgage-backed securities of 34 basis points to 6.67% in the remaining portfolio of mortgage-backed securities.

Interest income on federal funds sold and assets purchased under resale agreements decreased by $2.1 million, to $37.2 million, in fiscal 1997, compared to last year, primarily due to the lower interest rate environment prevailing in fiscal 1997, compared to fiscal 1996. The yield on federal funds sold and securities purchased under resale agreements decreased by 25 basis points to 5.59% during the year ended June 30, 1997, compared to last year, reflecting a reduction by the Federal Reserve Board of the federal funds rates late in fiscal 1996.

Interest income on other investments increased by $3.9 million to $24.3 million in fiscal 1997, compared to fiscal 1996, primarily due to an increase in the average portfolio balance of $65.4 million. During the year, Glendale Federal increased its investment in FHLB stock by $66.7 million to obtain additional borrowings from the FHLB in compliance with the FHLB's requirements. These purchases of FHLB stock contributed $5.0 million to the increased interest income.

Interest expense on daily access deposits increased by $13.2 million, to $98.1 million, in fiscal 1997, compared to fiscal 1996, primarily due to a $591.3 million, or 22% increase in the average balance in daily access accounts during the year ended June 30, 1997, compared to the year ended June 30, 1996. This growth in average balance contributed $17.5 million to the increase in interest expense. The growth in average daily access account balances was due to the addition of $322.1 million of daily access accounts related to the acquisitions of TransWorld and OneCentral, and to internally-developed account growth. The increase in interest expense was offset by a 15 basis point reduction in the average cost of daily access accounts. The decrease in average cost was due to the low cost of deposits acquired from TransWorld and OneCentral, and to the lower interest rates prevailing during the year ended June 30, 1997, compared to fiscal 1996.

Interest expense on certificate accounts decreased by $41.8 million, to $307.1 million, in fiscal 1997, compared to fiscal 1996, due to the combined effects of decreasing average balances and to the lower interest rate environment prevailing during the year ended June 30, 1997 compared to fiscal 1996. Average balances in certificate accounts decreased by $464.4 million, or 8%, due to management's efforts to change the mix of deposits toward daily access accounts. This decrease contributed $25.9 million to the reduction in interest expense on certificate accounts. The average cost of certificate accounts decreased by 27 basis points to 5.46% due to both the lower interest rate environment prevailing during the year ended June 30, 1997 compared to fiscal 1996, and to growth in daily access deposits allowing management to price certificate accounts less aggressively, while maintaining approximately the same retail-wholesale funding mix.

Interest expense on borrowings decreased by $24.3 million to $288.8 million in fiscal 1997, compared to fiscal 1996, primarily due to the replacement of maturing higher-cost FHLB borrowings with lower-cost FHLB borrowings, and to the decline in the interest rate environment. The cost of borrowings decreased 28 basis points to 5.69% during fiscal 1997 compared to fiscal 1996. Contributing to the decrease in interest expense was a $170.9 million decrease in the average balance of borrowings compared to fiscal 1996.

Provision For Loan Losses

Glendale Federal recorded a net credit for loan losses of $1.7 million in fiscal 1998, compared to provision for loan losses of $25.2 million in fiscal 1997, and $40.4 million in fiscal 1996. The significant reduction in the provision was primarily due to declining NPAs and delinquent loans, lower net charge-offs and management's assessment that there is a decreased risk of loss inherent in Glendale Federal's real estate loan portfolio, partially offset by the increased risk of loss inherent in its consumer and business loan portfolios. NPAs at June 30, 1998

totaled $134.3 million, which represents a 34% decline from the $205.0 million of NPAs recorded at June 30, 1997. Net charge-offs to the allowance for loan losses totaled $22.5 million in fiscal 1998, compared to $52.3 million in fiscal 1997 and $62.7 million in fiscal 1996.

The ratios of allowance to non-accrual loans and total gross loans at June 30, 1998, were 163.0% and 1.1%, respectively, compared to 116.7% and 1.4%, respectively, at June 30, 1997. Glendale Federal's determination of the level and the allocation of the allowance for loan losses and, correspondingly, the provisions for such losses, is based on various judgments, assumptions and projections regarding a number of factors, including, but not limited to, current and forecasted economic and market conditions, loan portfolio composition, historical loan loss experience, industry experience and asset classifications.

Loan Servicing Income, Net

Loan servicing income, net, decreased by $5.2 million or 16%, to $28.6 million, in fiscal 1998, compared to fiscal 1997. Due to Glendale Federal's purchases of servicing rights during fiscal 1997, gross servicing fees earned increased by $14.5 million, or 22%, to $79.6 million, in fiscal 1998 compared to fiscal 1997. However, the amortization of MSA increased by $21.9 million or 80%, to $49.2 million during the same period. The disproportionate increase in the amortization of MSA compared to the servicing fees earned, was primarily due to the servicing fee rates on the purchased servicing rights relating to approximately $11.5 billion of predominantly fixed-rate mortgage loans being less than those associated with a standard fixed-rate package, and to a lesser extent, to increased prepayment experience and market prepayment expectations attributable to the decline in interest rates and the flattening of the yield curve. The lower servicing fee rates associated with this purchase are offset, from an overall earnings perspective, by an increase in net interest income. The increase in net interest income results from the reduction in the cost of funds attributable to Glendale Federal keeping the custodial deposit balances associated with this servicing during the holding period between collection of borrower payments and remittance to investors, taxing authorities or insurance companies. Glendale Federal generally pays interest, at rates dictated by various states' regulations, on borrower funds held for purposes of paying property taxes and hazard insurance premiums. Such rates range up to 5%. Glendale Federal does not pay interest on the principal and interest portions of borrower payments that it remits to the investors.

Loan servicing income, net, increased by $9.6 million or 40%, to $33.8 million, in fiscal 1997, compared to fiscal 1996. This increase was attributable to increased servicing fees earned resulting from recent purchases of MSA, partially offset by the corresponding increase in the amortization of MSA.

Other Fees And Service Charges

Other fees and service charges increased by $12.6 million or 22%, to $69.5 million, in fiscal 1998 compared to fiscal 1997. This increase, which reflects the continuing growth in the number of transaction accounts, was due primarily to increases in loan and deposit fee income and income from ATM transactions which totaled $52.5 million in fiscal 1998, compared to $38.3 million in fiscal 1997.

Other fees and service charges increased by $11.1 million or 24%, to $56.9 million, in fiscal 1997, compared to fiscal 1996. This increase was due primarily to increases in deposit fee income and ATM fees of $7.6 million and $1.7 million, respectively, related to growth in the number of transaction accounts, and an increase in commissions and brokerage fees of $1.9 million related to higher sales from Glendale Federal's securities brokerage subsidiary.

Gain (Loss) on Sale of Mortgage-Backed Securities

Glendale Federal recorded a $4.6 million net gain on sale of mortgage-backed securities in fiscal 1998, primarily due to the reduction of the estimated recourse liability for future losses related to loans sold in prior years subject to credit loss recourse provisions.

Glendale Federal recorded a loss on sale of mortgage-backed securities, net of $1.8 million in fiscal 1997, primarily due to provisions for loss related to loans sold in prior years subject to recourse obligations.

Loss on sale of mortgage-backed securities, net, of $34.2 million in fiscal 1996 primarily reflected the previously discussed $28.2 million loss on the CMO Sale and $6.6 million of recourse related losses, including

fees for recourse removal transactions. See "--Overview--Sale of CMO Investment Portfolio" for additional discussion regarding the CMO Sale.

General and Administrative Expenses

General and administrative expenses increased by $30.5 million, or 12%, to $293.7 million in fiscal 1998, compared with $263.2 million in fiscal 1997. The increase primarily reflected costs associated with Glendale Federal's new business lines, franchise growth, recent acquisitions, including CenFed Bank,and Year 2000 compliance costs, partially offset by reduced regulatory insurance premiums. Operating expenses directly related to the new business lines, franchise growth, acquisitions and Year 2000 compliance costs approximated $42.9 million in fiscal 1998, as compared with $12.2 million in fiscal 1997. Excluding these factors, general and administrative expenses for fiscal 1998 were essentially unchanged from fiscal 1997.

General and administrative expenses increased as Glendale Federal continued to expand its business lines, broaden the reach of its branch franchise, maintain a higher level of marketing activity and upgrade Glendale Federal's operational capabilities. The targeted benefits resulting from the expansion of its business lines and branch franchise, namely increased net interest margin and higher fee income, have lagged behind the increase in expenditures attributable to the timing of the investment in new business lines, network expansion and marketing, and the increase in revenues that was intended to result from this investment.

Glendale Federal has an ongoing program designed to ensure that its operational and financial systems will not be adversely affected by Year 2000 data processing hardware and software failures due to processing errors arising from processing errors involving calculations using the Year 2000 date. Enhancements to Glendale Federal's mainframe systems have been implemented with completion of all mission critical repairs having been scheduled for November 1998. Glendale Federal has initiated renovation of its non-mainframe systems, with completion of all but one mission critical system having been scheduled for December 1998 and the one remaining mission critical system was to be completed in February 1999. Glendale Federal halted further implementation of its own Year 2000 efforts as of August 20, 1998 after receiving both shareholder and regulatory approvals for the Mergers. Future Year 2000 compliance will depend upon the ongoing systems that will be maintained by Cal Fed. Expenses related to the Year 2000 enhancements amounted to $10.0 million in fiscal 1998, compared to $0.3 million in fiscal 1997. Glendale Federal expected to incur approximately $37 million on this project, including $2 million to $3 million on software and hardware expenditures, on its program to modify, redevelop or replace its computer applications to try to make them "Year 2000" compliant. Year 2000 compliance failures could result in additional expense to Glendale Federal and significant disruption of its business.

As a result of the reduced assessment from the FDIC following the SAIF recapitalization in fiscal 1997, regulatory insurance in fiscal 1998 decreased by $8.5 million or 52%, to $7.8 million, compared to fiscal 1997.

General and administrative expenses increased by $16.3 million to $263.2 million in fiscal 1997, compared with $246.9 million in fiscal 1996. The increase primarily reflected costs associated with Glendale Federal's new business lines, new branches and, to a lesser degree, the acquisitions of TransWorld and OneCentral, partially offset by reduced regulatory insurance premiums.

Legal Expense--Goodwill Lawsuit

Legal expenses related to Glendale Federal's trial in the Court of Federal Claims to determine damages in its breach of contract suit against the federal government were $19.0 million in fiscal 1998, compared to $24.1 million and $1.9 million, respectively, in fiscal 1997 and 1996. The most intensive phase of the damages trial was completed in early April 1998. Costs will be incurred during any appeals process. However, these costs are expected to be at a significantly lower rate per quarter. See "--Business--Glendale Federal--Legal Proceedings" for further discussion.

Acquisition and Restructuring Costs

Glendale Federal incurred acquisition and restructuring costs of $6.9 million during the twelve months ended June 30, 1998. Costs related to the CenFed Bank and RedFed acquisitions totaled $3.8 million and costs related to the distribution of the Litigation Tracking Warrants(Trademark) totaled $3.1 million during fiscal 1998.

REO Operations

Operations of REO resulted in income of $3.1 million in fiscal 1998, as compared to losses of $6.6 million and $8.4 million in fiscal 1997 and 1996, respectively. The $9.7 million improvement in fiscal 1998 compared to fiscal 1997 resulted from a $2.7 million increase in gains on sale of REO (after market valuation adjustments), a $3.3 million reduction in specific provisions to adjust the REO portfolio to current fair value, a $2.2 million decrease in operating expenses, and a $1.5 million decrease in the general valuation allowance provision.

Losses in fiscal 1997 were primarily due to $7.5 million in provisions to adjust the REO portfolio to current fair value and $6.2 million of operating expenses. These expenses were partially offset by gains realized on the sale of REO (after market valuation adjustments) of $7.2 million. Losses in fiscal 1996 were primarily due to $12.1 million in provisions to adjust the REO portfolio to current fair value and $7.2 million of operating expenses. These expenses were partially offset by gains realized on the sale of REO (after market valuation adjustments) of $10.9 million, of which $2.1 million was recognized in the September 1995 quarter in connection with the August 1995 sale of underperforming loans and REO.

The declining trend in losses in REO operations mirrored the trend in the level of new REOs and a shift in the composition of the REO inventory from multi-family residential and non-residential properties to smaller balance single-family residential properties.

Amortization of Goodwill and Other Intangible Assets

Amortization of goodwill totaled $9.2 million, $5.5 million and $5.1 million in fiscal 1998, 1997 and 1996, respectively. The increase in fiscal 1998, as compared to fiscal 1997, reflected the impact of a full year of goodwill amortization resulting from the TransWorld and OneCentral acquisitions completed in the second half of fiscal 1997, as well as additional goodwill amortization arising from the Cenfed Bank acquisition in the fourth quarter of fiscal 1998. The increase in fiscal 1997, as compared to fiscal 1996, reflected the impact of the amortization of the goodwill of $45.8 million relating to the acquisitions of TransWorld and OneCentral in the second half of fiscal 1997.

Income Tax Provision

Glendale Federal recorded income tax provisions of $93.1 million, $36.1 million and $21.3 million in fiscal 1998, 1997 and 1996, respectively. The effective tax rate is higher than the federal statutory rate, primarily due to state taxes and the effect of nondeductible goodwill. Changes in the effective rates are discussed in Note 14 of the Notes to Consolidated Financial Statements of Glendale Federal included elsewhere in this Prospectus.

THE EXCHANGE OFFER

TERMS OF THE EXCHANGE OFFER; PERIOD FOR TENDERING OLD NOTES

Upon the terms and subject to the conditions set forth in this Prospectus and in the accompanying Letter of Transmittal (which together constitute the Exchange Offer), the Issuer will accept for exchange Old Notes which are properly tendered on or prior to the Expiration Date and not withdrawn as permitted below. As used herein, the term "Expiration Date" means 5:00 p.m., New York City time, on , 1998; provided, however, that if the Issuer, in its sole discretion, has extended the period of time for which the Exchange Offer is open, the term "Expiration Date" means the latest time and date to which the Exchange Offer is extended.

As of the date of this Prospectus, $250,000,000 aggregate principal amount of the Old Floating Rate Notes was outstanding, $350,000,000 aggregate principal amount of the Old 2001 Notes was outstanding, $600,000,000 aggregate principal amount of the Old 2003 Notes was outstanding and $800,000,000 aggregate principal amount of the Old 2005 Notes was outstanding. This Prospectus, together with the Letter of Transmittal, is first being sent on or about , 1998, to all holders of Old Notes known to the Issuer. The Issuer's obligation to accept Old Notes for exchange pursuant to the Exchange Offer is subject to certain conditions as set forth below under "--Certain Conditions to the Exchange Offer."

The Issuer expressly reserves the right, at any time or from time to time, to extend the period of time during which the Exchange Offer is open, and thereby delay acceptance for exchange of any Old Notes, by giving oral or written notice of such extension to the holders thereof as described below. During any such extension, all Old Notes previously tendered will remain subject to the Exchange Offer and may be accepted for exchange by the Company. Any Old Notes not accepted for exchange for any reason will be returned without expense to the tendering holder thereof as promptly as practicable after the expiration or termination of the Exchange Offer.

Old Notes tendered in the Exchange Offer must be in denominations of principal amount of $1,000 and any integral multiple thereof.

The Issuer expressly reserves the right to amend or terminate the Exchange Offer, and not to accept for exchange any Old Notes not therefore accepted for exchange, upon the occurrence of any of the events specified below under "--Certain Conditions to the Exchange Offer." The Issuer will give oral or written notice of any extension, amendment, non-acceptance or termination to the holders of the Old Notes as promptly as practicable, such notice in the case of any extension to be issued by means of a press release or other public announcement no later than 9:00 a.m., New York City time, on the next business day after the previously scheduled Expiration Date.

Following consummation of the Exchange Offer, the Issuer may, in its sole discretion, commence one or more additional exchange offers to those holders of Old Notes who did not exchange their Old Notes for New Notes in the Exchange Offer on terms which may differ from those contained in the Registration Agreement. This Prospectus, as it may be amended or supplemented from time to time, may be used by the Company in connection with any such additional exchange offers. Such additional exchange offers will take place from time to time until all outstanding Old Notes have been exchanged for New Notes pursuant to the terms and conditions contained herein.

PROCEDURES FOR TENDERING OLD NOTES

The tender to the Issuer of Old Notes by a holder thereof as set forth below and the acceptance thereof by the Issuer will constitute a binding agreement between the tendering holder and the Issuer upon the terms and subject to the conditions set forth in this Prospectus and in the accompanying Letter of Transmittal. Except as set forth below, a holder who wishes to tender Old Notes for exchange pursuant to the Exchange Offer must transmit either (i) a properly completed and duly executed Letter of Transmittal, including all other documents required by such Letter of Transmittal, to The Bank of New York, as Exchange Agent, at the address set forth below under "--Exchange Agent" on or prior to the Expiration Date, or (ii) if such Old Notes are tendered pursuant to the procedures for book-entry transfer set forth below, a holder tendering Old Notes may transmit an Agent's Message (as defined herein) to the Exchange Agent in lieu of the Letter of Transmittal on or prior to the Expiration Date. In addition, either (i) certificates for such Old Notes must be received by the Exchange Agent

along with the Letter of Transmittal, (ii) a timely confirmation of a book-entry transfer (a "Book-Entry Confirmation") of such Old Notes, if such procedure is available, into the Exchange Agent's account at The Depository Trust Company (the "Book-Entry Transfer Facility") pursuant to the procedure for book-entry transfer described below, along with the Letter of Transmittal or an Agent's Message, as the case may be, must be received by the Exchange Agent prior to the Expiration Date, or (iii) the holder must comply with the guaranteed delivery procedures described below. The term "Agent's Message" means a message, transmitted to the Book-Entry Transfer Facility and received by the Exchange Agent and forming a part of the Book-Entry Confirmation, which states that the Book-Entry Transfer Facility has received an express acknowledgment from the tendering Participant (as defined herein) that such Participant has received and agrees to be bound by the Letter of Transmittal and the Issuer may enforce the Letter of Transmittal against such Participant. THE METHOD OF DELIVERY OF OLD NOTES, LETTERS OF TRANSMITTAL OR AGENT'S MESSAGES AND ALL OTHER REQUIRED DOCUMENTS IS AT THE ELECTION AND RISK OF THE HOLDERS. IF SUCH DELIVERY IS BY MAIL, IT IS RECOMMENDED THAT REGISTERED MAIL, PROPERLY INSURED, WITH RETURN RECEIPT REQUESTED, BE USED. IN ALL CASES, SUFFICIENT TIME SHOULD BE ALLOWED TO ASSURE TIMELY DELIVERY. NO LETTERS OF TRANSMITTAL OR OLD NOTES SHOULD BE SENT TO THE ISSUER.

Signatures on a Letter of Transmittal or a notice of withdrawal, as the case may be, must be guaranteed unless the Old Notes surrendered for exchange pursuant thereto are tendered (i) by a registered holder of the Old Notes who has not completed the box entitled "Special Issuance Instructions" or "Special Delivery Instructions" on the Letter of Transmittal or (ii) for the account of an Eligible Institution (as defined herein). In the event that signatures on a Letter of Transmittal or a notice of withdrawal, as the case may be, are required to be guaranteed, such guarantees must be by a firm which is a member of a registered national securities exchange or a member of the National Association of Securities Dealers, Inc. or by a commercial bank or trust company having an office or correspondent in the United States (collectively, "Eligible Institutions"). If Old Notes are registered in the name of a person other than a signer of the Letter of Transmittal, the Old Notes surrendered for exchange must be endorsed by, or be accompanied by a written instrument or instruments of transfer or exchange, in satisfactory form as determined by the Issuer in its sole discretion, duly executed by, the registered Holder with the signature thereon guaranteed by an Eligible Institution.

All questions as to the validity, form, eligibility (including time of receipt) and acceptance of Old Notes tendered for exchange will be determined by the Issuer in its sole discretion, which determination shall be final and binding. The Issuer reserves the absolute right to reject any and all tenders of any particular Old Notes not properly tendered or to not accept any particular Old Notes which acceptance might, in the judgment of the Issuer or its counsel, be unlawful. The Issuer also reserves the absolute right to waive any defects or irregularities or conditions of the Exchange Offer as to any particular Old Notes either before or after the Expiration Date (including the right to waive the ineligibility of any holder who seeks to tender Old Notes in the Exchange Offer). The interpretation of the terms and conditions of the Exchange Offer as to any particular Old Notes either before or after the Expiration Date (including the Letter of Transmittal and the instructions thereto) by the Issuer shall be final and binding on all parties. Unless waived, any defects or irregularities in connection with tenders of Old Notes for exchange must be cured within such reasonable period of time as the Issuer shall determine. Neither the Issuer, the Exchange Agent nor any other person shall be under any duty to give notification of any defect or irregularity with respect to any tender of Old Notes for exchange, nor shall any of them incur any liability for failure to give such notification.

If the Letter of Transmittal is signed by a person or persons other than the registered holder or holders of Old Notes, such Old Notes must be endorsed or accompanied by appropriate powers of attorney, in either case signed exactly as the name or names of the registered holder or holders that appear on the Old Notes.

If the Letter of Transmittal or any Old Notes or powers of attorney are signed by trustees, executors, administrators, guardians, attorneys-in-fact, officers of corporations or others acting in a fiduciary or representative capacity, such persons should so indicate when signing, and, unless waived by the Issuer, proper evidence satisfactory to the Issuer of their authority to so act must be submitted.

By tendering, each holder will represent to the Issuer that, among other things, the New Notes acquired pursuant to the Exchange Offer are being obtained in the ordinary course of business of the person receiving such

New Notes, whether or not such person is the holder, and that neither the holder nor such other person has any arrangement or understanding with any person to participate in the distribution of the New Notes. In the case of a holder that is not a broker-dealer, each such holder, by tendering, will also represent to the Issuer that such holder is not engaged in, or intends to engage in, a distribution of the New Notes. If any holder or any such other person is an "affiliate," as defined under Rule 405 of the Securities Act, of the Issuer, or is engaged in or intends to engage in or has an arrangement or understanding with any person to participate in a distribution of such New Notes to be acquired pursuant to the Exchange Offer, such holder or any such other person (i) could not rely on the applicable interpretations of the staff of the Commission and (ii) must comply with the registration and prospectus delivery requirements of the Securities Act in connection with any resale transaction. Each broker-dealer that receives New Notes for its own account in exchange for Old Notes, where such Old Notes were acquired by such broker-dealer as a result of market-making activities or other trading activities, must acknowledge that it will deliver a prospectus in connection with any resale of such New Notes. See "Plan of Distribution." The Letter of Transmittal states that by so acknowledging and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act.

ACCEPTANCE OF OLD NOTES FOR EXCHANGE; DELIVERY OF NEW NOTES

Upon satisfaction or waiver of all of the conditions to the Exchange Offer, the Issuer will accept, promptly after the Expiration Date, all Old Notes properly tendered and will issue the New Notes promptly after acceptance of the Old Notes. See "--Certain Conditions to the Exchange Offer." For purposes of the Exchange Offer, the Issuer shall be deemed to have accepted properly tendered Old Notes for exchange when, as and if the Issuer has given oral or written notice thereof to the Exchange Agent, with written confirmation of any oral notice to be given promptly thereafter.

For each Old Note accepted for exchange, the holder of such Old Note will receive a New Note having a principal amount at maturity equal to that of the surrendered Old Note. Interest on the New Notes will accrue from August 6, 1998, the date of original issuance of the Old Notes. If the Exchange Offer is not consummated by March 15, 1999, the interest rate on the Old Notes from and including such date until but excluding the date of consummation of the Exchange Offer will increase by 0.5%. Payments of such interest, if any, on Old Notes in exchange for which New Notes were issued will be made to the persons who, at the close of business on the record date next preceding the interest payment date, are registered holders of such Old Notes if such record date occurs prior to such exchange, or are registered holders of the New Notes if such record date occurs on or after the date of such exchange, even if Notes are cancelled after the record date and on or before the interest payment date.

In all cases, issuance of New Notes for Old Notes that are accepted for exchange pursuant to the Exchange Offer will be made only after timely receipt by the Exchange Agent of certificates for such Old Notes or a timely Book-Entry Confirmation of such Old Notes into the Exchange Agent's account at the Book-Entry Transfer Facility, a properly completed and duly executed Letter of Transmittal and all other required documents or, in the case of a Book-Entry Confirmation, an Agent's Message in lieu thereof. If any tendered Old Notes are not accepted for any reason set forth in the terms and conditions of the Exchange Offer or if Old Notes are submitted for a greater principal amount than the holder desired to exchange, such unaccepted or non-exchanged Old Notes will be returned without expense to the tendering holder thereof (or, in the case of Old Notes tendered by book-entry transfer into the Exchange Agent's account at the Book-Entry Transfer Facility pursuant to the book-entry procedures described below, such non-exchanged Old Notes will be credited to an account maintained with such Book-Entry Transfer Facility) as promptly as practicable after the expiration or termination of the Exchange Offer.

BOOK-ENTRY TRANSFER

The Exchange Agent will make a request to establish an account with respect to the Old Notes at the Book-Entry Transfer Facility for purposes of the Exchange Offer within two business days after the date of this Prospectus, and any financial institution that is a participant in the Book-Entry Transfer Facility's systems may make book-entry delivery of Old Notes by causing the Book-Entry Transfer Facility to transfer such Old Notes into the Exchange Agent's account at the Book-Entry Transfer Facility in accordance with such Book-Entry Transfer Facility's procedures for transfer. However, although delivery of Old Notes may be effected through

book-entry transfer at the Book-Entry Transfer Facility, the Letter of Transmittal or facsimile thereof, with any required signature guarantees, or an Agent's Message in lieu of a Letter of Transmittal, and any other required documents, must, in any case, be transmitted to and received by the Exchange Agent at one of the addresses set forth below under "--Exchange Agent" on or prior to the Expiration Date or the guaranteed delivery procedures described below must be complied with.

GUARANTEED DELIVERY PROCEDURES

If a registered holder of the Old Notes desires to tender such Old Notes and the Old Notes are not immediately available, or time will not permit such holder's Old Notes or other required documents to reach the Exchange Agent before the Expiration Date, or the procedure for book-entry transfer cannot be completed on a timely basis, a tender may be effected if (i) the tender is made through an Eligible Institution, (ii) prior to the Expiration Date, the Exchange Agent receives from such Eligible Institution a properly completed and duly executed Letter of Transmittal (or a facsimile thereof) and Notice of Guaranteed Delivery, substantially in the form provided by the Company (by telegram, telex, facsimile transmission, mail or hand delivery), setting forth the name and address of the holder of Old Notes and the amount of Old Notes tendered, stating that the tender is being made thereby and guaranteeing that within three New York Stock Exchange ("NYSE") trading days after the date of execution of the Notice of Guaranteed Delivery, the certificates for all physically tendered Old Notes, in proper form for transfer, or a Book-Entry Confirmation, as the case may be, and any other documents required by the Letter of Transmittal will be deposited by the Eligible Institution with the Exchange Agent, and (iii) the certificates for all physically tendered Old Notes, in proper form for transfer, or a Book-Entry Confirmation, as the case may be, and all other documents required by the Letter of Transmittal, are received by the Exchange Agent within three NYSE trading days after the date of execution of the Notice of Guaranteed Delivery.

WITHDRAWAL RIGHTS

Tenders of Old Notes may be withdrawn at any time prior to the Expiration Date.

For a withdrawal to be effective, a written notice of withdrawal must be received by the Exchange Agent at one of the addresses set forth below under "--Exchange Agent." Any such notice of withdrawal must specify the name of the person having tendered the Old Notes to be withdrawn, identify the Old Notes to be withdrawn (including the principal amount of such Old Notes), and (where certificates for Old Notes have been transmitted) specify the name in which such Old Notes are registered, if different from that of the withdrawing holder. If certificates for Old Notes have been delivered or otherwise identified to the Exchange Agent, then, prior to the release of such certificates the withdrawing holder must also submit the serial numbers of the particular certificates to be withdrawn and signed notice of withdrawal with signatures guaranteed by an Eligible Institution unless such holder is an Eligible Institution. If Old Notes have been tendered pursuant to the procedure for book-entry transfer described above, any notice of withdrawal must specify the name and number of the account at the Book-Entry Transfer Facility to be credited with the withdrawn Old Notes and otherwise comply with the procedures of such facility. All questions as to the validity, form and eligibility (including time of receipt) of such notices will be determined by the Issuer, whose determination shall be final and binding on all parties. Any Old Notes so withdrawn will be deemed not to have been validly tendered for exchange for purposes of the Exchange Offer. Any Old Notes which have been tendered for exchange but which are not exchanged for any reason will be returned to the holder thereof without cost to such holder (or, in the case of Old Notes tendered by book-entry transfer into the Exchange Agent's account at the Book-Entry Transfer Facility pursuant to the book-entry transfer procedures described above, such Old Notes will be credited to an account maintained with such Book-Entry Transfer Facility for the Old Notes) as soon as practicable after withdrawal, rejection of tender or termination of the Exchange Offer. Properly withdrawn Old Notes may be retendered by following one of the procedures described under "--Procedures for Tendering Old Notes" above at any time on or prior to the Expiration Date.

CERTAIN CONDITIONS TO THE EXCHANGE OFFER

Notwithstanding any other provision of the Exchange Offer, the Issuer shall not be required to accept for exchange, or to issue New Notes in exchange for, any Old Notes and may terminate or amend the Exchange Offer, if at any time before the acceptance of such Old Notes for exchange or the exchange of the New Notes for such Old Notes, any of the following events shall occur:

(a) there shall be threatened, instituted or pending any action or proceeding before, or any injunction, order of decree shall have been issued by, any court or governmental agency or other governmental regulatory or administrative agency or commission, (i) seeking to restrain or prohibit the making or consummation of the Exchange Offer or any other transaction contemplated by the Exchange Offer, or assessing or seeking any damages as a result thereof, or (ii) resulting in a material delay in the ability of the Issuer to accept for exchange or exchange some or all of the Old Notes pursuant to the Exchange Offer; or any statute, rule, regulation, order or injunction shall be sought, proposed, introduced, enacted, promulgated or deemed applicable to the Exchange Offer or any of the transactions contemplated by the Exchange Offer by any government or governmental authority, domestic or foreign, or any action shall have been taken, proposed or threatened, by any government, governmental authority, agency or court, domestic or foreign, that in the reasonable judgment of the Issuer might directly or indirectly result in any of the consequences referred to in clauses (i) or (ii) above or, in the reasonable judgment of the Issuer, might result in the holders of New Notes having obligations with respect to resales and transfers of New Notes which are greater than those described in the interpretation of the Commission referred to on the cover page of this Prospectus, or would otherwise make it inadvisable to proceed with the Exchange Offer; or

(b) there shall have occurred (i) any general suspension of or general limitation on prices for, or trading in, securities on any national securities exchange or in the over-the-counter market, (ii) any limitation by any governmental agency or authority which may adversely affect the ability of the Issuer to complete the transactions contemplated by the Exchange Offer, (iii) a declaration of a banking moratorium or any suspension of payments in respect of banks in the United States or any limitation by any governmental agency or authority which adversely affects the extension of credit or (iv) a commencement of a war, armed hostilities or other similar international calamity directly or indirectly involving the United States, or, in the case of any of the foregoing existing at the time of the commencement of the Exchange Offer, a material acceleration or worsening thereof; or

(c) any change (or any development involving a prospective change) shall have occurred or be threatened in the business, properties, assets, liabilities, financial condition, operations, results of operations or prospects of the Issuer and its subsidiaries taken as a whole that, in the reasonable judgment of the Issuer, is or may be adverse to the Issuer, or the Issuer shall have become aware of facts that, in the reasonable judgment of the Issuer, have or may have adverse significance with respect to the value of the Old Notes or the New Notes; which in the reasonable judgment of the Issuer in any case, and regardless of the circumstances (including any action by the Issuer) giving rise to any event described above, makes it inadvisable to proceed with the Exchange Offer and/or with such acceptance for exchange or with such exchange.

The foregoing conditions are for the sole benefit of the Issuer and may be asserted by the Issuer regardless of the circumstances giving rise to any such condition or may be waived by the Issuer in whole or in part at any time and from time to time in its sole discretion. The failure by the Issuer at any time to exercise any of the foregoing rights shall not be deemed a waiver of any such right and each such right shall be deemed an ongoing right which may be asserted at any time and from time to time.

In addition, the Issuer will not accept for exchange any Old Notes tendered, and no New Notes will be issued in exchange for any such Old Notes, if at such time any stop order shall be threatened or in effect with respect to the Registration Statement of which this Prospectus constitutes a part or the qualification of the Indentures under the Trust Indenture Act of 1939 (the "TIA").

EXCHANGE AGENT

The Bank of New York has been appointed as the Exchange Agent for the Exchange Offer. All executed Letters of Transmittal and Agent's Messages should be directed to the Exchange Agent at one of the addresses set forth below. Questions and requests for assistance, requests for additional copies of this Prospectus or of the Letter of Transmittal or Agent's Message and requests for Notices of Guaranteed Delivery should be directed to the Exchange Agent addressed as follows:

By Registered or Certified Mail:
The Bank of New York
101 Barclay Street, Floor 7E
New York, New York 10286
Attention: Reorganization Section

By Hand or Overnight Delivery:
The Bank of New York
101 Barclay Street
Corporate Trust Services Window
Ground Floor
New York, New York 10286
Attention: Reorganization Section

By Facsimile:
(Eligible Institutions Only)
(212) 815-6339

Confirm by Telephone:
(212) 815-5789

DELIVERY OF THE LETTER OF TRANSMITTAL TO AN ADDRESS OTHER THAN AS SET FORTH ABOVE OR TRANSMISSION OF INSTRUCTIONS VIA FACSIMILE OTHER THAN AS SET FORTH ABOVE DOES NOT CONSTITUTE A VALID DELIVERY OF SUCH LETTER OF TRANSMITTAL.

FEES AND EXPENSES

The Issuer will not make any payment to brokers, dealers, or others soliciting acceptances of the Exchange Offer.

The estimated cash expenses to be incurred in connection with the Exchange Offer will be paid by the Issuer and are estimated in the aggregate to be $1,500,000.

TRANSFER TAXES

Holders who tender their Old Notes for exchange will not be obligated to pay any transfer taxes in connection therewith, except that holders who instruct the Issuer to register New Notes in the name of, or request that Old Notes not tendered or not accepted in the Exchange Offer be returned to, a person other than the registered tendering holder will be responsible for the payment of any applicable transfer tax thereon.

CONSEQUENCES OF EXCHANGING OR FAILING TO EXCHANGE OLD NOTES

Holders of Old Notes who do not exchange their Old Notes for New Notes pursuant to the Exchange Offer will continue to be subject to the provisions in the Indentures regarding transfer and exchange of the Old Notes and the restrictions on transfer of such Old Notes as set forth in the legend thereon as a consequence of the issuance of the Old Notes pursuant to exemptions from, or in transactions not subject to, the registration requirements of the Securities Act and applicable state securities laws. In general, the Old Notes may not be offered or sold, unless registered under the Securities Act, except pursuant to an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities laws. The Issuer does not currently anticipate that it will register Old Notes under the Securities Act. See "Description of the Notes--Registration Rights." Based on interpretations by the staff of the Commission, as set forth in no-action letters issued to third parties, the Issuer believes that New Notes issued pursuant to the Exchange Offer in exchange for Old Notes may be offered for resale, resold or otherwise transferred by holders thereof (other than any such holder which is an

"affiliate" of the Issuer within the meaning of Rule 405 under the Securities Act) without compliance with the registration and prospectus delivery provisions of the Securities Act, provided that such New Notes are acquired in the ordinary course of such holders' business and such holders have no arrangement or understanding with any person to participate in the distribution of such New Notes. However, the Issuer does not intend to request the Commission to consider, and the Commission has not considered, the Exchange Offer in the context of a no-action letter and there can be no assurance that the staff of the Commission would make a similar determination with respect to the Exchange Offer as in such other circumstances. Each holder, other than a broker-dealer, must acknowledge that it is not engaged in, and does not intend to engage in, a distribution of New Notes and has no arrangement or understanding to participate in a distribution of New Notes. If any holder is an affiliate of the Issuer, is engaged in or intends to engage in or has any arrangement or understanding with respect to the distribution of the New Notes to be acquired pursuant to the Exchange Offer, such holder (i) could not rely on the applicable interpretations of the staff of the Commission and (ii) must comply with the registration and prospectus delivery requirements of the Securities Act in connection with any resale transaction. Each broker-dealer that receives New Notes for its own account in exchange for Old Notes, where such Old Notes were acquired by such broker-dealer as a result of market-making activities or other trading activities, must acknowledge that it will deliver a prospectus in connection with any resale of such New Notes. See "Plan of Distribution." In addition, to comply with state securities laws, the New Notes may not be offered or sold in any state unless they have been registered or qualified for sale in such state or an exemption from registration or qualification is available and is complied with. The offer and sale of the New Notes to "qualified institutional buyers" (as such term is defined under Rule 144A of the Securities Act) is generally exempt from registration or qualification under the state securities laws. The Issuer currently does not intend to register or qualify the sale of the New Notes in any state where an exemption from registration or qualification is required and not available.

BUSINESS

THE ISSUER

GENERAL

Golden State Holdings is the direct parent of, and owns all of the common stock of, the Bank. Golden State Holdings was formed to acquire all of the assets of FNH (including all of the common stock of the Bank) as part of the Golden State Acquisition. Prior to the Golden State Acquisition, FNH was a holding company chartered under the laws of the State of Delaware whose only significant asset was all of the common stock of the Bank. As such, the principal business operations of FNH were, and the principal business operations of Golden State Holdings are, conducted by the Bank and its subsidiaries. References in "Business" to "Golden State Holdings" refers to (i) Golden State Holdings after the Golden State Acquisition and (ii) FNH prior to the Golden State Acquisition.

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

THE BANK

Cal Fed, which is headquartered in San Francisco, California, is a diversified financial services company whose principal business consists of (i) operating retail deposit branches to serve consumers in California and, to a lesser extent, in Nevada, (ii) originating and/or purchasing, on a nationwide basis, 1-4 unit residential loans and, to a lesser extent, certain commercial real estate and consumer loans, for investment and (iii) conducting mortgage banking activities, including originating and servicing 1-4 unit residential loans for others. Recently, with its entry into the non-prime automobile finance business, Cal Fed broadened its complement of consumer lending products. These operating activities are financed principally with customer deposits, secured short-term and long-term borrowings, collections on loans, asset sales and retained earnings. As of June 30, 1998, Cal Fed had approximately $34.0 billion in assets and approximately $16.0 billion in deposits and operated retail branch offices at 225 locations in three states.

BACKGROUND

On February 1, 1993, First Gibraltar Bank, FSB, the predecessor to the Bank ("First Gibraltar") sold to Bank of America Texas, N.A. and BankAmerica Corporation (collectively, "BankAmerica") certain assets, liabilities and substantially all of the branch operations of First Gibraltar located in Texas consisting of approximately $829 million of loans and 130 branches with approximately $6.9 billion in deposits (the "BAC Sale"). A gain of $141 million was recorded in connection with this sale. Concurrently with the BAC Sale, First Gibraltar changed its name to First Madison Bank, FSB ("First Madison").

Following the BAC Sale, and through September 1994, First Madison's principal business was the performance of its obligations under an assistance agreement ("Assistance Agreement") entered into with the FSLIC Resolution Fund (the "FSLIC/RF") at the time of First Gibraltar's acquisition of five insolvent Texas thrifts (the "Texas Closed Branches") and the funding of assets subject to the Assistance Agreement ("Covered Assets"). Subsequent to the BAC Sale, First Madison also managed four retail branches in Texas and supplemented its retail deposit base with wholesale funds from Brokered Deposits (as defined herein) and FHLB advances.

On April 14, 1994, First Madison entered into the Asset Purchase Agreement (the "Asset Purchase Agreement") with First Nationwide Bank, A Federal Savings Bank ("Old FNB"), an indirect subsidiary of Ford Motor Company ("Ford Motor"). On October 3, 1994, effective immediately after the close of business on September 30, 1994, First Madison acquired substantially all of the assets and certain of the liabilities (the "FN Acquired Business") of Old FNB (the "FN Acquisition") for $726.5 million. Effective on October 1, 1994, First

Madison changed its name from "First Madison Bank, FSB" to "First Nationwide Bank, A Federal Savings Bank." Since October 1994, FNH has made several acquisitions and has divested certain operations.

In December 1994, the Bank's wholly-owned mortgage bank operating subsidiary, FNMC, entered into a series of agreements with Standard Federal Savings Association ("StanFed"), to acquire certain of StanFed's mortgage servicing assets and assume certain of StanFed's mortgage servicing liabilities for approximately $178 million (the "Maryland Acquisition"). As a result of the Maryland Acquisition, FNMC acquired a 1-4 unit residential loan servicing portfolio of approximately $11.4 billion (including $1.8 billion of mortgage servicing rights that are owned by third parties who have subcontracted the servicing function to FNMC (a "sub-servicing portfolio")) and certain other assets and liabilities. The transaction was consummated on February 28, 1995. In connection with the Maryland Acquisition, FNMC moved its mortgage servicing operations to Maryland from its former location in Sacramento, California.

On October 2, 1995, FNMC purchased from Lomas Mortgage USA, Inc. ("LMUSA") a 1-4 unit residential loan servicing portfolio of approximately $11.1 billion (including a sub-servicing portfolio of $3.1 billion), a $2.9 billion master servicing portfolio in which FNMC monitors the performance and consolidates the reporting and remittances of multiple servicers for various investors (a "master servicing portfolio") and other assets for $100.9 million, and the assumption of certain indebtedness secured by the acquired loan portfolio (the "LMUSA 1995 Purchase"). On January 31, 1996, FNMC purchased LMUSA's remaining $14.1 billion loan servicing portfolio (including a sub-servicing portfolio of $2.4 billion), a master servicing portfolio of $2.7 billion, $5.9 million in foreclosed real estate, $46.8 million in net other servicing receivables, $2.6 million in mortgage loans, and $6.2 million in net other assets (including $1.4 million in cash and cash equivalents) for a purchase price of approximately $160.9 million (the "LMUSA 1996 Purchase" and together with the LMUSA 1995 Purchase, the "LMUSA Purchases").

During the first six months of 1996, FNH consummated the sale of its retail branches in Ohio (the "Ohio Branch Sale"), New York and New Jersey (the "Northeast Branch Sales") and Michigan (the "Michigan Branch Sale", and together with the Ohio Branch Sale and the Northeast Branch Sale, the "Branch Sales") at prices which represented an average premium of 7.96% of the approximately $4.6 billion of deposits sold. FNH recorded a pre-tax gain of $363.3 million in connection with the Branch Sales.

On February 1, 1996, FNH acquired SFFed Corp. ("SFFed"), a savings and loan holding company, and its wholly owned federal savings association, San Francisco Federal Savings and Loan Association ("San Francisco Federal"), (the "SFFed Acquisition"), for approximately $264.2 million. San Francisco Federal operated 35 branches in the Northern California area and at February 1, 1996, had approximately $4.0 billion in assets and approximately $2.7 billion in deposits.

On June 1, 1996, FNH acquired Home Federal Financial Corporation ("HFFC") and its wholly owned federally chartered savings association subsidiary, Home Federal Savings and Loan Association of San Francisco ("Home Federal"), (the "Home Federal Acquisition," and together with the SFFed Acquisition, the "1996 Acquisitions"). The aggregate consideration paid in connection with the Home Federal Acquisition was approximately $67.8 million. At June 1, 1996, HFFC had approximately $717 million in assets and $632 million in deposits.

On January 3, 1997, pursuant to an Agreement and Plan of Merger (the "Old Cal Fed Merger Agreement") among FNH, Old Cal Fed and Old California Federal, First Nationwide merged with and into Old California Federal and Old Cal Fed was liquidated. The aggregate consideration paid under the Old Cal Fed Merger Agreement consisted of approximately $1.2 billion in cash and the issuance of litigation interests. Old California Federal, at December 31, 1996, had total assets of approximately $14.1 billion and deposits of $8.9 billion, and operated 119 branches in California and Nevada. Effective with the merger, First Nationwide's name changed to California Federal Bank, A Federal Savings Bank.

On January 3, 1997 and prior to the consummation of the Cal Fed Acquisition, First Nationwide Escrow Corp. ("First Nationwide Escrow"), an affiliate of FNH, was merged with and into FNH, pursuant to a merger agreement by and between FNH and First Nationwide Escrow (the "First Nationwide Escrow Merger"). In connection therewith, FNH acquired the net proceeds from the issuance of First Nationwide Escrow's $575 million of Senior Subordinated Notes due 2003 and assumed First Nationwide Escrow's obligations under

the FNH 10 5/8% Senior Subordinated Notes and indenture. See "Certain Relationships and Related Transactions--First Nationwide Escrow Merger and Issuance of First Nationwide Escrow Preferred Stock."

FNH financed the Cal Fed Acquisition with (i) the net proceeds of approximately $555 million from the issuance of the FNH 10 5/8% Senior Subordinated Notes, (ii) net proceeds of $145 million from a newly formed Delaware corporation, all the common stock of which is owned by Gerald J. Ford, the Chairman of the Board, Chief Executive Officer and a director of the Bank ("Special Purpose Corp."), in exchange for $150 million aggregate liquidation value of FNH's Cumulative Perpetual Preferred Stock ("FNH Preferred Stock") and (iii) existing cash. In connection with the Cal Fed Acquisition, FNH made a capital contribution to the Bank on January 3, 1997 of approximately $685 million.

In November 1996, the Bank formed California Federal Preferred Capital Corporation ("Preferred Capital Corp.") for the purpose of acquiring, holding and managing real estate mortgage assets. All of Preferred Capital Corp.'s common stock is owned by the Bank. Preferred Capital Corp. entered into a subservicing agreement with FNMC pursuant to which FNMC services Preferred Capital Corp.'s mortgage assets. On January 31, 1997, Preferred Capital Corp. issued to the public $500 million of its 9 1/8% Noncumulative Exchangeable Preferred Stock (the "REIT Preferred Stock"). Preferred Capital Corp. used the proceeds from such offering to acquire mortgage assets from the Bank.

Effective May 31, 1997, FNMC acquired a residential mortgage loan servicing portfolio of approximately $3.2 billion from WMC Mortgage Corporation (the "Weyerhaeuser Purchase") for $37.1 million, of which $.7 million remains payable at December 31, 1997. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--FNH--Mortgage Banking Operations."

On September 1, 1997, FNH acquired Auto One Acceptance Corporation ("Auto One") in a purchase transaction (the "Auto One Acquisition"). Auto One primarily engages in indirect non-prime auto financing activities, providing loan processing, funding and loan servicing for over 800 franchised automobile dealers. Auto One is a licensed lender in 47 states. Auto One is headquartered in Dallas, Texas, and operates as a subsidiary of the Bank.

On September 30, 1997, FNMC sold servicing rights for 51,626 loans with an unpaid principal balance of approximately $2.3 billion, recognizing a pre-tax gain of $14.0 million (the "Servicing Sale").

On December 12, 1997, FNH sold its retail deposits and all related retail banking facilities in the state of Texas (consisting of three branches) with deposits of $57.6 million at a gross price representing a deposit premium of 4.1% (the "Texas Branch Sale"). FNH recorded a pre-tax gain of $2.5 million in connection with the Texas Branch Sale.

On February 3, 1998, FNH entered into an agreement with Gulf States Acceptance Company, a Delaware limited partnership ("GSAC") and its general partner, Gulf States Financial Services, Inc., a Texas corporation, pursuant to which Auto One acquired 100% of the partnership interests in GSAC and GSAC was liquidated and its assets and liabilities were transferred to Auto One (the "GSAC Acquisition"). The aggregate consideration paid in connection with the GSAC Acquisition, which was completed on February 4, 1998, was approximately $13.6 million plus a 20% interest in the common stock of Auto One.

On February 4, 1998, Parent Holdings, First Gibraltar Holdings, and Hunter's Glen entered into the Merger Agreement with Golden State and Glendale Federal pursuant to which Parent Holdings, Hunter's Glen and Golden State agreed to a tax-free exchange of shares in the Golden State Merger, to be accounted for under the purchase method of accounting. In connection with the execution of the Merger Agreement, Golden State, Glendale Federal, the Bank, Stephen J. Trafton, Chairman of the Board, President and Chief Executive Officer of Golden State and Richard A. Fink, Vice Chairman of Golden State, entered into the Litigation Management Agreement pursuant to which, among other things, Messrs. Trafton and Fink will oversee and manage the California Federal Litigation and continue to oversee and manage similar litigation being prosecuted by Glendale Federal, following the consummation of the Golden State Merger. See "The Golden State Acquisition."

On September 11, 1998, FNH consummated the sale of its 24 branch banking offices in Florida to Union Planters Florida. As of June 30, 1998, the 24 Florida branch offices of FNH had total deposits of $1.4 billion. FNH expects to record a pre-tax gain of approximately $108 million in connection with the Florida Branch Sale,

representing a deposit premium of approximately 7.5%. It is not expected that there will be any material impact on the financial condition or ongoing results of operations as a result of the Florida Branch Sale.

BUSINESS STRATEGY

The Bank will continue to execute its business plan to increase profitability, grow earnings, and diversify the sources of fee revenue while preserving credit quality. Key elements of the business plan include:

- o Cal Fed will continue its transition toward a more "bank-like" institution. In particular, the traditional savings bank activities of the Bank will be supplemented and expanded by the following initiatives:

  -- Continuing to market demand deposit and transaction accounts as the primary account relationship. The corollary reduction in emphasis on certificates of deposits will contribute to a lower overall cost of funds. Transaction account relationships also tend to generate greater fee income.

  -- Offering a broader range of retail products. Mutual funds, insurance and annuity products, mortgage and home equity loans are currently available to Bank customers. The Bank has only recently begun a concerted marketing effort to realize the opportunity to sell more products and services to its customers.

  -- Expanding small business lending. The Bank generally ranks as one of the top four depository institutions in most of the markets it serves. This high profile positions the Bank to compete very effectively to provide services to small businesses. Local, small business lending generates wider margins than commercial lending.

- o Cal Fed will continue to enhance operating efficiency by, among other things, further expanding its customer base, increasing transaction volumes and reducing costs through consolidation of administrative and managerial functions. Management has achieved substantial progress in reducing the Bank's efficiency ratio, which represents the ratio of noninterest expense to net interest income and noninterest income (excluding certain non-recurring items and goodwill amortization), from 63.47% for the year ended December 31, 1995 to 48.46% for the six months ended June 30, 1998.

- o FNMC will continue to increase noninterest income and obtain incremental efficiencies in its mortgage banking operations. In particular, FNMC will seek to maintain the expected level of servicing of just over one million mortgage loans in its Frederick, Maryland facility after the Golden State Acquisition.

- o The Bank will continue to focus on risk management by seeking to protect the credit quality of its assets through, among other things, continuing to originate primarily residential loans in accordance with the Bank's carefully developed underwriting standards, which have resulted in non-performing assets of 0.67% of the Bank's total assets at June 30, 1998. Non-performing assets as a percentage of total assets of the Bank was 0.87% and 1.36% at December 31, 1997 and 1996, respectively. The ratio for Glendale Federal at June 30, 1998 and December 31, 1997 was 0.74% and 0.95%, respectively.

- o The Bank will retain the best practices of both merger partners. California Federal contributes an efficient back office operation, a large-scale mortgage banking business, and proven merger integration skills. Glendale Federal offers complementary attributes including consumer marketing skills, a growing small business lending practice, and an attractive retail mortgage origination network.

- o The Bank will mitigate interest rate risk by adding primarily ARMs to its loan portfolio.

- o The Bank will continue to evaluate external growth and revenue diversification through selective acquisitions which are consistent with its business strategy. This growth may include acquisitions of businesses that management believes offer the potential for higher growth and margin expansion, such as non-prime automobile and non-prime mortgage loan origination. Since the acquisition of First Nationwide in 1994, the Bank's business strategy has been executed through three types of transactions, as the information set forth in the tables below illustrates:

  -- Acquisitions which complement the Bank's geographic and business line strategies, such as the Golden State Acquisition;

-- Divestitures of branches outside the Bank's primary geographic region; and

-- Expansion of the Bank's mortgage servicing operations.

The implementation of the preceding strategies is subject to numerous contingencies beyond management's control. These contingencies include general and regional economic conditions, competition and changes in the regulatory framework affecting the Bank and interest rates. Accordingly, no assurance can be given that any of the Bank's strategies will prove to be effective or that the Bank's goals will be achieved. See "Risk Factors."

LENDING ACTIVITIES

The Bank's principal lending activity has been the origination of adjustable and fixed rate mortgage loans secured by residential real estate. To a lesser extent, the Bank also originates consumer loans consisting principally of adjustable rate home equity lines of credit. Prior to 1997, the commercial lending activity of the Bank had been limited to restructuring and refinancing existing portfolio loans, and multi-family loans originated under its affordable housing program. The Bank commenced the origination of commercial loans on a limited basis during 1997. The Bank also participates in a number of other affordable housing programs and initiatives.

The Bank's 1-4 unit residential loans are originated by FNMC. In April 1995, FNH concluded that the costs of operating retail offices outweighed the benefits and, accordingly, closed substantially all of its retail real estate loan production offices. Residential 1-4 unit loans continue to be originated through the Bank's wholesale origination offices (wherein loans are acquired from independent loan brokers) and the Bank's retail branches. The Bank originates ARM loans on 1-4 unit residential real estate which, in the case of ARMs originated prior to September 30, 1995 and after December 31, 1996, have generally been held for investment, and fixed rate 1-4 unit residential loans, which are generally held for sale to the secondary mortgage market. From September 30, 1995 through December 31, 1996, substantially all of the ARMs originated were sold in the secondary market to provide funds for the acquisition and divestiture activity occurring during the period. On October 2, 1995, FNH acquired the correspondent loan purchase operation of LMUSA as well as contracts to administer various housing bond and other private mortgage lending programs.

The Bank generates consumer loan applications at its retail branches. In addition, the Bank conducts direct-mail solicitations, principally of its existing customers, for both secured and, to a much lesser extent, unsecured revolving loans. All consumer loan processing, servicing and collection operations were moved from a facility in Oak Brook, Illinois to Sacramento, California during the second quarter of 1997.

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

	SIX MONTHS ENDED JUNE 30, 1998	YEAR ENDED DECEMBER 31, 1997	YEAR ENDED DECEMBER 31, 1996
	(IN MILLIONS)		
Balance at beginning of period	$ 19,942	$10,605	$ 9,174
Originations	1,584	1,024	284
Purchases:			
1996 Acquisitions	--	--	3,235
Cal Fed Acquisition	--	10,060	--
Sales	(3)	(21)	(123)
Foreclosures	(63)	(178)	(109)
Payments, payoffs and other	(2,315)	(1,548)	(1,856)
Balance at end of period	$ 19,145	$19,942	$10,605

Interest Rates, Terms and Fees

The Bank offers a variety of ARM products, generally with the objectives of (i) matching, as closely as possible, the interest rate sensitivity of its interest-earning assets with the interest rate sensitivity of its interest-bearing liabilities and (ii) maintaining a relatively stable net interest margin in varied interest rate environments. In response to consumer demand, and in order to diversify its loan portfolio and help to control its future interest rate risk, the Bank's loan portfolio includes several ARM products which vary as to (i) the frequency and amount of periodic interest rate changes and (ii) the minimum and maximum rates applied to a particular loan. ARMs have the advantage of reducing the lending institution's sensitivity to interest rate fluctuations. However, they also present certain risks not associated with traditional fixed rate mortgages, such as adjustments in interest rates which could cause payment increases that some borrowers might be unable to service.

The Bank attempts to mitigate the credit risks associated with mortgage lending activities by the use of carefully developed underwriting standards. Substantially all 1-4 unit residential loans originated are underwritten to conform with standards adopted by Fannie Mae ("FNMA"), Freddie Mac ("FHLMC"), the Government National Mortgage Association ("GNMA"), or other secondary market investors. Accordingly, the Bank's underwriting standards include LTV ratios and maximum loan amounts for both fixed rate loans and ARMs that closely mirror secondary mortgage market requirements. Generally, where these standards differ, specific strong compensating factors are required. With respect to ARMs, the Bank underwrites the borrower's ability to pay at the maximum second year payment rate, consistent with secondary market requirements.

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

Generally, late charges are assessed when payments are delinquent. On loans secured by residential real estate, these charges are generally limited to 4% to 6% of the overdue payment of principal and interest and cannot be imposed until the payment is more than 15 days late, in accordance with the contractual terms of the loans and regulatory requirements in effect when the loans were made.

Composition of Loan Portfolio

The composition of the Bank's loan portfolio, excluding loans held for sale and Covered Assets, is set forth in the following table, at the dates indicated:

		AT DECEMBER 31,				
	AT JUNE 30, 1998	1997	1996	1995	1994	1993
		(IN MILLIONS)				
Real estate loans:						
1-4 unit residential	$ 13,554	$14,071	$ 6,118	$5,423	$5,612	$ 19
5+ unit residential	2,753	3,035	2,164	1,854	2,178	--
Commercial and other	1,945	2,146	1,978	1,716	2,015	10
Land	4	5	11	9	15	--
Construction	2	1	6	--	8	--
Total real estate loans	18,258	19,258	10,277	9,002	9,828	29
Equity-line and consumer loans	877	676	298	170	492	5
Commercial loans	10	8	30	2	1	--
Total loans receivable	19,145	19,942	10,605	9,174	10,321	34
Less:						
Unearned discounts and loan fees	(54)	(46)	(5)	(19)	--	3
Allowance for loan losses	421	419	247	210	203	2
Nonaccretable discount on purchased loans	47	20	--	--	--	--
Purchase accounting adjustments, net	105	125	150	153	151	--
Loans receivable, net	$ 18,626	$19,424	$10,213	$8,830	$9,967	$ 29

The following table presents the Bank's real estate loan portfolio (excluding loans held for sale), by collateral type, interest rate type and state concentration at December 31, 1997:

STATE	1-4 UNIT RESIDENTIAL VARIABLE	1-4 UNIT RESIDENTIAL FIXED	5+ UNIT RESIDENTIAL VARIABLE	5+ UNIT RESIDENTIAL FIXED	COMMERCIAL AND OTHER VARIABLE	COMMERCIAL AND OTHER FIXED	TOTAL REAL ESTATE LOANS	% OF TOTAL
	(DOLLARS IN MILLIONS)							
California	$ 10,299	$ 869	$2,241	$ 147	$1,750	$ 89	$ 15,395	79.94%
New York	332	73	176	20	28	22	651	3.38
Florida	405	79	61	10	21	8	584	3.04
Nevada	182	15	86	4	19	2	308	1.60
Illinois	112	56	25	3	32	5	233	1.21
Texas	129	59	--	2	1	4	195	1.01
Other states(1)	1,158	303	218	42	157	14	1,892	9.82
Total	$ 12,617	$1,454	$2,807	$ 228	$2,008	$ 144	$ 19,258	100.00%

(1) Real estate loans involving property located in 44 states, Puerto Rico and the District of Columbia; not more than 1.0% of the total amount of such loans are located in any one state.

The following table summarizes the Bank's loan portfolio, excluding loans held for sale, at December 31, 1997, based upon various contractually scheduled principal payments allocated to the indicated maturity categories. This table does not reflect expected prepayments.

	DUE WITHIN ONE YEAR	OVER ONE BUT WITHIN FIVE YEARS	OVER FIVE YEARS	TOTAL
	(IN MILLIONS)			
Real estate loans:				
1-4 unit residential				
Fixed rate	$ 2	$ 1,320	$ 132	$ 1,454
Variable rate	--	12,032	585	12,617
5+ unit residential				
Fixed rate	12	42	174	228
Variable rate	178	580	2,049	2,807
Commercial and other				
Fixed rate	9	64	71	144
Variable rate	227	841	940	2,008
Total	428	14,879	3,951	19,258
Commercial and consumer loans:				
Fixed rate	27	248	33	308
Variable rate	35	66	275	376
Total	62	314	308	684
Total loans receivable	$490	$ 15,193	$4,259	$ 19,942

1-4 Unit Residential Lending

The Bank currently offers three primary 1-4 unit residential ARM programs, and a variety of 1-4 unit fixed rate programs with maturities ranging from 15 to 30 years. Adjustable rate programs include loans which: (i) provide for monthly interest rate adjustments, after the third or sixth month from inception of the loan, based on the FHLB 11th District Cost of Funds, (ii) provide for annual rate adjustments based upon the weekly average yield on U.S. Treasury Securities adjusted to a constant maturity of one year, or (iii) provide for semi-annual rate adjustments based on the weekly average of the secondary market rates on six-month negotiable certificates of deposit. Some ARMs offer an option to convert to a fixed rate after the first year through the fifth year of the loan term. A variety of features are incorporated into ARM loans to protect borrowers from unlimited adjustments in interest rates and payments. All ARMs have lifetime caps which limit the amount of rate increases over the life of the

loan. ARMs whose rates adjust annually have rate caps which limit the amount that rates can change to two percentage points per year. Loans which adjust monthly based upon the FHLB 11th District Cost of Funds limit payment changes to no more than 7.5% of the payment amount per year. This may lead to monthly payments which are less than the amount necessary to amortize the loan to maturity at the interest rate in effect for any particular month. In the event that the monthly payment is not sufficient to pay interest accruing on the loan during the month, this deficiency is added to the loan's principal balance (i.e., negative amortization). The total outstanding principal balance for a particular loan is generally not allowed to exceed 125% of the original loan

amount as a result of negative amortization. If the loan reaches its maximum amount, the loan payment is recalculated to the payment sufficient to repay the unpaid principal balance in full at the maturity date. As of December 31, 1997, the Bank's capitalized interest relative to such 1-4 unit residential loans was approximately $20.3 million. This amount represents approximately .42% of the approximately $4.8 billion of 1-4 unit residential ARMs that have the potential to experience negative amortization. The Bank also originates 15 and 30 year fully amortizing 1-4 unit fixed rate residential loans under a variety of fixed rate programs, primarily for resale in the secondary mortgage market. When 1-4 unit residential loans are sold, FNMC normally retains the servicing of the loan. See "--Mortgage Banking Operations" for a further discussion of these activities.

The Bank has recently begun to originate hybrid ARM loans which have fixed interest rates for periods ranging from three years to ten years. At the end of the fixed rate period, these loans convert to ARMs that are subject to periodic and lifetime rate caps.

Multi-family, Commercial and Other Real Estate Lending

While the Bank has always originated multi-family, commercial and other real estate loans as they relate to affordable housing programs, it began to originate other commercial real estate loans during 1997 on a limited basis. FNH's loan portfolio includes loans principally acquired through acquisitions which are secured by multi-family residential, commercial, industrial and unimproved real estate. The Bank's variable rate multi-family and commercial real estate loans have a maximum amortized loan term of 30 years with some loans having balloon payments due in one to 15 years. ARMs primarily adjust with the FHLB 11th District Cost of Funds or the six-month Treasury Bill indices with a monthly or semi-annual rate adjustment. The terms and characteristics of the ARMs originated for multi-family and commercial real estate lending purposes are similar to those for residential lending. As such, many of the same risks and protections related to residential borrowers are present in the multi-family and commercial real estate portfolios, including the potential for negative amortization. Negative amortization for multi-family and commercial real estate loans is allowed to increase the outstanding principal balance to 110% of the original loan amount. If the loan reaches 110% of the original loan amount, all future interest rate increases will increase the monthly payment to amortize the loan over the remaining life of the loan. At December 31, 1997, the Bank's capitalized interest relative to such loans was approximately $1.5 million, which represents approximately .06% of the $2.7 billion of multi-family and commercial real estate loans that have the potential to experience negative amortization.

Real estate loans secured by multi-family and commercial property represent a significant portion of the Bank's portfolio. Management periodically reviews the multi-family and commercial real estate loan portfolio. At December 31, 1997 and 1996, the multi-family and commercial real estate loan portfolio totalled $5.2 billion and $4.1 billion, respectively. Included in the multi-family and commercial real estate loan portfolio at December 31, 1997 are $28.9 million of loans with credit enhancement wherein the lead participant subordinated its minority interest in a pool of loans to the Bank's interest in the corresponding pool of loans. No loans are subject to be repurchased by the seller in the event such loans become 90 days delinquent.

The Bank's potential for loss on the multi-family and commercial loan portfolio acquired from Old FNB and, to a lesser extent, the 1-4 unit residential loan portfolio acquired from Old FNB, was mitigated by the terms of the Non-Performing Asset Sale Agreement (the "Put Agreement") entered into by the Bank with Granite Management and Disposition, Inc. ("Granite"), an affiliate of Old FNB, in connection with the FN Acquisition. The Put Agreement expired on November 30, 1996, at which time it had been fully utilized by the Bank. The aggregate purchase price of assets which were put to Granite, representing the outstanding principal balance, accrued interest and certain other expenses, was $500 million, including assets put to Granite by Old FNB from January 1 through October 1, 1994.

A portion of the Bank's MSRs, which are rights to service mortgages held by others, were acquired from Old FNB and Old California Federal which had sold multi-family and commercial real estate loans subject to certain recourse provisions. These recourse liabilities were assumed by the Bank in the FN and Cal Fed Acquisitions and at December 31, 1997, the balance of such loans sold with recourse totalled $653 million.

Consumer Lending

The Bank's consumer loan originations are primarily concentrated in two areas, one of which is home equity lending. The portfolio correlates closely to retail deposit branch distribution. At June 30, 1998, the home equity portfolio totalled $331 million, or 38%, of the total consumer loan portfolio of $869 million. The portfolio is geographically dispersed and correlates closely to retail deposit branch distribution.

The Bank offers an adjustable, prime interest rate-based home equity line of credit on owner-occupied residential properties. In determining the amount of credit to be extended, all loans secured by the collateral

properties are aggregated and compared to the appraised value of the properties. The Bank's policy is to extend credit up to a maximum combined LTV ratio of 80%.

The second concentration of consumer loan origination is in non-prime auto lending, which the Bank recently commenced with the Auto One Acquisition. Auto One has been involved in the non-prime auto lending business for over ten years, and has an established servicing platform for such loans. At June 30, 1998, the Bank's non-prime auto loan portfolio totalled $417 million, which loans were purchased in bulk from a third party or from independent automobile dealers after the consummation of the Auto One Acquisition. These purchased loans have fixed interest rates, with terms to maturity based upon the mileage on the collateral vehicle, up to a maximum of 60 months. Approximately 70% of Auto One's current production is collateralized with vehicles two years old or newer. Underwriting on loans purchased from dealers is performed by Auto One personnel prior to the purchase.

Other consumer loan products include: fixed rate home equity installment loans; adjustable prime rate-based home equity loans which, while secured, are based on repayment ability and credit history; auto and boat loans; unsecured lines of credit; overdraft protection; and loans secured by certificates of deposit.

Loans Held for Sale

Activity related to loans held for sale for the years ended December 31, 1997 and 1996 is summarized as follows:

	1997	1996
	(IN MILLIONS)	
Balance at beginning of period	$ 825	$ 1,203
Purchases and originations	7,871	4,985
Sales	(5,511)	(5,157)
Other	(1,702)	(206)
Balance at end of period	$ 1,483	$ 825

Loans held for sale are carried at the lower of cost or market value. Substantially all ARMs originated from September 30, 1995 through December 31, 1996 were sold or held for sale in the secondary market in anticipation of the 1996 Acquisitions, the Branch Sales and the Cal Fed Acquisition. Prior to and since that time, most ARMs originated were held by the Bank for investment.

Origination of 1-4 Unit Residential Loans

The Bank originates 1-4 unit residential loans principally through the efforts of wholesale origination offices through which loans are purchased from independent loan brokers and, to a lesser degree, staff loan agents. To promote continuity of customer service, help meet credit needs and to increase opportunities to sell customer deposit and other financial services offered by the Bank and its subsidiaries, loan inquiries from retail branch customers and "walk-in" applicants are encouraged. These inquiries are initially processed by retail branch office personnel, with support provided by regional lending offices. The 1-4 unit residential loan agents are compensated principally on a commission basis. Closed 1-4 unit residential loans are also acquired by FNMC through a correspondent lending operation acquired from LMUSA in October 1995.

The majority of 1-4 unit residential loans originated by the Bank have LTV ratios of 80% or less at the time of origination. The Bank has originated such loans with LTV ratios of up to 95%, with the portion of the loan exceeding 80% guaranteed by private mortgage insurance, the premiums of which are paid monthly by the borrower. Certain exceptions to this guideline have been made for low and moderate income borrowers. However, the amount of 1-4 unit residential loans subject to such exceptions is not significant in terms of the Bank's total loan originations. The value of the property offered as security for a 1-4 unit residential loan is determined by a professionally qualified appraiser approved by the Bank, who may or may not be an employee of the Bank. As further security for its loan, the Bank requires title insurance and fire and casualty insurance on all loans secured by liens on real property. The Bank also requires flood insurance on any loan secured by real property if the property lies within a U.S. Housing and Urban Development Department ("HUD") designated flood hazard area.

The following table summarizes 1-4 unit residential loan originations for the years ended December 31, 1997 and 1996 (in millions):

PRODUCTION CHANNEL	1997 ARM	1997 FIXED	1997 TOTAL	1996 ARM	1996 FIXED	1996 TOTAL
Retail and portfolio retention	$ 74.4	$ 580.3	$ 654.7	$ 7.3	$ 265.3	$ 272.6
Wholesale	635.3	3,438.8	4,074.1	699.2	1,451.0	2,150.2
Correspondent lending	1,420.0	1,321.0	2,741.0	--	1,692.2	1,692.2
Other	--	1,040.3	1,040.3	--	892.9	892.9
	$2,129.7	$6,380.4	$8,510.1	$706.5	$4,301.4	$5,007.9

MORTGAGE BANKING OPERATIONS

Mortgage banking activities allow the generation of fee income without the associated capital retention requirements attributable to traditional real estate lending activities. Generally, the Bank originates fixed rate 1-4 unit residential loans for sale in the secondary mortgage market. ARMs originated prior to September 30, 1995 and after December 31, 1996 have generally been held by the Bank for investment. From September 30, 1995 through December 31, 1996, however, substantially all of the fixed and variable rate 1-4 unit residential loans originated were sold in the secondary market to provide funds for the acquisition and divestiture activity occurring during the period. The Bank employs forward sale hedging techniques to minimize the interest rate and pricing risks associated with the origination and sale of fixed rate 1-4 unit residential loans.

At the time of origination, management identifies 1-4 unit residential loans that are expected to be sold in the foreseeable future. At December 31, 1997, management had identified $1.5 billion of 1-4 unit residential loans as held for sale. These loans have been classified as assets held for sale in the consolidated balance sheet at December 31, 1997 and are recorded at the lower of aggregate amortized cost or market value. At December 31, 1997, the Bank had forward commitments to sell loans totalling $1.4 billion. In addition, the Bank had entered into commitments to originate and purchase fixed and variable rate loans (mortgage loan pipeline) of $1.7 billion.

The servicing portfolio of FNMC (including loans subserviced for others and excluding loans serviced for the Bank) approximates $46.6 billion and 695,237 loans as of December 31, 1997. The servicing portfolio of FNMC, including loans serviced for the Bank, approximates $61.8 billion and 811,036 loans as of December 31, 1997. Substantially all of FNMC's loans are serviced in a 230,000 square-foot facility in Frederick, Maryland.

Since the FN Acquisition, the Bank has sold fixed rate and adjustable rate loans secured by 1-4 unit residential real estate to FNMA, FHLMC, and private investors. Mortgage loan sales totalled $5.5 billion and $4.9 billion in 1997 and 1996, respectively.

Old FNB and Old California Federal occasionally sold 1-4 unit residential loans under recourse provisions; such liabilities were assumed by the Bank in the FN and Cal Fed Acquisitions. As of December 31, 1997, the balance of 1-4 unit residential loans sold with certain recourse provisions was $349.1 million.

The Bank, through FNMC, has generally retained the right to service the loans it has sold. FNMC collects from the borrower payments of principal and interest and, after retaining a servicing fee, remits the balance to the investors.

In accounting for its mortgage loan sales prior to April 1, 1995, a gain or loss was recognized based on the sum of three components: (i) the difference between the cash proceeds of the loan sales and the Bank's book value of the loans; plus (ii) the "excess servicing," if any; less (iii) provisions for estimated losses to be incurred from limited recourse obligations, if any. Excess servicing resulted in a capitalized asset that reflects the discounted present value of any difference between the interest rate received from the borrower and the interest rate passed through to the purchaser of the loan, less a "normal servicing fee" (dependent upon loan type), which is retained as compensation for future servicing costs. The amount of excess servicing recognized in any particular loan sale depended significantly upon three factors for which estimates or assumptions were employed: (i) the estimated life of the loans, (ii) the discount rate used in calculating discounted present value and (iii) the "normal servicing fee."

The servicing asset is amortized in proportion to, and over the period of, estimated net servicing income. The Bank monitors the prepayments on the loans serviced for investors and reduces the balance of the asset if the actual prepayments are in excess of the estimated prepayment trends used to record the original asset. The Bank's assumptions relative to the prepayment speed, discount and servicing fee rates are revised periodically to reflect current market conditions and regulatory requirements.

Effective April 1, 1995, the Bank adopted SFAS No. 122, "Accounting for Mortgage Servicing Rights" ("SFAS No. 122") which requires that, when a mortgage loan is sold and MSRs are retained, a portion of the cost of originating a mortgage loan be allocated to the MSR based on its fair market value. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--FNH--Mortgage Banking Operations," for a description of SFAS No. 122.

At December 31, 1997, FNMC owned rights to service approximately $42.4 billion of whole loans, participation interests and mortgage-backed securities for others. These loans had an average balance of $64,700, a weighted average coupon rate of 8.10%, a weighted average maturity of 272 months and a service fee spread of .43%. The greater than 30 day delinquency rate on these loans at December 31, 1997 was 2.94%. The Bank subserviced for others approximately $4.2 billion of whole loans, participation interests and mortgage-backed securities. These loans had an average balance of $90,616, a weighted average coupon rate of 8.09% and a weighted average remaining maturity of 270 months. The servicing fee collected on these loans is passed through to the primary servicer with the Bank retaining a flat subservice fee that is netted out of the monthly remittance. The greater than 30 day delinquency rate on these loans is 5.22%. For the year ended December 31, 1997, gross revenue for servicing activities (residential loan servicing and ancillary fees) totalled $235.7 million.

A decline in long-term interest rates generally results in an acceleration of mortgage loan prepayments. Higher than anticipated levels of prepayments generally cause the accelerated amortization of MSRs and generally will result in a reduction of the market value of MSRs and in the Bank's servicing fee income. To reduce the sensitivity of its earnings to interest rate and market value fluctuations, the Bank hedges the change in value of its MSRs based on changes in interest rates.

At June 30, 1998, the Bank, through FNMC, was a party to several interest rate floor contracts maturing from October 2001 through January 2003. The Bank paid counterparties a premium in exchange for cash payments in the event that the 10-year Constant Maturity Treasury rate falls below the negotiated strike prices. At June 30, 1998, the notional amount of the interest rate floors was $1.4 billion and the negotiated strike prices were between 5.5% and 6.5%. In addition, the Bank , through FNMC, was a party to principal-only swap securities and prepayment-linked swap agreements with a notional amount of $107.4 million and $1.2 billion, respectively. The estimated market values of the interest rate floor contracts and swaps designated as hedges against MSRs at June 30, 1998 were $28.6 million and $21.3 million, respectively.

On October 2, 1995, in the LMUSA 1995 Purchase, FNMC purchased the stock of Lomas Mortgage Services Inc. (now known as FNMC Mortgage Services, Inc.), which was a 33% owner of Lomas Mortgage Partnership L.P. (now known as First Nationwide Mortgage Partnership LP ("FNMP")) and its managing general partner. FNMP owned the MSRs to approximately $2.3 billion of loans serviced for FNMA, GNMA, FHLMC and private investors. FNMP's investment in such MSRs and its other assets were partially funded by independent bank lines of credit totalling approximately $24.8 million and its servicing duties were performed by FNMC under a subservicing contract. As of January 1, 1998, FNMC purchased the other 67% of FNMP.

NON-PERFORMING ASSETS

Non-performing assets consist of non-performing loans, foreclosed real estate and repossessed assets. The Bank's exposure to losses relative to certain assets acquired in the FN Acquisition that became non-performing or otherwise problematic prior to November 30, 1996 was mitigated to the extent the Bank was able to put such loans to Granite under the Put Agreement. See "--Other Activities--the Put Agreement."

Classification of Assets

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

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

Loan Portfolio Risk Elements

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

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

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

	AT JUNE 30, 1998	AT DECEMBER 31, 1997	1996	1995	1994	1993
		(DOLLARS IN MILLIONS)				
Non-performing loans:						
Real estate:						
1-4 unit residential	$ 133	$165	$146	$136	$133	$ 2
5+ unit residential	10	12	13	23	24	9
Commercial and other	10	6	9	9	11	--
Land	--	--	--	--	7	--
Construction	1	2	1	--	2	--
Total real estate	154	185	169	168	177	11
Equity-line and consumer	6	7	3	3	4	--
Total non-performing loans	160	192	172	171	181	11
Foreclosed real estate, net	65	77	52	49	37	--
Repossessed assets	2	3	--	--	--	--
Total non-performing assets	$ 227	$272(a)	$224(b)	$220	$218	$ 11
Non-perfoming loans as a percentage of the Bank's loans receivable	0.86%	0.99%	1.69%	1.94%	1.81%	37.61%(c)
Non-performing assets as a percentage of the Bank's total assets	0.67%	0.87%	1.36%	1.50%	1.49%	0.98%

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

(b) Includes $74.5 million of non-performing assets acquired in the 1996 Acquisitions and in the LMUSA 1996 Purchase.

(c) The significant percentage of non-performing loans to loans receivable at December 31, 1993 reflects the small balance of loans receivable of $29 million at December 31, 1993.

Interest income of $6.8 million was received and recognized by the Bank for nonaccrual loans during the year ended December 31, 1997, instead of $15.9 million which would have been recognized had the loans performed in accordance with their original terms. The Bank has had no loans contractually past due 90 days or more on accrual status in the past five years.

The following table indicates loans classified by the Bank as troubled debt restructurings, net of purchase accounting adjustments, and excluding Covered Assets, at the dates indicated:

	AT JUNE 30, 1998	AT DECEMBER 31, 1997	1996	1995	1994	1993
		(DOLLARS IN MILLIONS)				
Real estate:						
1-4 unit residential	$ 2	$ 2	$ 3	$ 8	$ 19	$--
5+ unit residential	21	43	55	147	204	--
Commercial and other	21	26	29	79	110	--
Total restructured loans	$44	$71	$87	$234	$333	$--

For the year ended December 31, 1997, interest income of $3.5 million was recognized on restructured loans instead of the $3.6 million which would have been recognized had the loans been performing in accordance with their original terms. There were no non-real estate restructured loans in any of the past five years.

Allowance for Loan Losses

Golden State Holdings charges current earnings with a provision for estimated credit losses on loans receivable to bring the total allowance to a level deemed appropriate by management. The provision considers both specifically identified problem loans and credit risks not specifically identified in the loan portfolio. The allowance for loan losses is based on such factors as the financial condition of the borrowers, the fair value of the loan collateral, recourse to guarantors, analysis of delinquency trends, geographic and collateral-type concentrations, past loss experience, regulatory policies, and other factors related to the collectibility of the Bank's loan portfolio.

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

	SIX MONTHS ENDED JUNE 30, 1998	YEAR ENDED DECEMBER 31, 1997	1996	1995	1994	1993
		(DOLLARS IN MILLIONS)				
Balance at beginning of period	$ 419	$247	$210	$203	$ 2	$ 15
Purchases--SFFed Acquisition	--	--	40	--	--	--
Purchases--Home Federal Acquisition	--	--	5	--	--	--
Purchases--FN Acquisition	--	--	--	--	202	--
Purchases--Cal Fed Acquisition	--	144	--	--	--	--
Provision for loan losses	20	80	40	37	6	1
Charge-offs:						
1-4 unit residential	(13)	(38)	(35)	(28)	(4)	--
5+ unit residential and commercial real estate (a)	(3)	(8)	(4)	--	(4)	--
Consumer and other	(4)	(10)	(6)	(5)	(1)	(1)
Non-real estate commercial	--	--	--	--	--	(1)
Total charge-offs	(20)	(56)	(45)	(33)	(9)	(2)
Recoveries	2	4	3	3	2	1
Net charge-offs	(18)	(52)	(42)	(30)	(7)	(1)
Allowance for losses assigned to loans sold	--	--	(6)	--	--	(13)
Balance at end of period	$ 421	$419	$247	$210	$203	$ 2

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(a) Lack of activity during 1996, 1995 and 1994 reflects the utilization of the Put Agreement, which expired in November 1996.

Although the general loan loss allowance has been allocated by type of loan for internal valuation purposes, all such allowance is available to support any losses which may occur, regardless of type, in the Bank's loan portfolio.

The following table sets forth the allocation of the Bank's allowance for loan losses at the dates indicated:

	AT JUNE 30, 1998	AT DECEMBER 31, 1997	1996	1995	1994	1993
		(DOLLARS IN MILLIONS)				
Specific allowance:						
Real estate loans:						
1-4 unit residential	$ --	$ --	$ --	$ 1	$ 4	$--
5+ unit residential and commercial real estate	6	8	6	--	--	--
Total specific allowance	6	8	6	1	4	--
General allowance:						
Real estate loans:						
1-4 unit residential	203	202	123	115	105	2
5+ unit residential and commercial real estate	194	190	109	85	85	--
Total real estate loans	397	392	232	200	190	2
Equity-line and consumer loans	18	19	9	9	9	--
Total general allowance	415	411	241	209	199	2
Total allowance for loan losses	$ 421	$419	$247	$210	$203	$ 2

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

	SIX MONTHS ENDED JUNE 30, 1998	YEAR ENDED DECEMBER 31, 1997	1996	1995	1994	1993
		(DOLLARS IN MILLIONS)				
Real estate:						
1-4 unit residential	0.08%	0.25%	0.55%	0.47%	0.06%	1.26%
5+ unit residential and commercial real estate	0.06	0.15	0.09	--	0.10	0.19
Consumer and other	0.28	1.42	1.86	1.00	0.23	0.24
Non-real estate commercial	--	--	--	--	--	1.29

Impaired Loans

See "Management's Discussion and Analysis of Financial Condition and Results of Operations--FNH--Problem and Potential Problem Assets," included elsewhere in this Prospectus, for a discussion of the Bank's impaired loans as of June 30, 1998 and December 31, 1997.

INVESTMENT ACTIVITIES

The Bank is required by OTS regulations to maintain a specified minimum amount of liquid assets which may be invested in specified securities. The Bank is also permitted to invest in certain other types of securities. Securities balances (including cash equivalent securities) exceeding minimum federal requirements are subject to change over time based on the Bank's asset/liability funding needs and interest rate risk management objectives. The Bank's liquidity levels take into consideration anticipated future cash flows and all available sources of credit. Liquidity is maintained at levels management believes are appropriate to assure future flexibility in meeting anticipated funding needs including deposit withdrawal requests, loan funding commitments, and other investment or restructuring requirements. See "Regulation--Regulation of the Bank--Liquid Assets."

Cash Equivalents

The Bank sells federal funds, purchases securities under agreements to resell, and invests in interest-bearing deposits in other banks from time to time to help meet the Bank's regulatory liquidity requirements and as temporary holdings until the funds can be otherwise deployed or invested.

Securities Available for Sale

The Bank adopted SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS No. 115") effective January 1, 1994. On November 15, 1995, FASB issued the Special Report. The Special Report provided all entities an opportunity to reassess their ability and intent to hold securities to maturity and allowed a one-time reclassification of securities from held-to-maturity to available-for-sale without "tainting" the remaining held-to-maturity securities. On December 29, 1995, the Bank reclassified $231.8 million in carrying value of U.S. government and agency securities from held-to-maturity to securities available for sale, and recorded an increase of $2.4 million in stockholders' equity for the net unrealized gain on such securities.

The following summarizes the amortized cost and estimated fair value of the Bank's securities available for sale at the dates indicated (in thousands):

	JUNE 30, 1998				
	AMORTIZED COST	UNREALIZED GAIN	UNREALIZED LOSSES	NET UNREALIZED GAIN	CARRYING VALUE
Marketable equity securities	$ --	$5,443	$ --	$5,443	$ 5,443
U.S. government and agency obligations	777,958	545	(917)	(372)	777,586
Total	$ 777,958	$5,988	$ (917)	5,071	$783,029
Estimated tax effect				(649)	
Net unrealized holding gain in stockholders' equity				$4,422	

	DECEMBER 31, 1997				
	AMORTIZED COST	UNREALIZED GAIN	UNREALIZED LOSSES	NET UNREALIZED GAIN	CARRYING VALUE
Marketable equity securities	$ --	$ --	$ --	$ --	$ --
U.S. government and agency obligations	812,716	957	(588)	369	813,085
Total	$ 812,716	$ 957	$ (588)	369	$813,085
Estimated tax effect				(47)	
Net unrealized holding gain in stockholders' equity				$322	

	DECEMBER 31, 1996				
	AMORTIZED COST	UNREALIZED GAIN	UNREALIZED LOSSES	NET UNREALIZED GAIN	CARRYING VALUE
Marketable equity securities	$ 27,034	$ 34,954	$ --	$ 34,954	$ 61,988
U.S. government and agency obligations	480,317	936	(1,222)	(286)	480,031
Total	$ 507,351	$ 35,890	$ (1,222)	34,668	$542,019

Estimated tax effect				(3,466)	
Net unrealized holding gain in stockholders' equity				$ 31,202	

	DECEMBER 31, 1995				
	AMORTIZED COST	UNREALIZED GAINS	UNREALIZED LOSSES	NET UNREALIZED GAIN	CARRYING VALUE
Marketable equity securities	$ 34,000	$ 80,068	$ --	$ 80,068	$114,068
U.S. government and agency obligations	231,794	2,768	(69)	2,699	234,493
Total	$ 265,794	$ 82,836	$ (69)	82,767	$348,561
FDIC portion of unrealized gain on marketable equity securities				(34,534)	
Estimated tax effect				(4,822)	
Net unrealized holding gain in stockholders' equity				$ 43,411	

Marketable equity securities available for sale at June 30, 1998 represent the Bank's investment in Precept Investors, Inc., acquired by the Bank in a distribution from ACS.

Marketable equity securities available for sale at December 31, 1996 represented approximately 5.93% of the outstanding stock of ACS, with a cost basis of $27 million. The ACS stock represents the only marketable equity security classified as available for sale at December 31, 1996 and 1995. Pursuant to the terms of a settlement agreement dated June 17, 1991, between the Bank, ACS, and the FDIC, the FDIC was entitled to share in a defined portion of the proceeds from the sale of the stock, which, at December 31, 1995, approximated $34.5 million and which was recorded in other liabilities. On June 28, 1996, the Bank sold 2,000,000 shares of its investment in common stock of ACS for gross proceeds totalling $92.3 million from which it satisfied its full obligation to the FDIC and recognized a pre-tax gain of $40.4 million. The Bank's remaining shares of ACS stock were sold in October 1997, resulting in a pre-tax gain of approximately $25.0 million.

Securities Held to Maturity

The following summarizes the amortized cost and estimated fair value of Golden State Holdings' securities held to maturity at the dates indicated:

	JUNE 30, 1998		DECEMBER 31, 1997		DECEMBER 31, 1996		DECEMBER 31, 1995	
	AMORTIZED COST	ESTIMATED FAIR VALUE	AMORTIZED COST	ESTIMATED FAIR VALUE	AMORTIZED COST	ESTIMATED FAIR VALUE	AMORTIZED COST	ESTIMATED FAIR VALUE
	(IN MILLIONS)							
U. S. government and agency obligations	$--	$--	$--	$--	$ 4	$ 4	$--	$--
Municipal and other securities	--	--	--	--	--	--	1	1
Commercial paper	59	58	58	58	--	--	--	--
Total	$59	$58	$58	$58	$ 4	$ 4	$ 1	$ 1

The weighted average stated interest rate on the Bank's securities held to maturity was 5.09% at June 30, 1998. The weighted average stated interest rate on the Bank's securities held to maturity was 5.32%, 6.85% and 8.25% at December 31, 1997, 1996 and 1995, respectively.

Mortgage-Backed Securities Available for Sale

The following summarizes the amortized cost and estimated fair value of the Bank's mortgage-backed securities ("MBS") available for sale at the dates indicated (in thousands):

	JUNE 30, 1998				
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	NET UNREALIZED GAIN	CARRYING VALUE
Mortgage-backed securities:					
GNMA	$ 246,687	$ 1,658	$ (12)	$ 1,646	$ 248,333
FNMA	2,573,312	14,912	(8,223)	6,689	2,580,001
FHLMC	1,241,955	12,937	(2,861)	10,076	1,252,031
Other MBS	480,181	2,255	(1,555)	700	480,881
Collateralized mortgage obligations	3,468,567	12,118	(4,761)	7,357	3,475,924
Total	$8,010,702	$ 43,880	$(17,412)	26,468	$8,037,170
Estimated tax effect				(3,382)	
Net unrealized holding gain in stockholders' equity				$ 23,086	

	DECEMBER 31, 1997				
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	NET UNREALIZED GAIN	CARRYING VALUE
Mortgage-backed securities:					
GNMA	$ 249,023	$ 2,710	$ --	$ 2,710	$ 251,733
FNMA	2,408,173	17,519	(5,923)	11,596	2,419,769
FHLMC	1,197,867	20,097	(548)	19,549	1,217,416
Other MBS	574,625	5,371	(111)	5,260	579,885
Collateralized mortgage obligations	606,965	2,698	(1,868)	830	607,795
Total	$5,036,653	$ 48,395	$ (8,450)	39,945	$5,076,598
Estimated tax effect				(5,105)	
Net unrealized holding gain in stockholders' equity				$ 34,840	

	DECEMBER 31, 1996				
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	NET UNREALIZED GAIN	CARRYING VALUE
Mortgage-backed securities:					
GNMA	$ 67,130	$ 652	$ (95)	$ 557	$ 67,687
FNMA	523,894	5,113	(5,042)	71	523,965
FHLMC	626,267	17,115	(310)	16,805	643,072
Collateralized mortgage obligations	364,675	497	(1,244)	(747)	363,928
Total	$1,581,966	$ 23,377	$ (6,691)	16,686	$1,598,652
Estimated tax effect				(1,669)	
Net unrealized holding gain in stockholders' equity				$ 15,017	

	DECEMBER 31, 1995				
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	NET UNREALIZED GAIN	CARRYING VALUE
Mortgage-backed securities:					
GNMA	$ 14,018	$ 906	$ --	$ 906	$ 14,924
FNMA	294,070	5,643	--	5,643	299,713
FHLMC	801,393	19,671	(1)	19,670	821,063
Collateralized mortgage obligations	345,699	793	(4,678)	(3,885)	341,814
Total	$1,455,180	$ 27,013	$ (4,679)	22,334	$1,477,514
Estimated tax effect				(2,233)	
Net unrealized holding gain in stockholders' equity				$ 20,101	

On December 29, 1995, the Bank reclassified $1.5 billion in carrying value of mortgage-backed securities from held-to-maturity to mortgage-backed securities available for sale. This reclassification resulted in a net after-tax increase in the unrealized gain account in stockholders' equity of $20.1 million.

At June 30, 1998 and December 31, 1997 and 1996, mortgage-backed securities available for sale included securities totalling $1.3 billion, $1.4 billion and $53.0 million, respectively, which resulted from the securitization of certain qualifying mortgage loans from the Bank's, Old California Federal's and San Francisco Federal's loan portfolios.

Mortgage-backed securities available for sale included $4.8 billion, $4.6 billion and $1.1 billion of variable-rate securities as of June 30, 1998 and December 31, 1997 and 1996, respectively.

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

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

The Bank held privately issued CMOs with an aggregate carrying value of $1.0 billion at June 30, 1998. The largest such investment held by FNH at June 30, 1998 is a CMO issued by Residential Funding with an aggregate carrying value and market value of $74.7 million.

At December 31, 1997, all of the mortgage-backed securities held by the Bank had one of the two highest credit ratings from one or more of the national securities rating agencies except for $76 million, of which $74 million are non-rated CMO residual class securities formed by Old California Federal from its own originations of residential mortgages. Such credit rating, however, may be subject to revision or withdrawal at any time by such rating agencies. The mortgage-backed securities which the Bank purchases and maintains in its portfolio include certain CMOs. A CMO is a special type of pay-through debt obligation in which the stream of principal and interest payments on the underlying mortgages or mortgage-backed securities is used to create classes with different maturities and, in some cases, amortization schedules and a

residual class of the CMO

security being sold, with each such class possessing different risk characteristics. The residual interest sold represents any residual cash flows which result from the excess of the monthly receipts generated by principal and interest payments on the underlying mortgage collateral and any reinvestment earnings thereon, less the cash payments to the CMO holders and any administrative expenses. As a matter of policy, due to the risk associated with residual interests, the Bank does not invest in the residual interests of CMOs.

Mortgage-backed Securities Held to Maturity

A summary of the Bank's mortgage-backed securities held to maturity at the dates indicated is as follows:

			DECEMBER 31,					
	JUNE 30, 1998		1997		1996		1995	
	AMORTIZED COST	ESTIMATED FAIR VALUE	AMORTIZED COST	ESTIMATED FAIR VALUE	AMORTIZED COST	ESTIMATED FAIR VALUE	AMORTIZED COST	ESTIMATED FAIR VALUE
FNMA	$ 872	$ 890	$ 1,018	$ 1,038	$ 1,214	$ 1,232	$ 533	$ 548
FHLMC	269	279	318	333	406	420	988	1,016
Other	2	2	2	2	2	2	3	3
Total	$ 1,143	$ 1,171	$ 1,338	$ 1,373	$ 1,622	$ 1,654	$ 1,524	$ 1,567

At June 30, 1998, the Bank's mortgage-backed securities held to maturity had a weighted average stated interest rate of 7.25% and included variable-rate securities totalling $1.14 billion. The weighted average stated interest rate on the Bank's mortgage-backed securities held to maturity was 7.33%, 7.27% and 7.46% at December 31, 1997, 1996 and 1995, respectively. At December 31, 1997, 1996 and 1995, mortgage-backed securities held to maturity included variable rate securities totalling $1.3 billion, $1.6 billion and $1.5 billion, respectively, which resulted from the securitization with FNMA and FHLMC of certain qualifying mortgage loans from the Bank's, Old California Federal's and San Francisco Federal's loan portfolios with full recourse to the Bank.

During the years ended December 31, 1997, 1996 and 1995 and the six months ended June 30, 1998, the Bank did not sell any of its mortgage-backed securities held to maturity.

Mortgage-backed securities held to maturity are carried at amortized cost rather than the lower of cost or market, unless there is evidence of a decline other than a temporary decline in value. Permanent declines in value are charged to income in the periods in which the declines are determined. Premiums and discounts on the purchase of mortgage-backed securities are amortized or accreted as a yield adjustment over the life of the securities using the interest method, with the amortization or accretion effect of prepayments being adjusted based on revised estimates of future repayments.

SOURCES OF FUNDS

General

Deposits, sales of securities under agreements to repurchase, advances from the FHLB of San Francisco, sales, maturities and principal repayments on loans and mortgage-backed securities and issuances of preferred stock have been the major sources of funds for use in the Bank's lending and investment activities and other general business purposes. Management closely monitors rates and terms of competing sources of funds on a daily basis and utilizes the source which is most cost-effective. The availability of funds from sales of loans and securities is influenced by the levels of general interest rates and other market conditions. For additional information regarding the Bank's sources of funds, see "Management's Discussion and Analysis of Financial Condition and Results of Operations--FNH--Liquidity" and FNH's Consolidated Statements of Cash Flows set forth in its Consolidated Financial Statements, which are included elsewhere in this Prospectus.

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

DEPOSITS

The Bank offers a variety of deposit accounts designed to attract both short-term and long-term deposits. There are no rate limitations on any type of deposit account presently offered by the Bank. The ability of the Bank to retain and attract new deposits is dependent upon the variety and effectiveness of its customer account products, customer service and convenience, and prevailing market conditions. The following table shows the distribution of deposits by type of account at the dates indicated:

	AT JUNE 30, 1998		AT DECEMBER 31, 1997		1996		1995	
	AMOUNT	PERCENT OF DEPOSITS	AMOUNT	PERCENT OF DEPOSITS	AMOUNT	PERCENT OF DEPOSITS	AMOUNT	PERCENT OF DEPOSITS
	(DOLLARS IN MILLIONS)							
Transaction accounts:								
Passbook accounts	$ 2,420	15.1%	$ 2,162	13.4%	$ 841	10.0%	$ 664	6.5%
Demand deposits:								
Interest-bearing	1,159	7.2	1,149	7.1	510	6.0	684	6.7
Noninterest-bearing	1,399	8.7	1,179	7.3	729	8.6	697	6.8
Money market deposit accounts	1,025	6.5	1,270	7.9	881	10.4	1,443	14.2
Total transaction accounts	6,003	37.5	5,760	35.7	2,961	35.0	3,488	34.2
Term accounts	9,988	62.5	10,390	64.3	5,503	65.0	6,696	65.8
	15,991	100.0%	16,150	100.0%	8,464	100.0%	10,184	100.0%
Accrued interest payable	52		52		32		51	
Purchase accounting adjustments, net	1		1		6		7	
Total	$16,044		$16,203		$ 8,502		$10,242	

Deposit balances, excluding purchase accounting adjustments, averaged $16.2 billion during the six months ended June 30, 1998, with an average stated interest rate of 4.43%. The weighted average stated interest rate on deposits at June 30, 1998 was 4.42%.

Total deposits at December 31, 1997, 1996 and 1995 include escrow balances for loans serviced for others of $702 million, $550 million and $348 million, respectively. Deposit balances, excluding purchase accounting adjustments, averaged $16.7 billion, $9.2 billion and $9.9 billion during 1997, 1996 and 1995, respectively, with average interest rates of 4.55%, 4.66% and 4.67%, respectively. The weighted average stated interest rates on deposits at December 31, 1997, 1996 and 1995 were 4.52%, 4.53% and 4.67%, respectively.

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

	SIX MONTHS ENDED JUNE 30, 1998		YEARS ENDED DECEMBER 31, 1997		1996		1995	
	AVERAGE BALANCE	AVERAGE RATE PAID	AVERAGE BALANCE	AVERAGE RATE PAID	AVERAGE BALANCE	AVERAGE RATE PAID	AVERAGE BALANCE	AVERAGE RATE PAID
	(DOLLARS IN MILLIONS)							
Transaction accounts:								
Passbook accounts	$ 3,043	2.96%	$ 1,874	3.65%	$ 1,154	2.72%	$ 666	2.20%
Demand deposits:								
Interest-bearing	457	2.61	1,150	1.07	289	1.87	699	1.00
Noninterest-bearing	1,430	--	1,280	--	825	--	583	--
Money market deposit accounts	1,116	3.45	1,408	3.56	946	3.39	1,581	3.22
Term accounts	10,159	5.68	11,008	5.73	6,032	6.00	6,398	6.10
Total	$16,205	4.43%	$16,720	4.55%	$ 9,246	4.66%	$ 9,927	4.67%

The following table sets forth the scheduled maturities of the Bank's term accounts by stated interest rate at December 31, 1997:

	1998	1999	2000	2001 AND THEREAFTER	TOTAL
	(IN MILLIONS)				
3.00% or less	$ 1	$ --	$ --	$ --	$ 1
3.01 - 4.00%	--	--	--	--	--
4.01 - 5.00%	229	13	--	1	243
5.01 - 6.00%	6,753	1,776	80	119	8,728
6.01 - 7.00%	754	249	102	145	1,250
7.01 - 8.00%	50	23	37	44	154
8.01 - 9.00%	6	5	--	--	11
9.01 - 10.00%	2	--	--	--	2
Over 10.00%	--	--	1	--	1
Total term accounts	$7,795	$2,066	$220	$309	$10,390

The following table sets forth remaining maturities for the Bank's term deposits in amounts of $100,000 or more at December 31, 1997 (in millions):

3 months or less	$ 501
Over 3 months but within 6 months	242
Over 6 months but within 12 months	729
Over 12 months	508
	$1,980

At December 31, 1997, the aggregate amount outstanding of certificates of deposit of $100,000 or larger at FNH was $1.98 billion, compared with $871 million and $690 million at December 31, 1996 and 1995, respectively. Deposits held by foreign investors at the Bank totalled $93 million, $58 million and $63 million at December 31, 1997, 1996 and 1995, respectively.

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

When cost-effective relative to other sources of funding, the Bank issues certificates of deposit through direct placement programs and national investment banking firms ("Brokered Deposits"). These deposits are usually in amounts less than $100,000 and are obtained from a diverse customer base. While these funds are generally more costly than traditional passbook and money market deposits and more volatile as a source of funds because of their sensitivity to the rates offered, they supplement retail customer deposits in raising funds for financing and liquidity purposes. At June 30, 1998, the Bank had $241.3 million of Brokered Deposits outstanding, representing 1.51% of total deposits.

Borrowings

FNH and the Bank utilize various borrowings as alternative sources of funds for its business needs. These sources have included securities sold under agreements to repurchase, FHLB advances, subordinated debentures and the purchase of federal funds.

Short-term Borrowings

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

The following table sets forth for the Bank each category of borrowings due within one year: (i) for the periods presented, the average amount outstanding, the maximum amount outstanding at any month end and the average interest rate paid, and (ii) at period end, the amount outstanding and average interest rate paid. Amounts and rates reflected in the table exclude accrued interest payable and purchase accounting adjustments.

	AT OR FOR THE SIX MONTHS ENDED JUNE 30	AT OR FOR THE YEAR ENDED DECEMBER 31,		
	1998	1997	1996	1995
	(DOLLARS IN MILLIONS)			
Securities sold under agreements to repurchase:				
Average balance outstanding	$1,930	$2,275	$1,931	$1,351
Maximum amount outstanding at any month end during the period	2,850	2,870	2,424	1,965
Balance outstanding at end of period	2,850	1,829	1,510	698
Average interest rate during the period	5.63%	5.68%	5.70%	6.53%
Average interest rate at end of period	5.59%	5.78%	5.88%	6.06%
Federal funds purchased:				
Average balance outstanding	$ 85	$ 95	$ 65	$ 37
Maximum amount outstanding at any month end during the period	220	153	135	75
Balance outstanding at end of period	185	130	25	55
Average interest rate during the period	5.42%	5.59%	5.41%	6.09%
Average interest rate at end of period	6.00%	6.50%	7.50%	6.00%
FHLB advances:				
Average balance outstanding	$5,040	$5,561	$2,455	$ 862
Maximum amount outstanding at any month end during the period	5,962	6,606	3,141	1,487
Balance outstanding at end of period	4,120	5,263	2,741	1,487
Average interest rate during the period	5.72%	5.76%	5.83%	7.19%
Average interest rate at end of period	5.72%	5.88%	5.78%	6.12%

At December 31, 1997, the Bank had an estimated additional secured borrowing capacity of $4.9 billion with the FHLB and other sources. These collateralized funding sources may also be used to satisfy other funding requirements.

Securities Sold Under Agreements to Repurchase

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

Federal Funds Purchased

The Bank must meet legal reserve requirements on a daily basis by (i) maintaining a specified total amount of deposits at the Federal Reserve Bank and (ii) vault cash. Occasionally, the Bank may borrow funds from another bank with excess reserves to meet its requirements for the day. These borrowings are repaid with interest at maturity based on the federal funds rate. The Bank places U.S. government securities in a custody account for the seller until the funds are repaid and records a liability on its books.

FHLB Advances

The FHLB functions in a credit capacity for savings institutions and certain other home financing institutions. A savings association may generally borrow from its district FHLB through advances secured by its home mortgages and other assets (principally securities which are obligations of, or guaranteed by, the U.S. government). A savings association is required to hold a minimum amount of capital stock of the FHLB based upon a percentage of its outstanding home mortgage loans and similar obligations, a percentage of its outstanding advances from the FHLB or a certain percentage of total assets. Such advances may be made pursuant to several different credit programs made available from time to time by the FHLB to meet seasonal activity and other withdrawals of deposit accounts and to expand lending, each of which has its own interest rate and range of maturities. The FHLB prescribes the acceptable uses, as well as limitations on the size of such advances. Depending on the program, such limitations are based either on a fixed percentage of the institution's net worth or on the FHLB's assessment of the institution's creditworthiness.

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

	1997		1996		1995	
	CARRYING VALUE	AVERAGE RATE	CARRYING VALUE	AVERAGE RATE	CARRYING VALUE	AVERAGE RATE
Fixed-rate borrowings	$5,447	5.88%	$3,565	5.93%	$1,790	6.68%
Variable-rate borrowings	4,074	5.95	854	5.67	250	6.02
Total FHLB advances	$9,521	5.91%	$4,419	5.88%	$2,040	6.60%

The following table sets forth remaining maturities and weighted average stated interest rates of FHLB advances at December 31, 1997, not including accrued interest payable or purchase accounting adjustments (dollars in millions):

	BALANCE MATURING	WEIGHTED AVERAGE RATE
1998	$5,263	5.88%
1999	3,090	5.94
2000	1,150	5.93
2001	11	6.50
2002	5	6.94
2003 and thereafter	2	7.83
	$9,521	5.91%

During 1995, the Bank prepaid $250 million in FHLB advances resulting in a $2 million extraordinary gain on the early extinguishment of debt, net of tax.

Interest Rate Swap Agreements

The Bank has used interest rate swap agreements to adjust its interest rate risk exposure on fixed rate FHLB advances. The Bank had no interest rate swap agreements outstanding at June 30, 1998. The notional amount does not represent amounts exchanged by the parties and thus, is not a measure of the Bank's exposure. The Bank pays the variable rate and receives the fixed rate based on LIBOR under these agreements. The differential between these two amounts may change significantly in the future due to fluctuations in market interest rates.

In order to reduce possible counterparty nonperformance risk, the Bank has entered into interest rate swap agreements only with national investment banking firms and the FHLB of San Francisco.

FNH 12 1/4% Senior Notes

In connection with the FN Acquisition, FNH issued $200 million principal amount of the FNH 12 1/4% Senior Notes, including $5.5 million principal amount of FNH Senior Notes to certain directors and officers of the Bank. The FNH 12 1/4% Senior Notes will mature on May 15, 2001 with interest payable semiannually from May 15 and November 15. Deferred issuance costs associated with the FNH 12 1/4% Senior Notes' issuance totalling $9.9 million were recorded in other assets and are being amortized over the term of the FNH 12 1/4% Senior Notes.

The FNH 12 1/4% Senior Notes are redeemable at the option of FNH, in whole or in part, during the 12-month period beginning May 15, 1999, at a redemption price of 106.125% plus accrued interest to the date of redemption, and thereafter at 100% plus accrued interest. The notes are subordinated to all existing and future liabilities, including deposits and other borrowings of the Bank, the Bank Preferred Stock and the REIT Preferred Stock.

In connection with the FNH Asset Transfer, Golden State Holdings assumed the obligations of FNH under the FNH 12 1/4% Senior Notes and the related indenture. The terms and conditions of the FNH 12 1/4% Senior Notes indenture impose restrictions that affect the ability of Golden State Holdings to sell assets and merge with others. At October , 1998, $ million of the FNH 12 1/4% Senior Notes were outstanding.

FNH 9 1/8% Senior Subordinated Notes

On January 31, 1996, FNH issued $140 million principal amount of the FNH 9 1/8% Senior Subordinated Notes. The FNH 9 1/8% Senior Subordinated Notes will mature on January 15, 2003 with interest payable semiannually on January 15 and July 15. Deferred issuance costs associated with the issuance of the FNH 9 1/8% Senior Subordinated Notes totalling $7.0 million were recorded in other assets and are being amortized over the term of the FNH 9 1/8% Senior Subordinated Notes.

The FNH 9 1/8% Senior Subordinated Notes are redeemable at the option of FNH, in whole or in part, during the 12-month period beginning January 1, 2001, at a redemption price of 104.5625% of the principal amount

thereof, plus accrued interest and unpaid interest to the date of redemption, and thereafter at 100% of the principal amount thereof, plus accrued and unpaid interest.

The FNH 9 1/8% Senior Subordinated Notes are unsecured senior subordinated obligations of FNH and are subordinated in right of payment to all existing and future senior indebtedness of FNH and to all future subordinated debt, if any is issued. The FNH 9 1/8% Senior Subordinated Notes are subordinated to all existing and future liabilities, including deposits, indebtedness and trade payables of FNH's subsidiaries, including the Bank, and to the Bank Preferred Stock and the REIT Preferred Stock.

In connection with the FNH Asset Transfer, Golden State Holdings assumed the obligations of FNH under the FNH 9 1/8% Senior Subordinated Notes and the related indenture. The terms and conditions of the FNH 9 1/8% Senior Subordinated Notes indenture impose restrictions that affect the ability of Golden State Holdings to sell assets and merge with others. At October , 1998, $ million of the FNH 9 1/8% Senior Subordinated Notes were outstanding.

FNH 10 5/8% Senior Subordinated Notes

In connection with the Cal Fed Acquisition, FNH acquired the net proceeds from the issuance of First Nationwide Escrow's 10 5/8% Senior Subordinated Notes and assumed First Nationwide Escrow's obligations under the FNH 10 5/8% Senior Subordinated Notes and indenture. Deferred issuance costs associated with the FNH 10 5/8% Senior Subordinated Notes of $19 million, recorded in other assets, are being amortized over the term of the FNH 10 5/8% Senior Subordinated Notes.

The FNH 10 5/8% Senior Subordinated Notes are redeemable at the option of FNH, in whole or in part, during the 12-month period beginning January 1, 2001, at a redemption price of 105.313% plus accrued and unpaid interest to the date of redemption, during the 12-month period beginning January 1, 2002 at a redemption price of 102.656% plus accrued and unpaid interest to the date of redemption, and thereafter at 100% plus accrued and unpaid interest to the date of the redemption.

The FNH 10 5/8% Senior Subordinated Notes are subordinate in right of payment to all existing and future subordinated debt, if any is issued, of FNH. The FNH 10 5/8% Senior Subordinated Notes are subordinated to all existing and future liabilities, including deposits, indebtedness and trade payables, of the subsidiaries of FNH, including the Bank Preferred Stock and REIT Preferred Stock.

In connection with the FNH Asset Transfer, Golden State Holdings assumed the obligations of FNH under the FNH 10 5/8% Senior Subordinated Notes and the related indenture. The terms and conditions of the FNH 10 5/8% Senior Subordinated Notes indenture impose restrictions that affect the ability of Golden State Holdings to sell assets and merge with others. At October , 1998, $ million of the FNH 10 5/8% Senior Subordinated Notes were outstanding.

10% Subordinated Debentures Due 2006

As part of the FN Acquisition, the Bank assumed subordinated debentures, which bear interest at 10% per annum and mature on October 1, 2006 (the "10% Subordinated Debentures Due 2006"). At June 30, 1998, the aggregate principal amount of the 10% Subordinated Debentures Due 2006 outstanding was $92.1 million.

Events of Default under the indenture governing the 10% Subordinated Debentures Due 2006 (the "Old FNB Indenture") include, among other things: (i) a default in the payment of interest when due and such default continues for 30 days, (ii) a default in the payment of any principal when due, (iii) the failure to comply with covenants in the Old FNB Indenture, provided that the trustee or holders of at least 25% in principal amount of the outstanding 10% Subordinated Debentures Due 2006 notify the Bank of the default and the Bank does not cure the default within 60 days after receipt of such notice, (iv) certain events of bankruptcy, insolvency or reorganization of the Bank, (v) the FSLIC/RF (or a comparable entity) is appointed to act as conservator, liquidator, receiver or other legal custodian for the Bank and (vi) a default under other indebtedness of the Bank in excess of $10 million resulting in such indebtedness becoming due and payable, and such default or acceleration has not been rescinded or annulled within 60 days after the date on which written notice of such failure has been given by the trustee to the Bank or by holders of at least 25% in principal amount of the outstanding 10% Subordinated Debentures Due 2006 to the Bank and the trustee.

11.20% Senior Notes Due 2004

As part of the SFFed Acquisition, the Bank assumed $50 million of SFFed 11.20% Senior Notes due September 1, 2004 (the "11.20% Senior Notes"). In connection with the assumption of the 11.20% Senior Notes, the Bank and all of the holders of the 11.20% Senior Notes entered into an agreement amending certain provisions of the note purchase pursuant to which the 11.20% Senior Notes were sold (as amended, the "Note Purchase Agreement"). On September 12, 1996, the Bank repurchased $44.0 million aggregate principal amount of the 11.20% Senior Notes at a price of approximately 116.45% of the principal amount, plus the accrued interest thereon. The Bank recorded an extraordinary loss, net of tax, of $1.6 million in connection with such repurchase. At June 30, 1998, the aggregate principal amount of the 11.20% Senior Notes outstanding was $6.0 million.

Events of Default under the note purchase agreement include, among other things: (i) failure to make any payment of principal when due; (ii) any failure to make any payment of interest when due and such payment is not made within 15 days after the date such payment was due; (iii) failure to comply with certain covenants in the Note Purchase Agreement, provided that such failure continues for more than 60 days; (iv) failure to deliver to holders a notice of default, notice of event of default, or notice of claimed default as provided in the Note Purchase Agreement; (v) failure to comply with any provision of the Note Purchase Agreement, provided that such failure continues for more than 60 days after notice is delivered to the Bank; (vi) a default under other indebtedness provided that the aggregate amount of all obligations in respect of such indebtedness exceeds $15 million; (vii) one or more final, non-appealable judgments outstanding against the Bank or its subsidiaries for the payment of money aggregating in excess of $15 million, any one of which has been outstanding for 45 days and shall not have been discharged in full or stayed; (viii) any warranty, representation or other statement contained in the Note Purchase Agreement by the Bank or any of its subsidiaries being false or misleading in any material respect when made; or (ix) certain events of bankruptcy, insolvency or reorganization of the Bank or its subsidiaries.

As a result of the Cal Fed Acquisition, the Bank is obligated with respect to the following three debt securities of Old California Federal:

10.668% Subordinated Notes Due 1998

The Bank assumed 10.668% unsecured senior subordinated notes which mature on December 22, 1998 (the "10.668% Subordinated Notes"). At June 30, 1998, the aggregate principal amount of the notes outstanding was $50 million.

Events of Default under the note agreement governing the 10.668% Subordinated Notes include, among other things: (i) failure to make any payment of principal when due; (ii) any failure to make any payment of interest when due and such payment is not made within ten business days after the date such payment was due; (iii) failure to comply with certain covenants in the note agreement provided that such failure continues for more than 60 days after notice is delivered to the Bank; (iv) the default or any event which, with the giving of notice or the lapse of time or both, would constitute a default under any indebtedness of the Bank and cause such indebtedness with an aggregate principal amount exceeding $15 million to accelerate; and (v) certain events of bankruptcy, insolvency or reorganization of the Bank.

6 1/2% Convertible Subordinated Debentures Due 2001

In 1986, Cal Fed Inc., Old California Federal's former parent company, issued $125 million of 6.5% convertible subordinated debentures due February 20, 2001 (the "6 1/2% Convertible Subordinated Debentures"). As a result of a corporate restructuring in December 1992, Cal Fed Inc. was merged with and into XCF Acceptance Corporation ("XCF"), a subsidiary of Old California Federal. The 6 1/2% Convertible Subordinated Debentures are redeemable at the option of the holders on February 20, 2000, at 123% of their principal amount. At June 30, 1998, $2.6 million of the 6 1/2% Convertible Subordinated Debentures were outstanding. Due to the purchase of all of the Cal Fed stock by FNH in the Cal Fed Acquisition on January 3, 1997, the common stock conversion feature has been eliminated.

Events of Default under the indenture governing the 6 1/2% Convertible Subordinated Debentures include, among other things: (i) any failure to make any payment of interest when due and such payment is not made

within 30 days after the date such payment was due; (ii) failure to make any payment of principal when due; (iii) default in the performance, or breach, of any covenant or warranty in the indenture, provided that such default or breach continues for more than 60 days after notice is delivered to the Bank; or (iv) certain events of bankruptcy, insolvency or reorganization of the Bank or its subsidiaries.

10% Subordinated Debentures Due 2003

On December 16, 1992, Old California Federal issued $13.6 million of 10.0% unsecured subordinated debentures due 2003 (the "10% Subordinated Debentures Due 2003"). During 1996 and 1995, Old California Federal repurchased $0.6 million and $8.7 million, respectively, of the debentures, leaving $4.3 million outstanding at June 30, 1998.

Events of Default under the indenture governing the 10% Subordinated Debentures Due 2003 include, among other things: (i) failure to make any payment of principal when due; (ii) any failure to make any payment of interest when due and such payment is not made within 30 days after the date such payment was due; (iii) failure to comply with certain covenants in the indenture; (iv) failure to comply with certain covenants in the indenture provided that such failure continues for more than 60 days after notice is delivered to the Bank; (v) certain events of bankruptcy, insolvency or reorganization of the Bank; or (vi) the default or any event which, with the giving of notice or lapse of time or both, would constitute a default under any indebtedness of the Bank and cause such indebtedness with an aggregate principal amount exceeding $15 million to accelerate.

11 1/2% Preferred Stock--Minority Interest

In connection with the FN Acquisition, Cal Fed issued 3,007,300 shares of the 11 1/2% Preferred Stock. The 11 1/2% Preferred Stock has a stated liquidation value of $100 per share, plus declared and unpaid dividends, if any. Cash dividends are noncumulative and are payable at an annual rate of 11 1/2% per share if, when and as declared by the Board of Directors of the Bank.

The 11 1/2% Preferred Stock ranks prior to the common stock of the Bank and to all other classes and series of equity securities subsequently issued, other than any class or series expressly designated as being on a parity with or senior to the 11 1/2% Preferred Stock as to dividends and liquidating distributions. The 10 5/8% Preferred Stock ranks on a parity with the 11 1/2% Preferred Stock as to dividends and liquidating distributions.

The terms of the 11 1/2% Preferred Stock provide that the Bank may not declare or pay any dividends or other distributions (other than in shares of common stock of the Bank or other classes of equity securities of the Bank ranking junior to the 11 1/2% Preferred Stock (collectively, "Junior Stock")) with respect to any Junior Stock or redeem or otherwise acquire, or set apart funds for the repurchase, redemption or other acquisition of any Junior Stock (including the common stock held by FNH), through a sinking fund or otherwise, unless and until: (i) the Bank has paid full dividends on the 11 1/2% Preferred Stock for the four most recent dividend periods, or funds have been paid over to the dividend disbursing agent of the Bank for payment of such dividends, and (ii) the Bank has declared a cash dividend on the 11 1/2% Preferred Stock at the annual dividend rate for the current dividend period, and sufficient funds have been paid over to the dividend disbursing agent of the Bank for the payment of a cash dividend for such current dividend period. The Bank is currently in compliance with both of such requirements.

Except in the event of a change of control, the 11 1/2% Preferred Stock is not redeemable prior to September 1, 1999. The 11 1/2% Preferred Stock is redeemable solely at the option of the Bank or its successor or any acquiring or resulting entity with respect to the Bank (including by any parent or subsidiary of the Bank, any such successor, or any such acquiring or resulting entity), as applicable, at any time on and after September 1, 1999, in whole or in part, at $105.75 per share on or after September 1, 1999 and prior to September 1, 2000, and at prices decreasing pro rata annually thereafter to the stated liquidation value of $100 per share on or after September 1, 2004, plus declared and unpaid dividends, if any, without interest. Upon a change of control, the 11 1/2% Preferred Stock is redeemable on or prior to September 1, 1999 at the option of the Bank or its successor or any acquiring or resulting entity with respect to the Bank (including by any parent or subsidiary of the Bank, any such successor, or any such acquiring or resulting entity), as applicable, in whole, but not in part, at a price per share equal to: (i) $100, plus (ii) an amount equal to declared and unpaid dividends, if any, to the date fixed for redemption, without interest, and without duplication, an additional amount equal to the amount of dividends that

would be payable on the 11 1/2% Preferred Stock in respect of the period from the first day of the dividend period in which the date fixed for redemption occurs to the date fixed for redemption (assuming all such dividends were to be declared), plus (iii) a specified make whole premium.

Each share of 11 1/2% Bank Preferred Stock entitles the holder thereof to one vote and holders thereof will vote together as a single class with the holders of the common stock of the Bank, the 10 5/8% Preferred Stock, the CALGZs and the CALGLs. In addition, holders of the 11 1/2% Bank Preferred Stock are entitled to vote as a class in certain limited circumstances or as required by law.

10 5/8% Preferred Stock--Minority Interest

In connection with the Cal Fed Acquisition, the Bank assumed Old California Federal's 10 5/8% Preferred Stock. The 10 5/8% Preferred Stock has a stated liquidation value of $100 per share, plus declared and unpaid dividends, if any, without interest. Cash dividends are noncumulative and are payable at an annual rate of 10 5/8% per share if, when and as declared by the Board of Directors of the Bank.

The 10 5/8% Preferred Stock ranks prior to the common stock of the Bank and to all other classes and series of equity securities subsequently issued, other than any class or series expressly designated as being on a parity with or senior to the 10 5/8% Preferred Stock as to dividends and liquidating distributions. The 11 1/2% Preferred Stock ranks on a parity with the 10 5/8% Preferred Stock as to dividends and liquidating distributions.

The terms of the 10 5/8% Preferred Stock provide that the Bank may not declare or pay any full dividends with respect to any parity stock, such as the 11 1/2% Preferred Stock, unless and until the Bank has paid full dividends on the 10 5/8% Preferred Stock for the most recent dividend period.

The terms of the 10 5/8% Preferred Stock provide that the Bank may not declare or pay any dividends or other distributions (other than in shares of common stock of the Bank or other Junior Stock) with respect to any Junior Stock or repurchase, redeem or otherwise acquire, or set apart funds for the repurchase, redemption or other acquisition of, any Junior Stock through a sinking fund or otherwise, unless and until: (i) the Bank has paid full dividends on the 10 5/8% Preferred Stock for the four most recent dividend periods, or funds have been paid over to the dividend disbursing agent of the Bank for payment of such dividends, and (ii) the Bank has declared a cash dividend on the 10 5/8% Preferred Stock at the annual dividend rate for the current dividend period, and sufficient funds have been paid over to the dividend disbursing agent of the Bank for the payment of a cash dividend for such current period. The Bank is currently in compliance with both of such requirements.

Except in the event of a change of control, the 10 5/8% Preferred Stock is not redeemable prior to April 1, 1999. The 10 5/8% Preferred Stock is redeemable solely at the option of the Bank or its successor or any acquiring or resulting entity with respect to the Bank (including by any parent or subsidiary of the Bank, any such successor or any such acquiring or resulting entity), as applicable, at any time on or after April 1, 1999, in whole or in part, at $105.313 per share on or after April 1, 1999 and prior to April 1, 2000, and at prices decreasing pro rata annually thereafter to a stated liquidation value of $100 per share on or after April 1, 2003, plus declared and unpaid dividends, if any, without interest. Upon a change in control, the 10 5/8% Preferred Stock is redeemable on or prior to April 1, 1999 at the option of the Bank or its successor or any acquiring or resulting entity with respect to the Bank (including by any parent or subsidiary of the Bank, any such successor, or any such acquiring or resulting entity), as applicable, in whole, but not in part, at a price per share equal to $114.50, plus an amount equal to declared and unpaid dividends (whether or not declared) from the date of consummation of the change of control to the date fixed for redemption, without interest.

Each share of 10 5/8% Preferred Stock entitles the holder thereof to one vote and holders thereof will vote together as a single class with the holders of the common stock of the Bank, the 11 1/2% Preferred Stock, the CALGZs and the CALGLs. In addition, holders of the 10 5/8% Preferred Stock are entitled to vote as a class in certain limited circumstances or as required by law.

REIT Preferred Stock--Minority Interest

On January 31, 1997, Preferred Capital Corp. issued 20,000,000 shares of REIT Preferred Stock. The REIT Preferred Stock has a stated liquidation value of $25 per share, plus declared and unpaid dividends, if any. Cash dividends are noncumulative and are payable at an annual rate of 9 1/8% per share if, when and as declared by the Board of Directors of Preferred Capital Corp.

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

The terms of the REIT Preferred Stock provide that Preferred Capital Corp. may not declare or pay any dividends or other distributions (other than in shares of common stock of Preferred Capital Corp. or other classes of equity securities of Preferred Capital Corp. ranking junior to the REIT Preferred Stock) with respect to any Preferred Capital Corp. junior stock or repurchase, redeem or otherwise acquire, or set apart funds for the repurchase, redemption or other acquisition of any Preferred Capital Corp. junior stock (including the common stock held by the Bank) through a sinking fund or otherwise, unless and until: (i) Preferred Capital Corp. has paid in full dividends on the REIT Preferred Stock for the four most recent dividend periods (or such lesser number of dividend periods during which shares of REIT Preferred Stock have been outstanding), or funds have been paid over to the dividend disbursing agent of Preferred Capital Corp. for payment of such dividends, and (ii) Preferred Capital Corp. has declared a cash dividend on the REIT Preferred Stock at the annual dividend rate for the current dividend period, and sufficient funds have been paid over to the dividend disbursing agent of Preferred Capital Corp. for the payment of a cash dividend for such current dividend period. The initial dividend payment date was March 31, 1997. Preferred Capital Corp. is currently in compliance with both such requirements.

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

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

Each share of REIT Preferred Stock will be exchanged automatically for one newly issued share of preferred stock of the Bank having substantially the same terms as the REIT Preferred Stock (the "9 1/8% Preferred Stock") if the appropriate federal regulatory agency directs in writing such exchange because (i) the Bank becomes "undercapitalized" under prompt corrective action regulations, (ii) the Bank is placed into conservatorship or receivership or (iii) the appropriate federal regulatory agency, in its sole discretion, anticipates the Bank becoming "undercapitalized" in the near term. If issued, the 9 1/8% Preferred Stock will rank on a parity with the Bank Preferred Stock.

OTHER ACTIVITIES

Cal Fed Contingent Litigation Recovery Participation Interests. In July 1995, Old California Federal distributed to its common shareholders its CALGZs, each entitling the holder thereof to receive an amount (the aggregate of such payments being referred to as the "Recovery Payment") equal to five millionths of one percent (0.000005%) of the cash payment (the "Cash Payment"), if any, actually received by the Bank pursuant to a final, nonappealable judgment in or final settlement of its claim against the United States in the lawsuit, California Federal Bank v. United States, Civil Action No. 92-138C (the "California Federal Litigation"), after deduction of (i) the aggregate expenses incurred by the Bank in prosecuting the California Federal Litigation and obtaining such Cash Payment, including, but not limited to, a portion of the annual salaries in the aggregate amount of $1,000,000, an incentive fee in the amount of 0.25% of the aggregate value of the pre-tax recovery from the California Federal Litigation, annual pension benefits aggregating $1,325,000, and certain medical benefits and expenses, for Messrs. Trafton and Fink under the Litigation Management Agreement, (ii) any income tax liability of the Bank, computed on a pro forma basis, as a result of the Bank's receipt of such Cash Payment (net of any income tax benefit to the Bank from making the Recovery Payment, and disregarding for purposes of this clause (ii) the effect of any net operating loss carryforwards or other tax attributes held by the Bank or any of its subsidiaries or affiliated entities) and (iii) the expenses incurred by the Bank in connection with the creation, issuance and trading of the CALGZs, including without limitation, legal and accounting fees and the fees and expenses of the interest agent.

Pursuant to the Old Cal Fed Merger Agreement, Old Cal Fed distributed to common shareholders entitled to receive the merger consideration one-tenth of a Secondary Contingent Litigation Recovery Participation Interest (the "CALGLs") for each share of Old Cal Fed common stock held. Each CALGL will entitle the holder thereof to receive an amount equal to twenty millionths of one percent (0.000020%) of the "Secondary Recovery Payment," if any, as defined below. "Secondary Recovery Payment" means sixty percent (60%) of the amount obtained from the following equation: (A) the Cash Payment, if any, actually received by the Bank in respect of a final, nonappealable judgment in or final settlement of the California Federal Litigation, minus (B) the sum of the following: (i) the aggregate expenses incurred by the Bank in prosecuting the California Federal Litigation and obtaining such Cash Payment, including, but not limited to, a portion of the annual salaries in the aggregate amount of $1,000,000, an incentive fee in the amount of 0.25% of the aggregate value of the pre-tax recovery from the California Federal Litigation, annual pension benefits aggregating $1,325,000, and certain medical benefits and expenses, for Messrs. Trafton and Fink under the Litigation Management Agreement, (ii) any income tax liability of the Bank, computed on a pro forma basis, as a result of the Bank's receipt of such Cash Payment (net of any income tax benefit to the Bank, computed on a pro forma basis, from the payment of a portion of the Secondary Recovery Payment to the holders of CALGLs), (iii) the expenses incurred by the Bank in connection with the creation, issuance and trading of the CALGZs and the CALGLs, including without limitation, legal and accounting fees and the fees and expenses of the interest agent, (iv) the payment due to the holders of the CALGZs and (v) one hundred twenty-five million dollars ($125,000,000). "Income tax liability of the Bank computed on a pro forma basis" means the aggregate amount of any and all relevant items of income, gain, loss, or deduction associated with the receipt by the Bank of the Cash Payment multiplied by the highest, combined marginal rate of federal, state and local income taxes in the relevant year and disregarding for purposes of such computation the effect of any net operating loss carryforwards or other tax attributes of the Bank or any of its subsidiaries or affiliated entities. "Income tax benefit to the Bank computed on a pro forma basis" means the aggregate amount of any and all relevant items of income, gain, loss, or deduction associated with the payment by the Bank of the Secondary Recovery Payment multiplied by the highest, combined marginal rate of federal, state and local income taxes in the relevant year and disregarding for purposes of such computation the effect of any net operating loss carryforwards or other tax attributes of the Bank or any of its subsidiaries or affiliated entities. Any distribution with respect to the CALGZs will be subject to the OTS capital distribution regulations.

Holders of the CALGZs and the CALGLs are entitled to vote together as a single class with the holders of the common stock of the Bank, the 11 1/2% Preferred Stock and the 10 5/8% Preferred Stock, with each CALGL and CALGZ entitling the holder thereof to 1/5 of one vote.

In the California Federal Litigation, the Bank alleges, among other things, that the United States breached certain contractual commitments regarding the computation of its regulatory capital for which the Bank seeks damages and restitution. The Bank's claims arose from changes, mandated by the Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA"), with respect to the rules for computing Old California Federal's regulatory capital.

On July 1, 1996, the United States Supreme Court issued its opinion for United States v. Winstar Corporation, No. 95-865, which affirmed the decisions of the United States Court of Appeals for the Federal Circuit and the United States Court of Federal Claims in various consolidated cases (the "Winstar Cases") granting summary judgment to the plaintiff thrift institutions on the liability portion of their breach of contract claims against the United States. The Supreme Court held that the government breached certain express contracts when Congress enacted FIRREA, and the Supreme Court remanded the proceedings for a determination of the appropriate measure and amount of damages, which to date have not been awarded.

On October 30, 1996, Old California Federal filed a motion for partial summary judgment as to the Federal government's liability to the Bank for breach of contract, which was opposed by the Federal government. In addition, the government filed a cross-motion for partial summary judgment as to certain liability issues. A hearing on the motions for partial summary judgment on liability was held on August 7, 1997. On December 22, 1997, a U.S. Claims Court Judge ruled in favor of this motion to establish the government's liability, and a formal order in that regard was subsequently issued on July 16, 1998. The trial of the damages phase of the Bank's case has been scheduled to begin in December 1998.

In connection with the Cal Fed Acquisition, the Bank recorded as an asset part of the estimated after-tax cash recovery from the California Federal Litigation that will inure to the Bank, net of amounts payable to holders of the CALGZs and the CALGLs in any such recovery (the "Goodwill Litigation Asset"). The Goodwill Litigation Asset was recorded at its estimated fair value of $100 million, net of estimated tax liabilities, as of January 3, 1997, and is included in the audited consolidated balance sheet as of December 31, 1997.

The Put Agreement

In connection with the FN Acquisition, Granite and the Bank entered into the Put Agreement. Pursuant to the Put Agreement, the Bank had the right, on a quarterly basis (the "Put Option"), to require Granite to purchase certain commercial real estate loans, commercial real estate loans serviced by others and 1-4 unit residential loans with an original principal balance greater than $250,000, and to take certain actions to protect the Bank from losses with respect to certain Letters of Credit ("LOC") transactions, in each case, only if such asset was purchased by the Bank from Old FNB pursuant to the Asset Purchase Agreement. The Put Option expired on November 30, 1996. The balance available under the Put Agreement ($500 million) was fully utilized by the Bank prior to the expiration of the Put Option.

The Assistance Agreement

The Texas Closed Branches were purchased effective December 28, 1988 pursuant to five acquisition agreements and the Assistance Agreement among the FSLIC/RF, the Bank, and certain affiliates of the Bank. The Assistance Agreement generally provided for guaranteed yield amounts to be paid on the book value of the Covered Assets, and paid for 90% of the losses incurred upon disposition of the Covered Assets. The remaining 10% not reimbursed, net of 10% of all asset recoveries and certain agreed-upon Covered Asset disposition fees ("Shared Gain"), was remitted quarterly to the FSLIC/RF.

In 1995, the FDIC, acting as manager for the FSLIC/RF, exercised its right under the Assistance Agreement to purchase substantially all of the remaining Covered Assets at the fair market value of such assets (the "FDIC Purchase"). Under the terms of the Assistance Agreement, losses sustained by the Bank from the FDIC Purchase were reimbursed by the FSLIC/RF. There was no material impact on the consolidated financial statements of the Bank as a result of the FDIC Purchase.

On August 19, 1996, the Bank and the FSLIC/RF executed an agreement which resulted in the termination of the Assistance Agreement. As a result of the agreement, the FSLIC/RF paid the Bank the remaining Covered Asset balance of $39 million and, among other things, assumed the responsibility for the disposition of several litigation matters involving Covered Assets which had been retained by the Bank following the FDIC Purchase. The Bank recorded a gain of $25.6 million as a result of this settlement.

FGB Realty Advisors, Inc.

FGB Realty Advisors, Inc. ("FGB Realty"), a wholly owned subsidiary of the Bank, previously provided asset management, disposition and advisory services to institutional owners of real estate. Fee revenues from unaffiliated parties were $1.7 million, $10.1 million, and $14.0 million for the years ended December 31, 1997, 1996, and 1995, respectively. These revenues are included in management fees in Golden State Holdings' respective consolidated statements of income. During 1997, substantially all the asset management and disposition contracts held by FGB Realty have expired, and operations of this subsidiary have substantially ceased.

Cal Fed Investments

Cal Fed Investments ("CFI"), a wholly owned subsidiary of the Bank which was acquired as part of the FN Acquisition, offers securities and insurance products to both existing and prospective customers of the Bank. CFI is subject to the guidelines established by the OTS for broker-dealer subsidiaries of savings associations, and is a member of the National Association of Securities Dealers. In addition, CFI is registered as a broker-dealer with the Securities and Exchange Commission and the Securities Investor Protection Corporation. CFI receives commission revenue for acting as a broker-dealer on behalf of its customers, but CFI does not maintain customer accounts or take possession of customer securities. Commission revenues of $27.5 million, $10.0 million and $8.5 million for the years ended December 31, 1997, 1996 and 1995, respectively, are included in fees and service charges in Golden State Holdings' consolidated statements of income for such years.

DIVIDEND POLICY OF THE BANK

The dividend policy of the Bank complies with applicable legal and regulatory restrictions. Before declaring any dividend, the directors of the Bank consider the following factors: (i) the quality and stability of the Bank's net income, (ii) the availability of liquid assets to make dividend payments, (iii) the level of earnings retention as it impacts the Bank's capital needs and projected growth and funding levels, both internal and external, and (iv) the adequacy of capital after the payment of a dividend. Under the Bank's dividend policy, a dividend will not be declared or paid which would: (i) cause the capital level of the Bank to be reduced below "adequately capitalized" levels, or (ii), together with any other dividends declared during the same calendar year, exceed 100% of the net income to date for that calendar year plus 50% of the Bank's surplus capital at the beginning of that calendar year, so long as the Bank is a Tier 1 association (as defined herein).

EMPLOYEES

Golden State Holdings has no employees.

At December 31, 1997, the Bank and its subsidiaries had 5,235 employees, compared to 3,547 employees at December 31, 1996. None of the Bank's employees is represented by any collective bargaining group and management considers its relations with its employees to be good. The Bank maintains a comprehensive employee benefits program providing, among other benefits, health and welfare benefits, long and short-term disability insurance, and life insurance. Additionally, the Bank offers employees a defined contribution investment plan which is a qualified plan under Section 401(a) of the Internal Revenue Code.

COMPETITION

Golden State Holdings experiences significant competition in both attracting and retaining deposits and in originating real estate and consumer loans.

Golden State Holdings, through the Bank, competes with other savings associations, commercial banks, insurance companies, credit unions, savings and loan associations, money market mutual funds and brokerage

firms in attracting and retaining deposits. Competition for deposits from large commercial banks is particularly strong. Many of the nation's savings associations and commercial banks have a significant number of branch offices in the areas in which the Bank operates.

In addition, there is strong competition in originating and purchasing real estate and consumer loans, principally from other savings and loan associations, commercial banks, mortgage banking companies, insurance companies, consumer finance companies, pension funds and commercial finance companies. The primary factors in competing for loans are the quality and extent of service to borrowers and brokers, economic factors such as interest rates, interest rate caps, rate adjustment provisions, loan maturities, LTV ratios, loan fees, and the amount of time it takes to process a loan from receipt of the loan application to date of funding. The Bank's future performance will depend on its ability to originate a sufficient volume of mortgage loans in its local market areas and through its wholesale network and, if it is unable to originate a sufficient volume of mortgage loans, to purchase a sufficient quantity of high-quality mortgage-backed securities with adequate yields. There can be no assurance that the Bank will be able to effect such actions on satisfactory terms.

PROPERTIES

Golden State Holdings neither owns nor leases any properties directly. The executive offices of the Bank are located at 135 Main Street, San Francisco, California, 94105, and its telephone number is (415) 904-1100. The Bank leases approximately 92,000 square feet in the building in which its executive offices are located, under a ten-year lease expiring in 2001. In addition, the Bank leases approximately 216,000 square feet in a multiple-building administrative facility in West Sacramento, California under a ten-year lease expiring in 2001. The Bank leases additional administrative office space in Dallas which includes approximately 46,000 square feet of space under a lease expiring in 1999.

As part of the Cal Fed Acquisition, the Bank assumed the lease on executive offices and an office building of approximately 513,000 square feet. The Bank vacated all but approximately 44,000 square feet of this facility during the first half of 1997. The office lease was to expire in 2007, however, the Bank terminated its remaining liability on all space other than approximately 44,000 square feet by payment of approximately $28 million. The lease on the remaining 44,000 square feet terminates in 2003. In addition, Old California Federal had certain operating and administrative departments in a leased facility containing approximately 225,000 square feet located in Rosemead, California. The Bank vacated the Rosemead facility during the first half of 1997. The Rosemead lease expires in 2008.

At December 31, 1997, the Bank operated a total of 225 retail branches and maintained 22 vacant branch facilities which were consolidated as a result of the Branch Purchases, the 1996 Acquisitions, the Cal Fed Acquisition and various consolidations of operations to West Sacramento. Of the 225 total operating retail branches, 62 were owned and 163 were leased. Some of these retail branches are multi-purpose facilities, housing loan production and administrative facilities in addition to retail space. Of the 22 vacant facilities (one owned and 21 leased, all in California), 14 locations have been subleased.

At December 31, 1997, there were 16 separate loan production offices, all of which were leased, and which include three offices housing operations acquired in the LMUSA Purchases and 13 offices housing wholesale lending operations. There are no vacant loan production facilities at December 31, 1997.

In addition, the Bank operated 11 separate administrative facilities (two owned and nine leased) and maintained 13 vacant administrative facilities (five owned and eight leased). Of the 13 vacant administrative facilities, eight were subleased. The administrative facilities include a 230,000 square foot owned building in Frederick, Maryland, which houses FNMC's operations and approximately 39,000 square feet of leased space in

Dallas, which houses Auto One. A state-by-state breakdown of all retail branches, administrative facilities and loan production offices operated by the Bank at December 31, 1997 is shown in the following table:

	BRANCHES			ADMINISTRATIVE FACILITIES			LOAN PRODUCTION FACILITIES		
	OWNED	LEASED	VACANT	OWNED	LEASED	VACANT	OWNED	LEASED	VACANT
Arizona	--	--	--	--	1	--	--	2	--
California	55	139	22	1	4	10	--	4	--
Florida	6	18	--	--	1	1	--	1	--
Georgia	--	--	--	--	--	--	--	1	--
Illinois	--	--	--	--	--	1	--	1	--
Maryland	--	--	--	1	--	--	--	1	--
Minnesota	--	--	--	--	--	--	--	1	--
Montana	--	--	--	--	1	--	--	--	--
Nevada	1	6	--	--	--	--	--	1	--
Pennsylvania	--	--	--	--	--	--	--	1	--
Texas	--	--	--	--	2	1	--	1	--
Washington	--	--	--	--	--	--	--	2	--
Total	62	163	22	2	9	13	--	16	--

In April 1995, FNMC closed substantially all of its retail mortgage loan production offices. Costs associated with such closure approximated $2 million and are included in noninterest expense in FNH's 1995 consolidated statement of income. On a continuing basis, the Bank evaluates the adequacy of its office premises. As a result, surplus office facilities may be sold or subleased to maintain cost-effective operations and minimize vacant facilities.

LEGAL PROCEEDINGS

Golden State Holdings is involved in legal proceedings on claims incidental to the normal conduct of its business. See also "--Other Activities--Cal Fed Contingent Litigation Recovery Participation Interests." Although it is impossible to predict the outcome of any outstanding legal proceedings, management believes that such legal proceedings and claims, individually or in the aggregate, will not have a material effect on Golden State Holdings or the Bank.

GLENDALE FEDERAL

GENERAL

Glendale Federal was one of the largest savings institutions in the United States, with total consolidated assets at June 30, 1998 of $18.1 billion. Prior to the Mergers, Glendale Federal's business consisted primarily of attracting checking and savings deposits from the public, originating real estate, business and consumer loans, and purchasing loans secured by mortgages on residential real estate. Glendale Federal's mix of products and services included three principal lines of business: business banking, consumer banking and real estate lending. Glendale Federal, through its subsidiaries, also provided general insurance and securities brokerage services. Glendale Federal was headquartered in Glendale, California and operates 209 banking offices and 25 loan offices statewide.

Glendale Federal derived its income primarily from the interest it received on real estate, business and consumer loans and, to a lesser extent, from interest on investment securities and fees received in connection with loans, loan servicing, and deposit services. Its major expenses were the interest it paid on deposits and on borrowings and general operating expenses. Glendale Federal's operations, like those of other depository institutions, were significantly influenced by general economic conditions, by the strength of the real estate market, by the monetary, fiscal and regulatory policies of the federal government and by the policies of financial institution regulatory authorities.

Golden State was formed to become the holding company for Glendale Federal in a reorganization that was approved by Glendale Federal's stockholders and completed on July 24, 1997. As part of the holding company formation, shares of Glendale Federal's common stock automatically became an equal number of shares of Golden State common stock and shares of Glendale Federal's Noncumulative Preferred Stock, Series E, automatically became an equal number of shares of Golden State's Noncumulative Convertible Preferred Stock, Series A. Glendale Federal's two classes of warrants became exercisable solely to purchase common stock of Golden State. The members of the board of directors of Glendale Federal also became the board of directors of Golden State.

On November 26, 1997, Golden State Financial was formed as a wholly-owned subsidiary of Golden State for the purpose of becoming an intermediate tier holding company to effect the acquisition of CENFED.

On April 21, 1998, Golden State acquired CENFED in a tax-free, stock-for-stock merger. Pursuant to the terms of the transaction, Golden State issued 7,390,557 shares of its common stock resulting in a total recorded purchase price of $211.1 million. On April 21, 1998, CENFED was merged with and into Golden State Financial, with Golden State Financial as the surviving entity in the merger. On May 8, 1998, Golden State contributed its shares of Glendale Federal to Golden State Financial and CenFed Bank was merged into Glendale Federal, with Glendale Federal as the surviving entity. The goodwill of $90.5 million recorded in this transaction under the purchase method of accounting will be amortized over 15 years using the straight-line method. At April 21, 1998, CenFed Bank operated 18 branches located in Los Angeles, Orange, Riverside and San Bernardino Counties in Southern California and had $1.9 billion in assets, including $1.4 billion of loans receivable, net, and $354 million of mortgage-backed securities, net. CenFed Bank's liabilities at April 21, 1998 included $1.4 billion of deposits and $385.1 million of borrowings.

On July 11, 1998, Golden State acquired RedFed and its federal savings bank subsidiary, Redlands Federal Bank, in a tax-free, stock-for-stock merger. Pursuant to the terms of the transaction, Golden State issued 5,221,995 shares of its common stock, resulting in a total recorded purchase price of $158.3 million. The goodwill of $62.8 million recorded in this transaction under the purchase method of accounting will be amortized over 15 years using the straight-line method. At July 11, 1998, RedFed operated 15 branches located in Riverside and San Bernardino Counties in Southern California and had $1.0 billion in assets, including $893.7 million of loans receivable, net. RedFed's liabilities at July 11, 1998 included $864.1 million of deposits and $78.7 million of borrowings.

BUSINESS BANKING

Glendale Federal's business banking program had four components: community business banking, commercial markets banking, agribusiness lending and Small Business Administration ("SBA") lending. Glendale Federal initially introduced a line of community business banking products and services in fiscal 1996. This program focused on small businesses, primarily professionals, wholesalers, distributors and light manufacturers, with annual sales of up to $5 million, located in the markets served by Glendale Federal's retail banking offices. Glendale Federal's community business banking product line included business checking accounts of various types, account analysis, payroll services, electronic banking and merchant draft servicing. To meet the credit needs of its business customers, Glendale Federal offered revolving lines of credit and term loans (primarily secured) with maturities of up to five years and with prime-based adjustable interest rates. The maximum loan offered by the community business banking group is $1 million. At June 30, 1998, line of credit commitments and deposit relationships under the community business banking product line totaled $190.3 million and $611.9 million, respectively.

In fiscal 1997, Glendale Federal, through its commercial markets group, introduced a line of middle-market banking products and services to build larger deposit relationships. This middle-market business banking program accommodated businesses with annual sales of up to $150 million, but focused primarily on businesses with annual sales between $10 million and $75 million. Glendale Federal offered its commercial markets group clients business checking accounts, various cash management services, standby and commercial letters of credit, revolving lines of credit and term loans with a maximum limit of $15 million. Specific loan terms were determined based upon the financial strength of the borrower, the amount of credit granted, and the type and quality of collateral available. At June 30, 1998, line of credit commitments and deposit relationships under the commercial markets group totaled $69.1 million and $87.4 million, respectively.

Glendale Federal's agribusiness lending program served the southern half of the Central Valley region of California and specialized in crop production loans for crops such as cotton, grapes, nuts and stone fruits, and dairy operations, together with loans for other agricultural businesses, such as processors and packers. At June 30, 1998, line of credit commitments and deposit relationships under the agribusiness lending program totaled $159.8 million and $16.8 million, respectively.

In the fourth quarter of fiscal 1997, Glendale Federal added SBA lending to its business banking segment to complement the SBA program acquired in the TransWorld transaction. The SBA is a federal government agency created to assist small businesses by providing guarantees of loans made to eligible small businesses. Glendale Federal will focused on the long-term needs of small businesses and provided long-term, variable and fixed-rate financing to expanding small businesses.

In August 1997, Glendale Federal was granted statewide preferred lender status by the SBA. This designation allowed Glendale Federal to approve SBA-guaranteed loan applications without prior review from the SBA, thereby speeding up the decision-making process for small business loan applications. The preferred lender, the highest lender status awarded by the SBA, enjoys priority funding and service from the SBA. Loans approved through the preferred lender program carry a maximum SBA guarantee of 75 percent. At June 30, 1998, line of credit commitments and deposit relationships under the SBA lending program totaled $30.4 million and $5.5 million, respectively.

Glendale Federal's business banking loan products primarily had adjustable interest rates that were indexed to the Prime Rate, as published in The Wall Street Journal.

CONSUMER BANKING

Glendale Federal's consumer banking program focused on increasing checking account relationships, especially the Infinity account, which was Glendale Federal's multi-relationship deposit account, rather than the higher-rate certificates of deposit that have been the traditional source of deposit funding for thrift institutions. The Infinity account allowed customers to manage their finances, including checking, money market, savings, and certificate of deposit accounts, borrowings and investments, through the use of a series of linked asset and loan accounts with both automatic "sweep" and discretionary transfer features, all of which were reflected on a single statement. The customer had the ability to transfer funds to and from checking or money market accounts.

On the lending side, the Infinity account encouraged the use of secured and unsecured lines of credit that carried higher yields than single-family loans. These lines of credit products included a home equity line of credit, a line of credit secured by a savings deposit, and an unsecured line of credit and were primarily adjustable-rate products indexed to the Prime Rate, as published in the Wall Street Journal.

REAL ESTATE LENDING

Glendale Federal's real estate lending activity was focused on the purchase or origination of loans secured by single-family residential real estate. Income property lending (loans secured by multi-family residential and non-residential properties) and construction lending activities were discontinued in 1991, except for the resumption of residential construction lending for a short period during fiscal 1996. Thereafter, income property lending was restricted to refinancing existing loans or to financing the disposition of REO and a program initiated in fiscal 1998 of lending on multi-family residences located in low- and moderate-income and minority communities. Construction lending was restricted to fulfilling commitments under outstanding loans.

The largest portion of Glendale Federal's real estate loans were made to homeowners on the security of single-family residences for the purposes of enabling them to purchase or refinance such property. Most of Glendale Federal's single-family residential permanent loan contracts provided for amortization of principal over 30 years. These loans, however, remained outstanding for much shorter periods because the original loans were refinanced or the borrowers repaid the loans in full upon sale of the properties securing the loans, or the underlying collateral was acquired in settlement of the loan.

Glendale Federal originated and purchased for its own portfolio, depending upon certain yield and other guidelines, ARMs (loans bearing interest rates that changed periodically based on changes in a reference index), loans with rates that were fixed for up to five years and then converted to adjustable rates for the remainder of the loan term, and fixed-rate loans.

The ARM programs offered by Glendale Federal provided for interest rates that adjusted either monthly, semi-annually or annually, beginning three, six or twelve months from the inception of the loan, based primarily on changes in the average weekly yield on specified maturities of U.S. Treasury Securities or on changes in the monthly weighted average cost of funds for savings institutions in the Eleventh District of the Federal Home Loan Bank System ("COFI"). Adjustments to the required monthly payment of principal and interest on such loans occurred either monthly, semi-annually or annually, depending on the loan program selected by the borrower. Glendale Federal has placed greater emphasis on the origination of loans whose rates were tied to U.S. Treasury Securities since this index was more sensitive to changes in market rates.

Glendale Federal also offered several programs that provided for interest rates that were fixed for up to five years and then converted to adjustable rates tied to the same Treasury indices as certain of Glendale Federal's other ARM products. See "--Loans Receivable" below for a summary of Glendale Federal's loan originations by note type.

While ARMs have the advantage of reducing an institution's sensitivity to interest rate fluctuations, they present certain risks not associated with traditional fixed-rate mortgages. These include: (i) the risk that the borrower, having qualified for the loan based upon interest rates prevailing at the time of origination, may be unable to make the higher payments required under the ARM when increases in the applicable index rates increase the rate payable on the loan; and (ii) the risk that "negative amortization" of principal (that is, the addition of a portion of monthly interest accruals to the principal amount of the loan) may occur in those ARMs which provide for limits in the monthly payment increase and do not correspondingly limit the rate increase. Glendale Federal attempted to mitigate these risks by the use of underwriting standards that included analyzing the financial impact to the borrower resulting from payment adjustments, and which required borrowers to qualify at the greater of the initial interest rate plus the first annual adjustment or at a predetermined interest rate based on LTV.

Loans with an LTV in excess of 80% were required by Glendale Federal policy to have private mortgage insurance, except that loans meeting certain criteria could be made, at the option of the loan applicant, without mortgage insurance, but at higher fees, interest rates and margins to reflect the increased credit risk assumed by Glendale Federal. This option was available only on loans with a maximum loan amount of $300,000 and an

LTV ratio of no more than 90%, where the purpose of the loan was to purchase, or to refinance an existing Glendale Federal loan secured by a one-unit, single-family residence. This alternative was only available on loans that did not have negative amortization features.

Glendale Federal discontinued significant originations of loans with negative amortization features in fiscal 1991 and did not separately monitor the historical loss experience on such loans. Negative amortization was not considered by Glendale Federal to be a sufficiently significant credit risk characteristic to require specific identification for historical loss monitoring purposes. Most of the loans with negative amortization features remaining in Glendale Federal's portfolio were income property loans that are individually monitored to assess loss potential. Because negatively amortizing income property loans of this type were no longer being originated by Glendale Federal, the balances on such loans are declining on both an absolute and relative basis.

As of June 30, 1998 and 1997, the balances of loans owned by Glendale Federal that were subject to negative amortization totaled approximately $3.1 billion and $3.2 billion, respectively, including cumulative negative amortization at such dates of approximately $1.0 million and $0.9 million, respectively. Approximately 74% of such loans are secured by multi-family or non-residential real estate.

Glendale Federal offers a loan program called California Partners to low-and moderate-income and minority borrowers. This program provided more favorable pricing and flexible underwriting standards, including reduced down payment and reduced income documentation requirements. These criteria were designed to enable eligible borrowers who might not be able to satisfy conventional underwriting standards to qualify for a home loan. Glendale Federal originated $181.6 million and $90.6 million of such loans in fiscal 1998 and 1997, respectively.

Loan Purchase Activity

Glendale Federal purchased single-family residential real estate loans in the secondary mortgage market to supplement its retail single-family loan originations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Glendale Federal--Balance Sheet Analysis--Loans Receivable," for a three-year summary of secondary market loan purchases by note type. The servicing rights for these loans were typically retained by the seller. The servicer collected the mortgage payments, passed through the interest and principal due Glendale Federal under Glendale Federal's loan purchase agreement, and retained a servicing fee typically ranging between 0.25% and 0.50% on the unpaid principal balances of the loans. Glendale Federal determined the timing and amount of its whole loan purchases based on available liquidity, current asset yields and Glendale Federal's interest rate risk management policy. Glendale Federal's investment and underwriting policies governing purchased loans were the same as its policies for originating single-family residential loans. Loans purchased by Glendale Federal are accepted or settled only after Glendale Federal's loan underwriting and appraisal staff performed a review of a representative sample of loans in the pool to be purchased.

To reduce Glendale Federal's loss exposure, Glendale Federal implemented procedures designed to monitor and analyze Glendale Federal's portfolio of mortgage loans serviced by other institutions (the "LSBO Portfolio") and to ensure the servicer's compliance with its servicing agreement with Glendale Federal. The majority of the loans in this portfolio were originated during the last five years. At June 30, 1998, 97.6% of the LSBO Portfolio was secured by single-family residential real estate.

The following tables set forth the composition of Glendale Federal's LSBO Portfolio by note type and by state as of the dates indicated (dollars in thousands):

	JUNE 30,				
	1998	1997	1996	1995	1994
Adjustable-rate	$1,724,491	$2,245,683	$2,075,212	$ 392,078	$151,555
Fixed-rate	3,397,111	2,082,616	1,068,635	1,358,107	486,685
	$5,121,602	$4,328,299	$3,143,847	$1,750,185	$638,240
Weighted average rate on portfolio at end of period	7.46%	7.61%	7.37%	7.74%	7.07%

	JUNE 30,				
	1998	1997	1996	1995	1994
California	$2,342,130	$1,932,794	$1,442,451	$ 581,305	$243,417
New York	229,237	244,111	233,659	116,303	35,138
Virginia	225,533	201,829	97,393	81,814	24,222
Florida	212,160	190,412	123,122	112,798	83,062
Maryland	178,361	156,964	93,677	76,294	24,343
New Jersey	174,162	169,456	137,311	98,215	34,493
Other(1)	1,760,019	1,432,733	1,016,234	683,456	193,565
	$5,121,602	$4,328,299	$3,143,847	$1,750,185	$638,240

(1) The states with the largest balance in the "Other" category were Illinois with $167,319 at June 30, 1998; Texas with $152,078 at June 30, 1997; Illinois with $101,094 at June 30 1996; Texas with $71,028 at June 30 1995; and Massachusetts with $29,510 at June 30, 1994.

LOANS RECEIVABLE

Loan Portfolio Composition

The following table summarizes the composition of Glendale Federal's loan portfolio, including loans held for sale, by property type as of the dates indicated (dollars in thousands):

	JUNE 30,				
	1998	1997	1996	1995	1994
Real estate loans:					
Existing structures:					
1-4 units	$10,299,303	$ 8,785,539	$ 7,535,048	$ 6,292,589	$ 5,481,781
5-36 units	1,504,288	1,472,654	1,559,097	1,666,032	1,895,203
37 or more units	313,575	345,052	400,415	478,803	556,440
Non-residential	1,336,126	1,196,703	1,338,975	1,593,839	1,749,988
Construction:					
1-4 units	--	7,726	16,794	2,113	35,602
5-36 units	570	4,895	5,445	7,624	25,574
37 or more units	--	--	--	--	7,748
Non-residential	--	531	--	500	8,870
Land	22,754	9,779	18,250	36,251	40,888
Home equity and improvement	56,335	28,563	28,470	30,468	74,966
Total real estate loans	13,532,951	11,851,442	10,902,494	10,108,219	9,877,060
Non-real estate loans:					
Equity	69,594	45,709	10,079	12,750	17,858
Unsecured	50,502	39,712	21,788	17,600	27,360
Deposit account	16,737	15,702	17,113	17,571	20,383
Auto and recreational vehicle	8,699	13,838	17,588	24,739	37,855
Mobile home	4,518	5,724	6,590	7,943	3,593
Total consumer loans	150,050	120,685	73,158	80,603	107,049
Commercial loans	290,515	160,061	10,391	22,844	47,212
Total non-real estate loans	440,565	280,746	83,549	103,447	154,261
Total gross loans receivable	13,973,516	12,132,188	10,986,043	10,211,666	10,031,321
Unearned discounts (net of premiums)	(21,861)	(38,824)	(34,772)	(70,038)	(50,407)
Undisbursed loan funds	(216)	(1,807)	(12,160)	(4,653)	(22,215)
Deferred loan origination fees	(20,377)	(22,705)	(24,446)	(28,536)	(42,205)
Allowance for loan losses	(156,482)	(163,759)	(186,756)	(209,142)	(320,714)
Loans receivable, net	$13,774,580	$11,905,093	$10,727,909	$ 9,899,297	$ 9,595,780
Weighted average yield on loan portfolio at end of period	7.75%	7.73%	7.74%	7.91%	6.87%

The following table sets forth the activity in Glendale Federal's loan portfolio for the periods indicated (dollars in thousands):

	YEARS ENDED JUNE 30,				
	1998	1997	1996	1995	1994
Loans, beginning balance	$11,905,093	$10,727,909	$ 9,899,297	$9,595,780	$10,850,039
Originations(1)	1,182,590	731,307	713,857	805,897	1,747,519
Purchases	2,720,739	2,430,461	2,107,509	1,549,955	521,357
Acquisition of CenFed Bank loans(2)	1,415,858	--	--	--	--
Acquisition of TransWorld loans(2)	--	135,766	--	--	--
Acquisition of OneCentral loans(2)	--	37,992	--	--	--
Acquisition of Union Federal loans	--	--	--	398,635	--
Principal repayments	(2,859,855)	(1,894,953)	(1,430,312)	(892,977)	(1,252,503)
Sales	(344,348)	(78,809)	(275,428)	(156,494)	(348,838)
Sale of University Savings Bank loans(3)	--	--	--	(815,406)	--
Principal reductions due to foreclosures	(96,448)	(156,820)	(186,157)	(294,822)	(328,022)
Loans exchanged for mortgage-backed securities	(171,737)	(42,222)	(145,826)	(268,436)	(1,470,844)
Decrease in allowance for loan losses	7,277	22,997	22,386	111,572	14,068
Accretion of net unearned discount(4)	3,458	(575)	12,618	8,394	6,464
(Increase) decrease in undisbursed loan funds	1,591	10,353	(7,507)	11,073	5,509
Other changes, net	10,362	(18,313)	17,472	(153,874)	(148,969)
Net increase (decrease)	1,869,487	1,177,184	828,612	303,517	(1,254,259)
Loans, ending balance	$13,774,580	$11,905,093	$10,727,909	$9,899,297	$ 9,595,780
Weighted average yield on originations during the period	7.44%	7.94%	7.90%	8.08%	6.17%
Weighted average yield on purchases during the period	7.29%	7.83%	6.78%	8.68%	8.69%

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(1) Net of refinanced portion of Glendale Federal's loans, which amounted to, in the years ended June 30: 1998--$421,685; 1997--$86,566; 1996--$153,449; 1995--$61,553; and 1994--$390,370.

(2) For information regarding the CenFed Bank, TransWorld and OneCentral transactions, see Note 3 of the Notes to Consolidated Financial Statements of Glendale Federal, included elsewhere in this Prospectus. The weighted average yields of these loans at acquisition were 8.48%, 10.26%, 9.60% and 7.94%, respectively.

(3) These loans were owned by University Savings Bank, a Washington state chartered savings bank subsidiary of Glendale Federal that was sold in fiscal 1995.

(4) Includes accretion of discount and amortization of premium on acquired loans.

The following tables present Glendale Federal's gross loan portfolio, including loans owned and serviced by Glendale Federal and loans owned and serviced by others, by note type and the distribution of adjustable-rate loans among the major underlying indices at the dates indicated (dollars in millions):

	JUNE 30, 1998			
	LOANS OWNED AND SERVICED BY GLENDALE FEDERAL	LOANS OWNED BY GLENDALE FEDERAL AND SERVICED BY OTHERS	TOTAL	PERCENT OF TOTAL
Adjustable:				
6-month Treasury Bills	$ 261	$ 22	$ 283	2%
1-Year Treasury Bills (1)	2,270	1,634	3,904	28
11th District Cost of Funds	3,648	63	3,711	27
Prime	561	--	561	4
Other	315	6	321	2
	7,055	1,725	8,780	63
Fixed	1,797	3,397	5,194	37
Total	$8,852	$5,122	$13,974	100%

	JUNE 30, 1997			
	LOANS OWNED AND SERVICED BY GLENDALE FEDERAL	LOANS OWNED BY GLENDALE FEDERAL AND SERVICED BY OTHERS	TOTAL	PERCENT OF TOTAL
Adjustable:				
6-month Treasury Bills	$ 328	$ 32	$ 360	3%
1-Year Treasury Bills (1)	2,452	2,135	4,587	38
11th District Cost of Funds	3,551	71	3,622	30
Prime	288	--	288	2
Other	115	7	122	1
	6,734	2,245	8,979	74
Fixed	1,070	2,083	3,153	26
Total	$7,804	$4,328	$12,132	100%

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(1) Includes $1.2 billion at June 30, 1998 and $1.1 billion at June 30, 1997 of loans with interest rates that are fixed for three to five years and then convert to adjustable rates for the remainder of the loan term.

The following table summarizes Glendale Federal's term loan originations, including the refinanced portion of Glendale Federal's loans, for the periods indicated (in thousands):

	YEARS ENDED JUNE 30,				
	1998	1997	1996	1995	1994
Fixed	$1,200,000	$323,824	$371,611	$152,921	$ 655,341
Convertible/fixed	220,853	188,324	243,436	270,693	690,759
ARM	99,001	224,978	164,817	296,380	636,912
Call-date	17,405	27,763	43,595	109,322	69,778
Construction/tract	--	6,780	21,957	19,337	66,279
Total real estate	1,537,259	771,669	845,416	848,653	2,119,069
Consumer	12,767	16,100	20,504	18,797	18,820
Commercial	54,249	30,104	1,386	--	--
	$1,604,275	$817,873	$867,306	$867,450	$2,137,889

As of June 30, 1998, approximately $5.1 billion of fixed-rate loans and $8.5 billion of adjustable-rate loans were contractually due after one year. The following table summarizes the remaining contractual maturities of Glendale Federal's gross loan portfolio as of June 30, 1998 (in thousands):

	REAL ESTATE LOANS	CONSUMER LOANS	COMMERCIAL LOANS	TOTAL
Due in year 1	$ 120,845	$ 66,384	$182,177	$ 369,406
Due in year 2	108,215	4,354	9,706	122,275
Due in year 3	83,841	5,597	14,584	104,022
Due after year 3 through year 5	331,157	62,256	39,747	433,160
Due after year 5 through year 10	670,231	9,282	30,169	709,682
Due after year 10 through year 15	309,458	1,831	3,634	314,923
Due after year 15	11,909,204	346	10,498	11,920,048
	$13,532,951	$150,050	$290,515	$13,973,516

Actual repayments may differ from contractual maturities as borrowers generally have the right to prepay loans.

Delinquencies

When a borrower fails to make a required payment on a loan and does not promptly cure the delinquency, the loan is classified as delinquent. Glendale Federal's normal practice for delinquent loans was to contact the borrower at regular intervals in an effort to bring the loan to a current status. If a delinquency was not cured, foreclosure proceedings are typically instituted by Glendale Federal by the ninetieth day of delinquency.

During fiscal 1998, Glendale Federal's delinquencies, expressed in dollars, declined in total by $31.0 million, or 14%, to $184.3 million, as well as in all categories of loans except for increases of $2.5 million and $141,000 in the multi-family (37 or more units) residential and consumer loan portfolios, respectively. The overall improvement in payment performance of Glendale Federal's portfolio reflected continuing economic recovery in California, which was Glendale Federal's primary lending area. The increase in the multi-family (37 or more units) residential delinquencies was primarily the result of one loan for $2.7 million in the 31-60 days delinquent category which was repaid in July 1998. Consumer loan delinquencies, however, increased by 4%, to $3.9 million, at June 30, 1998. Delinquencies as a percent of consumer loans receivable declined by 51 basis points during fiscal 1998 due to portfolio growth.

The following table presents the principal amount and percentage of Glendale Federal's loan delinquencies, in each case by property type, as of the dates indicated (dollars in thousands):

	JUNE 30, 1998	% OF TYPE OF GROSS LOANS	JUNE 30, 1997	% OF TYPE OF GROSS LOANS	JUNE 30, 1996	% OF TYPE OF GROSS LOANS	JUNE 19
Single-family 1-4 units:							
31-60 Days	$ 43,043	0.41%	$ 46,172	0.52%	$ 57,047	0.75%	$ 57
61-90 Days	23,579	0.23	17,030	0.19	18,416	0.24	26
Over 90 Days	70,136	0.68	82,989	0.95	119,978	1.59	110
	136,758	1.32	146,191	1.66	195,441	2.58	195
Multi-family 5-36 units:							
31-60 Days	9,248	0.62	8,944	0.61	9,528	0.61	19
61-90 Days	1,463	0.10	3,021	0.20	7,601	0.49	11
Over 90 Days	6,755	0.45	17,713	1.20	25,595	1.63	32
	17,466	1.17	29,678	2.01	42,724	2.73	63
Multi-family 37 or more units:							
31-60 Days	3,419	1.10	1,312	0.38	2,126	0.53	4
61-90 Days	--	--	--	--	--	--	3
Over 90 Days	417	0.13	--	--	14,461	3.61	13
	3,836	1.23	1,312	0.38	16,587	4.14	20
Non-residential:							
31-60 Days	5,632	0.42	11,240	0.93	3,169	0.23	19
61-90 Days	1,715	0.12	3,079	0.26	2,762	0.20	6
Over 90 Days	11,774	0.87	14,149	1.17	17,907	1.33	39
	19,121	1.41	28,468	2.36	23,838	1.76	65
Commercial:							
31-60 Days	804	0.28	3,235	2.02	38	0.37	
61-90 Days	1,262	0.43	1,935	1.21	--	--	
Over 90 Days	1,191	0.41	726	0.45	--	--	
	3,257	1.12	5,896	3.68	38	0.37	
Consumer:							
31-60 Days	1,618	1.08	1,560	1.29	1,081	1.48	2
61-90 Days	939	0.62	624	0.52	612	0.84	
Over 90 Days	1,330	0.89	1,562	1.29	1,001	1.36	
	3,887	2.59	3,746	3.10	2,694	3.68	4
Total:							
31-60 Days	63,764	0.46	72,463	0.60	72,989	0.66	103
61-90 Days	28,958	0.21	25,689	0.21	29,391	0.27	48
Over 90 Days	91,603	0.65	117,139	0.96	178,942	1.63	197
	$184,325	1.32%	$215,291	1.77%	$281,322	2.56%	$349

	% OF TYPE OF GROSS LOANS	JUNE 30, 1994	% OF TYPE OF GROSS LOANS
Single-family 1-4 units:			
31-60 Days	0.92%	$ 44,181	0.79%
61-90 Days	0.42	21,919	0.39
Over 90 Days	1.75	127,556	2.28
	3.09	193,656	3.46
Multi-family 5-36 units:			
31-60 Days	1.15	59,663	3.11
61-90 Days	0.68	26,841	1.40
Over 90 Days	1.96	96,920	5.04
	3.79	183,424	9.55
Multi-family 37 or more units:			
31-60 Days	0.85	14,434	2.56
61-90 Days	0.67	8,682	1.54
Over 90 Days	2.79	66,254	11.74

	4.31	89,370	15.84
Non-residential:			
31-60 Days	1.21	31,637	1.76
61-90 Days	0.39	25,767	1.43
Over 90 Days	2.43	152,415	8.47
	4.03	209,819	11.66
Commercial:			
31-60 Days	--	952	2.02
61-90 Days	0.39	--	--
Over 90 Days	--	5,025	10.64
	0.39	5,977	12.66
Consumer:			
31-60 Days	2.74	3,504	3.27
61-90 Days	1.17	1,040	0.97
Over 90 Days	1.12	1,711	1.60
	5.03	6,255	5.84
Total:			
31-60 Days	1.01	154,371	1.54
61-90 Days	0.48	84,249	0.84
Over 90 Days	1.93	449,881	4.48
	3.42%	$688,501	6.86%

Non-Accrual Loans

All loans delinquent for more than 90 days were placed on non-accrual status. Loans delinquent 90 days or less were placed on non-accrual status if the borrower is deemed by management to be unable to continue performance. As of June 30, 1998 and 1997, loans 90 days or less delinquent totaling $4.4 million and $23.2 million, respectively, had been placed on non-accrual status. Placement of loans on non-accrual status does not necessarily mean that the outstanding loan principal will not be collected but rather that timely collection of principal and interest is in question. When a loan is placed on non-accrual status, interest accrued but not received is reversed.

Under Glendale Federal's policies, a non-accrual loan could be restored to accrual status when principal and interest payments were brought current or when brought to 90 days or less delinquent and continuing payment of principal and interest was expected. The amount of interest income which would have been recorded in fiscal 1998, 1997 and 1996 had Glendale Federal's non-accrual loans been current in accordance with their original terms was $9.1 million, $12.4 million and $16.3 million, respectively. The amount of interest income on these loans that was included in net earnings in fiscal 1998, 1997 and 1996 was $3.0 million, $5.3 million and $5.8 million, respectively. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Glendale Federal--Balance Sheet Analysis--Non-Performing Assets and Restructured Loans" for further discussion of non-accrual loans. See Note 7 of the Notes to Consolidated Financial Statements of Glendale Federal, included elsewhere in this Prospectus, for information on the geographical location of non-accrual loans at June 30, 1998 and 1997.

The following table shows Glendale Federal's non-accrual loans by property type as of the dates indicated (in thousands):

	JUNE 30,				
	1998	1997	1996	1995	1994
Single-family 1-4 units	$70,188	$ 82,989	$119,978	$111,881	$130,554
Multi-family:					
5-36 units	7,615	21,087	33,123	50,487	112,400
37 or more units	417	3,121	14,461	21,255	84,937
Non-residential	14,504	30,672	23,860	59,430	172,897
Total real estate	92,724	137,869	191,422	243,053	500,788
Commercial	1,828	859	22	283	6,044
Consumer	1,442	1,567	1,001	906	1,711
	$95,994	$140,295	$192,445	$244,242	$508,543

Restructured Loans

Glendale Federal has agreed to loan modifications on certain existing single-family, multi-family residential and non-residential loans in the form of interest rate and other concessions that are not generally available for similar loans in order to maximize the recovery of its loans that are not performing under their original terms. Such loans that are performing in accordance with their modified terms are presented as "restructured loans." Restructured loans are placed on non-accrual status (and presented as "non-accrual loans") if they become more than 90 days delinquent or the borrower otherwise fails, or is not expected, to perform in accordance with the restructure agreement. See Note 1 of the Notes to Consolidated Financial Statements of Glendale Federal, included elsewhere in this Prospectus, for additional discussion of Glendale Federal's accounting policy with respect to restructured loans.

Interest income with respect to restructured loans would have been $2.2 million, $2.9 million and $0.9 million in fiscal 1998, 1997 and 1996, respectively, under their original terms. Actual interest income recognized by Glendale Federal with respect to restructured loans was $1.8 million, $2.4 million and $0.7 million in fiscal 1998, 1997 and 1996, respectively.

As of June 30, 1998, Glendale Federal's largest restructured loan was secured by a 59 unit apartment complex located in Southern California and had a balance outstanding of $3.0 millon, which represented 14% of all restructured loans. As of June 30, 1998, except for $222,000 of single-family restructured loans in Florida, all of Glendale Federal's loans were in the state of California. See "Management's Discussion and Analysis of

Financial Condition and Results of Operations--Glendale Federal--Balance Sheet Analysis--Non-Performing Assets and Restructured Loans" for fiscal 1998 restructured loans activity.

The following table shows Glendale Federal's restructured loans by property type as of the dates indicated (in thousands):

	JUNE 30,				
	1998	1997	1996	1995	1994
Single-family 1-4 units	$ 2,138	$ 2,168	$ 3,222	$ 4,601	$ --
Multi-family:					
5-36 units	5,074	3,676	2,197	10,717	5,338
37 or more units	6,782	18,331	2,251	7,462	14,456
Non-residential	7,471	6,889	1,524	15,762	14,424
	$21,465	$31,064	$ 9,194	$38,542	$34,218

Potential Problem Assets

Impaired Loans

Impaired secured loans were carried in Glendale Federal's accounting records at the fair value of the collateral securing the loan less estimated selling costs. Impaired unsecured loans were recorded at the present value of the expected future cash flows from the loans, discounted at the loan's effective interest rate, or at the loan's observable market price. Impaired loans excluded large groups of smaller balance homogeneous loans that are collectively evaluated for impairment. For Glendale Federal, loans collectively reviewed for impairment included single-family loans with unpaid balances of less than $500,000, substantially all consumer loans, business banking loans with principal balances less than $100,000, and performing multi-family and non-residential real estate loans ("income property loans") having principal balances of less than $1 million, excluding loans which have entered the workout process.

Glendale Federal considered a loan to be impaired when, based upon current information and events, Glendale Federal believed it was probable that it will be unable to collect all amounts due according to the contractual terms of the loan agreement on a timely basis. Non-accrual income property loans, non-accrual single-family loans or borrowing relationships with unpaid balances greater than $500,000, non-accrual business banking loans with unpaid balances of greater than $100,000, troubled debt restructurings, and certain performing loans were measured individually for impairment. Loans not included in the preceding categories were collectively measured for impairment. Specific valuation allowances were established for impaired collateralized loans at the difference between the loan amount and the fair value of the related collateral, reduced by estimated selling costs, and for unsecured loans at either the present value of the expected future cash flows from the loan, discounted at the loan's effective interest rate, or at the loan's observable market price. Impairment losses were recognized through an increase in the allowance for loan losses and a corresponding charge to the provision for loan losses. Adjustments to impairment losses due to changes in the fair value of the collateral properties for impaired loans were included in the provision for loan losses. While a loan was on non-accrual status, interest is recognized only as cash is received and only if no portion of the loan's balance is classified "Doubtful." Impaired loans may be left on accrual status during the period Glendale Federal was pursuing repayment of the loan. When an impaired loan was either sold, transferred to REO or written down, any related valuation allowance was charged-off against the allowance for loan losses. Loans were placed on non-accrual status at the point either: (1) they become 90 days delinquent; or (2) Glendale Federal determines the borrower was incapable of, or had ceased efforts toward, continuing performance under the terms of the loan.

At June 30, 1998 and 1997, the recorded investment in loans identified by Glendale Federal as impaired totaled $109.9 million and $142.8 million, respectively, and the total specific allowance for loan losses related to such loans was $13.4 million and $14.0 million, respectively. See Note 7 of the Notes to Consolidated Financial Statements of Glendale Federal, included elsewhere in this Prospectus, for additional information regarding impaired loans.

Classification of Assets

Savings institutions are required under applicable law and regulations to review their assets on a regular basis and to classify them as "satisfactory", "special mention", "substandard", "doubtful" or "loss". An asset which possesses no apparent weakness or deficiency is designated "satisfactory". An asset which possesses weaknesses or deficiencies deserving close attention is designated as "special mention". An asset, or a portion thereof, is generally classified as "substandard" if it possesses a well-defined weakness which could jeopardize the timely liquidation of the asset or realization of the collateral at the asset's book value. Thus, these assets are characterized by the possibility that the institution will sustain some loss if the deficiencies are not corrected. An asset, or portion thereof, is classified as "doubtful" if a probable loss of principal and/or interest exists but the amount of the loss, if any, is subject to the outcome of future events which are undeterminable at the time of classification. If an asset, or portion thereof, is classified as "loss," Glendale Federal either establishes a specific valuation allowance equal to the amount classified as loss or charges off such amount. The Regional Director of the OTS has the authority to approve, disapprove or modify any asset classification or any amount established as an allowance pursuant to such classification. Glendale Federal monitors the level of assets within each of the asset classification categories and utilizes this information along with its review of the underlying collateral and other factors in determining the appropriate level of loss allowances it maintains from period to period. See "--Credit Loss Experience" below for further information.

Significant Loan Relationships

Most of Glendale Federal's gross loan portfolio consisted of loans with individual balances of less than $1 million. At June 30, 1998 Glendale Federal's largest borrower had eight performing loans secured by multi-family residential and non-residential properties with outstanding balances totaling $16.0 million. The second largest borrower at that date had six loans outstanding totaling $14.8 million, all of which were performing and were secured by multi-family residential properties. The third largest borrower at that date was an investor in multi-family housing projects in Southern California with 14 loans outstanding totaling $14.1 million, of which four loans totaling $3.3 million were restructured. The fourth largest borrower at that date had five performing loans totaling $13.3 million which were secured by non-residential properties. The fifth largest borrower at that date had one performing loan with an outstanding balance of $13.0 million secured by a multi-family residential property. Glendale Federal had no other borrowing relationships exceeding $10 million at June 30, 1998.

Glendale Federal's single-family residential and consumer loans were relatively homogeneous and typically no single loan was individually significant in terms of size or risk of loss. Glendale Federal reviewed most of its single-family residential and consumer portfolios by analyzing the performance and the composition of these portfolios as a whole. Glendale Federal's monitoring process for non-homogenous multi-family residential and non-residential loans encompassed a periodic review of the individual loans. Glendale Federal reviewed--annually if rated "satisfactory" or quarterly if rated "special mention," "substandard," "doubtful," or "loss"--any loan with an unpaid principal balance of more than $1 million, and any relationship with a single borrower whose aggregate loan balances exceed $3 million. The reviews were based on information available and generally included analysis of operating statements, occupancy levels, debt coverage, the condition and the appraised value of the collateral, the borrower's financial strength and other factors. Glendale Federal periodically reviewed all individual commercial loans with a balance of $100,000 or more. Loans that were rated "satisfactory" were reviewed at least annually, and those that were rated "special mention," "substandard," "doubtful" or "loss" were reviewed quarterly. Glendale Federal maintained special departments with responsibility for resolving problem loans and liquidating collateral or selling foreclosed real estate.

Credit Loss Experience

Credit losses are inherent in the business of lending. The allowance for loan losses is established to provide for such losses and is based on management's assessment of trends in the homogeneous portfolio as well as the results of management's periodic review of the individual loans in the non-homogeneous portfolio. Specific valuation allowances are established for impaired loans at the difference between the loan amount and the fair value of the collateral less estimated selling costs. The general allowance for loan losses is based upon a number of factors, including asset classification, historical loss experience, loan portfolio composition, industry experience, prevailing and forecasted economic and market conditions and management's judgment. Since the factors on which the general allowance is based are subject to change from time to time as a result of changes in relevant conditions and management's knowledge thereof, no assurance can be given that additional provisions

for loss will not be required in future periods as a result of changes in economic and market conditions, management's assessments thereof or other factors. The OTS, as part of its examination process, reviewed the allowances for estimated losses and may require that additions be made to such allowances based on their judgments of the information available to them at the time of their examination.

A summary of activity in the allowance for loan losses during the periods indicated is set forth below (dollars in thousands):

	YEARS ENDED JUNE 30,				
	1998	1997	1996	1995	1994
Allowance for loan losses, beginning balance	$163,759	$186,756	$ 209,142	$ 320,714	$ 334,782
Provision for loan losses	(1,727)	25,204	40,350	66,150	139,726
	162,032	211,960	249,492	386,864	474,508
Charge-offs:					
Single-family 1-4 units	(11,243)	(25,773)	(33,617)	(37,194)	(43,248)
Multi-family:					
5-36 units	(6,239)	(10,756)	(13,175)	(54,314)	(39,743)
37 or more units	(551)	(5,860)	(7,923)	(33,932)	(28,149)
Non-residential	(5,619)	(12,996)	(14,490)	(73,602)	(43,675)
Total real estate	(23,652)	(55,385)	(69,205)	(199,042)	(154,815)
Commercial	(1,992)	(68)	(974)	(2,340)	(6,353)
Consumer	(3,408)	(3,043)	(2,842)	(4,595)	(6,904)
Total charge-offs	(29,052)	(58,496)	(73,021)	(205,977)	(168,072)
Recoveries:					
Single-family 1-4 units	272	167	149	334	1,013
Multi-family:					
5-36 units	--	8	288	--	440
37 or more units	286	248	231	800	878
Non-residential	799	1,159	2,929	9,572	2,339
Total real estate	1,357	1,582	3,597	10,706	4,670
Commercial	4,341	3,575	5,590	4,748	6,873
Consumer	901	1,062	1,098	1,840	2,735
Total recoveries	6,599	6,219	10,285	17,294	14,278
Net charge-offs	(22,453)	(52,277)	(62,736)	(188,683)	(153,794)
Additions due to acquisitions(1):					
Single-family 1-4 units	5,968	--	--	2,535	--
Non-residential	10,921	219	--	14,815	--
Commercial	--	3,857	--	--	--
Consumer	14	--	--	--	--
Total additions	16,903	4,076	--	17,350	--
Deletions due to sale of subsidiary(2):					
Single-family 1-4 units	--	--	--	(2,389)	--
Multi-family:					
5-36 units	--	--	--	(1,282)	--
37 or more units	--	--	--	(401)	--
Non-residential	--	--	--	(2,127)	--
Consumer	--	--	--	(190)	--
Total deletions	--	--	--	(6,389)	--
Allowance for loan losses, ending balance	$156,482	$163,759	$ 186,756	$ 209,142	$ 320,714

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(1) Represents the allowance for loan losses recorded in connection with the acquisitions of CenFed Bank in fiscal 1998 and TransWorld and OneCentral in fiscal 1997, and with the acceptance of loans receivable as part of the consideration for assuming the deposit liabilities of Union Federal in fiscal 1995. For additional information, see Note 3 of the Notes to Consolidated Financial Statements of Glendale Federal, included elsewhere in this Prospectus.

(2) Represents the reduction of the allowance for loan losses due to the sale of University Savings.

The following table indicates the ratio of Glendale Federal's charge-offs (net of recoveries) to average gross loans by category for the periods indicated (dollars in thousands):

	YEARS ENDED JUNE 30,				
	1998	1997	1996	1995	1994
Single-family 1-4 units:					
Average gross loans	$ 9,588,733	$ 8,201,070	$ 6,952,741	$ 5,958,760	$ 5,823,737
Net charge-offs	10,971	25,606	33,468	36,860	42,235
Net charge-offs/average gross loans	0.11%	0.31%	0.48%	0.62%	0.73%
Multi-family 5-36 units:					
Average gross loans	1,491,203	1,521,046	1,619,099	1,797,216	2,054,056
Net charge-offs	6,239	10,748	12,887	54,314	39,303
Net charge-offs/average gross loans	0.42%	0.71%	0.80%	3.02%	1.91%
Multi-family 37 or more units:					
Average gross loans	329,314	372,734	439,609	521,496	633,694
Net charge-offs	265	5,612	7,692	33,132	27,271
Net charge-offs/average gross loans	0.08%	1.51%	1.75%	6.35%	4.30%
Non-residential:					
Average gross loans	1,282,947	1,282,119	1,493,908	1,715,168	1,940,320
Net charge-offs	4,820	11,837	11,561	64,030	41,336
Net charge-offs/average gross loans	0.38%	0.92%	0.77%	3.73%	2.13%
Commercial:					
Average gross loans	225,288	85,226	16,618	35,028	66,061
Net charge-offs (recoveries)	(2,349)	(3,507)	(4,616)	(2,408)	(520)
Net charge-offs (recoveries)/ average gross loans	(1.04)%	(4.11)%	(27.78)%	(6.87)%	(0.79)%
Consumer:					
Average gross loans	135,367	96,922	76,880	93,826	135,704
Net charge-offs	2,507	1,981	1,744	2,755	4,169
Net charge-offs/average gross loans	1.85%	2.04%	2.27%	2.94%	3.07%
Total:					
Average gross loans	$13,052,852	$11,559,117	$10,598,855	$10,121,494	$10,653,572
Net charge-offs	22,453	52,277	62,736	188,683	153,794
Net charge-offs/average gross loans	0.17%	0.45%	0.59%	1.86%	1.44%

The following tables set forth the allocation of allowance for loan losses by property type as of the dates indicated (dollars in thousands):

	JUNE 30, 1998				JUNE 30, 1997			
	PERCENT OF LOANS TO TOTAL LOANS	GROSS LOAN PORTFOLIO BALANCE	ALLOWANCE	PERCENT OF ALLOWANCE TO LOAN BALANCE	PERCENT OF LOANS TO TOTAL LOANS	GROSS LOAN PORTFOLIO BALANCE	ALLOWANCE	PERCENT OF ALLOWANCE TO LOAN BALANCE
Single-family								
1-4 units.....	74.11%	$10,355,638	$ 48,568	0.47%	72.71%	$ 8,821,828	$ 52,579	0.60%
Multi-family:								
5-36 units.....	10.77	1,504,858	31,087	2.07	12.18	1,477,549	43,852	2.97
37 or more units	2.24	313,575	11,724	3.74	2.84	345,052	16,496	4.78
Non-residential.....	9.73	1,358,880	30,988	2.28	9.95	1,207,013	35,280	2.92
Commercial.....	2.08	290,515	11,749	4.04	1.32	160,061	7,552	4.72
Consumer.....	1.07	150,050	22,366	14.91	1.00	120,685	8,000	6.63
	100.00%	$13,973,516	$ 156,482	1.12%	100.00%	$12,132,188	$ 163,759	1.35%

	JUNE 30, 1996				JUNE 30, 1995			
	PERCENT OF LOANS TO TOTAL LOANS	GROSS LOAN PORTFOLIO BALANCE	ALLOWANCE	PERCENT OF ALLOWANCE TO LOAN BALANCE	PERCENT OF LOANS TO TOTAL LOANS	GROSS LOAN PORTFOLIO BALANCE	ALLOWANCE	PERCENT OF ALLOWANCE TO LOAN BALANCE
Single-family								
1-4 units.....	69.00%	$ 7,580,312	$ 56,833	0.75%	61.94%	$ 6,325,170	$ 44,483	0.70%
Multi-family:								
5-36 units.....	14.24	1,564,542	48,628	3.11	16.39	1,673,656	41,736	2.49
37 or more units	3.65	400,415	26,062	6.51	4.69	478,803	31,569	6.59
Non-residential.....	12.35	1,357,225	47,260	3.48	15.97	1,630,590	83,086	5.10
Commercial.....	0.09	10,391	4,699	45.22	0.22	22,844	4,176	18.28
Consumer.....	0.67	73,158	3,274	4.48	0.79	80,603	4,092	5.08
	100.00%	$10,986,043	$ 186,756	1.70%	100.00%	$10,211,666	$ 209,142	2.05%

	JUNE 30, 1994			
	PERCENT OF LOANS TO TOTAL LOANS	GROSS LOAN PORTFOLIO BALANCE	ALLOWANCE	PERCENT OF ALLOWANCE TO LOAN BALANCE
Single-family				
1-4 units.....	55.75%	$ 5,592,349	$ 44,667	0.80%
Multi-family:				
5-36 units.....	19.15	1,920,777	65,878	3.43
37 or more units	5.62	564,188	61,867	10.97
Non-residential.....	17.94	1,799,746	137,775	7.66
Commercial.....	0.47	47,212	6,052	12.82
Consumer.....	1.07	107,049	4,475	4.18
	100.00%	$10,031,321	$ 320,714	3.20%

The allocation of the allowance to each category is not necessarily indicative of future losses and does not restrict the use of the allowance to absorb losses in any other category.

Glendale Federal's allowance for loan losses, expressed both in dollars and as a percent of loans receivable, decreased during fiscal 1998, reflecting reduced levels of delinquencies and charge-offs, continued improvements in classified asset levels, and a 15% increase in the size of the gross loan portfolio from $12.1 billion at June 30, 1997 to $14.0 billion at June 30, 1998. The increases in allowance allocations to consumer and commercial lending reflect growth in their respective loan portfolios and Glendale Federal's limited experience to date in managing the credit performance of these new lines of business.

The following tables compare Glendale Federal's gross loan portfolio balances, allowance for loan losses, non-accrual loans and NPAs by property type as of the dates indicated (dollars in thousands):

JUNE 30, 1998	GROSS LOAN PORTFOLIO BALANCE	ALLOWANCE	NON-ACCRUAL LOANS	PERCENT OF ALLOWANCE TO NON-ACCRUAL LOANS	NPAS(1)	PERCENT OF NPAS TO GROSS LOAN PORTFOLIO BALANCE	PERCENT OF ALLOWANCE TO NPAS
Single-family 1-4 units.....	$10,355,638	$ 48,568	$ 70,188	69.20%	$ 93,194	0.90%	52.11%
Multi-family:							
5-36 units.....	1,504,858	31,087	7,615	408.23	10,702	0.71	290.48
37 or more units.....	313,575	11,724	417	2,881.51	417	0.13	2,811.51
Non-residential.....	1,358,880	30,988	14,504	213.65	26,686	1.96	116.12
Commercial.....	290,515	11,749	1,828	642.72	1,828	0.63	642.72
Consumer.....	150,050	22,366	1,442	1,551.04	1,442	0.96	1,551.04
	$13,973,516	$ 156,482	$ 95,994	163.01%	$134,269	0.96%	116.54%

JUNE 30, 1997	GROSS LOAN PORTFOLIO BALANCE	ALLOWANCE	NON-ACCRUAL LOANS	PERCENT OF ALLOWANCE TO NON-ACCRUAL LOANS	NPAS(1)	PERCENT OF NPAS TO GROSS LOAN PORTFOLIO BALANCE	PERCENT OF ALLOWANCE TO NPAS
Single-family 1-4 units.....	$ 8,821,828	$ 52,579	$ 82,989	63.36%	$117,105	1.33%	44.90%
Multi-family:							
5-36 units.....	1,477,549	43,852	21,087	207.96	29,501	2.00	148.65
37 or more units.....	345,052	16,496	3,121	528.55	5,054	1.46	326.39
Non-residential.....	1,207,013	35,280	30,672	115.02	50,841	4.21	69.39
Commercial.....	160,061	7,552	859	879.16	859	0.54	879.16
Consumer.....	120,685	8,000	1,567	510.53	1,598	1.32	500.63
	$12,132,188	$ 163,759	$140,295	116.72%	$204,958	1.69%	79.90%

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(1) Comprised of non-accrual loans and REO and other repossessed assets.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Glendale Federal--Allowance for Loan Losses" for discussion of the allowance for loan losses at June 30, 1998.

REAL ESTATE ACQUIRED IN SETTLEMENT OF LOANS

The procedures for foreclosure of Glendale Federal's loans are governed by the laws of the states in which the loan collateral is located. In California, Glendale Federal normally utilized the non-judicial foreclosure sale procedures available under applicable state law. In Florida, where Glendale Federal formerly had offices and where properties secured $799 million of its mortgage loans at June 30, 1998, judicial foreclosure is normally required. The borrowers' rights of redemption under the laws of the respective states are also different. In California, the right to cure the default and reinstate the loan terminates five days before the scheduled trustee sale under a deed of trust. In Florida, the borrower generally may cure the default under a mortgage at any time during foreclosure proceedings and until the certificate of title is issued, usually 10 days after the sale, by making all delinquent payments and paying all charges, including legal fees. Florida law permits a mortgage lender to seek a deficiency judgment against a defaulted borrower when the proceeds of the foreclosure sale are not sufficient to satisfy the loan balance. Such judgments are ordinarily not permitted or are impractical in California. In most foreclosure sales, Glendale Federal acquired title to the property. REO was recorded and carried at the lower of the recorded investment in the loan or fair value of the asset received less selling costs. The fair value of the asset received is based on the current appraised value less estimated selling costs. See Note 8 of the Notes to Consolidated Financial Statements of Glendale Federal included elsewhere in this Prospectus for information on the geographical location of REO as of June 30, 1998 and 1997.

The following table shows Glendale Federal's REO and other repossessed assets, net of specific valuation allowances, and gross of the general valuation allowance, by property type as of the dates indicated (in thousands):

	JUNE 30,				
	1998	1997	1996	1995	1994
Single-family 1-4 units	$23,006	$34,116	$39,693	$ 37,316	$ 43,231
Multi-family:					
5-36 units	3,087	8,414	11,668	18,131	27,180
37 or more units	--	1,933	4,827	5,716	2,792
Non-residential	12,182	20,169	25,893	50,024	79,089
Total real estate	38,275	64,632	82,081	111,187	152,292
Other repossessed assets	--	31	123	93	127
	$38,275	$64,663	$82,204	$111,280	$152,419

See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Glendale Federal--Balance Sheet Analysis--Non-Performing Assets and Restructured Loans" for additional discussion regarding REO activity for fiscal 1998.

MORTGAGE-BACKED SECURITIES

Glendale Federal purchased mortgage-backed securities from time to time to meet balance sheet size objectives, to augment loan originations and whole loan purchases and to replace loan portfolio and mortgage-backed securities run-off. Glendale Federal's primary choice for such purposes had been mortgage pass-through securities issued or guaranteed by certain agencies including the GNMA, FNMA and FHLMC. These securities are backed by pools of fixed-rate and adjustable-rate single-family mortgage loans and were obtained either through cash purchase or through securitization of Glendale Federal's single-family mortgage loans. Glendale Federal utilized these securities to collateralize borrowings, to secure public agency deposits, to reduce Glendale Federal's credit risk exposure through the agency guarantees of the securities and to reduce its regulatory capital requirements. During fiscal 1998, $584.1 million and $171.7 million of these securities were obtained through cash purchase and securitizations, respectively. The gross amount of these agency related securities totaled $1.6 billion at June 30, 1998.

The following tables summarize the composition of Glendale Federal's held to maturity and available for sale mortgage-backed securities portfolios by security type as of the dates indicated (dollars in thousands):

	JUNE 30,				
	1998	1997	1996	1995	1994
Held to maturity:					
FNMA	$ 336,318	$ 422,701	$ 489,919	$ 579,486	$ 665,634
FHLMC	221,364	266,272	298,090	329,081	100,879
GNMA	176,949	230,410	273,690	325,025	356,898
Total agency securities	734,631	919,383	1,061,699	1,233,592	1,123,411
Pass-through securities	156,263	212,595	256,781	1,499,337	1,867,312
Subordinated securities	17,422	21,926	25,855	31,909	36,720
CMOs	--	--	--	1,878,117	2,037,867
CMO residuals	--	--	277	4,760	7,043
Total gross	908,316	1,153,904	1,344,612	4,647,715	5,072,353
Unamortized premiums	8,417	11,557	14,664	77,369	98,154
Deferred loan origination fees	(2,140)	(2,636)	(3,041)	(3,677)	(3,321)
Total, at amortized cost	914,593	1,162,825	1,356,235	4,721,407	5,167,186
Available for sale:					
GNMA	485,221	514,321	113,181	1,840	60,115
FHLMC	242,722	44,859	142	161	109,135
FNMA	163,745	14,133	28	32	36
Total agency securities	891,688	573,313	113,351	2,033	169,286
Pass-through securities	512,961	496,784	704,586	--	33,301
CMOs	50,104	24,831	58,357	--	--
CMO residuals	--	100	--	--	--
Total gross	1,454,753	1,095,028	876,294	2,033	202,587
Unrealized (loss) gain	(4,914)	(2,320)	(16,076)	53	(4,765)
Unamortized premiums (discounts)	10,931	24,001	24,337	(36)	(1,176)
Deferred loan origination fees	--	--	--	--	(53)
Total, at fair value	1,460,770	1,116,709	884,555	2,050	196,593
Total mortgage-backed securities, net	$2,375,363	$2,279,534	$2,240,790	$4,723,457	$5,363,779
Weighted average yield on mortgage-backed securities portfolio at end of period	6.37%	6.78%	6.26%	6.30%	5.28%

The following table presents Glendale Federal's gross mortgage-backed securities portfolio (before adjustment for unamortized premiums and discounts, deferred loan origination fees, and any unrealized loss on mortgage-backed securities available for sale) by note type and the distribution of adjustable-rate mortgage-backed securities among the major underlying indices at the dates indicated (dollars in millions):

	JUNE 30, 1998		JUNE 30, 1997	
	AMOUNT	PERCENT OF TOTAL	AMOUNT	PERCENT OF TOTAL
Adjustable:				
6-month Treasury Bills	$ 322	14%	$ 411	18%
1-Year Treasury Bills(1)	1,237	52	1,285	57
11th District Cost of Funds	334	14	131	6
Prime	6	--	8	--
Other	129	6	117	6
	2,028	86	1,952	87
Fixed	335	14	297	13
	$2,363	100%	$2,249	100%

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(1) Includes $204 million and $239 million at June 30, 1998 and 1997, respectively, of mortgage-backed securities with interest rates that are fixed for three to five years and then convert to adjustable rates for the remainder of the loan term.

The following table sets forth the activity in Glendale Federal's mortgage-backed securities portfolio for the periods indicated (in thousands):

	YEARS ENDED JUNE 30,				
	1998	1997	1996	1995	1994
Mortgage-backed securities, beginning balance	$2,279,534	$2,240,790	$ 4,723,457	$5,363,779	$ 4,044,744
Mortgage-backed securities purchased	584,101	498,066	115,595	958	3,524,460
Loans exchanged for mortgage-backed securities	171,737	42,222	145,826	268,436	1,470,844
Mortgage-backed securities acquired(1)	355,972	5,909	--	23,963	--
Mortgage-backed securities sold(2)	(294,767)	(42,222)	(1,838,289)	(12,099)	(1,223,167)
Principal repayments	(702,906)	(475,949)	(851,974)	(711,881)	(2,474,146)
Amortization of unearned premium	(13,393)	(10,486)	(20,810)	(19,786)	(58,316)
Other changes	(4,915)	21,204	(33,015)	(3,214)	79,360
University Savings mortgage-backed securities sold(1)	--	--	--	(186,699)	--
Net increase (decrease) in mortgage-backed securities	95,829	38,744	(2,482,667)	(640,322)	1,319,035
Mortgage-backed securities, ending balance	$2,375,363	$2,279,534	$ 2,240,790	$4,723,457	$ 5,363,779

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(1) Represents mortgage-backed securities acquired from CenFed Bank in fiscal 1998, TransWorld and OneCentral in fiscal 1997, and from Union Federal in fiscal 1995. For information regarding the CenFed Bank, TransWorld and OneCentral transactions, see Note 3 of the Notes to Consolidated Financial Statements of Glendale Federal, included elsewhere in this Prospectus.

(2) Includes loans originated by Glendale Federal and converted to mortgage-backed securities.

The following table summarizes the contractual maturities of Glendale Federal's gross mortgage-backed securities portfolio as of June 30, 1998 (dollars in thousands):

	DUE IN YEAR 1	DUE AFTER YEAR 1 THROUGH YEAR 5	DUE AFTER YEAR 5 THROUGH YEAR 10	DUE AFTER YEAR 10	TOTAL
Held to maturity:					
FNMA	$ --	$5,594	$ --	$ 330,724	$ 336,318
FHLMC	--	--	--	221,364	221,364
GNMA	--	--	--	176,949	176,949
Total agency securities	--	5,594	--	729,037	734,631
Pass-through securities	--	--	--	156,263	156,263
Subordinated securities	--	--	--	17,422	17,422
Total	$ --	$5,594	$ --	$ 902,722	$ 908,316
Weighted average coupon rate	--	6.50%	--	7.01%	7.01%
Available for sale:					
GNMA	$ --	$ --	$ 109	$ 485,112	$ 485,221
FHLMC	1,310	496	10	240,906	242,722
FNMA	273	2,917	--	160,555	163,745
Total agency securities	1,583	3,413	119	886,573	891,688
Pass-through securities	--	--	--	512,961	512,961
CMOs	--	--	6,828	43,276	50,104
Total	$ 1,583	$3,413	$6,947	$ 1,442,810	$1,454,753
Weighted average coupon rate	7.55%	6.09%	7.06%	6.92%	6.92%
Total gross mortgage-backed securities	$ 1,583	$9,007	$6,947	$ 2,345,532	$2,363,069
Weighted average coupon rate on total gross mortgage-backed securities portfolio at end of period	7.55%	6.35%	7.06%	6.96%	6.96%

LIQUIDITY AND INVESTMENTS

Glendale Federal was required by federal regulations to maintain a specified minimum amount of liquid assets which may be invested in specified types of securities and was also permitted to make certain other securities investments. The balance of securities investments maintained by Glendale Federal in excess of regulatory requirements reflects management's objective of maintaining liquidity at a level necessary to meet operating requirements, taking into account anticipated cash flows and available sources of credit, to afford future flexibility to meet withdrawal requests and loan commitments or to make other investments. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Glendale Federal" for discussion of Glendale Federal's current investing strategies.

The OTS currently requires savings institutions to maintain eligible liquid assets as defined by federal regulations in an amount equal to or greater than 4% of average deposits and borrowings. This liquidity requirement may be changed from time to time by the OTS Director to any amount within the range of 4% to 10% and the OTS Director has the authority to prescribe different liquidity requirements for different classes of savings institutions, which classes may be determined in accordance with criteria selected by the OTS Director. See "Regulation." Glendale Federal's qualified regulatory liquidity percentage of 4.38% for the month of June 1998 exceeded the regulatory requirement.

The following table summarizes Glendale Federal's cash and short-term, highly liquid securities by type at the dates indicated (in thousands):

	JUNE 30,				
	1998	1997	1996	1995	1994
Federal funds sold	$ 27,000	$ --	$ 33,000	$ 16,000	$ 45,961
Securities purchased under resale agreements	145,000	482,000	375,000	280,000	270,000
Whole loans purchased under resale agreements	--	150,000	25,000	--	--
	172,000	632,000	433,000	296,000	315,961
Cash and amounts due from banks	289,978	221,557	153,608	139,697	164,576
	$461,978	$853,557	$586,608	$435,697	$480,537

The following table summarizes the carrying amount of Glendale Federal's other investments (excluding FHLB stock) at the dates indicated (in thousands):

	JUNE 30,				
	1998	1997	1996	1995	1994
Certificates of deposit	$ 2,200	$ 4,005	$ 10,786	$ 10,059	$ 13,716
U.S. Government and Federal agency obligations	39,471	25,690	8,086	17,354	148,056
Obligations of municipalities(1)	83,763	--	--	--	--
Equity securities	2,874	2,104	5	5	52
Commercial paper	--	--	--	14,908	1,564
FHLB deposits	--	--	--	--	1,668
Mortgage-backed collateralized notes	--	--	--	--	605
Other	--	--	--	--	379
	$128,308	$ 31,799	$ 18,877	$ 42,326	$166,040

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(1) Acquired in the April 1998 merger with CenFed Bank.

Shown below are the carrying amounts and weighted average rates of other investments (excluding FHLB stock) at June 30, 1998, with related remaining terms to maturity (dollars in thousands):

	CARRYING AMOUNT	WEIGHTED AVERAGE RATE
Certificate of deposit maturing within 1 year	$ 2,200	5.55%
U.S. Government and Federal agency obligations:		
Maturing within 1 year	12,404	5.06
Maturing in 1-5 years	25,040	5.59
Maturing in 5-10 years	2,027	5.75
Obligations of municipalities:		
Maturing after 10 years	83,763	3.81
Equity securities	2,874	--
	$128,308	4.23%

MORTGAGE LOAN SERVICING ACTIVITIES

Glendale Federal services mortgage loans for other loan investors in exchange for servicing fees. Mortgage loan servicing activities include: collecting payments from borrowers; forwarding the payments to the loans' investors along with an accounting of the allocation of the payments, the loans' payment status, and custodial funds held by Glendale Federal; holding impounded borrower funds for the payment of taxes and insurance; if necessary, foreclosing on delinquent borrowers; and advancing corporate funds when impounded funds on

hand are inadequate to pay property taxes and insurance, or as otherwise needed to protect the investors' interest in the loans.

Glendale Federal entered into agreements to service mortgage loans for others primarily through the purchase of servicing rights from other servicers, and to a lesser extent, through the sale of mortgage loans it has originated while retaining the right to service the loans. Of Glendale Federal's $25.3 billion in unpaid principal of mortgage loans serviced for others at June 30, 1998, approximately $22.9 billion was obtained through the

purchase of servicing agreements and $2.4 billion was obtained through the sale of loans originated by Glendale Federal with servicing rights retained.

Glendale Federal received fees from loan investors, generally expressed as a percent of the unpaid balance of the mortgage loans serviced, and retained any late charges or other fees collected from the borrowers. Servicing fees are collected from the borrowers' payments, or in the event of default by the borrower, from the investor's proceeds from foreclosure of the real estate collateral. During the period the borrower is not making payments, Glendale Federal receives no fees and may be required to advances corporate funds to meet contractual principal and interest pass-through requirements for certain investors, maintain current property taxes and insurance, to move the loan through the foreclosure process, and to secure, prepare and market foreclosed real estate collateral. Glendale Federal generally recovers advanced funds from borrowers of reinstated and performing loans, and from investors of foreclosed loans. At June 30, 1998 and 1997, 0.98% and 1.11% of Glendale Federal's loans serviced for others were delinquent 30 days or more.

The following table summarizes activity in Glendale Federal's portfolio of loans serviced for others for the periods indicated (in millions):

	YEARS ENDED JUNE 30,			
	1998	1997	1996	1995
Portfolio of mortgage loans serviced for others, beginning balance....	$29,598	$14,168	$11,678	$10,085
Add: Servicing purchased.....	--	17,184	3,696	2,803
Servicing added due to the CenFed Bank acquisition.....	447	--	--	--
Servicing retained on loans sold.....	386	92	--	--
Less: Amortization, prepayments and foreclosures.....	(5,162)	(1,846)	(1,206)	(1,210)
Portfolio of mortgage loans serviced for others, ending balance.....	$25,269	$29,598	$14,168	$11,678

Glendale Federal's Consolidated Statements of Financial Condition include "mortgage servicing assets" ("MSA"), recorded at the lower of the amortized cost or the estimated fair value of servicing rights acquired by Glendale Federal through purchase, merger or retention of the servicing rights relating to mortgage loans sold. As more fully discussed in Note 1 of the Notes to Consolidated Financial Statements of Glendale Federal, included elsewhere in this Prospectus, effective January 1, 1998, Glendale Federal adopted Statement of Financial Accounting Standards No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities" ("SFAS No. 125"). SFAS No.125 requires the recognition of a servicing asset or liability for loans sold where Glendale Federal retains the servicing rights. The amount recognized is an allocation of the carrying value of the loan sold based on the relative fair value of the loan to the servicing rights retained. SFAS No. 125 also requires recognition of a valuation allowance for impairment in the fair value of the MSA.

The following table summarizes activity in Glendale Federal's MSA and related valuation allowances for the periods indicated (in thousands):

	YEARS ENDED JUNE 30,			
	1998	1997	1996	1995
MORTGAGE SERVICING ASSETS ACTIVITY:				
MSA, beginning balance.....	$288,519	$127,399	$ 99,122	$68,719
Purchases.....	1,021(1)	187,343	50,836	51,537
Addition due to CenFed Bank acquisition.....	8,318	--	--	--
Servicing rights on loans sold with servicing rights retained.....	4,890	1,119	--	--
Amortization.....	(49,245)	(27,342)	(22,559)	(19,131)
Decrease due to sale of University Savings.....	--	--	--	(2,003)
MSA, ending balance.....	$253,503	$288,519	$127,399	$99,122
VALUATION ALLOWANCE ACTIVITY:				
MSA valuation allowance, beginning balance.....	$ (4,047)	$ --	$ --	$ --
Additions charged to loan servicing income.....	(6,142)	(4,047)	--	--
MSA valuation allowance, ending balance.....	$(10,189)	$ (4,047)	$ --	$ --

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(1) Consists of capitalized costs and adjustments related to prior years' purchases.

The fair values of Glendale Federal's MSA at June 30, 1998 and 1997 were $297.6 million and $353.5 million, respectively. The fair value of Glendale Federal's servicing portfolio was determined by applying market assumptions for the serviced loans to estimate servicing-related income and expenses over the underlying loans' estimated lives, and discounting the estimated future net servicing income at the current market discount rate. Fair value is significantly influenced by market prepayment expectations. Prepayment expectations are influenced by the difference between the mortgage loans' interest rates and current market interest rates. During periods of decreasing interest rates, the market anticipates that homeowners will be more likely to refinance their existing mortgages; during periods of increasing interest rates, the market anticipates that homeowners will be less inclined to refinance their existing mortgages. The slower prepayments anticipated by rising interest rates results in a longer estimated period of net servicing income for the existing servicing portfolio, and therefore increases its value. Conversely, the faster prepayments anticipated by declining interest rates results in a shorter estimated period of net servicing income and therefore decreases the value of Glendale Federal's servicing portfolio.

The following table summarizes Glendale Federal's portfolio of mortgage loans serviced for others by interest rate at June 30, 1998 (dollars in thousands):

INTEREST RATE	NUMBER OF LOANS	PRINCIPAL BALANCE	WEIGHTED AVERAGE SERVICE FEE (IN BASIS POINTS)	WEIGHTED AVERAGE REMAINING CONTRACTUAL TERM (IN MONTHS)
Less than 6.5%	4,315	$ 468,537	33.7	177
6.50-6.99	18,301	2,466,816	26.3	194
7.00-7.49	49,619	7,358,008	29.2	262
7.50-7.99	58,560	8,582,464	26.7	280
8.00-8.49	36,690	3,837,659	41.6	283
8.50-8.99	26,079	1,621,156	48.5	261
9.00-9.49	6,472	276,897	49.6	212
9.50-9.99	6,180	245,699	56.1	191
10.00 and over	6,754	411,649	36.3	188
	212,970	$25,268,885	31.9	261

The following table sets forth the geographic distribution of Glendale Federal's portfolio of mortgage loans serviced for others at June 30, 1998 (dollars in thousands):

STATE	NUMBER OF LOANS	PRINCIPAL BALANCE	PERCENT OF TOTAL PRINCIPAL BALANCE
California	124,228	$17,284,546	68%
Florida	40,259	2,174,765	9
New York	3,510	668,176	3
New Jersey	3,379	557,339	2
Texas	6,473	547,006	2
Maryland	2,497	431,016	2
Virginia	2,033	360,284	1
Colorado	3,134	328,764	1
Washington	1,979	238,088	1
Others(1)	25,478	2,678,901	11
	212,970	$25,268,885	100%

(1) No other state represents more than 1% of Glendale Federal's mortgage servicing portfolio measured by unpaid principal balance.

DEPOSITS

Glendale Federal's deposits were obtained primarily in California, where its branch offices are located. Glendale Federal attracts checking and other daily access type accounts as well as short-term and long-term certificate accounts from the general public by providing a wide assortment of accounts and rates. Glendale Federal's customer deposit accounts included savings, checking and money market accounts, certificates of deposit with fixed terms ranging from three months to five years, and negotiated rate $95,000 and over "jumbo" certificates with maturities ranging from 14 days to five years. Included among these savings programs are individual retirement accounts and Keogh retirement accounts. Jumbo certificates are obtained from a diverse customer base which includes state and local governments, private individuals, corporations and non-profit organizations.

The following table sets forth information regarding the amounts of deposits in the various types of deposit programs offered by Glendale Federal as of the dates indicated (dollars in thousands):

	JUNE 30,				
	1998	1997	1996	1995	1994
Daily access:					
Checking	$ 1,815,761	$1,198,011	$ 778,980	$ 661,853	$ 850,112
Savings	477,199	452,225	492,777	551,905	1,236,446
Money-market	2,379,249	2,119,553	1,719,319	1,272,012	1,038,944
Total daily access	4,672,209	3,769,789	2,991,076	2,485,770	3,125,502
Certificates with original maturities of:					
6 months and under	706,779	803,849	955,203	870,733	1,426,838
Over 6 months to 18 months	3,328,793	2,951,465	2,797,297	2,758,070	3,428,317
Over 18 months to 30 months	929,305	1,096,788	961,912	1,345,524	1,288,984
Over 30 months	728,697	552,342	770,786	737,891	1,088,872
Jumbo certificates	335,374	182,676	247,702	536,892	561,293
Total certificates	6,028,948	5,587,120	5,732,900	6,249,110	7,794,304
	$10,701,157	$9,356,909	$8,723,976	$ 8,734,880	$10,919,806
Weighted average interest rate on deposits at end of period	4.06%	4.37%	4.62%	5.13%	3.94%

For information regarding the changes in Glendale Federal's deposit composition, see "Management's Discussion and Analysis of Financial Condition and Results of Operations--Glendale Federal--Balance Sheet Analysis--Deposits."

The following table sets forth information relating to Glendale Federal's deposit flows during the periods indicated (in thousands):

	YEARS ENDED JUNE 30,				
	1998	1997	1996	1995	1994
Deposits, beginning balance	$ 9,356,909	$8,723,976	$8,734,880	$10,919,806	$11,615,529
Interest credited	412,559	402,863	432,992	398,861	423,132
Net deposits (decrease) increase	(505,687)	(175,087)	(443,896)	608,417	(1,118,855)
Acquisition of CenFed Bank deposits	1,437,376	--	--	--	--
Acquisition of OneCentral deposits	--	68,809	--	--	--
Acquisition of TransWorld deposits	--	336,348	--	--	--
Sale of Florida franchise	--	--	--	(3,281,049)	--
Sale of University Savings Bank	--	--	--	(918,126)	--
Acquisition of Independence One deposits	--	--	--	194,146	--
Acquisition of Union Federal deposits	--	--	--	812,825	--
Net increase (decrease)	1,344,248	632,933	(10,904)	(2,184,926)	(695,723)
Deposits, ending balance	$10,701,157	$9,356,909	$8,723,976	$ 8,734,880	$10,919,806

The following table sets forth information regarding the remaining contractual maturities of deposits as of June 30, 1998 (dollars in thousands):

	WEIGHTED AVERAGE RATE	TOTAL BALANCE	3 MONTHS OR LESS(1)	4-6 MONTHS	7-12 MONTHS	13-24 MONTHS	25-36 MONTHS	OVER 36 MONTHS
Checking	0.31%	$ 1,815,761	$ 1,815,761	$ --	$ --	$ --	$ --	$ --
Savings	2.00	477,199	477,199	--	--	--	--	--
Money-market	3.93	2,379,249	2,379,249	--	--	--	--	--
Certificates:								
5.00% and lower	4.77	1,503,191	491,230	359,064	545,199	92,680	12,233	2,785
5.01%-6.00%	5.52	4,095,310	1,489,394	1,004,674	646,705	792,108	71,792	90,637
6.01%-7.00%	6.28	340,288	90,203	28,702	70,975	119,006	5,702	25,700
7.01%-8.00%	7.28	84,266	2,555	4,643	5,410	66,844	1,358	3,456
8.01%-9.00%	8.59	5,222	360	716	454	3,449	145	98
9.01%-10.00%	9.43	671	3	--	668	--	--	--
Total certificates	5.41	6,028,948	2,073,745	1,397,799	1,269,411	1,074,087	91,230	122,676
	4.06%	$10,701,157	$ 6,745,954	$1,397,799	$1,269,411	$1,074,087	$91,230	$122,676

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(1) Includes deposits with no stated maturity.

For additional information with respect to deposits, see Note 12 of the Notes to Consolidated Financial Statements of Glendale Federal, included elsewhere in this Prospectus.

BORROWINGS

The following table summarizes Glendale Federal's consolidated borrowings by type at the dates indicated (dollars in thousands):

	JUNE 30,				
	1998	1997	1996	1995	1994
Securities sold under agreements to repurchase	$ 175,551	$ 768,682	$ 758,050	$2,695,176	$2,306,274
Borrowings from FHLB	5,613,458	4,788,000	3,838,000	3,495,000	2,443,428
Notes payable	70	276	93	1,177	1,440
Subordinated debentures	--	10,506	10,506	14,227	14,280
Collateralized notes	--	--	--	13,479	81,170
	$5,789,079	$5,567,464	$4,606,649	$6,219,059	$4,846,592
Weighted average interest rate on borrowings at end of period	5.59%	5.72%	5.87%	6.18%	4.65%

Glendale Federal sold securities under "reverse repurchase agreements" with securities dealers and the FHLB. Reverse repurchase agreements consist of sales of securities with a commitment by Glendale Federal to repurchase such securities for a predetermined price at a future date, typically ranging from one to 120 days after the date of initial sale. The proceeds were used to provide investment funds. Reverse repurchase transactions are treated as borrowings, with the repurchase obligations being reflected as a liability under the caption "Securities sold under agreements to repurchase" in the Consolidated Statements of Financial Condition of Glendale Federal, included elsewhere in this Prospectus, and the related interest expense being included in "Interest expense: Short-term borrowings" in the Consolidated Statements of Operations of Glendale Federal, included elsewhere in this Prospectus. The securities collateralizing the reverse repurchase agreements are included in the respective line items in the Consolidated Statements of Financial Condition of Glendale Federal.

The FHLBS functions in a reserve credit capacity for savings institutions and certain other home financing institutions. As a member, Glendale Federal was required to own capital stock in the Federal Home Loan Bank of San Francisco and was authorized to apply for advances from the FHLB on the security of such stock and certain of its home mortgage loans and other assets. Such borrowings may be made pursuant to several different credit programs offered from time to time by the FHLB. Each credit program has its own interest rate and range of maturities, and the FHLB prescribes the acceptable uses to which the advances pursuant to each program may be put as well as limitations on the size of the advances. Depending upon the credit program used, FHLB advances bear interest at fixed rates or at adjustable rates tied to various indices. When Glendale Federal utilized adjustable-rate programs, it generally obtains advances tied to LIBOR.

The FHLB offers a full range of maturities up to 30 years at generally competitive rates. A prepayment penalty is normally imposed for early repayment of FHLB advances. Glendale Federal had a line of credit with the FHLB enabling Glendale Federal to borrow up to 35% of the total consolidated assets of Glendale Federal. Based on the amount of these assets at June 30, 1998, Glendale Federal's credit limit with the FHLB was $6.3 billion. Glendale Federal had borrowings outstanding from the FHLB at June 30, 1998 of $5.6 billion. All advances from the FHLB are collateralized with mortgage loans, mortgage-backed securities and FHLB stock. Glendale Federal was also a member of the Federal Reserve System and could borrow from the Federal Reserve Bank of San Francisco. Savings institutions are required to exhaust their FHLB borrowing capacity before borrowing from the Federal Reserve Bank. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Glendale Federal--Liquidity and Asset and Liability Management" for further information on the Bank's liquidity.

All of the subordinated debentures outstanding at June 30, 1997 were redeemed on September 16, 1997 at a redemption price equal to 100% of the principal amount together with accrued and unpaid interest from March 15, 1997 to the redemption date.

In the past, Glendale Federal utilized other sources of funds to supplement retail deposits. These sources included the issuance by Glendale Federal of subordinated debentures, collateralized notes, subordinated capital notes, commercial paper, medium-term notes and other short-term debt and the use by Glendale Federal's subsidiaries of commercial paper, lines of credit with banks

and other notes payable.

ASSET AND LIABILITY MANAGEMENT AND MARKET RISK

Glendale Federal's earnings depended primarily on its net interest income, which is the difference between the amounts it receives from interest earned on its loans and securities investments (its "interest-earning assets") and the amounts it paid in interest on its deposit accounts and borrowings (its "interest-bearing liabilities"). Net interest income is affected by (i) the difference (the "interest rate spread" as applied to a specified date and the "yield-cost spread" as applied to a specified period) between rates of interest earned on its interest-earning assets and rates paid on its interest-bearing liabilities and (ii) the relative amounts of its interest-earning assets and interest-bearing liabilities. See "--Interest Rate Margin" below for information concerning the interest rate spread at the end of each of the past three fiscal years. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Glendale Federal--Results of Operations--Net Interest Income" of Glendale Federal, included elsewhere in this Prospectus, for information concerning the yield-cost spread and a discussion of net interest income for the past three fiscal years.

Market risk reflects changes in the value of collateral underlying loans receivable, the valuation of real estate held by Glendale Federal, and the valuation of loans held for sale, mortgage-backed securities available for sale and mortgage servicing assets. Changes in the value of collateral and real estate are primarily affected by economic and market conditions in the local communities in which the real estate is located. Changes in the value of loans, mortgage-backed securities and mortgage servicing assets are primarily affected by prevailing interest rates in the national credit markets.

Glendale Federal's primary objective in managing interest rate risk was to minimize the adverse impact of changes in interest rates on Glendale Federal's net interest income and capital, while adjusting Glendale Federal's asset-liability structure to obtain the maximum yield-cost spread on that structure. Glendale Federal relied primarily on its asset-liability structure to control interest rate risk. Glendale Federal was subject to interest rate risk to the degree that its interest-bearing liabilities mature or repriced at different speeds, or on different bases, than its interest-earning assets.

Glendale Federal actively monitored the impact of changes in interest rates on its net interest income. For this purpose, Glendale Federal utilized various dynamic computer simulation models to measure the sensitivity of its net interest income and earnings forecasts to changes in market rates and possible offsetting changes in Glendale Federal's business strategies. Based on such analyses, Glendale Federal developed and implemented short- and long-term strategies to mitigate the effects of adverse operating environments.

The OTS measures interest rate risk through a somewhat similar computer simulation model described in TB 13. Under TB 13, institutions are required to establish limits on the sensitivity of their net interest income and net portfolio value to changes in interest rates. Unlike Glendale Federal's analyses, under TB 13 changes in interest rates are defined to consist solely of instantaneous and sustained movements in interest rates in 100 basis point increments and no possible adjustments to a company's business strategies to reflect the assumed changes in interest rates are permitted to be taken into account. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Glendale Federal--Liquidity and Asset and Liability Management--Asset and Liability Management" for further information relating to Glendale Federal's interest rate risk sensitivity at June 30, 1998 and 1997, as calculated in accordance with the requirements of TB 13.

Another measure of Glendale Federal's exposure to differential changes in interest rates between assets and liabilities used by some companies and analysts, although Glendale Federal does not rely on this measure in its interest rate risk management and planning activities, is shown in the following table, which sets forth the maturity and rate sensitivity of Glendale Federal's interest-earning assets and interest-bearing liabilities as of June 30, 1998. "GAP," as reflected in the table, represents the estimated difference between the amount of interest-earning assets and interest-bearing liabilities repricing during future periods as adjusted for interest rate swaps and based on certain assumptions, including those stated in the notes to the table. The interest rate sensitivity of Glendale Federal's assets and liabilities illustrated in the following table would vary substantially if different assumptions were used or if actual experience differs from the assumptions used. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Glendale Federal--Liquidity and Asset and Liability Management--Asset and Liability Management."

	TOTAL BALANCE	PERCENT OF TOTAL
	(DOLLARS IN MILLIONS)	
Interest-earning Assets(1):		
Loans receivable:		
Single-family 1-4 units(2)(3)	$10,356	60.0%
Multi-family and non-residential(2)(3)	3,177	18.4
Consumer and commercial(3)	441	2.7
Mortgage-backed securities(2)(3)	2,363	13.7
Investment securities(4)	300	1.7
Other assets(5)	611	3.5
Total interest-earning assets	17,248	100.0%
Non-interest-earning assets	847	
Total assets	$18,095	
Interest-bearing Liabilities:		
Deposits:		
Checking(6)	$ 1,816	11.0%
Savings(6)	477	2.9
Money-market(6)	2,379	14.4
Certificates(4)	6,029	36.6
Borrowings:		
FHLB(4)(7)	5,613	34.0
Other(4)	176	1.1
Total interest-bearing liabilities	16,490	100.0%
Non-interest-bearing liabilities	327	
Total liabilities	16,817	
Stockholder's equity	1,278	
Total liabilities and stockholder's equity	$18,095	
Maturity GAP		
June 30, 1998 Cumulative GAP		
As % of total assets		
June 30, 1997 Cumulative GAP		
As % of total assets		

	MATURITY/RATE SENSITIVITY			
	WITHIN 6 MONTHS	OVER 6 TO 12 MONTHS	1-5 YEARS	OVER 5 YEARS
Interest-earning Assets(1):				
Loans receivable:				
Single-family 1-4 units(2)(3)	$ 3,727	$1,717	$ 3,506	$1,406
Multi-family and non-residential(2)(3)	2,797	162	114	104
Consumer and commercial(3)	433	1	6	1
Mortgage-backed securities(2)(3)	971	608	553	231
Investment securities(4)	203	--	--	97
Other assets(5)	300	--	--	311
Total interest-earning assets	$ 8,431	$2,488	$ 4,179	$2,150
Non-interest-earning assets				
Total assets				
Interest-bearing Liabilities:				
Deposits:				
Checking(6)	$ 164	$ 147	$ 791	$ 714
Savings(6)	35	32	186	224
Money-market(6)	417	344	1,272	346
Certificates(4)	3,472	1,269	1,276	12

Borrowings:				
FHLB(4)(7)	2,879	1,049	1,685	--
Other(4)	176	--	--	--
Total interest-bearing liabilities	$ 7,143	$2,841	$ 5,210	$1,296
Non-interest-bearing liabilities				
Total liabilities				
Stockholder's equity				
Total liabilities and stockholder's equity				
Maturity GAP	$ 1,288	$ (353)	$(1,031)	$ 854
June 30, 1998 Cumulative GAP	$ 1,288	$ 935	$ (96)	$ 758
As % of total assets	7.1%	5.2%	(0.5)%	4.2%
June 30, 1997 Cumulative GAP	$ 1,924	$2,358	$ 631	$ 600
As % of total assets	11.9%	14.5%	3.9%	3.7%

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(1) Loans receivable balances are presented gross of unearned discounts/premiums, deferred loan origination fees and allowance for loan losses and net of undisbursed loan funds. Mortgage-backed securities balances are presented gross of unearned discounts/premiums, deferred loan origination fees and unrealized losses.

(2) ARM loans are predominantly included in the "within 6 months" and "over 6 to 12 months" categorizes, as they are subject to an interest adjustment every month, six months or twelve months, depending upon terms of the applicable note.

(3) Maturity/rate sensitivity is based upon contractual maturity, projected repayments and prepayments of principal. The prepayment experience reflected herein is based on Glendale Federal's historical experience. Glendale Federal's average Constant Prepayment Rate ("CPR") is 21.2% and 19.6% on its fixed-rate and adjustable-rate portfolio, respectively. The actual maturity and rate sensitivity of these assets could vary substantially if future prepayments differ from Glendale Federal's historical experience.

(4) Based on the contractual maturity of the instrument.

(5) Includes cash and demand deposits and FHLB stock, the latter earning a rate of return that varies quarterly.

(6) In accordance with standard industry and regulatory practice, a decay factor, used to estimate deposit runoff, of 38.09% (CPR) per year have been applied to these deposits.

(7) Includes $400 million and $300 million funded in March and April 1998, respectively, with a five-year term, but which the FHLB has the option to call after one year and which accordingly has been allocated to the "over 6 to 12 months" category.

The following table presents the gross balances, categorized by expected maturity, and fair values, of Glendale Federal's financial instruments that are sensitive to changes in interest rates at June 30, 1998. Interest rate sensitive instruments are generally defined as on and off balance sheet derivatives and other financial instruments. See Note 15 of the Notes to Consolidated Financial Statements for additional information regarding the fair values of Glendale Federal's financial instruments.

	EXPECTED MATURITY DATE(1)						
	1999	2000	2001	2002	2003	THERE-AFTER	TOTAL GROSS BALANCE
	(DOLLARS IN THOUSANDS)						
INTEREST-SENSITIVE ASSETS:							
Loans receivable(2):							
Single-family 1-4 units.....	$2,001,762	$1,845,061	$1,483,930	$1,142,031	$ 878,506	$3,004,348	$10,355,638
Average interest rate.....	7.67%	7.70%	7.66%	7.65%	7.63%	7.53%	7.63%
Multi-family and non-residential.....	297,444	277,885	260,444	235,347	223,144	1,882,833	3,177,097
Average interest rate.....	7.87%	7.75%	7.77%	7.69%	7.75%	7.62%	7.68%
Consumer and commercial.....	100,431	60,471	245,672	3,400	3,060	27,531	440,565
Average interest rate.....	11.81%	10.56%	9.98%	8.89%	8.89%	8.89%	10.39%
Mortgage-backed securities(3).....	425,116	357,314	294,496	235,760	240,470	809,913	2,363,069
Average interest rate.....	7.16%	7.07%	7.03%	6.98%	6.97%	6.78%	6.96%
Investment securities.....	203,418	--	--	--	--	96,890	300,308
Average interest rate.....	5.63%	--	--	--	--	3.73%	5.02%
Mortgage servicing assets(4)...	48,101	39,166	31,254	25,247	20,622	89,113	253,503
Total interest-sensitive assets.....	$3,076,272	$2,579,897	$2,315,796	$1,641,785	$1,365,802	$5,910,628	$16,890,180
INTEREST-SENSITIVE LIABILITIES:							
Deposits:							
Checking.....	$311,080	$255,796	$212,311	$176,218	$146,261	$714,095	$1,815,761
Average interest rate.....	0.32%	0.32%	0.32%	0.32%	0.32%	0.32%	0.32%
Savings.....	66,808	57,455	49,411	42,494	36,544	224,487	477,199
Average interest rate.....	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Money-market.....	1,400,660	313,148	212,941	144,800	98,464	209,236	2,379,249
Average interest rate.....	3.96%	3.96%	3.96%	3.96%	3.96%	3.96%	3.96%
Certificates.....	4,740,900	1,072,659	91,231	79,945	31,565	12,648	6,028,948
Average interest rate.....	5.36%	5.62%	5.62%	5.79%	5.79%	5.79%	5.42%
Borrowings:							
FHLB.....	3,928,458	245,000	1,000,000	--	440,000	--	5,613,458
Average interest rate.....	5.53%	5.53%	5.74%	--	5.97%	--	5.60%
Other.....	175,551	--	--	70	--	--	175,621
Average interest rate.....	5.72%	--	--	8.75%	--	--	5.72
Total interest-sensitive liabilities.....	$10,623,457	$1,944,058	$1,565,894	$ 443,527	$ 752,834	$1,160,466	$16,490,236

	FAIR VALUE
INTEREST-SENSITIVE ASSETS:	
Loans receivable(2):	
Single-family 1-4 units.....	$10,333,005
Average interest rate.....	
Multi-family and non-residential.....	3,042,740
Average interest rate.....	
Consumer and commercial.....	405,642
Average interest rate.....	
Mortgage-backed securities(3).....	2,382,325
Average interest rate.....	
Investment securities.....	300,308
Average interest rate.....	
Mortgage servicing assets(4)...	297,557
Total interest-sensitive assets.....	$16,761,577

INTEREST-SENSITIVE LIABILITIES:	
Deposits:	
Checking	$1,815,761
Average interest rate	
Savings	477,199
Average interest rate	
Money-market	2,379,249
Average interest rate	
Certificates	6,031,536
Average interest rate	
Borrowings:	
FHLB	5,614,652
Average interest rate	
Other	174,949
Average interest rate	
Total interest-sensitive liabilities	$16,493,346

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(1) Expected maturities are contractual maturities adjusted for prepayments of principal. Glendale Federal uses certain assumptions to estimate expected maturities. For assets, expected maturities are based upon contractual maturity, projected repayments and prepayments of principal. The prepayment experience reflected herein is based on Glendale Federal's historical experience. Glendale Federal's CPR is 21.2% and 19.6% on its fixed-rate and adjustable-rate portfolios, respectively, for interest-earning assets (excluding investment securities, which do not have prepayment features). For deposit liabilities, in accordance with standard regulatory and industry practice, "decay factors", used to estimate deposit runoff, of 38.09% CPR per year have been applied. The actual maturities of these instruments could vary substantially if future prepayments differ from Glendale Federal's or the industry's historical experience.

(2) Loans receivable balances are presented gross of unearned discounts/premiums, deferred loan fees and allowance for loan losses and net of undisbursed loan funds.

(3) Mortgage-backed securities balances are presented gross of unearned discounts/premiums, deferred loan fees and unrealized loss.

(4) Mortgage servicing assets balances are presented gross of the valuation allowance.

Glendale Federal continually evaluates interest rate risk management opportunities, including the use of derivative financial instruments. Glendale Federal's management believed that derivative instruments then available were not cost-effective, and therefore, has focused its efforts on increasing Glendale Federal's yield-cost spread by attracting lower-costing retail deposits, principally checking accounts from businesses and individuals. In the past, Glendale Federal had used derivatives, primarily interest rate exchange agreements, as a component of its interest rate risk management strategy. The purpose of the interest rate exchange agreements was to reduce the effect of rising interest rates on short-term deposits and FHLB advances, and the effect thereof on interest expense. Glendale Federal had no interest rate exchange agreements or other off-balance sheet derivatives, and had $356,000 of interest-only strips at June 30, 1998.

INTEREST RATE MARGIN

The following table provides information concerning the interest rate spread at the end of each of the past three fiscal years:

	JUNE 30		
	1998	1997	1996
Interest-earning assets:			
Loans receivable, net	7.75%	7.73%	7.74%
Mortgage-backed securities, net	6.37	6.78	6.26
Total loans and mortgage-backed securities	7.55	7.58	7.49
Federal funds sold and assets purchased under resale agreements	6.36	6.49	5.69
Other investments(1)	6.09	8.41	9.58
Total investments	6.17	7.10	6.99
Total interest-earning assets	7.50	7.55	7.46
Interest-bearing liabilities:			
Deposits--daily access	2.33	2.76	3.02
Deposits--certificates	5.41	5.46	5.46
Total deposits	4.06	4.37	4.62
Securities sold under agreements to repurchase	5.72	5.66	5.50
Borrowings from FHLB	5.59	5.72	5.94
Other borrowings	8.46	7.78	7.76
Total borrowings	5.59	5.72	5.87
Total interest-bearing liabilities	4.60	4.87	5.05
Interest rate spread	2.90%	2.68%	2.41%
Adjusted interest rate spread(2)	3.02%	2.79%	2.59%

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(1) Includes certificates of deposit, other debt and equity securities, and investment in capital stock of FHLB.

(2) Net interest income annualized at the rates in effect as of the reported date divided by the balance of interest-earning assets as of such date.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Glendale Federal--Results of Operations--Net Interest Income" for an analysis of changes in interest income and interest expense and their effect on the results of Glendale Federal's operations.

SUBSIDIARIES

Glendale Federal conducts various business activities through its subsidiaries including GLENFED Brokerage Services ("GBS") and GLENFED Insurance Services, Inc. ("GIS"). Applicable regulations provide that federally chartered institutions such as Glendale Federal may invest up to 2% of their assets in capital stock and secured and unsecured loans to subsidiary service corporations and an additional 1% of assets when the additional funds are used for community development and inner-city purposes. An institution that meets its

regulatory capital requirements is also generally permitted to make conforming loans to service corporations (and certain joint ventures of service corporations) in which the institution owns or holds more than 10% of the capital stock in an aggregate amount of up to 50% of its regulatory capital. At June 30, 1998, Glendale Federal's permissible investment limit was $950.8 million and Glendale Federal's aggregate investment for regulatory purposes related to this limitation was $205.3 million.

Subsidiaries of Glendale Federal whose operations were on-going included GBS and GIS. GBS marketed investments such as mutual funds and annuity products and provides discount securities brokerage services. GBS recorded total revenues and pre-tax earnings of $9.2 million and $4.3 million, respectively, for fiscal 1998 and had total assets of $13.9 million at June 30, 1998. GIS provided general insurance agency services. GIS recorded total revenues and pre-tax earnings of $4.6 million and $2.3 million, respectively, for fiscal 1998 and had total assets of $10.8 million at June 30, 1998. While these subsidiaries conducted their activities separately from those of Glendale Federal, their principal sources of customers were referrals from Glendale Federal's retail branch offices. These subsidiaries have contributed to Glendale Federal's non-interest income and, as such, continued to be a part of Glendale Federal's core operations.

EMPLOYEES

As of June 30, 1998, Glendale Federal had a total of 2,961 full-time equivalent employees. None of its employees was represented by any collective bargaining group. Glendale Federal provided its full-time employees with a comprehensive program of benefits, most of which are on a contributory basis, including medical insurance, dental insurance, life insurance, accidental death and dismemberment insurance, long-term disability coverage, a pension plan and a 401(k) plan. Glendale Federal management considered its employee relations to be satisfactory with a work force which maintained an overall commitment to the mission and strategic goals of Glendale Federal.

PROPERTIES

Glendale Federal conducted its business through 195 banking offices and 23 loan offices in California. Most of the loan offices are located in a branch building, but five are located in separately leased office facilities. Glendale Federal owned its executive offices and 89 of its banking offices, as well as 5 other principal properties in which service centers and other facilities are located, and leased the premises for 106 of its banking offices, as well as 12 other properties in which service centers and other facilities are located. The net book value of all offices at June 30, 1998 was $102 million, which included $15 million of leasehold improvements. Expirations of leases for facilities range from August 1998 to April 2034. See Notes 3 and 10 of the Notes to Consolidated Financial Statements of Glendale Federal, included elsewhere in this Prospectus, for further information.

Glendale Federal evaluated the suitability and adequacy of all its facilities on a continuing basis, including branch offices, support buildings and service centers, and had an active program of relocating, remodeling or closing such facilities as necessary to maintain efficient and attractive facilities. Glendale Federal believed its present facilities were adequate for its operating purposes.

LEGAL PROCEEDINGS

Goodwill Litigation Against the Government

Following the adoption of FIRREA, Glendale Federal sued the United States Government (the "Government") contending that FIRREA's treatment of supervisory goodwill constituted a breach by the Government of its 1981 contract with Glendale Federal, under which Glendale Federal merged with a Florida thrift and Glendale Federal was permitted to include the goodwill resulting from the merger in Glendale Federal's regulatory capital (Glendale Federal Bank, F.S.B. v. United States, No. 90-772C, in the United States Court of Federal Claims, filed August 15, 1990) (the "Glendale Goodwill Litigation"). In July 1992, the United States Court of Federal Claims (the "Claims Court") found in favor of Glendale Federal's position, ruling that the Government breached its express contractual commitment to permit Glendale Federal to include supervisory goodwill in its regulatory capital and that Glendale Federal is entitled to seek financial compensation.

On May 25, 1993, a three-judge panel of the United States Court of Appeals for the Federal Circuit (the "Federal Court") reversed the Claims Court's July 1992 judgment in favor of Glendale Federal, ruling that the Government was not liable for breach of contract, and remanded the case for trial of Glendale Federal's constitutional and other claims. On August 18, 1993, the Federal Circuit granted Glendale Federal's request for rehearing en banc and vacated the panel decision reversing the Claims Court's July 1992 judgment. On August 30, 1995 the Federal Circuit, by a 9 to 2 decision, affirmed the judgment of the Claims Court in favor of Glendale Federal.

The Government subsequently appealed this decision to the United States Supreme Court and on July 1, 1996, the Supreme Court, by a vote of 7 to 2, ruled that the Government had breached its contract with Glendale Federal and remanded the case to the Claims Court for a determination of damages. The trial to determine damages commenced on February 24, 1997 and the taking of testimony in the trial was completed on April 9, 1998. Glendale Federal has presented evidence on three alternative damages theories: (1) "Reliance Damages," pursuant to which Glendale Federal presented evidence of damages in the amount of $863.8 million; (2) "Expectation Damages," pursuant to which Glendale Federal presented evidence of damages in the amount of $1.603 billion; and (3) "Restitution," pursuant to which Glendale Federal presented evidence of damages in excess of $2.015 billion.

The Government has presented evidence seeking to establish that Glendale Federal benefited from the breach, rather than being damaged, and is not entitled to recover any compensation from the Government. In addition, as an affirmative defense, the Government asserts that certain testimony by Glendale Federal witnesses at the trial is inconsistent with prior documents filed by Glendale Federal and that these inconsistencies constitute a fraud against the Government that should result in forfeiture of Glendale Federal's right to compensation for the Government's breach of contract.

In lieu of traditional closing briefs, the Claims Court requested the parties to respond to a series of written questions posed by the Court regarding factual and legal issues raised in the damages trial. Responses to those questions, as well as each party's reply to the other's responses, have been filed with the Court and final oral arguments on these matters were held on September 11, 1998.

Shareholder Class Action Litigation

A wholly-owned subsidiary of Glendale Federal, as the successor by merger to Glendale Federal's former parent corporation, GLENFED, Inc. ("GLENFED") is a defendant in consolidated class actions pending in the United States District Court for the Central District of California (the "District Court"), entitled In Re GLENFED, Inc. Securities Litigation, Civil No. 91-0816 WJR, originally filed on January 18, 1991. The original consolidated complaint was dismissed by the Court on July 15, 1991, with leave to amend, for failure to allege with specificity the securities law and common law fraud claims asserted in the complaint. The complaint alleged, among other things, that various misrepresentations were made concerning the financial condition and operations of GLENFED and Glendale Federal prior to GLENFED's announcement of a $140 million loss on or about January 16, 1991.

After dismissal of the complaint, the plaintiffs filed an amended complaint which was dismissed by the District Court, which then entered judgment in favor of GLENFED and the individual officer and director defendants. Plaintiffs appealed this dismissal and on September 15, 1993, the United States Court of Appeals for the Ninth Circuit (the "Appeals Court") affirmed the judgment dismissing the complaint. On December 9, 1994, the Appeals Court, sitting en banc, reversed the decision of the three-judge panel which had found in favor of GLENFED on only one of the alternative grounds on which the District Court had based its opinion. Since the three-judge panel had not ruled on all the grounds which formed the basis of the District Court's opinion, the en banc court remanded the case to the three-judge appellate panel for a ruling on the remaining grounds. On July 13, 1995, the three-judge panel of the Appeals Court entered an order affirming the dismissal by the District Court of the outside directors and remanded the remainder of the case to the District Court for further proceedings.

On November 12, 1996, the court heard GLENFED's and the remaining officers' and directors' motion for summary judgment and/or summary adjudication. On January 6, 1997, the court denied the motion for summary judgment but granted the motion for summary adjudication that: 1) the marketplace was informed of conditions

in the real estate and savings and loan industries during the relevant time period; and 2) defendants monitored and disclosed the status of GLENFED's loan loss and non-performing assets and did not make false or misleading statements in regard to said reserves and assets. The issue remaining in the case is whether the defendants had a reasonable belief that certain subsidiaries could be sold without a loss. The trial court entered an order refusing to certify a class in April 1997. After permitting another two shareholders to intervene, the Court again refused to certify a class in April 1998 and, subsequently, the Ninth Circuit refused to grant an interlocutory appeal on this issue, which will now have to await trial and/or final judgment. The remaining claims of the individual plaintiffs have yet to be set for trial.

Certain of the former officers and directors of GLENFED were also named defendants in a California state court derivative action (entitled Donald P. Delliquanti, et al. v. Norman M. Coulson, et al. and GLENFED, Inc., as a nominal defendant, Case No. BC021028, filed February 8, 1991 in Los Angeles County, California Superior Court) which charges those persons who were directors of GLENFED during the period covered by the plaintiff's allegations with breach of fiduciary duty and mismanagement in connection with past write-downs and loss provisions for real estate loans and investments. Since the litigation is derivative in nature, the subsidiary of Glendale Federal which is the successor to GLENFED would be a recipient of any judgment and has no exposure to damages. On October 8, 1991, the Court sustained the defendant's demurrer to the second amended complaint in this action and entered judgment in favor of GLENFED and the individual officer defendants. The plaintiffs filed an appeal, and on September 1, 1993, the Court of Appeals reversed the decision of the lower Court. The case has now been set for trial on April 5, 1999.

Golden State Acquisition/Litigation

Following the public announcement on February 5, 1998 of the Merger Agreement and the proposed Mergers, several separate purported class action lawsuits (collectively, the "Delaware Litigation") were filed by certain stockholders of Golden State naming Golden State, its individual directors and, in certain cases, FNH and MacAndrews & Forbes as defendants. The Delaware Litigation was consolidated into one action in the Court of Chancery in Delaware captioned In re Golden State Bancorp Inc. Shareholders Litigation, Consolidated C.A. No. 16175NC. The plaintiffs in the Delaware Litigation have alleged, among other things, that the individual members of Golden State's board of directors have breached their fiduciary duties to Golden State's stockholders by entering into the Merger Agreement. The plaintiffs are seeking, on behalf of themselves and all similarly situated stockholders of Golden State, among other things, (i) class certification, (ii) an order enjoining, preliminarily and permanently, the Mergers, or, in the event the Mergers are consummated prior to the entry of a final order, rescission of the Mergers and/or damages, including rescissory damages, and (iii) costs and disbursements, including attorneys' fees. In addition, several purported class action complaints alleging substantially similar claims, and seeking substantially similar relief, have been filed in Los Angeles Superior Court in the State of California. The plaintiffs in such actions have agreed to a stay of such actions pending disposition of the Delaware Litigation. A settlement in principle has been reached among counsel for the parties in both the Delaware Litigation and the California litigation, subject to court approval and other conditions. The terms of the proposed settlement provided, among other things, that Golden State supply certain additional information to shareholders in the proxy statement disseminated in connection with the special meeting of Golden State shareholders held on August 17, 1998 and such information was included. Defendants have agreed, in connection with the contemplated settlement, not to oppose an award of attorney's fees to plaintiffs' counsel in an amount provided for in the agreement. Such amount is not material to Golden State.

Other Litigation

In addition to the matters described above, Glendale Federal or its subsidiaries are involved as plaintiff or defendant in various legal actions incidental to their business, none of which is believed by management to be material to the financial condition or results of operations of Glendale Federal and its subsidiaries on a consolidated basis.

REGULATION

GENERAL

Golden State Holdings is a savings and loan holding company within the meaning of the HOLA and, as such, is registered with the OTS and is subject to comprehensive OTS regulation. The Bank is a federally chartered and insured stock savings bank subject to extensive regulation and supervision by the OTS, as the primary federal regulator of savings associations, and the FDIC, as the administrator of the SAIF.

The federal banking laws contain numerous provisions affecting various aspects of the business and operations of savings associations and savings and loan holding companies. The following description of statutory and regulatory provisions and proposals, which is not intended to be a complete description of these provisions or their effects on the Issuer or the Bank, is qualified in its entirety by reference to the particular statutory or regulatory provisions or proposals. The primary purpose of the statutory and regulatory scheme is to protect deposits, the financial institutions and the financial system as a whole.

REGULATION OF THE ISSUER

Holding Company Acquisitions

Golden State Holdings is a registered savings and loan holding company. The HOLA and OTS regulations thereunder generally prohibit a savings and loan holding company, without prior OTS approval, from acquiring, directly or indirectly, the ownership or control of any other savings association or savings and loan holding company, or all, or substantially all, of the assets or more than 5% of the voting shares thereof. These provisions also prohibit, among other things, any director or officer of a savings and loan holding company, or any individual who owns or controls more than 25% of the voting shares of such holding company, from acquiring control of any savings association not a subsidiary of such savings and loan holding company, unless the acquisition is approved by the OTS.

Holding Company Activities

Golden State Holdings currently operates as a unitary savings and loan holding company. Generally, there are limited restrictions on the activities of a unitary savings and loan holding company and its non-savings association subsidiaries. If Golden State Holdings ceases to be a unitary savings and loan holding company, by, for example, acquiring another savings association in a non-supervisory transaction, the activities of Golden State Holdings and its non-savings association subsidiaries would thereafter be subject to substantial restrictions. In addition, proposed legislation that would eliminate the savings association charter could also remove protections from activity restrictions currently accorded a unitary savings and loan holding company in the absence of appropriate "grandfather" provisions. See "--Regulation of the Bank--Savings Association Charter."

Dividends

The HOLA requires every savings association subsidiary of a savings and loan holding company to give the OTS at least a 30 day advance notice of any proposed dividends to be made on its guarantee, permanent or other non-withdrawable stock. Dividends declared in violation of such notice requirement are invalid. See "--Regulation of the Bank--Capital Distribution Regulation."

Affiliate Restrictions

Transactions between a savings association and its "affiliates" are subject to quantitative and qualitative restrictions under Sections 23A and 23B of the Federal Reserve Act. Affiliates of a savings association include, among other entities, the savings association's holding company and non-banking companies that are under common control with the savings association. In general, the restrictions of Sections 23A and 23B do not apply to transactions between a savings association and its parent, subsidiary or sister organizations that themselves are banks or savings associations.

In general, Sections 23A and 23B and OTS regulations issued in connection therewith limit the extent to which a savings association or its subsidiaries may engage in certain "covered transactions" with affiliates to an amount equal to 10% of the association's capital and surplus, in the case of covered transactions with any one affiliate, and to an amount equal to 20% of such capital and surplus, in the case of covered transactions with all affiliates. In addition, a savings association and its subsidiaries may engage in covered transactions and certain other transactions only on terms and under circumstances that are substantially the same, or at least as favorable to the savings association or its subsidiary, as those prevailing at the time for comparable transactions with nonaffiliated companies. A "covered transaction" is defined to include a loan or extension of credit to an affiliate; a purchase of investment securities issued by an affiliate; with certain exceptions, a purchase of assets from an affiliate; the acceptance of securities issued by an affiliate as collateral for a loan or extension of credit to any party; or the issuance of a guarantee, acceptance or letter of credit on behalf of an affiliate.

In addition, a savings association may not make a loan or extension of credit to an affiliate unless the affiliate is engaged only in activities permissible for bank holding companies; a savings association may not purchase or invest in securities of an affiliate other than shares of a subsidiary; a savings association and its subsidiaries may not purchase a low-quality asset from an affiliate; and covered transactions and certain other transactions between a savings association or its subsidiaries and an affiliate must be on terms and conditions that are consistent with safe and sound banking practices. With certain exceptions, each loan or extension of credit by a savings association to an affiliate must be secured by collateral with a market value ranging from 100% to 130% (depending on the type of collateral) of the amount of the loan or extension of credit.

REGULATION OF THE BANK

Regulatory System

As a federal savings bank, lending activities and other investments of the Bank must comply with various statutory and regulatory requirements. The Bank is regularly examined by the OTS and must file periodic reports concerning its activities and financial condition.

Although the OTS is the Bank's primary regulator, the FDIC has "backup enforcement authority" over the Bank. The Bank's eligible deposit accounts are insured by the FDIC under the SAIF, up to applicable limits.

Federal Home Loan Banks

The Bank is a member of the FHLBS. Among other benefits, FHLB membership provides the Bank with a central credit facility, from which it may borrow generally on a secured basis in amounts determined by reference to available collateral. The Bank is required to own capital stock in the FHLB in an amount equal to the greater of: (i) 1% of its aggregate outstanding principal amount of its residential mortgage loans, home purchase contracts and similar obligations at the beginning of each calendar year, (ii) 0.3% of total assets, or (iii) 5% of its FHLB advances (borrowings).

Liquid Assets

Under OTS regulations, for each calendar quarter, a savings bank is required to maintain an average daily balance of liquid assets (including cash, certain time deposits and savings accounts, bankers' acceptances, certain government obligations and certain other investments) not less than a specified percentage of the average daily balance of its net withdrawable accounts plus short-term borrowings (its liquidity base) during the preceding calendar month. This liquidity requirement, which currently equals 4% (having been lowered from 5% on November 24, 1997), may be changed from time to time by the OTS to any amount between 4% and 10%, depending upon certain factors. The Bank has maintained liquid assets in compliance with the regulations in effect throughout 1998, 1997, 1996 and 1995.

Regulatory Capital Requirements

OTS capital regulations require savings banks to satisfy minimum capital standards: risk-based capital requirements, a leverage requirement and a tangible capital requirement. Savings banks must meet each of these standards in order to be deemed in compliance with OTS capital requirements. In addition, the OTS may require a savings association to maintain capital above the minimum capital levels.

All savings associations are required to meet a minimum risk-based capital requirement of total capital (core capital plus supplementary capital) equal to 8% of risk-weighted assets (which includes the credit risk equivalents of certain off-balance sheet items). In calculating total capital for purposes of the risk-based requirement, supplementary capital may not exceed 100% of core capital. Under the leverage requirement, a savings association is required to maintain core capital equal to a minimum of 4% of adjusted total assets. A savings association is also required to maintain tangible capital in an amount at least equal to 1.5% of its adjusted total assets.

Under OTS regulations, a savings association with a greater than "normal" level of interest rate exposure must deduct an interest rate risk ("IRR") component in calculating its total capital for purposes of determining whether it meets its risk-based capital requirement. Interest rate exposure is measured, generally, as the decline in an institution's net portfolio value that would result from a 200 basis point increase or decrease in market interest rates (whichever would result in lower net portfolio value), divided by the estimated economic value of the savings association's assets. The interest rate risk component to be deducted from total capital is equal to one-half of the difference between an institution's measured exposure and "normal" IRR exposure (which is defined as 2%), multiplied by the estimated economic value of the institution's assets. In August 1995, the OTS indefinitely delayed implementation of its IRR regulation; however, based on internal measures of interest rate risk at December 31, 1997, the Bank would not have been required to deduct an IRR component in calculating total risk-based capital had the IRR component of the capital regulations been in effect.

These capital requirements are viewed as minimum standards by the OTS, and most institutions are expected to maintain capital levels well above the minimum. In addition, the OTS regulations provide that minimum capital levels higher than those provided in the regulations may be established by the OTS for individual savings associations upon a determination that the savings association's capital is or may become inadequate in view of its circumstances. The OTS regulations provide that higher individual minimum regulatory capital requirements may be appropriate in circumstances where, among others: (1) a savings association has a high degree of exposure to interest rate risk, prepayment risk, credit risk, concentration of credit risk, certain risks arising from nontraditional activities, or similar risks or a high proportion of off-balance sheet risk; (2) a savings association is growing, either internally or through acquisitions, at such a rate that supervisory problems are presented that are not dealt with adequately by OTS regulations; and (3) a savings association may be adversely affected by activities or conditions of its holding company, affiliates, subsidiaries or other persons or savings associations with which it has significant business relationships. The Bank is not subject to any such individual minimum regulatory capital requirement.

At June 30, 1998, the Bank's total capital to risk-based assets ratio was 12.15%, its core capital to risk-based assets ratio was 10.37%, its leverage capital ratio was 5.46% and its tangible capital ratio was 5.46%. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--FNH--Capital Resources."

Certain Consequences of Failure to Comply with Regulatory Capital Requirements

A savings association's failure to maintain capital at or above the minimum capital requirements may be deemed an unsafe and unsound practice and may subject the savings association to enforcement actions and other proceedings. Any savings association not in compliance with all of its capital requirements is required to submit a capital plan that addresses the association's need for additional capital and meets certain additional requirements. While the capital plan is being reviewed by the OTS, the savings association must certify, among other things, that it will not, without the approval of its appropriate OTS Regional Director, grow beyond net interest credited or make capital distributions. If a savings association's capital plan is not approved, the association will become subject to additional growth and other restrictions. In addition, the OTS, through a capital directive or otherwise, may restrict the ability of a savings association not in compliance with the capital requirements to pay dividends

and compensation, and may require such association to take one or more of certain corrective actions, including, without limitation: (i) increasing its capital to specified levels, (ii) reducing the rate of interest that may be paid on savings accounts, (iii) limiting receipt of deposits to those made to existing accounts, (iv) ceasing issuance of new accounts of any or all classes or categories except in exchange for existing accounts, (v) ceasing or limiting the purchase of loans or the making of other specified investments, and (vi) limiting operational expenditures to specified levels.

The HOLA permits savings associations not in compliance with the OTS capital standards to seek an exemption from certain penalties or sanctions for noncompliance. Such an exemption will be granted only if certain strict requirements are met, and must be denied under certain circumstances. If an exemption is granted by the OTS, the savings association still may be subject to enforcement actions for other violations of law or unsafe or unsound practices or conditions.

Prompt Corrective Action

The prompt corrective action regulation of the OTS, promulgated under FDICIA, requires certain mandatory actions and authorizes certain other discretionary actions to be taken by the OTS against a savings association that falls within certain undercapitalized capital categories specified in the regulation.

The regulation establishes five categories of capital classification: "well capitalized," "adequately capitalized," "undercapitalized,""significantly undercapitalized," and "critically undercapitalized." Under the regulation, the ratio of total capital to risk-weighted assets, core capital to risk-weighted assets and the leverage capital ratio are used to determine an association's capital classification. The Bank met the capital requirements of a "well capitalized" institution under the FDICIA prompt corrective action standards as of June 30, 1998. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--FNH--Capital Resources."

In general, the prompt corrective action regulation prohibits an insured depository institution from declaring any dividends, making any other capital distribution, or paying a management fee to a controlling person if, following the distribution or payment, the institution would be within any of the three undercapitalized categories. In addition, adequately capitalized institutions may accept Brokered Deposits only with a waiver from the FDIC and are subject to restrictions on the interest rates that can be paid on such deposits. Undercapitalized institutions may not accept, renew or roll-over Brokered Deposits.

Savings associations that are classified as undercapitalized are subject to certain mandatory supervisory actions, including: (i) increased monitoring by the appropriate federal banking agency for the association and periodic review of the association's efforts to restore its capital, (ii) a requirement that the association submit a capital restoration plan acceptable to the appropriate federal banking agency and implement that plan, and that each company having control of the association guarantee compliance with the capital restoration plan in an amount not exceeding the lesser of 5% of the association's total assets at the time it received notice of being undercapitalized, or the amount necessary to bring the association into compliance with applicable capital standards at the time it fails to comply with the plan, and (iii) a limitation on the association's ability to make any acquisition, open any new branch offices, or engage in any new line of business without the prior approval of the appropriate federal banking agency for the institution or the FDIC.

The regulation also provides that the OTS may take any of certain additional supervisory actions against an undercapitalized association if the agency determines that such actions are necessary to resolve the problems of the association at the least possible long-term cost to the deposit insurance fund. These supervisory actions include: (i) requiring the association to raise additional capital or be acquired by another association or holding company if certain grounds exist, (ii) restricting transactions between the association and its affiliates, (iii) restricting interest rates paid by the association on deposits, (iv) restricting the association's asset growth or requiring the association to reduce its assets, (v) requiring replacement of senior executive officers and directors, (vi) requiring the association to alter or terminate any activity deemed to pose excessive risk to the association, (vii) prohibiting capital distributions by bank holding companies without prior approval by the Board of Governors of the Federal Reserve Board (the "FRB"), (viii) requiring the association to divest certain subsidiaries, or requiring the association's holding company to divest the association or certain affiliates of the

association, and (ix) taking any other supervisory action that the agency believes would better carry out the purposes of the prompt corrective action provisions of FDICIA.

Savings associations classified as undercapitalized that fail to submit a timely, acceptable capital restoration plan or fail to implement such a plan are subject to the same supervisory actions as significantly undercapitalized associations. Significantly undercapitalized associations are subject to the mandatory provisions applicable to undercapitalized associations. The regulation also makes mandatory for significantly undercapitalized associations certain of the supervisory actions that are discretionary for associations classified as undercapitalized, creates a presumption in favor of certain discretionary supervisory actions, and subjects significantly undercapitalized associations to additional restrictions, including a prohibition on paying bonuses or raises to senior executive officers without the prior written approval of the appropriate federal bank regulatory agency. In addition, significantly undercapitalized associations may be subjected to certain of the restrictions applicable to critically undercapitalized associations.

The regulation requires that an association be placed into conservatorship or receivership within 90 days after it becomes critically undercapitalized, unless the OTS, with the concurrence of the FDIC, determines that other action would better achieve the purposes of the prompt corrective action provisions of FDICIA. Any such determination must be renewed every 90 days. A savings association also must be placed into receivership if the association continues to be critically undercapitalized, on average, during the fourth quarter after the association initially became critically undercapitalized, unless the association's federal bank regulatory agency, with the concurrence of the FDIC, makes certain positive determinations with respect to the association.

Critically undercapitalized associations are also subject to the restrictions generally applicable to significantly undercapitalized associations and to a number of other severe restrictions. For example, beginning 60 days after becoming critically undercapitalized, such associations may not pay principal or interest on subordinated debt without the prior approval of the FDIC. (However, the regulation does not prevent unpaid interest from accruing on subordinated debt under the terms of the debt instrument, to the extent otherwise permitted by law.) In addition, critically undercapitalized associations may be prohibited from engaging in a number of activities, including entering into certain transactions or paying interest above a certain rate on new or renewed liabilities.

If the OTS determines that an association is in an unsafe or unsound condition, or if the association is deemed to be engaging in an unsafe or unsound practice, the OTS may, if the association is well-capitalized, reclassify it as adequately capitalized; if the association is adequately capitalized, require it to comply with restrictions applicable to undercapitalized associations; and, if the association is undercapitalized, require it to comply with certain restrictions applicable to significantly undercapitalized associations.

Conservatorship/Receivership

In addition to the grounds discussed under "--Prompt Corrective Action," the OTS (and, under certain circumstances, the FDIC) may appoint a conservator or receiver for a savings association if any one or more of a number of circumstances exist, including, without limitation, the following: (i) the association's assets are less than its obligations to creditors and others, (ii) a substantial dissipation of assets or earnings due to any violation of law or any unsafe or unsound practice, (iii) an unsafe or unsound condition to transact business, (iv) a willful violation of a final cease-and-desist order, (v) the concealment of the association's books, papers, records or assets or refusal to submit such items for inspection to any examiner or lawful agent of the OTS or FDIC, (vi) the association is likely to be unable to pay its obligations or meet its depositors' demands in the normal course of business, (vii) the association has incurred, or is likely to incur, losses that will deplete all or substantially all of its capital, and there is no reasonable prospect for the association to become adequately capitalized without federal assistance, (viii) any violation of law or unsafe or unsound practice that is likely to cause insolvency or substantial dissipation of assets or earnings, weaken the association's condition, or otherwise seriously prejudice the interests of the association's depositors or the federal deposit insurance fund, (ix) the association consents to the appointment of the conservator or receiver, (x) the association ceases to be an insured association, (xi) the association is undercapitalized and the association has no reasonable prospect of becoming adequately capitalized, fails to become adequately capitalized when required to do so, fails to submit a timely and acceptable capital restoration plan, or materially fails to implement an accepted capital restoration plan, (xii) the association

is critically undercapitalized or otherwise has substantially insufficient capital, or (xiii) the association is found guilty of certain criminal offenses related to money laundering.

Liability of Commonly Controlled Depository Institutions

In general, savings associations and other depository institutions can be held liable for any loss which the FDIC incurs or reasonably anticipates incurring in connection with either the default of a commonly controlled depository institution or any assistance provided by the FDIC to a commonly controlled institution in danger of default. A depository institution is required to pay the amount of such liability upon receipt of written notice from the FDIC unless such written notice is received more than two years from the date the FDIC incurred the loss. Liability for the losses of commonly controlled institutions can lead to the failure of all depository institutions in a holding company structure if the remaining institutions are unable to pay the liability assessed by the FDIC.

In general, for purposes of this provision, depository institutions are deemed to be "commonly controlled" if they are controlled by the same holding company or if one depository institution is controlled by another; "default" of a depository institution occurs when there is an official determination pursuant to which a conservator, receiver or other legal custodian is appointed for the institution; and a depository institution is deemed to be "in danger of default" when its federal or state supervisory agency determines that the institution is not likely to be able to meet the demands of its depositors or pay its obligations in the normal course of business and there is no reasonable prospect that it will be able to do so, or determines that the institution has incurred or is likely to incur losses that will deplete substantially all of its capital and there is no reasonable prospect that the institution's capital can be replenished without federal assistance. The Bank is not currently under common control with any other depository institution.

Enforcement Powers

The OTS and, under certain circumstances, the FDIC, have substantial enforcement authority with respect to savings associations, including authority to bring various enforcement actions against a savings association and any of its "institution-affiliated parties" (a term defined to include, among other persons, directors, officers, employees, controlling stockholders, agents and shareholders who participate in the conduct of the affairs of the institution). This enforcement authority includes, without limitation: (i) the ability to terminate a savings association's deposit insurance, (ii) institute cease-and-desist proceedings, (iii) bring suspension, removal, prohibition and criminal proceedings against institution-affiliated parties, and (iv) assess substantial civil money penalties. As part of a cease-and-desist order, the agencies may require a savings association or an institution-affiliated party to take affirmative action to correct conditions resulting from that party's actions, including to make restitution or provide reimbursement, indemnification or guarantee against loss; restrict the growth of the institution; and rescind agreements and contracts.

Capital Distribution Regulation

In addition to the prompt corrective action restriction on paying dividends described above, OTS regulations limit certain "capital distributions" by savings associations. Capital distributions are defined to include, in part, dividends and payments for stock repurchases and cash-out mergers.

Under the regulation, an association that meets its fully phased-in capital requirements both before and after a proposed distribution and has not been notified by the OTS that it is in need of more than normal supervision (a "Tier 1 association") may, after prior notice to but without the approval of the OTS, make capital distributions during a calendar year up to the higher of: (i) 100% of its net income to date during the calendar year plus the amount that would reduce by one-half its surplus capital ratio at the beginning of the calendar year, or (ii) 75% of its net income over the most recent four-quarter period. A Tier 1 association may make capital distributions in excess of the above amount if it gives notice to the OTS and the OTS does not object to the distribution. A savings association that meets its regulatory capital requirements both before and after a proposed distribution but does not meet its fully phased-in capital requirement (a "Tier 2 association") is authorized, after prior notice to the OTS but without OTS approval, to make capital distributions in an amount up to 75% of its net income over the most recent four-quarter period, taking into account all prior distributions during the same period. Any distribution in excess of this amount must be approved in advance by the OTS. A savings association that does

not meet its current regulatory capital requirements (a "Tier 3 association") cannot make any capital distribution without prior approval from the OTS, unless the capital distribution is consistent with the terms of a capital plan approved by the OTS.

At June 30, 1998, the Bank qualified as a Tier 1 association for purposes of the capital distribution rule. The OTS may prohibit a proposed capital distribution that would otherwise be permitted if the OTS determines that the distribution would constitute an unsafe or unsound practice. The requirements of the capital distribution regulation supersede less stringent capital distribution restrictions in earlier agreements or conditions.

The OTS has proposed to amend its capital distribution regulation to conform its requirements to the OTS prompt corrective action regulation. Under the proposed regulation, an association that would remain at least adequately capitalized after making a capital distribution, and that was owned by a holding company, would be required to provide notice to the OTS prior to making a capital distribution. "Troubled" associations and undercapitalized associations would be allowed to make capital distributions only by filing an application and receiving OTS approval, and such applications would be approved under certain limited circumstances.

Qualified Thrift Lender Test

In general, savings associations are required to maintain at least 65% of their portfolio assets in certain qualified thrift investments (which consist primarily of loans and other investments related to residential real estate and certain other assets). A savings association that fails the qualified thrift lender test is subject to substantial restrictions on activities and to other significant penalties.

Legislation permits a savings association to qualify as a qualified thrift lender ("QTL") not only by maintaining 65% of portfolio assets in qualified thrift investments (the "QTL test") but also, in the alternative, by meeting the asset composition test under the Internal Revenue Code for a "domestic building and loan association." The Bank currently is a domestic building and loan association as defined in the Internal Revenue Code and, consequently is a QTL for purposes of HOLA.

Legislation enacted in 1996 also expands the QTL test to provide savings associations with greater authority to lend and diversify their portfolios. In particular, credit card and educational loans may now be made by savings associations without regard to any percentage-of-assets limit, and commercial loans may be made in an amount up to 10 percent of total assets, plus an additional 10 percent for small business loans. Loans for personal, family, and household purposes (other than credit card, small business, and educational loans) are now included without limit with other assets that, in the aggregate, may account for up to 20% of total assets. At June 30, 1998 under the expanded QTL test, approximately 91.17% of the Bank's portfolio assets were qualified thrift investments.

FDIC Assessments

The deposits of the Bank are insured by the SAIF of the FDIC, up to applicable limits, and are subject to deposit premium assessments by the SAIF. Under the FDIC's risk-based insurance system, SAIF-assessed deposits are currently subject to insurance premiums of between 0 and 27 basis points, depending upon the institution's capital position and other supervisory factors. The rate applicable to the Bank at December 31, 1997 was 0 basis points.

Since January 1997, institutions with Bank Insurance Fund ("BIF") deposits have been required to share the cost of funding debt obligations issued by the Financing Corporation ("FICO"), a corporation established by the federal government in 1987 to finance the recapitalization of the Federal Savings and Loan Insurance Corporation (the "FSLIC"). However, until the earlier of December 31, 1999 or the date of elimination of the thrift charter (see "--Savings Association Charter"), the FICO assessment rate for BIF deposits is only one-fifth of the rate applicable to SAIF deposits. Consequently, the annual FICO assessments to be added to deposit insurance premiums, which may be periodically adjusted, are expected to equal approximately 6.4 basis points for SAIF deposits and 1.3 basis points for BIF deposits from January 1, 1997 through December 31, 1999, and an equal amount for both BIF and SAIF deposits thereafter. Since January 1, 1997, FICO payments have been paid directly by SAIF and BIF institutions in addition to deposit insurance assessments.

Savings Association Charter

Congress has been considering legislation in various forms that would require federal thrifts, such as the Bank, to convert their charters to national bank charters. In the absence of appropriate "grandfather" provisions, legislation eliminating the savings association charter could have a material adverse effect on the Bank and its parent holding companies because, among other things, these holding companies engage in activities that are not permissible for bank holding companies and the regulatory capital and accounting treatment for banks and savings associations differs in certain significant respects. The Bank cannot determine whether, or in what form, such legislation may eventually be enacted and there can be no assurance that any legislation that is enacted would contain adequate grandfather rights for the Bank and its parent holding companies.

Non-Investment Grade Debt Securities

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

Community Reinvestment Act and the Fair Lending Laws

Savings associations have a responsibility under the Community Reinvestment Act ("CRA") and related regulations of the OTS to help meet the credit needs of their communities, including low-and moderate-income neighborhoods. In addition, the Equal Credit Opportunity Act and the Fair Housing Act (together, the "Fair Lending Laws") prohibit lenders from discriminating in their lending practices on the basis of characteristics specified in those statutes. An association's failure to comply with the provisions of CRA could, as a minimum, result in regulatory restrictions on its activities, and failure to comply with the Fair Lending Laws could result in enforcement actions by the OTS, as well as other federal regulatory agencies and the Department of Justice.

Change of Control

Subject to certain limited exceptions, no company can acquire control of a savings association without the prior approval of the OTS, and no individual may acquire control of a savings association if the OTS objects. Any company that acquires control of a savings association becomes a savings and loan holding company subject to extensive registration, examination and regulation by the OTS. Conclusive control exists, among other ways, when an acquiring party acquires more than 25% of any class of voting stock of a savings association or savings and loan holding company, or controls in any manner the election of a majority of the directors of the company. In addition, a rebuttable presumption of control exists if, among other things, a person acquires more than 10% of any class of voting stock of the savings association or savings and loan holding company (or 25% of any class of stock, whether or not voting) and, in either case, any of certain additional control factors specified in OTS regulations exist.

Under 1996 legislation, companies subject to the Bank Holding Company Act that acquire or own savings associations are no longer defined as savings and loan holding companies under the HOLA and, therefore, are not generally subject to supervision and regulation by the OTS. OTS approval is no longer required for a bank holding company to acquire control of an existing savings association, although the OTS has a consultative role with the FRB in examination, enforcement and acquisition matters.

MANAGEMENT

DIRECTORS AND EXECUTIVE OFFICERS

The Issuer

The following table sets forth certain information (ages as of July 1, 1998) concerning the directors and executive officers of Golden State Holdings. All directors serve terms of one year or until the election of their respective successors.

NAME	AGE	POSITION
Ronald O. Perelman	55	Director
Gerald J. Ford	53	Chairman of the Board, Chief Executive Officer and Director
Carl B. Webb	48	President, Chief Operating Officer and Director
Howard Gittis	64	Director
Christie S. Flanagan	60	Executive Vice President and General Counsel
Richard H. Terzian	61	Executive Vice President and Chief Financial Officer
Richard P. Hodge	43	Executive Vice President
Scott A. Kisting	51	Executive Vice President
James R. Staff	51	Executive Vice President
Renee Nichols Tucei	41	Senior Vice President and Controller

The Bank

The following table sets forth certain information (ages as of July 1, 1998) concerning the current directors and executive officers of the Bank. All directors serve terms of one year or until election of their respective successors.

NAME	AGE	POSITION
Gerald J. Ford	53	Chairman of the Board, Chief Executive Officer and Director
Carl B. Webb	48	President, Chief Operating Officer and Director
Edward G. Harshfield	61	Vice Chairman of the Board and Director
Paul M. Bass, Jr	63	Director
George W. Bramblett, Jr	58	Director
Bob Bullock	68	Director
Brian P. Dempsey	60	Director
Irwin Engelman	64	Director
John F. King	58	Director
John F. Kooken	66	Director
Gabrielle K. McDonald	56	Director
Thomas S. Sayles	47	Director
Lynn Schenk	53	Director
Robert Setrakian	74	Director
Cora M. Tellez	49	Director
Christie S. Flanagan	60	Executive Vice President and General Counsel
Richard A. Fink	57	Executive Vice President and Goodwill Litigation Manager
Kendall M. Fugate	60	Executive Vice President and Information and Technology Services Director
Richard P. Hodge	43	Executive Vice President and Corporate Tax Director
Scott A. Kisting	51	Executive Vice President, Retail Bank
Walter C. Klein, Jr	55	Executive Vice President; President, FNMC

NAME	AGE	POSITION
Richard A. Leweke	45	Executive Vice President and Administrative Services Director
Lacy G. Newman, Jr.	48	Executive Vice President and Chief Credit Officer
James R. Staff	51	Executive Vice President and Chief Financial Advisor
Richard H. Terzian	61	Executive Vice President and Chief Financial Officer
Peter K. Thomsen	56	Executive Vice President and Retail Banking Director
Stephen J. Trafton	51	Executive Vice President and Goodwill Litigation Manager
Dennis L. Verhaegen	46	Executive Vice President--Director of Corporate Finance
Michael R. Walker	52	Executive Vice President--Commercial Real Estate
Renee Nichols Tucei	41	Senior Vice President and Controller

Mr. Perelman has been a Director of Golden State Holdings since its formation in February 1998 and a Director of Golden State since September 1998. Mr. Perelman has been Chairman of the Board and Chief Executive Officer of MacAndrews & Forbes and various of its affiliates since 1980. Mr. Perelman also is Chairman of the Boards of Directors of Revlon, Inc. ("Revlon") and Meridian Sports Incorporated ("Meridian") and Chairman of the Executive Committees of the Boards of Directors of Cigar Holdings, M&F Worldwide Corp. ("MFW") and Panavision Inc. ("Panavision"). Mr. Perelman is a Director of the following corporations which file reports pursuant to the Exchange Act: Cigar Holdings, Golden State, MFW, Meridian, Panavision, Revlon Consumer Products Corporation ("Products Corporation"), Revlon and REV Holdings Inc. ("REV Holdings"). (On December 27, 1996, Marvel Entertainment Group ("Marvel"), Marvel (Parent) Holdings Inc. ("Marvel Parent") and Marvel Holdings Inc. ("Marvel Holdings"), of which Mr. Perelman was a Director, Marvel III Holdings Inc. ("Marvel III"), of which Mr. Perelman is a Director, and several subsidiaries of Marvel filed voluntary petitions for reorganization under Chapter 11 of the United States Bankruptcy Code.)

Mr. Ford has been Chairman of the Board, Chief Executive Officer and a Director of the Bank since the consummation of the FN Acquisition, of Golden State Holdings since September 11, 1998, of Golden State since September 1998 and of Preferred Capital Corp. since its formation in November 1996. Mr. Ford was Chairman of the Board and a Director of First Madison from 1993 to 1994. Mr. Ford previously served as Chairman of the Board, Chief Executive Officer and a Director of First Gibraltar from 1988 through 1993. Mr. Ford served as the Chairman of the Board, Chief Executive Officer and a Director of First United Bank Group, Inc. ("First United Bank Group"), from 1993 through 1994. Mr. Ford is Chairman of the Board and a Director of FNMC, FGB Services, Inc. and Madison Realty Advisors, Inc. ("Madison Realty"). Mr. Ford is also Chairman of the Board and Chief Executive Officer of Liberte Investors Inc. and a Director of McMoRan Oil & Gas Co.

Mr. Webb has been the President, Chief Operating Officer and a Director of the Bank since the consummation of the FN Acquisition, of Golden State Holdings since September 11, 1998, of Golden State since September 1998 and of Preferred Capital Corp. since its formation in November 1996. Mr. Webb served as President, Chief Executive Officer and Director of First Madison from 1993 through 1994. Mr. Webb previously served as President, Chief Operating Officer and a Director of First Gibraltar from 1988 through 1993. Mr. Webb also serves as a Director of FNMC.

Mr. Gittis has been a Director of Golden State Holdings since its formation in February 1998 and a Director of Golden State since September 1998. Mr. Gittis has been Vice Chairman of MacAndrews & Forbes and various of its affiliates since 1985. Mr. Gittis is a Director of the following corporations which file reports pursuant to the Exchange Act: Cigar Holdings, Golden State, Jones Apparel Group, Inc., Loral Space and Communications, Ltd., MFW, Panavision, Revlon, Products Corporation, REV Holdings, Rutherford-Moran Oil Corporation and Sunbeam Corporation.

Mr. Flanagan has been the Executive Vice President and General Counsel of the Bank since the consummation of the FN Acquisition and of Golden State Holdings since September 11, 1998. Mr. Flanagan has been the Executive Vice President, General Counsel and a Director of Preferred Capital Corp. since its formation in November 1996. He also serves as a Director of FNMC. Mr. Flanagan has been associated with the law firm of

Jenkens & Gilchrist, P.C. and its predecessors since 1968 in various capacities, including Managing Partner, and he is currently Of Counsel to that firm.

Mr. Terzian has served as Executive Vice President and Chief Financial Officer of the Bank since April 1, 1995 and of Golden State Holdings since September 11, 1998. Mr. Terzian has been the Executive Vice President, Chief Financial Officer and a Director of Preferred Capital Corp. since its formation in November 1996. For the five years prior to April 1, 1995, Mr. Terzian served as Chief Financial Officer of Dime Bancorp, Inc. and its subsidiary, The Dime Savings Bank of New York, FSB.

Mr. Hodge has been an Executive Vice President of the Bank since January 1996 and of Golden State Holdings since September 11, 1998 and has been employed by the Bank since November 1995. Mr. Hodge previously was associated with the public accounting firm of KPMG Peat Marwick LLP and its predecessors since 1981, including most recently as a tax partner since 1986.

Mr. Kisting has been an Executive Vice President of the Bank since September 1, 1998 and of Golden State Holdings since September 11, 1998. From September 1997 to August 1998, Mr. Kisting served as Chief Operating Officer of the New England-based Citizens Financial Group. From 1993 to 1997, Mr. Kisting was associated with Norwest Corporation in Minneapolis, where he served as Group Executive Vice President from 1995 to 1997, and as Regional President from 1993 to 1995.

Mr. Staff has been an Executive Vice President of the Bank since October 17, 1994 and of Golden State Holdings since September 11, 1998. He also serves as a Director of Preferred Capital Corp., FNMC and Auto One. Mr. Staff previously was associated with the public accounting firm of KPMG Peat Marwick LLP and its predecessors since 1979, including most recently as Partner-in-charge of Financial Services for the Southwest-Dallas area.

Ms. Tucei has been a Senior Vice President and the Controller of the Bank since the consummation of the FN Acquisition and of Golden State Holdings since September 11, 1998. Ms. Tucei previously served as Senior Vice President and Controller of First Madison from 1993 to 1994, and as Senior Vice President for First Gibraltar from 1988 to 1993.

Mr. Harshfield has been Vice Chairman of the Board and a Director of the Bank since January 1997. Mr. Harshfield was President, Chief Executive Officer and a Director of Old Cal Fed from January 1996 to January 1997 and of Old California Federal from October 1993 to January 1997. From October 1992 to March 1993, Mr. Harshfield served as Chief Executive Officer and a Director of First City Texas National Bank. From February 1991 to December 1992, he served as President, Chief Executive Officer and a Director of Federal Capital Bank, a private investment bank. Since 1988, Mr. Harshfield has been the principal, Chairman and Chief Executive Officer of EH Thrift Management Inc., a special purpose management company, and general partner of U.S. Thrift Opportunity Partners, L.P., a Merrill Lynch sponsored limited partnership that invests in undercapitalized thrift institutions. Prior to 1988, Mr. Harshfield served as President and Chief Executive Officer of Household Financial Services. Mr. Harshfield also held various senior positions with Citicorp/Citibank and Pepsico Inc.

Mr. Bass has been a Director of the Bank since May 1993 and of Golden State since September 1998. Mr. Bass is currently the Vice Chairman and Director of First Southwest Company. Mr. Bass is a Director and Chairman of the Audit Committee of Keystone Consolidated Industries, and is a Director of Source Services, Inc. Mr. Bass has served in the following capacities during the past five years: Director, Endevco, Inc.; Director, Jayhawk Acceptance Corporation; Director, Ford Bank Group; and Chairman of the Board and Director, Pizza Inn, Inc.

Mr. Bramblett has been a Director of the Bank since May 1993 and of Golden State since September 1998. Mr. Bramblett has been associated with the law firm of Haynes & Boone since 1973 and is currently a Partner and a member of the Executive Committee of that firm. Mr. Bramblett has served in the following capacities during the past five years: Member of the Texas Higher Education Coordinating Board of the Texas College and University System of Texas and Trustee of the Baylor College of Dentistry.

Mr. Bullock has served as a Director of the Bank since 1994 and of Golden State since September 1998. Mr. Bullock has been Lieutenant Governor of the State of Texas since 1990. Mr. Bullock is Chairman of the Board, Director and President of JFB-RDB, Inc. Mr. Bullock served as a Director of the Ford Bank Group from 1992 to 1993, and as Director of the First United Bank Group from 1992 to 1993. Prior to 1990, Mr. Bullock served as the State of Texas Comptroller of Public

Accounts. Mr. Bullock has been Of Counsel to the law firm of Scott, Douglass, Luton and McConnico, L.L.P. since 1992.

Mr. Dempsey has been a Director of the Bank and Golden State since September 1998. Mr. Dempsey is, and has been since September 1996, Vice Chairman of the Board and a Director of Continental Savings Bank, headquartered in Seattle, Washington. From January 1995 until September 1996, he was the President of Dempsey & Associates, a financial services consulting firm. From 1961 until January 1995, he was an officer of University Savings Bank, becoming its Chief Executive Officer in 1984 and its Chairman in 1989.

Mr. Engelman has been a Director of the Bank since 1992. He has been Executive Vice President and Chief Financial Officer of MacAndrews & Forbes and various of its other affiliates since February 1992. He was Executive Vice President and Chief Financial Officer of GAF Corporation from 1990 to 1991; Director, President and Chief Operating Officer of Citytrust Bancorp Inc. from 1988 to 1990; Executive Vice President of the Blackstone Group LP from 1987 to 1988; and Director and Executive Vice President of General Foods Corporation for more than five years prior to 1987. Mr. Engelman is a Director of the following corporation which files reports pursuant to the Exchange Act: Revlon Products. (On December 27, 1996, Marvel Holdings and Marvel Parent, of which Mr. Engelman was an executive officer, and Marvel III, of which Mr. Engelman is an executive officer, and several of the subsidiaries of Marvel filed voluntary petitions for reorganization under Chapter 11 of the United States Bankruptcy Code.)

Mr. King has been a Director of the Bank and Golden State since September 1998. Mr. King is President and Chief Executive Officer of Weingart Center Association, a nonprofit association whose goal is to help break the cycle of the homeless. He served as a Senior Adviser to Union Bank of Switzerland from 1990 to 1993. Mr. King is a former Vice Chairman of Crocker National Bank and a former Chairman of the Board of First Interstate Bank of California. Mr. King is a Director of Ameron International, Inc., a Trustee of the University of Southern California and of the California Hospital Center Foundation, a Director of the National Institute of Transplantation Foundation and the founding Chairperson of Kidspace.

Mr. Kooken has been a Director of the Bank and Golden State since September 1998. Mr. Kooken retired as Vice Chairman and Chief Financial Officer of Security Pacific Corporation in 1992 after 32 years with the company. Mr. Kooken is also a Director of the Centris Group, Inc and of Pacific Gulf Properties, Inc.

Ms. McDonald has served as a Director of the Bank since 1990 and of Golden State since September 1998. Ms. McDonald also served as a Director of FGB-San Antonio in 1992. Ms. McDonald currently serves as a Judge on the International Criminal Tribunal for the former Yugoslavia. Ms. McDonald is also currently a Professor of Law at the Thurgood Marshall School of Law of Texas Southern University. Ms. McDonald currently serves as a director of Freeport McMoRan Inc., McMoRan Oil & Gas Co. and Freeport McMoRan Copper & Gold Inc. Ms. McDonald was Of Counsel to the Walker & Satterthwaite firm from 1991 to 1993. She was a partner in the law firm of Matthews & Branscomb from 1988 through 1991. Prior to that time, Ms. McDonald served as a United States District Court Judge for the Southern District of Texas.

Mr. Sayles has been a Director of the Bank and Golden State since September 1998. Mr. Sayles is Senior Vice President, Consumer Markets, of Energy Pacific, a joint venture between Pacific Enterprises and Enova Corporation, and Vice President of Pacific Enterprises. From July 1991 until December 1992, he was Commissioner of Corporations for the State of California. From January 1993 until December 1993, he was Secretary of the Business, Transportation and Housing Agency of the State of California. He became Vice President of Pacific Enterprise in January 1994 and Senior Vice President of Energy Pacific in January 1997.

Ms. Schenk has been a Director of the Bank since November 1996 and of Golden State since September 1998. Ms. Schenk has been a Senior Consultant to Baker & McKenzie, San Diego, California since 1995. From January, 1993 to January, 1995, Ms. Schenk served in the U.S. House of Representatives as Congresswoman representing the 49th Congressional District in the State of California. During her term in the House of Representatives, Ms. Schenk served on the Energy and Commerce Committee and the Merchant Marine and Fisheries Committee. Ms. Schenk served as the State of California Secretary of Business, Transportation and Housing prior to 1983. From 1983 until her election to Congress, Ms. Schenk was in private law practice in California and served as an independent consultant to various public and private businesses with respect to government relations. From 1985 to 1993, Ms. Schenk served as a director of Long Beach Bank, F.S.B. She is currently a director of IDEC Pharmaceuticals, Inc., a corporation which files reports pursuant to the Exchange Act.

Mr. Setrakian has been a Director of the Bank since November 1994 and of Golden State since September 1998. Mr. Setrakian previously served as a Director of Old FNB for more than 10 years. Mr. Setrakian is presently the Chairman and President of the William Saroyan Foundation and the former Chairman and President of Mid-State Horticultural Company. He is also a former Chairman and member of the Board of Governors of the United States Postal Service; former Commissioner of the Federal Maritime Commission; former Chairman and Chief Executive Officer of the California Growers Winery, Inc.; and former Chairman and founder of the National Bank of Agriculture.

Ms. Tellez has been a Director of the Bank and Golden State since September 1998. Ms. Tellez is President and Chairman of Prudential Health Care Plan of California, Inc. Ms. Tellez is a member of the Boards of Directors of the California Association of Health Plans, Holy Names College, the S.H Cowell Foundation and Asian Community Mental Health Services. She is also a member of the Mayor of San Francisco's Blue Ribbon Committee on Health Care and of the Advisory Panel of the University of San Francisco's School of Dentistry. From December 1978 to June 1994 she was Vice President and Regional Manager of the Kaiser Foundation Health Plan. From June 1994 to June 1997 she was a Senior Vice President of Blue Shield of California. She became President and Chairman of Prudential Health Care of California, Inc. in July 1997.

Mr. Fink has been Executive Vice President and Goodwill Litigation Manager of the Bank since September 1998. Mr. Fink previously served as Senior Executive Vice President and a Director of Glendale Federal from May 1992 to September 1998. He served as Chief Legal Officer from May 1992 until April 1994; Director, Corporate Development, from April 1994 until February 1996; and has been the Bank's Chief Credit Officer since February 1996. From 1980 until May 1992, he was a partner in the law firm of McKenna & Fitting and was actively involved in advising the Bank with respect to legal and regulatory matters. On March 31, 1993 a state court receiver was appointed for McKenna & Fitting.

Mr. Fugate has been an Executive Vice President of the Bank since the consummation of the FN Acquisition. Mr. Fugate previously served as Executive Vice President of Old FNB from 1991 to 1994, and held various executive positions with Citibank, N.A. and Citibank California, FSB from 1982 to 1991.

Mr. Klein has been an Executive Vice President of the Bank and the President of FNMC since January 1996. He also serves as a Director of FNMC. Mr. Klein previously was associated with PNC Mortgage Corp. of America and its predecessor, Sears Mortgage Corporation, since 1986, including most recently as Chairman and Chief Executive Officer.

Mr. Leweke has been an Executive Vice President of the Bank since January 1998. Mr. Leweke served as Senior Vice President--Administrative Services since the consummation of the FN Acquisition. Prior to that time, he served in the same capacity for Old FNB from 1992 to 1994.

Mr. Newman has been Executive Vice President and Chief Credit Officer of the Bank since the consummation of the FN Acquisition. Mr. Newman has also served as Executive Vice President of First Madison from 1993 to 1994, and Executive Vice President of First Gibraltar since 1992. In addition, he served as President and a Director of Madison Realty since 1992.

Mr. Thomsen has been an Executive Vice President of the Bank since the consummation of the FN Acquisition. Mr. Thomsen previously served as Senior Executive Vice President of Old FNB and a Director from 1992 to 1994. Mr. Thomsen was an Executive Vice President of Old FNB from 1991 to 1992. Mr. Thomsen had been Executive Vice President of Michigan National Corporation from 1986 to 1991 and a Director from 1989 to 1991, and the President of Michigan National Bank from 1988 to 1991 and a Director from 1989 to 1991. Mr. Thomsen was Chairman of Independence One Mortgage Corporation, a subsidiary of Michigan National Bank, from 1986 to 1990.

Mr. Trafton has been Executive Vice President and Goodwill Litigation Manager of the Bank since September 1998. Mr. Trafton previously served as Chairman of the Board, Chief Executive Officer and President of Glendale Federal from April 1992 to September 1998. He joined Glendale Federal in July 1990 as Senior Executive Vice President and Chief Financial Officer and served as Chief Financial Officer until April 1992. He has served as a Director since June 1991. From June 1991 until April 1992 he was Vice Chairman of the Board.

Mr. Verhaegen has been an Executive Vice President of the Bank since February 1997. Mr. Verhaegen previously served as a Managing Director of First Southwest Company from 1992 to 1994. Mr. Verhaegen served as a Senior Managing Director and co-head of the Financial Institutions Group of Bear Stearns & Co. Inc. from 1988 to 1992. From 1994 to 1996, Mr. Verhaegen operated his own financial advisory and consulting firm.

Mr. Walker has been an Executive Vice President of the Bank since the consummation of the FN Acquisition. Mr. Walker served as Senior Vice President of First Madison from 1993 to 1994. Mr. Walker previously served as Senior Vice President of First Gibraltar from 1988 to 1993.

COMPENSATION OF DIRECTORS

None of the Directors of the Issuer receive any compensation for their services as Directors. Directors of the Bank who do not receive compensation as officers or employees of the Bank or any of its affiliates are paid a fee of $3,500 for each meeting of the Board of Directors they attend and each director who attends 67% or more of the regular meetings of the Board of Directors during a fiscal year will receive an additional fee of $9,000. Members of the Audit Committee of the Board of Directors of the Bank who do not receive compensation as officers or employees of the Bank or any of its affiliates are paid a fee of $1,500 for each meeting of the Audit Committee they attend.

EXECUTIVE COMPENSATION

The Issuer is a holding company with no business operations of its own and accordingly, engages its business through the Bank and its subsidiaries. The officers of the Issuer receive no compensation for their services to the Issuer. Accordingly, the following table sets forth certain compensation awarded to, earned by or paid to the Chief Executive Officer of the Issuer's operating subsidiary, Cal Fed, and the four most highly paid executive officers of Cal Fed, other than the Chief Executive Officer, who served as executive officers of Cal Fed at December 31, 1997 for services rendered in all capacities to Cal Fed and its subsidiaries during the years ended December 31, 1997, 1996 and 1995.

SUMMARY COMPENSATION TABLE

		ANNUAL COMPENSATION			
NAME AND PRINCIPAL POSITION	YEAR	SALARY	BONUS	OTHER ANNUAL COMPENSATION(1)	ALL OTHER COMPENSATION(2)
Gerald J. Ford	1997	$1,500,000	$375,000	$ 7,572	$ 70,045
Chairman & Chief	1996	1,500,000	300,000	1,152	63,000
Executive Officer	1995	1,500,000	0	7,644	49,511
Carl B. Webb (3)	1997	900,000	375,000	26,542	838,421
President & Chief	1996	900,000	300,000	22,218	56,206
Operating Officer	1995	900,000	0	274,351	66,707
Christie S. Flanagan	1997	700,000	150,000	15,059	631,556
Executive Vice President &	1996	700,000	120,000	16,173	52,171
General Counsel	1995	700,000	20,000	10,892	44,854
James R. Staff	1997	650,000	200,000	17,034	588,657
Executive Vice President &	1996	533,352	250,000	10,411	48,722
Chief Financial Advisor	1995	450,000	0	17,348	27,001
Edward G. Harshfield (4)	1997	709,723	0	106,079	48,623
Vice Chairman					

(1) Includes: (i) the value of group term life insurance, (ii) amounts paid under relocation programs for Mr. Webb in 1995, (iii) the value of the use of Bank-owned automobiles for Messrs. Webb, Flanagan and Staff, (iv) club dues, (v) personal financial planning services paid by the Bank, (vi) security expenses paid by the Bank for Messrs. Webb, Flanagan and Staff, (vii) amounts totalling $100,104 paid under a consulting agreement with Mr. Harshfield and (viii) amounts reimbursed for payment of taxes.

(2) Includes: (i) amounts calculated with respect to the Bank's net income and deferred pursuant to the Deferred Compensation Plan (as defined herein) of $742,500, $577,500 and $536,250 for Messrs. Webb, Flanagan and Staff, respectively, in 1997, (ii) the Bank's contributions to the 401(k) plan of $8,871 and $8,571 in 1997 and

(Footnotes continued on next page)

(Footnotes continued from previous page)

1996, respectively, for each of Messrs. Ford, Webb, Flanagan and Staff, and $9,111 for Mr. Harshfield in 1997, (iii) the Bank's contribution to the Supplemental Employees' Investment Plan of $58,628, $85,630, $42,128, $42,130 and $39,512 in 1997 for Messrs. Ford, Webb, Flanagan, Staff and Harshfield, respectively, and $54,429, $45,430, $40,629 and $38,430 in 1996 for Messrs. Ford, Webb, Flanagan and Staff, respectively, and (iv) premiums on supplemental life insurance paid by the Bank for Messrs. Ford, Webb, Flanagan and Staff of $2,546, $1,420, $3,057 and $1,406, respectively, in 1997 and for Messrs. Webb, Flanagan and Staff of $2,205, $2,971 and $1,721, respectively, in 1996.

(3) Does not include a 1996 payment of $10 million to Mr. Webb by FNH under its long term management incentive plan.

(4) Mr. Harshfield became Vice Chairman on January 27, 1997.

Certain executive officers of the Bank have entered into employment agreements with the Bank. See "Certain Relationships and Related Transactions--Executive Employment Agreements." Also, Gerald J. Ford has been and is presently a party to certain consulting and similar agreements with certain affiliates of the Issuer, as more fully described in "Certain Relationships and Related Transactions--Transactions with Mr. Ford."

Effective October 1, 1995, FNH adopted the Incentive Plan with respect to certain executive officers of the Bank (the "Participants"). Awards under the Incentive Plan are made in the form of performance units. Each performance unit entitles the Participants to receive cash and/or stock options ("Bonuses") based on the Participant's vested interest in a bonus pool.

Generally, the Incentive Plan provides for the payment of Bonuses, on a quarterly basis, to the Participants upon the occurrence of certain events. Bonuses vest at 20% per year beginning October 1, 1995. The aggregate amount of Bonuses payable under the Incentive Plan is subject to a cap of $50 million. During 1997, 1996 and 1995, expenses of $12.4 million, $35.6 million and $2 million, respectively, were recorded relative to the Incentive Plan. As of December 31, 1997, the Incentive Plan has been fully accrued.

There were no long-term incentive plan awards in 1997 or 1996 to the executive officers named in the preceding table. The Golden State Acquisition constitutes a change in control pursuant to the terms of the Incentive Plan and, accordingly, vesting was accelerated and Bonuses totalling $38.5 million were paid to Participants on September 11, 1998.

On May 19, 1997, the Bank adopted a Deferred Executive Compensation Plan (the "Deferred Compensation Plan") with respect to certain officers of the Bank (the "Officers"). The Deferred Compensation Plan provides for an award to be made to each Officer as a percentage of such Officer's base annual salary determined based upon the net income of the Bank with respect to the immediately preceding fiscal year expressed as a percentage of the target net income established by the Board with respect to such fiscal year. The award so determined may be increased at the discretion of the Chief Operating Officer of the Bank.

An Officer's award with respect to each fiscal year will be paid in cash in five equal annual installments on each of the first five anniversaries of the date of grant of the award. Each installment of the award will include interest from the date of the grant of the award at a rate of 6% per annum.

If a participant's employment terminates due to death, disability or retirement, the participant (or his estate) shall receive any unpaid installments of the award (with interest thereon) upon such termination. Upon any other termination of employment, any unpaid installments of a participant's award will be forfeited.

Upon a change in control of the Bank or FNMC (with respect to participants employed by FNMC), in each case, as described in the Deferred Compensation Plan, each Officer will receive any unpaid installments of the award (with interest thereon). In addition, upon a change in control of the Bank or FNMC (with respect to participants employed by FNMC), each Officer will receive an additional award, determined in accordance with the applicable provisions of the Deferred Compensation Plan, but in any case in an amount not in excess of 125% of the Officer's annual base salary.

During the year ended December 31, 1997, expenses of $5.7 million were recorded relative to the Deferred Compensation Plan.

Compensation Committee Interlocks and Insider Participation

The Issuer has no compensation committee. The following directors serve on the Compensation Committee of the Board of the Bank: Gerald J. Ford, Howard Gittis, Paul Bass and George Bramblett. During 1997, 1996 and 1995, Mr. Ford was Chairman of the Board of the Bank. In addition, Mr. Ford controls Hunter's Glen, which indirectly owns 13.2% of the common stock of Golden State, the indirect parent of the Issuer. Each of Messrs. Perelman, Mr. Gittis, Ford and Webb is a director of the Issuer and of the Bank. See "Certain Relationships and Related Transactions--Transactions with Mr. Ford."

OWNERSHIP OF THE COMMON STOCK

Golden State Holdings is an indirect wholly owned subsidiary of Golden State. Ronald O. Perelman, a director of Golden State Holdings, 35 East 62nd Street, New York, New York 10021, through MacAndrews & Forbes, beneficially owns 34.7% of the common stock of Golden State and Hunter's Glen, a limited partnership controlled by Gerald J. Ford, Chairman of the Board, Chief Executive Officer and a director of the Bank and Golden State Holdings, 200 Crescent Court, Suite 1350, Dallas, Texas 75201, owns 13.2% of the common stock of Golden State with the balance of the common stock of Golden State being publicly held. In addition, pursuant to the Merger Agreement, Mafco Holdings and Hunter's Glen will be entitled to receive contingent consideration based on certain conditions, which contingent consideration could cause the ownership percentages of Mafco Holdings and Hunter's Glen to increase. See "The Golden State Acquisition."

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

RELATIONSHIP WITH MACANDREWS & FORBES

The Issuer is an indirect wholly owned subsidiary of Golden State, which is 34.7% indirectly owned by MacAndrews & Forbes. As a result, MacAndrews & Forbes is able to direct and control the policies of the Issuer and its subsidiaries, including with respect to mergers, sales of assets and similar transactions. See "Ownership of the Common Stock."

MacAndrews & Forbes is a diversified holding company with interests in several industries. Through its 83% ownership of Revlon, MacAndrews & Forbes is engaged in the cosmetics and skin care, fragrance and personal care products business. MacAndrews & Forbes also owns 71% of Panavision, a supplier of film camera systems to the motion picture and television industries, and 65% of Meridian, a manufacturer and marketer of ski boats. Through its 64% ownership of Cigar Holdings, MacAndrews & Forbes is engaged in the manufacture and distribution of cigars and pipe tobacco. Through its 39% ownership of MFW (assuming conversion of certain preferred stock), MacAndrews & Forbes is in the business of processing licorice and other flavors. MacAndrews & Forbes is also in the financial services business through the Bank. The principal executive offices of MacAndrews & Forbes are located at 35 East 62nd Street, New York, New York 10021.

TAX SHARING AGREEMENT

The Issuer, the Bank and Golden State are parties to the Tax Sharing Agreement. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--FNH--Provision for Federal and State Income Taxes."

RATE LOCK AGREEMENTS

On May 29, 1998, Trans Network Insurance Services Inc. ("TNIS"), an indirect parent of the Issuer, and Salomon Brothers Holding Company ("Salomon"), which is an affiliate of one of the Initial Purchasers, entered into two interest rate lock agreements (the "Rate Lock Agreements"). TNIS entered into the Rate Lock Agreements for the benefit of the Issuer in order to hedge against an increase in interest rates. Pursuant to the Rate Lock Agreements, if the applicable interest rates payable on certain U.S. Treasury Securities were higher at the time that the Fixed Rate Notes were priced than the interest rates payable on such U.S. Treasury Securities on May 29, 1998 by a certain amount, then Salomon would have been required to make a payment to TNIS. Since the interest rates payable on such U.S. treasury securities at the time the Fixed Rate Notes were priced were less

than the interest rates payable on such U.S. treasury securities on May 29, 1998 by a certain amount, TNIS was required to make a comparable payment to Salomon.

Pursuant to the Rate Lock Agreements, TNIS paid Salomon approximately $10.0 million on July 31, 1998. On September 14, 1998, the Issuer reimbursed TNIS for such payment made by TNIS to Salomon pursuant to the Rate Lock Agreements, plus TNIS' cost of capital applied to the payment made. Management believes that the terms and conditions of this arrangement were at least as favorable to the Issuer as might have been obtained in a similar transaction with an unaffiliated party.

LOAN TO ESCROW CORP. BY AFFILIATE

Simultaneously with the consummation of the Offering, TNIS loaned approximately $46 million to Escrow Corp., and Escrow Corp. deposited the proceeds of such loan, together with the net proceeds of the Offering, in escrow pursuant to an escrow agreement (the "Escrow Agreement"). Such loan bore interest at a rate equal to TNIS' cost of capital, and was an unsecured obligation of Escrow Corp. Such loan matured upon the consummation of the Refinancing Transactions. Management believes that the terms and conditions of such loan were at least as favorable to Escrow Corp. as might have been obtained in a similar transaction with an unaffiliated party.

LOANS TO AFFILIATES

FNH loaned approximately $46.8 million to an affiliate on March 1, 1996. Such loan accrued interest at the rate of 10.5% over the prevailing yield to maturity of the five year United States treasury note, and was an unsecured subordinated obligation of the borrower guaranteed by certain other affiliates of FNH, which obligation to FNH was evidenced by a promissory note (the "Promissory Note"). Management believes that the terms and conditions of such loan were at least as favorable to FNH as might have been obtained in a similar transaction with an unaffiliated party. On May 15, 1996, FNH distributed the Promissory Note to Parent Holdings as a partial redemption of and dividend on class C common stock.

On September 27, 1996, FNH issued $150 million aggregate liquidation value of the FNH Preferred Stock to Special Purpose Corp. and loaned to an affiliate approximately $19 million of the proceeds therefrom. Such loan accrued interest at the rate of 14%, and was an unsecured subordinated obligation of the borrower, which obligation to FNH was evidenced by a promissory note. Management believes that the terms and conditions of such loan were at least as favorable to FNH as might have been obtained in similar transaction with an unaffiliated party. Such loan, together with the accrued interest thereon, was repaid to FNH on January 3, 1997.

FIRST NATIONWIDE ESCROW MERGER AND ISSUANCE OF FIRST NATIONWIDE ESCROW PREFERRED STOCK

Concurrent with the issuance of the FNH 10 5/8% Senior Subordinated Notes, First Nationwide Escrow issued approximately $36 million aggregate liquidation value of cumulative perpetual preferred stock, (the "First Nationwide Escrow Preferred Stock") to TNIS. The First Nationwide Escrow Preferred Stock had a stated liquidation value of $100,000 per share, plus accrued and unpaid dividends, if any. Cash dividends on the First Nationwide Escrow Preferred Stock were cumulative and accrued at an annual rate of approximately 7.3% of the stated liquidation value.

On January 3, 1997 and prior to the consummation of the Cal Fed Acquisition, First Nationwide Escrow was merged with and into FNH in the First Nationwide Escrow Merger and FNH assumed First Nationwide Escrow's obligations under the FNH 10 5/8% Senior Subordinated Notes and the Indenture. In connection with the First Nationwide Escrow Merger, each share of First Nationwide Escrow Preferred Stock was converted into and became one share of cumulative perpetual preferred stock of FNH (the "FNH/First Nationwide Escrow Preferred Stock"), which stock had the same relative rights, terms and preferences as the First Nationwide Escrow Preferred Stock. Immediately after issuance, FNH redeemed the FNH/First Nationwide Escrow Preferred Stock at a redemption price equal to its stated liquidation value plus accrued and unpaid dividends to January 3, 1997.

TRANSACTIONS WITH MR. FORD

Madison Financial, Inc. ("Madison Financial"), a corporation formerly owned by Gerald J. Ford, the Chairman of the Board, Chief Executive Officer and a Director of the Issuer and the Bank, was party to a Consulting Agreement (the "Consulting Agreement"), effective as of February 1, 1993, between Madison

Financial and TNIS, pursuant to which Madison Financial provided consulting services to TNIS for a term ending on December 31, 1998. The Consulting Agreement was terminated in July 1994 in connection with the Exchange Agreement (as defined herein). Certain costs related to the Consulting Agreement were charged to FNH.

FNH was an indirect subsidiary of First Gibraltar Holdings. In connection with the offering of the FNH Senior Notes, First Gibraltar Holdings incorporated Parent Holdings and a wholly owned subsidiary of Parent Holdings, FNH, to hold 100% of the common stock of the Bank. First Gibraltar Holdings contributed all of its shares of capital stock of the Bank to Parent Holdings, which contributed such shares to FNH in exchange for 1,000 shares of common stock of FNH. FNH amended its certificate of incorporation to create 800 shares of class A common stock having one vote per share, 200 shares of class B common stock having .75 votes per share and 230.3 shares of nonvoting class C common stock, and Parent Holdings exchanged its 1,000 shares of common stock for 800 shares of class A common stock. Pursuant to the terms of an Exchange Agreement entered into between FNH, Mr. Ford and Parent Holdings (the "Exchange Agreement"), and in connection with the consummation of the FN Acquisition, Parent Holdings acquired 100% of the class C common stock of FNH (all of which were redeemed on June 3, 1996) in exchange for $210 million and Mr. Ford acquired 100% of the class B common stock of FNH in exchange for his 6.25% of the class A common stock of First Gibraltar Holdings and all of the shares of Madison Financial, the sole asset of which was the Consulting Agreement. In addition, FNH also assumed indebtedness of Mr. Ford in the amount of approximately $11.9 million to TNIS (the "Ford Obligation"), which obligation has been forgiven by TNIS. As a result of the consummation of the transactions contemplated by the Exchange Agreement, Mr. Ford owned 100% of the class B common stock of FNH, representing 20% of its voting common stock (representing approximately 15% of the voting power of its voting common stock), and Parent Holdings owned 100% of the class A common stock of FNH, representing 80% of its voting common stock (representing approximately 85% of the voting power of its voting common stock). FNH, Parent Holdings and Mr. Ford entered into a stockholders agreement (the "Stockholders Agreement") pursuant to which, among other things, Mr. Ford and FNH had the right to transfer their respective shares to certain affiliates. In addition, the Stockholders Agreement contained other customary provisions regarding restrictions on transfer and registration rights. On December 29, 1995, Mr. Ford transferred his shares of class B common stock to Hunter's Glen, which assumed the obligations under, and received the benefits of, the Stockholders Agreement. Upon consummation of the Golden State Acquisition, Hunter's Glen received shares of Golden State Common Stock in consideration for the shares of class B common stock of FNH held by Hunter's Glen.

Mr. Ford has entered into a loan agreement with NationsBank, N.A. ("NationsBank"), whereby NationsBank has loaned Mr. Ford $5 million. Such loan has a maturity of up to one year and bears interest at a floating interest rate based on LIBOR. The loan is secured by Mr. Ford's FNH 12 1/4% Senior Notes. The terms of the loan provide that, in the event of default by Mr. Ford under such loan or in the event of certain rapid and material declines in the value of the FNH 12 1/4% Senior Notes pledged as collateral, NationsBank or any successor or assignee thereof will have the right to foreclose on the pledged FNH 12 1/4% Senior Notes and sell, or direct Mr. Ford to sell, such FNH 12 1/4% Senior Notes, to certain Qualified Institutional Buyers ("QIBs") (as such term is defined in Rule 144A under the Securities Act) pursuant to Rule 144A under the Securities Act, pursuant to Regulation S under the Securities Act, to FNH or pursuant to a shelf registration statement.

Mr. Ford has entered into an employment agreement with the Bank calling for his continued employment by the Bank in his current executive capacity with an annual base salary in 1998 of $1,000,000. The term of this agreement extends through December 31, 2000, and provides for, among other things, a life insurance policy on the life of Mr. Ford in an amount equal to three times his base salary.

Mr. Ford has also entered into a consulting agreement with First Nationwide Management Corp. ("First Nationwide Management"), an affiliate of FNH, providing for the payment to him of annual consulting fees of $2,000,000 for 1998 and in increasing amounts through 2000, and certain other related expenses. Pursuant to an arrangement between First Nationwide Management and FNH, such consulting fees and other related expenses paid by First Nationwide Management are charged to FNH. Such charges amounted to approximately $1,291,000, $1,225,000 and $964,000 in 1997, 1996 and 1995, respectively. Subject to the approval of the board of directors of Golden State, it is expected that following the consummation of the Golden State Acquisition, Golden State will assume the obligations of First Nationwide Management under the consulting agreement with Mr. Ford.

In 1996, as part of the financing for the Cal Fed Acquisition, Special Purpose Corp. invested $150 million in cash in FNH in exchange for $150 million aggregate liquidation value of FNH Preferred Stock. Such investment was funded through borrowings by First Gibraltar Holdings under a credit facility, which borrowings were loaned by First Gibraltar Holdings to Special Purpose Corp. Special Purpose Corp. pledged its shares of FNH Preferred Stock to secure the borrowings by First Gibraltar Holdings under such credit facility. The common stock of Special Purpose Corp. is owned by Mr. Ford.

At December 31, 1997, the issued and outstanding FNH Preferred Stock had a liquidation value of $25.7 million. The FNH Preferred Stock was redeemed in full on March 31, 1998.

EXECUTIVE EMPLOYMENT AGREEMENTS

In addition to the employment agreement between Mr. Ford and the Bank (see "--Transactions with Mr. Ford"), Messrs. Webb, Flanagan, Staff, Newman and Hodge have entered into employment agreements with the Bank calling for their continued employment by the Bank in their current executive capacities. All five agreements are substantially similar in their terms except that Messrs. Webb, Staff and Newman's employment agreements terminate on December 31, 2000, Mr. Hodge's terminates on December 31, 1998, and Mr. Flanagan's terminates May 31, 1999 and except that Mr. Flanagan's agreement provides for a $20,000 "substitution" bonus which was paid in 1996. If any of these agreements are terminated without cause or by the executive without good reason prior to the respective scheduled termination dates, the relevant executive would receive payments of base salary and benefits due for the balance of the term. Additionally, each employment agreement provides for a life insurance policy on the life of the insured in an amount double the base salary payable by the Bank to such individual. Pursuant to such employment agreements, the annual base salaries payable by the Bank in 1998 to Messrs. Webb, Flanagan, Staff, Newman and Hodge are $1,200,000, $700,000, $700,000, $500,000, and $300,000, respectively.

Pursuant to an Agreement for Provision of Services between Cal Fed and First Nationwide Management, dated December 1, 1994 (the "Services Agreement"), a portion of the salaries payable by the Bank in 1998 to Messrs. Webb, Flanagan and Staff is charged to First Nationwide Management so that the annual net base compensation payable by the Bank will be $800,000, $350,000 and $350,000 for Messrs. Webb, Flanagan and Staff, respectively. All of such amounts paid by First Nationwide Management are charged to FNH for services performed by these executives. The total amounts received by Cal Fed pursuant to the Services Agreement were approximately $1,885,000, $1,379,000 and $1,092,000 in 1997, 1996 and 1995, respectively, which amounts are included in the amounts allocated by First Nationwide Management to FNH.

In January 1997, the Bank entered into a Consulting Agreement with Mr. Harshfield whereby he agreed to assist the Bank in its pursuit of the California Federal Litigation. Mr. Harshfield will receive $100,000 per year for each of the two years of the agreement.

Effective January 8, 1996, FNMC entered into an employment agreement with Mr. Klein, for a term ending January 7, 1999. Pursuant to this employment agreement, Mr. Klein receives a base salary of $300,000 per year. The agreement also provides for life insurance on the life of Mr. Klein in the amount of $450,000. If Mr. Klein's agreement is terminated by the Bank without cause or by Mr. Klein without good reason prior to the scheduled termination date, he would receive payment for base salary and benefits due for the balance of the term. In addition, Mr. Klein has a salary guarantee that would provide a payment equal to the greater of $1.35 million or three times his prior year base salary plus bonus, should FNMC be sold during the term of his agreement.

SERVICES AGREEMENTS

First Nationwide Management allocates certain of its expenditures to FNH. Such expenditures relate to salaries and benefits payable to selected Bank employees (including Messrs. Webb, Flanagan and Staff), aviation and other expenses. Pursuant to this arrangement, approximately $2,600,000, $2,524,000 and $1,935,000 was allocated by First Nationwide Management to FNH for the years ended December 31, 1997, 1996 and 1995, respectively, including the fees paid to Cal Fed under the Services Agreement. Subject to the approval of the board of directors of Golden State, it is expected that following the consummation of the Golden State Acquisition the arrangement pursuant to which First Nationwide Management incurs such expenditures will be assumed by Golden State.

Effective on June 1, 1995, the Bank entered into an agreement whereby it provides marketing and other support services to TNIS in connection with the insurance agency business it purchased from a Bank subsidiary on the same date. Service charges under this agreement amounted to approximately $5,200, $13,300 and $43,000 per month during 1997, 1996 and 1995, respectively. Management believes that the terms and conditions of these arrangements are at least as favorable to the Bank as those which could be obtained from similar arrangements with an unaffiliated party. Subject to the approval of the board of directors of Golden State, it is expected that following the consummation of the Golden State Acquisition TNIS will contribute the insurance agency business to the Bank and that the marketing agreement between the Bank and TNIS will be terminated.

SALE OF BUSINESS TO TNIS

Effective on June 1, 1995, FNC Insurance Agency, Inc., a wholly owned subsidiary of the Bank, sold that portion of its insurance agency business related to marketing insurance products to the Bank's retail deposit and consumer loan customers to TNIS for approximately $0.7 million. Management believes that the terms and conditions of this transaction are at least as favorable to the Bank as might have been obtained in a similar transaction with an unaffiliated party.

LOANS TO EXECUTIVE OFFICERS AND DIRECTORS

Some of the Bank's executive officers, directors, and members of their immediate families have engaged in loan transactions with the Bank. Such loans were made: (i) in the ordinary course of the Bank's business, (ii) on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions between the Bank and other persons, and (iii) did not involve more than the normal risk of collectibility or present other unfavorable features.

LITIGATION MANAGEMENT AGREEMENT

In connection with the execution of the Merger Agreement, Golden State, Glendale Federal and Cal Fed entered into the Litigation Management Agreement with Stephen J. Trafton, Chairman, President and Chief Executive Officer of Golden State, and Richard A. Fink, Vice Chairman of Golden State. Pursuant to the Litigation Management Agreement, which became effective at the closing of the Mergers, Messrs. Trafton and Fink, subject to the provisions of the Litigation Management Agreement, manage Glendale Federal's and Cal Fed's respective goodwill lawsuits against the United States. Pursuant to the Litigation Management Agreement, Mr. Trafton is paid an annual salary of $600,000 and Mr. Fink is paid an annual salary of $400,000. Messrs. Trafton and Fink are also entitled to an incentive fee out of any recovery in the lawsuits, to annual pension benefits aggregating $1,325,000, and certain medical benefits and expenses.

DESCRIPTION OF THE NOTES

All of the series of Old Notes issued in connection with the Offering were issued under the same indenture (the "Indenture") between the Issuer and The Bank of New York, as Trustee (the "Trustee"), a copy of which is filed as an exhibit to the Registration Statement of which this Prospectus is a part. The aggregate principal amount of securities which may be issued in series under the Indenture is not limited. Except as set forth below, the provisions of the Indenture apply to all of the Notes and, except as may be set forth in the supplemental indentures or board resolutions related thereto, to any additional series of securities that may be offered under the Indenture. Certain terms of the Notes are set forth in a separate supplemental indenture for each series of Notes (collectively, the "Supplemental Indentures"). Each such Supplemental Indenture is filed as an exhibit to the Registration Statement of which this Prospectus is a part. The following summary, which describes certain provisions of the Indenture, the Supplemental Indentures and the Notes, does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the TIA and all the provisions of the Indenture, the Supplemental Indentures and the Notes, including the definitions therein of terms not defined in this Prospectus. Golden State Holdings assumed the obligations of Escrow Corp. under the Indenture and the Supplemental Indentures pursuant to a fifth supplemental indenture (the "Fifth Supplemental Indenture") on September 14, 1998, which is filed as an exhibit to the Registration Statement of which this Prospectus is a part. Certain terms used herein are defined below for purposes of this section under "--Certain Definitions." References in this "Description of the Notes" to "Fixed Rate Notes" shall refer to the 2001 Notes, the 2003 Notes and the 2005 Notes. References in this "Description of the Notes" to the "Issuer" or "Holdings" shall refer to Golden State Holdings. The terms of the New Notes are identical in all material respects to the terms of the Old Notes, except for certain transfer restrictions and registration rights relating to the Old Notes and except that, if the Exchange Offer is not consummated by March 15, 1999, the interest rate of the Old Notes from and including such date until but excluding the date of consummation of the Exchange Offer will increase by 0.5%. See "--Registration Rights."

GENERAL

Floating Rate Notes

The Floating Rate Notes will mature on August 1, 2003. The New Floating Rate Notes will be treated as a continuation of the Old Floating Rate Notes which bear interest at the floating rate described below from August 6, 1998, payable in arrears on February 1, 1999 and thereafter quarterly in arrears on May 1, August 1, November 1 and February 1 of each year (each such date, subject to adjustment as provided below, a "Floating Rate Interest Payment Date") to the persons who are registered holders thereof at the close of business on the April 15, July 15, October 15 or January 15 next preceding such Floating Rate Interest Payment Date. In connection with the Offering, the Trustee authenticated and delivered Old Floating Rate Notes for original issue in an aggregate principal amount of $250 million.

Interest on the Floating Rate Notes accrues at a rate equal to the Applicable LIBOR Rate and is calculated on a formula basis by multiplying the principal amount of the Floating Rate Notes then outstanding by the Applicable LIBOR Rate, multiplying such product by the LIBOR Fraction. All percentages resulting from any of the above calculations are rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, with five one-millionths of a percentage point rounded upwards (e.g., 9.876545% being rounded to 9.87655%), and all dollar amounts used in or resulting from such calculations are rounded to the nearest cent (with one-half cent being rounded upwards).

The Applicable LIBOR Rate for each Interest Period (other than the initial Interest Period and other than to the extent provided under "Optional Redemption" below) will be set on May 1, August 1, November 1 and February 1 of each year, commencing with February 1, 1999 (each such date, subject to adjustment as provided below, an "Interest Reset Date") until maturity or earlier redemption. If any Interest Reset Date and Floating Rate Interest Payment Date would otherwise be a day that is not a LIBOR Business Day, such Interest Reset Date and Floating Rate Interest Payment Date shall be the next succeeding LIBOR Business Day, unless the next succeeding LIBOR Business Day is in the next succeeding calendar month, in which case such Interest Reset Date and Floating Rate Interest Payment Date shall be the immediately preceding LIBOR Business Day. "LIBOR Business Day" means any day that is not a Saturday or Sunday and that, in the City of New York or the City of London, is not a day on which banking institutions are generally authorized or obligated by law to close.

"Interest Period" shall mean the period from and including an Interest Reset Date (or in the case of the initial Interest Period, the Issue Date) to but excluding the next succeeding Interest Reset Date and, in the case of the last such period, from and including the Interest Reset Date immediately preceding the maturity date or a redemption date, as the case may be, to but not including the maturity date or such redemption date, as the case may be. If the redemption date or maturity date is not a LIBOR Business Day, then the principal amount of the Floating Rate Notes plus accrued and unpaid interest thereon shall be paid on the next succeeding Floating Rate Business Day and no interest shall accrue for the Floating Rate maturity date, the redemption date or any day thereafter. "Floating Rate Business Day" shall mean any day that is not a Saturday or Sunday and that, in the City of New York, is not a day on which banking institutions are generally authorized or obligated by law to close.

The "Applicable LIBOR Rate," with respect to an Interest Period (except in the circumstances provided below under "Optional Redemption") means 100 basis points (the "Spread") over the rate (the "Base LIBOR Rate") (expressed as a percentage per annum) for deposits in United States dollars for a three-month period beginning on the second London Banking Day after the Interest Rate Determination Date for such Interest Period that appears on Telerate Page 3750 as of 11:00 a.m., London time, on the Interest Rate Determination Date. If Telerate Page 3750 does not include such a rate or is unavailable on an Interest Rate Determination Date, the Base LIBOR Rate for the Interest Period shall be the arithmetic mean of the rates (expressed as a percentage per annum) for deposits of $1,000,000 for a three-month period beginning on the second London Banking Day after the Interest Rate Determination Date that appears on Reuters Screen LIBO Page as of 11:00 a.m., London time, on the Interest Rate Determination Date. If Reuters Screen LIBO Page does not include two or more rates or is unavailable on an Interest Rate Determination Date, the Trustee shall request the principal London office of each of four major banks in the London interbank market to provide such bank's offered quotation (expressed as a percentage per annum), as of approximately 11:00 a.m., London time, on such Interest Rate Determination Date, to prime banks in the London interbank market for deposits of $1,000,000 for a three-month period beginning on the second London Banking Day after the Interest Rate Determination Date. If at least two such offered quotations are so provided, the Base LIBOR Rate for the Interest Period shall be the arithmetic mean of such quotations. If fewer than two such quotations are so provided, the Trustee shall request each of three major banks in New York City to provide such bank's rate (expressed as a percentage per annum), as of approximately 11:00 a.m., New York City time, on such Interest Rate Determination Date, for loans of $1,000,000 to leading European banks for a three-month period beginning on the second London Banking Day after the Interest Rate Determination Date. If at least two such rates are so provided, the Base LIBOR Rate for the Interest Period will be the arithmetic mean of such rates. If fewer than two such rates are so provided, then the Base LIBOR Rate for the Interest Period will be the Base LIBOR Rate in effect with respect to the immediately preceding Interest Period. Notwithstanding the foregoing, the Applicable LIBOR Rate for the initial Interest Period shall be 6 3/4%.

"Interest Rate Determination Date" means, with respect to each Interest Period, the second London Banking Day prior to the Interest Reset Date that commences such Interest Period or, in the circumstances provided below under "Optional Redemption," the second London Banking Day prior to the relevant Notice Date.

"LIBOR Fraction" means the actual number of days in the Interest Period divided by 360.

"London Banking Day" means any day in which dealings in U.S. dollars are transacted or, with respect to any future date, are expected to be transacted in the London interbank market.

"Reuters Screen LIBO Page" means the display designated as page "LIBO" on The Reuters Monitor Money Rates Service (or such other page as may replace the LIBO page on that service).

"Telerate Page 3750" means the display designated as "Page 3750" on the Dow Jones Telerate Service (or such other page as may replace page 3750 on that service).

The interest rate on the Floating Rate Notes will in no event be higher than the maximum rate permitted by New York law as the same may be modified by United States law of general application.

2001 Notes

The 2001 Notes will mature on August 1, 2001. The New 2001 Notes will be treated as a continuation of the Old 2001 Notes which bear interest at 6 3/4% per annum, computed on the basis of a 360-day year of twelve 30-day months, payable semiannually in arrears on February 1 and August 1 of each year, commencing February 1, 1999, to the persons who are registered holders thereof at the close of business on the January 15 or July 15 next preceding such interest payment date. In connection with the Offering, the Trustee authenticated and delivered the Old 2001 Notes for original issue in an aggregate principal amount of $350 million.

2003 Notes

The 2003 Notes will mature on August 1, 2003. The New 2003 Notes will be treated as a continuation of the Old 2003 Notes which bear interest at 7% per annum, computed on the basis of a 360-day year of twelve 30-day months, payable semiannually in arrears on February 1 and August 1 of each year, commencing February 1, 1999, to the persons who are registered holders thereof at the close of business on the January 15 or July 15 next preceding such interest payment date. In connection with the Offering, the Trustee authenticated and delivered the Old 2003 Notes for original issue in an aggregate principal amount of $600 million.

2005 Notes

The 2005 Notes will mature on August 1, 2005. The New 2005 Notes will be treated as a continuation of the Old 2005 Notes which bear interest at 7 1/8% per annum, computed on the basis of a 360-day year of twelve 30-day months, payable semiannually in arrears on February 1 and August 1 of each year, commencing February 1, 1999, to the persons who are registered holders thereof at the close of business on the January 15 or July 15 next preceding such interest payment date. In connection with the Offering, the Trustee authenticated and delivered the Old 2005 Notes for original issue in an aggregate principal amount of $800 million.

Other Provisions

The rate per annum at which the Old Notes bear interest may increase under certain circumstances described below under "--Registration Rights." The Indenture requires that payments in respect of Notes (including principal, premium and interest) be made, in the case of a holder of at least $1 million aggregate principal amount of Notes, by wire transfer of immediately available funds to the accounts specified by the holders thereof or, if no such account is specified, by mailing a check to each such holder's registered address. The Notes are transferable and exchangeable initially at the office of the Trustee and will be issued only in fully registered form, without coupons, in denominations of $1,000 and any integral multiple thereof.

The Notes are senior unsecured obligations of Golden State Holdings and rank pari passu with the present and all future senior unsecured obligations of Golden State Holdings as to payments of principal and interest.

Any Notes of a series that remain outstanding after the consummation of the Exchange Offer, together with the New Notes issued in connection with the Exchange Offer in exchange for Notes of such series, will be treated as a single class of securities under the Indenture.

If any day on which a payment is due with respect to a Fixed Rate Note is not a Business Day, then the holder thereof shall not be entitled to payment of the amount due until the next following Business Day nor to any additional principal, interest or other payment as a result of such delay.

OPTIONAL REDEMPTION

Notice of optional redemption will be mailed at least 30 days but not more than 60 days before any redemption date to each holder of Notes to be redeemed at its registered address; provided, however, that in the event the redemption date with respect to Floating Rate Notes will occur following the next scheduled Interest Reset Date, notice of redemption will be given in accordance with the Indenture at least 30 days but not more than 35 days before the applicable redemption date. Notes in denominations larger than $1,000 may be redeemed in part but only in integral multiples of $1,000. If money sufficient to pay the redemption price of all Notes (or portions thereof) to be redeemed on the redemption date is deposited with the Paying Agent (or, if the Issuer or a Subsidiary of the Issuer acts as the Paying Agent, it segregates the money held by it as Paying Agent and holds it as a separate trust fund) on or before the redemption date, then on and after such date interest will cease to accrue on such Notes (or such portions thereof) called for redemption.

Floating Rate Notes

Except as provided below in connection with a Change of Control, the Floating Rate Notes may not be redeemed prior to August 1, 2000. Thereafter, the Floating Rate Notes may be redeemed at the option of the Issuer, at any time as a whole, or from time to time in part, on any Business Day at the following redemption prices (expressed as percentages of principal amount), plus accrued and unpaid interest (if any) to the date of redemption (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date), if redeemed during the 12-month period commencing on August 1 of the years set forth below:

PERIOD	REDEMPTION PRICE
2000	101.50%
2001	101.00%
2002	100.50%

In the event that the redemption date will occur following the next scheduled Interest Reset Date, the rate of interest on the Floating Rate Notes for the period from the date on which a notice of redemption is given in accordance with the Indenture (the "Notice Date") to the redemption date will be the higher of (x) the Applicable LIBOR Rate in effect on the Notice Date and (y) the Applicable LIBOR Rate that is determined by using the second London Banking Day preceding the Notice Date as the Interest Rate Determination Date. In such case, the Applicable LIBOR Rate will not be reset on the Interest Reset Date which follows the Notice Date and precedes the redemption date, although accrued interest will remain due and payable on the related Floating Rate Interest Payment Date.

Additionally, in the event of a Change of Control occurring prior to August 1, 2000, the Floating Rate Notes may be redeemed (a "Change of Control Call Event"), in whole but not in part, at the option of the Issuer at the redemption price set forth below (the "Change of Control Price"). The Change of Control Price shall equal the sum of: (i) the principal amount of the Floating Rate Notes to be redeemed, plus (ii) accrued and unpaid interest (if any) to the date of redemption (subject to the right of the holders of record on the relevant record date to receive interest due on the relevant interest payment date), plus (iii) the Applicable Premium.

"Applicable Premium" means, with respect to a Floating Rate Note at any time of determination, the excess, if any, of (A) the sum of the present values at such time of (i) the redemption price for such Note on August 1, 2000, and (ii) the scheduled interest payments that would be required from the redemption date to August 1, 2000 in respect of such Floating Rate Note to be redeemed, if the Applicable LIBOR Rate were the "Designated Fixed Rate" (as defined below), using in each case a discount rate equal to the Treasury Rate plus 50 basis points, over (B) the then outstanding principal amount of such Floating Rate Note to be redeemed. For purposes of the foregoing, the "Designated Fixed Rate" shall be a rate per annum equal to the sum of (a) the Treasury Rate plus (b) the Spread plus (c) 47 basis points.

In the event the redemption date will occur following the next scheduled Interest Reset Date, the rate of interest on the Floating Rate Notes for the period from the Notice Date to the redemption date will be determined as provided in the fourth preceding paragraph.

Fixed Rate Notes

The Fixed Rate Notes of any series may be redeemed at the option of the Issuer, at any time as a whole, or from time to time in part, on any Business Day at an aggregate redemption price equal to the sum of: the principal amount of the Fixed Rate Notes to be redeemed, plus accrued and unpaid interest (if any) to the date of redemption (subject to the right of the holders of record on the relevant record date to receive interest due on the relevant interest payment date), plus the Applicable Premium.

means, with respect to a Fixed Rate Note of any series at any time of determination, the excess, if any, of (A) the present value at such time of determination of the remaining required interest and principal payments in respect of the portion of such Fixed Rate Note to be redeemed, computed using a discount rate equal to the Treasury Rate plus (i) 40 basis points with respect to a 2001 Note, (ii) 50 basis points with respect to a 2003 Note and (iii) 50 basis points with respect to a 2005 Note, over (B) the then outstanding principal amount of the portion of such Fixed Rate Note to be redeemed.

"Treasury Rate" means, with respect to each series of Notes, the yield to maturity at the time of computation of United States Treasury Securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15(519) which has become publicly available at least two Business Days prior to the date fixed for repayment or, in the case of defeasance, prior to the date of deposit or, in the case of a Change of Control Call Event, prior to the relevant Notice Date (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the then remaining Average Life to Stated Maturity of such series; provided, however, that, if the Average Life to Stated Maturity of such series is not equal to the constant maturity of a United States Treasury Security for which a weekly average yield is given, the Treasury Rate shall be obtained by linear interpolation (calculated to the nearest one-twelfth of a year) from the weekly average yields of United States Treasury Securities for which such yields are given, except that, if the Average Life to Stated Maturity of such series is less than one year, the weekly average yield on actually traded United States Treasury Securities adjusted to a constant maturity of one year shall be used; provided, however, that with respect to Floating Rate Notes, for purposes of calculating the Applicable Premium in the event of a Change of Control Call Event, the Treasury Rate shall be determined assuming a Stated Maturity of August 1, 2000 for such Notes.

CALCULATION AGENT AND PAYING AGENT

The Trustee will act as the Calculation Agent and the Paying Agent and will make all determinations of the Applicable LIBOR Rate, the Treasury Rate and any Applicable Premium in respect of the Floating Rate Notes (the "Calculations"). All Calculations made by the Calculation Agent shall in the absence of manifest error be conclusive for all purposes and binding on the Issuer and the holders of the Floating Rate Notes. So long as any Calculation is required to be determined with respect to the Floating Rate Notes, there will at all times be a Calculation Agent. In the event that any acting Calculation Agent shall be unable or unwilling to act, or that such Calculation Agent shall fail to establish the Applicable LIBOR Rate for any Interest Period or fail to make a Calculation, or that the Issuer proposes to remove such Calculation Agent, the Issuer shall appoint itself or another person which is a bank, trust company, investment banking firm or other financial institution to act as the Calculation Agent.

CHANGE OF CONTROL

Upon the occurrence of a Change of Control, each holder of Notes will have the right to require the Issuer to repurchase all or any part of such holder's Notes at a repurchase price in cash equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to the date of repurchase (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date); provided, however, that notwithstanding the occurrence of a Change in Control, the Issuer shall not be obligated to purchase the Notes of any series pursuant to this covenant in the event that it has exercised its right to redeem all the Notes of such series pursuant to the provisions under "--Optional Redemption."

Within 45 days following any Change of Control, the Issuer will mail a notice to each holder of Notes of each series (other than any series with respect to which the Issuer has mailed a notice of redemption) with a copy to the Trustee stating: (a) that a Change of Control has occurred and that such holder has the right to require the Issuer to repurchase all or any part of such holder's Notes at a purchase price in cash equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to the date of repurchase (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date); (b) the circumstances and relevant facts regarding such Change of Control; (c) the repurchase date (which will be no earlier than 30 days nor later than 60 days from the date such notice is mailed); and (d) the instructions, determined by the Issuer consistent with the Indenture, that a holder must follow in order to have its Notes repurchased.

The Issuer's ability to pay cash to holders of Notes upon a repurchase may be limited by the Issuer's then existing financial resources. See "Risk Factors--Ability to Pay Principal on the Notes."

The Issuer will comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and any other applicable securities laws or regulations in connection with the repurchase of Notes as a result of a Change of Control. To the extent that the provisions of any securities laws or regulations conflict with the foregoing provisions, the Issuer will comply with the applicable securities laws and regulations and shall not be deemed to have breached its obligation under this covenant by virtue thereof.

Certain provisions relating to the Issuer's obligation to make an offer to repurchase the Notes as a result of a Change of Control may not be waived or modified without the written consent of the holders of all the Notes of each series affected.

SINKING FUND

There will be no mandatory sinking fund payments for the Notes.

CERTAIN COVENANTS

Set forth below are certain covenants contained in the Indenture (except as described in "--Investment Grade Covenant Changes" below):

Limitation on Debt. Holdings will not Issue any Debt and Holdings will not permit any Subsidiary to Issue any Debt; provided, however, that the foregoing shall not prohibit the Issuance of the following Debt:

(a) the Notes and the Exchange Notes;

(b) Debt of Holdings if, immediately after giving effect to any such Issuance, the aggregate principal amount of Debt (including the aggregate accreted value as of such date of any Debt Issued at a discount) of Holdings outstanding would not exceed an amount equal to the Adjusted Consolidated Net Worth of Holdings;

(c) Subordinated Obligations of Holdings if, immediately after giving effect to any such Issuance, the Fixed Charge Coverage Ratio would be greater than 3.00 to 1.00; provided, however, that the Subordinated Obligations so Issued (A) shall not mature prior to the Stated Maturity of the Notes outstanding on the date of such Issuance and (B) shall have an Average Life to their Stated Maturity equal to or greater than the remaining Average Life to the Stated Maturity of such Notes;

(d) Permitted Refinancing Debt Issued by Holdings to Refinance Debt Issued pursuant to the foregoing clauses (a), (b) and (c) and clause (i) below;

(e) any Debt of any Subsidiary of Holdings that is a Depository Institution or a Subsidiary of such Depository Institution;

(f) in the case of any Financial Services Subsidiary which is not a Depository Institution or a Subsidiary of a Depository Institution, (x) any Debt Issued by such Financial Services Subsidiary in the ordinary course of funding its assets, (y) any additional Debt of such Financial Services Subsidiary if, immediately after giving effect to the Issuance of such additional Debt, the aggregate principal amount of Debt (including the aggregate accreted value as of such date of any Debt Issued at a discount) of such Financial Services Subsidiary outstanding (other than any Debt described in clause (x) above) would not exceed an amount equal to the product of 2.0 and the Adjusted Consolidated Net Worth of such Financial Services Subsidiary, and (z) any Permitted Refinancing Debt Issued by Holdings, such Subsidiary or a Subsidiary thereof to Refinance any Debt Issued pursuant to clause (y) above;

(g) Debt of Holdings in an aggregate principal amount not to exceed $200 million incurred in connection with the Refinancing Transactions provided that such Debt shall not mature after December 31, 1999;

(h) Debt of a Subsidiary of Holdings Issued and outstanding on or prior to the date on which such Subsidiary was acquired by Holdings (other than Debt Issued as consideration in, or to provide all or any portion of the funds or credit support utilized to consummate, the transaction or series of related transactions pursuant to which such Subsidiary became a Subsidiary of Holdings or was acquired by

Holdings) and any Permitted Refinancing Debt Issued by Holdings, such Subsidiary or a Subsidiary thereof to Refinance such Debt;

(i) FNH Notes assumed by Holdings in connection with the Transactions; or

(j) Permitted Acquisition Debt of Holdings in an aggregate amount at any time outstanding not in excess of $300 million.

Limitation on Restricted Payments. (a) Holdings will not, and will not permit any of its Subsidiaries, directly or indirectly, to, make any Restricted Payment if, at the time of the making of such Restricted Payment, and after giving effect thereto:

(1) a Default has occurred and is continuing (or would result therefrom); or

(2) the Bank does not qualify as "well capitalized" under Section 28 of the FDIA (or any successor provision) and the regulations of the OTS thereunder; or

(3) the Consolidated Common Shareholders' Equity of the Bank as of the end of the most recent fiscal quarter ending at least 45 days prior to the date of such Restricted Payment would have been less than the Minimum Common Equity Amount as of the end of such fiscal quarter; or

(4) the aggregate amount of such Restricted Payment and all other Restricted Payments declared or made from and after July 1, 1998 would exceed the sum of (without duplication):

(i) 75% (or, in the case of that portion of Consolidated Net Income of Holdings which is attributable to the Litigations, 100%) of Holdings' aggregate Consolidated Net Income (or, if such aggregate Consolidated Net Income is a deficit, minus 100% of such deficit) since July 1, 1998 to the end of the most recent fiscal quarter ending at least 45 days prior to the date of such Restricted Payment;

(ii) the aggregate Net Cash Proceeds from sales of Capital Stock of Holdings (other than Redeemable Stock or Exchangeable Stock) or cash capital contributions made to Holdings and any earnings or proceeds thereof to the extent invested in Temporary Cash Investments, to the extent received, made or realized on or after the Issue Date (other than an issuance or sale to a Subsidiary of Holdings);

(iii) the amount by which Debt of Holdings is reduced on Holdings' balance sheet on or after the Issue Date upon the conversion or exchange (other than by a Subsidiary of Holdings) of Debt of Holdings into Capital Stock (other than Redeemable Stock or Exchangeable Stock) of Holdings (less the amount of any cash or other property distributed by Holdings or any Subsidiary of Holdings upon such conversion or exchange); and

(iv) $320 million.

(b) The preceding paragraph will not prohibit the following (none of which will be included in the calculation of the amount of Restricted Payments, except to the extent expressly provided in clause (i) below):

(i) dividends paid within 60 days after the date of declaration thereof, or Restricted Payments made within 60 days after the making of a binding commitment in respect thereof, if at such date of declaration or commitment such dividend or other Restricted Payment would have complied with this covenant; provided, however, that, at the time of payment of such dividend or the making of such Restricted Payment, no other Default shall have occurred and be continuing (or would result therefrom); provided further, however, that such dividend or other Restricted Payment shall be included in the calculation of the amount of Restricted Payments;

(ii) dividends on, or any purchase, redemption or other acquisition or retirement for value of, the Bank Preferred Stock or Qualified Preferred Stock;

(iii) any purchase, repurchase, redemption, defeasance or other acquisition or retirement for value of Capital Stock or Subordinated Obligations by exchange for or out of the proceeds from the substantially concurrent sale of Capital Stock or of a cash capital contribution; provided, however, that

the Net Cash Proceeds from such sale or such capital contribution, to the extent they are used to purchase, repurchase, redeem, defease, acquire or retire for value Capital Stock or Subordinated Obligations, shall be excluded from clause (a)(4)(ii) above;

(iv) any purchase, repurchase, redemption, defeasance or other acquisition or retirement for value of Subordinated Obligations by exchange for or out of the proceeds from the substantially concurrent sale of Subordinated Obligations permitted to be issued under "--Certain Covenants--Limitation on Debt" above;

(v) any purchase or repurchase of any Subordinated Obligations pursuant to an option given to a holder of such Subordinated Obligations pursuant to a "change of control" covenant which is no more favorable to the holders of such Subordinated Obligations than the provisions of the Indenture described under "--Change of Control" above are to holders of the Notes as determined in good faith by the Board of Directors of Holdings, the determination of which shall be evidenced by a resolution adopted by such Board of Directors; provided, however, that no such purchase shall be permitted prior to the time when Holdings shall have purchased all Notes tendered for purchase by holders electing to have their Notes purchased pursuant to the provisions of the Indenture described under "--Change of Control" above;

(vi) so long as no Default has occurred and is continuing, amounts paid to Parent, to the extent necessary to enable Parent to pay actual expenses, other than those paid to Affiliates of Holdings, incidental to being a publicly reporting, but non-operating, company; or

(vii) any Restricted Payments to the extent necessary to consummate the Transactions or to redeem or purchase any Bank Preferred Stock or FNH Notes not purchased in connection with the Transactions or to the extent resulting from the Transactions.

(c) Holdings or any Subsidiary of Holdings may take actions to make a Restricted Payment in anticipation of the occurrence of any of the events described in paragraph (a) or (b) of this covenant; provided, however, that the making of such Restricted Payment shall be conditioned upon the occurrence of such event.

Limitation on Transactions with Affiliates. (a) Holdings will not, and will not permit any of its Subsidiaries to, conduct any business or enter into any transaction or series of similar transactions (including the purchase, sale, lease or exchange of any property or the rendering of any service) with any Affiliate of Holdings or any Affiliated Permitted Holder unless:

(i) the terms of such business, transaction or series of transactions are (A) set forth in writing and (B) at least as favorable to Holdings or such Subsidiary as terms that would be obtainable at the time for a comparable transaction or series of similar transactions in arm's-length dealings with an unrelated third Person; and

(ii) to the extent that such business, transaction or series of transactions is known by the Board of Directors of Holdings or such Subsidiary to involve an Affiliate of Holdings or any Affiliated Permitted Holder, then:

(A) with respect to a transaction or series of related transactions involving aggregate payments or other consideration in excess of $5,000,000, such transaction or series of related transactions has been approved (and the value of any non-cash consideration has been determined) by a majority of those members of the Board of Directors of Holdings or such Subsidiary having no personal stake in such business, transaction or series of transactions; and

(B) with respect to a transaction or series of related transactions involving aggregate payments or other consideration in excess of $75,000,000 (with the value of any non-cash consideration being determined by a majority of those members of the Board of Directors of Holdings or such Subsidiary having no personal stake in such business, transaction or series of transactions), such transaction or series of related transactions has been determined, in the written opinion of a nationally recognized investment banking firm, to be fair, from a financial point of view, to Holdings or such Subsidiary.

(b) The provisions of the preceding paragraph (a) above will not prohibit: (i) any Restricted Payment permitted to be paid as described under "--Certain Covenants--Limitation on Restricted Payments" above, (ii) any transaction between Holdings and any of its Subsidiaries or between Subsidiaries of Holdings; provided, however, that no portion of any minority interest in any such Subsidiary is owned by any Affiliate of Holdings or any Affiliated Permitted Holder (in each case, other than a Wholly Owned Subsidiary, an Unrestricted Affiliate or a Permitted Affiliate), (iii) transactions pursuant to which Mafco Holdings will provide Holdings and its Subsidiaries at the request of Holdings with certain allocated services to be purchased from third party providers, such as legal and accounting services, insurance coverage and other services, (iv) any transaction with a Permitted Affiliate entered into in the ordinary course of business (including compensation or employee benefit arrangements with any such Permitted Affiliate); provided, however, that such Permitted Affiliate holds, directly or indirectly, no more than 5% of the outstanding Capital Stock of Holdings, (v) any transaction pursuant to the Tax Sharing Agreement, (vi) any transaction with an Unrestricted Affiliate and (vii) any transactions pursuant to the Escrow Corp. Merger Agreement or otherwise necessary to consummate the Transactions.

Limitation on Restrictions on Distributions by Subsidiaries. Holdings will not, and will not permit any Subsidiary of Holdings to, suffer to exist any consensual encumbrance or restriction on the ability of any Subsidiary of Holdings: (i) to pay, directly or indirectly, dividends or make any other distributions in respect of its Capital Stock or to pay any Debt owed to Holdings, (ii) to make loans or advances to Holdings or (iii) to transfer any of its property or assets to Holdings, except, in any such case, any encumbrance or restrictions:

(a) pursuant to any agreement in effect or entered into on the Issue Date or in connection with the Transactions;

(b) pursuant to an agreement in effect or entered into by such Subsidiary prior to the date on which such Subsidiary was acquired by Holdings (other than an agreement in respect of Debt Issued as consideration in, or to provide all or any portion of the funds or credit support utilized to consummate, the transaction or series of related transactions pursuant to which such Subsidiary became a Subsidiary or was acquired by Holdings and other than any agreement entered into in anticipation of the acquisition of such Subsidiary by Holdings) and outstanding on such date;

(c) pursuant to an agreement effecting a Refinancing of Debt or Preferred Stock Issued pursuant to an agreement referred to in clause (a) or (b) above or this clause (c) or contained in any amendment to an agreement referred to in clauses (a) and (b) or this clause (c); provided, however, that the provisions contained in such Refinancing agreement or in such amendment relating to such encumbrance or restriction are no more restrictive than the provisions contained in the agreement which is the subject of such Refinancing or amendment, as determined in good faith by the Board of Directors of Holdings and evidenced by a resolution adopted by such Board;

(d) any encumbrance or restriction (A) that restricts in a customary manner the subletting, assignment or transfer of any property or asset that is a lease, license, conveyance or contract or similar property or asset, (B) by virtue of any transfer of, agreement to transfer, option or right with respect to, or Lien on, any property or assets of Holdings or any Subsidiary of Holdings not otherwise prohibited by the Indenture or (C) arising or agreed to in the ordinary course of business and that does not, individually or in the aggregate, detract from the value of property or assets of Holdings or any Subsidiary of Holdings in any manner material to Holdings or such Subsidiary;

(e) restrictions contained in security agreements securing Debt of Holdings or any Subsidiary of Holdings to the extent such restrictions restrict the transfer of the collateral covered by such security agreements or, upon default, restrict the payment of dividends or distributions on Capital Stock, and restrictions contained in agreements relating to a disposition of property or Capital Stock of any Subsidiary, to the extent such restrictions restrict the transfer of the property or Capital Stock subject to such agreements;

(f) any encumbrance or restriction relating to a Financial Services Subsidiary contained in an agreement providing for or relating to the Issuance of Debt by such Subsidiary pursuant to clause (f) of "--Certain Covenants--Limitation on Debt";

(g) any encumbrance or restriction imposed by, or otherwise agreed to with, any governmental agency having regulatory supervision over the Bank or any other Subsidiary of Holdings; and

(h) pursuant to the terms of any Qualified Preferred Stock issued after the Issue Date.

Limitation on Liens. Holdings will not create or permit to exist any Lien on any of its property or assets (including Capital Stock), whether owned on the date of the Indenture or thereafter acquired, securing any Debt of Holdings without making effective provision to secure the Notes then outstanding (and, if the Issuer so elects, any other Debt ranking pari passu with the Notes) equally and ratably with or prior to such Debt with a Lien on the assets securing such Debt for so long as such Debt is secured by such Lien.

Maintenance of Status of Bank as Insured Depository Institution; Capital Maintenance.

(a) Holdings will do or cause to be done all things necessary to preserve and keep in full force and effect the status of the Bank as an insured depository institution and do all things necessary to ensure that deposits of the Bank are insured by the FDIC or any successor organization up to the maximum amount permitted by 12 U.S.C. Section 1811 et seq. and the regulations thereunder or any succeeding federal law, except as to individual accounts or interests in employee benefit plans that are not entitled to "pass-through" insurance under 12 U.S.C. Section 1821(a)(1)(D).

(b) Holdings shall cause the Bank to maintain or exceed the status of an "adequately capitalized" institution as defined in the FDIA and OTS regulations.

Limitation on Sale of Capital Stock of, and Merger or Sale of Assets by, the Bank.

(a) Except in the case of the Transactions, Holdings will not, and will not permit the Bank to, issue, sell, transfer, assign or otherwise dispose of any shares of Voting Stock or Common Stock of the Bank, or any securities convertible into or exchangeable for shares of Voting Stock or Common Stock of the Bank, unless after giving effect to such transaction and to shares issuable upon conversion or exchange of outstanding securities convertible into or exchangeable for shares of such Voting Stock or Common Stock (including such securities, if any, which may be the subject of such transaction) at least 80% of the Voting Stock and Common Stock of the Bank will be owned at that time by Holdings or a person who expressly assumes by supplemental indenture all the obligations of the Issuer under the Indenture and the Notes ("New Holding Company") or any Wholly Owned Subsidiary of Holdings or of a New Holding Company.

(b) Except in the case of the Transactions, Holdings will not permit the Bank to merge or consolidate or convey or transfer all or substantially all its assets unless at least 80% of the Voting Stock and Common Stock (after giving effect to such transaction and to shares issuable upon conversion or exchange of outstanding securities convertible into or exchangeable for shares of such Voting Stock or Common Stock, including such securities, if any, which may be issued in such transaction) of the resulting or surviving corporation in the case of a merger or consolidation or of the transferee corporation in the case of a conveyance or transfer will be owned at that time by Holdings or a New Holding Company or any Wholly Owned Subsidiary of Holdings or of a New Holding Company.

(c) For purposes of paragraph (b) above, the phrase "convey or transfer all or substantially all its assets" in respect of the Bank means to convey or transfer in a single transaction or in a series of related transactions, in either case occurring outside the ordinary course of business, more than 75% of the assets and 75% of the deposit liabilities of the Bank in each case as shown on a consolidated balance sheet of the Bank as of the end of the most recent fiscal quarter ending at least 45 days prior to such transaction (or the first transaction in any such related series of transactions); provided, however, that in the case of such a conveyance or transfer, if Holdings at any time holds any assets other than (1) the Capital Stock of the Bank, (2) Temporary Cash Investments and (3) Permitted Investments described in clause (ii) of the definition thereof, such other assets shall be deemed to be assets of the Bank and to have been reflected on such consolidated balance sheet.

(d) Notwithstanding the foregoing, Holdings may engage in a transaction otherwise prohibited by paragraph (a) or (b) above if prior to any such transaction the Bank unconditionally guarantees payment when due of the principal of, premium, if any, and interest on the Notes, the Bank obtains all regulatory approvals, if any,

required to permit such guarantee, and the Bank obtains an Opinion of Counsel as to the enforceability of such guarantee.

(e) After consummation of any transaction permitted by paragraph (b) above, the term "Bank" when used in the Indenture and the Notes shall mean the resulting, surviving or transferee person in such transaction and not any other entity which previously had been covered by such term. After consummation of any transaction permitted by paragraph (a) or (b) above involving a New Holding Company in which the requirements of paragraph (a) under "--Successor Company" are satisfied with respect to such New Holding Company as if it were the transferee corporation referred to in such paragraph (a), the term "Holdings" when used in the Indenture and the Notes shall mean the New Holding Company in such transaction and not any other entity which previously had been covered by such term, and the New Holding Company will be the successor company and will succeed to, and be substituted for, and may exercise every right and power of, the Issuer under the Indenture, and thereafter the Issuer will be discharged from all obligations and covenants under the Indenture and the Notes.

SEC Reports. Notwithstanding that Holdings may not be required to be subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act, Holdings will file or cause to be filed with the Commission and provide the Trustee and holders of the Notes with the information, documents and other reports (or copies of such portions of any of the foregoing as the Commission may by rules and regulations prescribe) specified in Sections 13 and 15(d) of the Exchange Act. The Issuer also will comply with the other provisions of TIA Section 314(a).

INVESTMENT GRADE COVENANT CHANGES

If at any time the Notes of any series are rated Investment Grade, at the election of the Issuer, each of the covenants described above under "--Certain Covenants" (other than "--Limitation on Transactions with Affiliates," "--Limitation on Liens," "--Limitation on Sale of Capital Stock of, and Merger or Sale of Assets by, the Bank,""--Maintenance of Status of Bank as Insured Depository Institution; Capital Maintenance" and "--SEC Reports") shall be of no further force and effect in respect of such series and shall cease to apply to Holdings and, if applicable, its Subsidiaries in respect of such series.

SUCCESSOR COMPANY

(a) Except in the case of the Transactions, Holdings may not consolidate with or merge with or into, or convey, transfer or lease all or substantially all its assets to, any person, unless: (i) the resulting, surviving or transferee person (if not Holdings) is organized and existing under the laws of the United States of America, any State thereof or the District of Columbia and, in the case of any transaction covered by this paragraph (a) occurring after the Escrow Corp. Merger in which Holdings is not the resulting, surviving or transferee person, such person expressly assumes by a supplemental indenture, executed and delivered to the Trustee, in form satisfactory to the Trustee, all the obligations of the Issuer under the Indenture and the Notes, (ii) immediately after giving effect to such transaction (and treating any Debt which becomes an obligation of the resulting, surviving or transferee person or any of its Subsidiaries as a result of such transaction as having been issued by such person or such Subsidiary at the time of such transaction), no Default has occurred and is continuing, (iii) immediately after giving effect to such transaction, the resulting, surviving or transferee person has a Consolidated Net Worth in an amount which is not less than the Consolidated Net Worth of Holdings immediately prior to such transaction and (iv) the Issuer delivers to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that such consolidation, merger or transfer and such supplemental indenture (if any) complies with the Indenture.

(b) In the case of any transaction covered by paragraph (a) above, the term "Holdings" when used in the Indenture and the Notes shall mean the resulting, surviving or transferee person in such transaction and not any other entity which previously had been covered by such term. In addition, in the case of any transaction covered by paragraph (a) above occurring after the Escrow Corp. Merger, the resulting, surviving or transferee person will be the successor company and will succeed to, and be substituted for, and may exercise every right and power of, the Issuer under the Indenture, and thereafter, except in the case of a lease, the Issuer will be discharged from all obligations and covenants under the Indenture and the Notes.

DEFAULTS

An Event of Default with respect to any series of Notes is defined in the Indenture as: (i) (1) a default by the Issuer in the payment of principal of any Note of that series when due and payable at its Stated Maturity, upon redemption, upon required purchase, upon declaration or otherwise, or (2) a default by the Issuer in the payment of interest on any Note of that series when due and payable and the continuance of such default for a period of 30 days, or (3) a failure by the Issuer to purchase or redeem Notes of that series when required pursuant to the Indenture or the Notes, (ii) the failure by the Issuer to comply with its obligations described under "--Successor Company" above, (iii) the failure by the Issuer, Holdings or Holdings' Subsidiaries to comply for 30 days after notice with any of their respective obligations under the covenant described under "--Change of Control" (other than a failure to purchase Notes), or under the covenants described under "--Certain Covenants--Limitation on Debt," "--Limitation on Restricted Payments," "--Limitation on Transactions with Affiliates,""--Limitation on Other Business Activities of Escrow Corp.," "--Limitation on Restrictions on Distributions by Subsidiaries," "--Limitation on Liens," "--Maintenance of Status of Bank as Insured Depository Institution; Capital Maintenance," "--Limitation on Sale of Capital Stock of, and Merger or Sale of Assets by, the Bank" or "--SEC Reports," as applicable, above, (iv) the failure by the Issuer or Holdings to comply for 60 days after notice with its other agreements contained in the Indenture in respect of that series of Notes (other than those referred to in clauses (i), (ii) and (iii) of this paragraph), (v) Debt of the Issuer, Holdings or any of Holdings' Significant Subsidiaries is not paid within any applicable grace period after final maturity or is accelerated by the holders thereof because of a default and the total principal amount of the portion of such Debt that is unpaid or accelerated exceeds $25 million or its foreign currency equivalent and such default continues for five days after notice (the "cross acceleration provision"), (vi) certain events of bankruptcy, insolvency or reorganization of the Issuer, Holdings or any of Holdings' Significant Subsidiaries (the "bankruptcy provisions") or (vii) any judgment or decree for the payment of money in excess of $25 million is entered against the Issuer, Holdings or any of Holdings' Significant Subsidiaries and is not discharged and either (A) an enforcement proceeding has been commenced by any creditor upon such judgment or decree or (B) there is a period of 60 days following the entry of such judgment or decree during which such judgment or decree is not discharged, waived or the execution thereof stayed and, in the case of (B), such default continues for 10 days after the notice specified in the next sentence (the "judgment default provision"). However, a default under clauses (iii), (iv), (v) and (vii)(B) will not constitute an Event of Default with respect to a series of Notes until the Trustee or the holders of 25% in principal amount of the outstanding Notes of such series notify the Issuer of the default and such default is not cured within the time specified after receipt of such notice.

If an Event of Default (other than an Event of Default specified in clause (vi) in the above paragraph with respect to the Issuer) occurs and is continuing with respect to any series of Notes, the Trustee or the holders of at least 25% in principal amount of the outstanding Notes of such series may declare the principal amount of and accrued interest on all the Notes of such series as of the date of such declaration to be immediately due and payable (collectively, the "Default Amount"). If an Event of Default relating to certain events of bankruptcy, insolvency or reorganization of the Issuer occurs, the Default Amount on all the Notes as of the date of such Event of Default will ipso facto become and be immediately due and payable without any declaration or other act on the part of the Trustee or any holders of the Notes. Under certain circumstances, the holders of a majority in principal amount of the outstanding Notes of such series may rescind any such acceleration with respect to the Notes of any series and its consequences.

Subject to the provisions of the Indenture relating to the duties of the Trustee, the Trustee will be under no obligation to exercise any of the rights or powers under the Indenture at the request or direction of any of the holders of the Notes of any series (whether an Event of Default has occurred with respect to such series and is continuing, or otherwise) unless such holders have offered to the Trustee reasonable indemnity or security against any loss, liability or expense. Except to enforce the right to receive payment of principal or interest when due, no holder of a Note of any series may pursue any remedy with respect to the Indenture or the Notes of such series unless: (i) such holder has previously given the Trustee written notice that an Event of Default with respect to the Notes of such series is continuing, (ii) holders of at least 25% in principal amount of the outstanding Notes of such series have requested the Trustee to pursue the remedy, (iii) such holders have offered the Trustee reasonable security or indemnity against any loss, liability or expense, (iv) the Trustee has not complied with such request within 60 days after the receipt thereof and the offer of security or indemnity and (v) the holders of a

majority in principal amount of the outstanding Notes of such series have not given the Trustee a direction inconsistent with such request within such 60-day period. Subject to certain restrictions, the holders of a majority in principal amount of the outstanding Notes of any series are given the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or of exercising any trust or power conferred on the Trustee with respect to the Notes of such series. The Trustee, however, may refuse to follow any direction that conflicts with law or the Indenture or, subject to the provisions of the Indenture relating to duties of Trustee, that the Trustee determines is unduly prejudicial to the rights of any other holder of a Note of such series or that would involve the Trustee in personal liability.

The Indenture provides that if a Default with respect to any series of Notes occurs and is continuing and is known to the Trustee, the Trustee must mail to each holder of the Notes of such series notice of the Default within 90 days after it occurs. Except in the case of a Default in the payment of principal of or interest on any Note of any series, the Trustee may withhold notice if and so long as a committee of its Trust Officers in good faith determines that withholding notice is in the interest of the holders of the Notes of such series. In addition, the Issuer is required to deliver to the Trustee, within 120 days after the end of each fiscal year, a certificate indicating whether the signers thereof know of any Default that occurred during the previous year. The Issuer also is required to deliver to the Trustee, within 30 days after the occurrence thereof, written notice of any event which would constitute certain Defaults, their status and what action the Issuer is taking or proposes to take in respect thereof.

AMENDMENT

Subject to certain exceptions, the Indenture may be amended with respect to Notes of a series with the written consent of the holders of a majority in principal amount of the Notes of such series then outstanding affected by such amendment and any past default or noncompliance with any provisions may be waived in respect of any series with the consent of the holders of a majority in principal amount of the Notes of such series then outstanding. However, without the consent of each holder of an outstanding Note of any series affected, no amendment may, among other things: (i) reduce the principal amount of Notes of any series whose holders must consent to an amendment, (ii) reduce the rate of or extend the time for payment of interest on any Note, (iii) reduce the principal of or extend the Stated Maturity of any Note or reduce the Default Amount of any Note, (iv) reduce the premium payable upon the redemption of any Note or change the time at which any Note may be redeemed as described under "--Optional Redemption" above, (v) make any Note or premium or interest thereon payable in money other than that stated in the Note, (vi) make any change in the definition of Change of Control or in the dates by which the Issuer must purchase, or in the obligation of the Issuer to purchase, tendered Notes upon a Change of Control, (vii) make any changes in the provisions relating to waiver of past defaults or the provisions relating to the rights of Holders to receive payment or (viii) make any change in the amendment provisions of the Indenture which require each holder's consent.

Without the consent of or notice to any holder of the Notes, the Issuer and the Trustee may amend the Indenture (i) to cure any ambiguity, omission, defect or inconsistency, (ii) to provide for the assumption by a successor corporation of the obligations of the Issuer under the Indenture if in compliance with the provisions described under "--Successor Company" or "--Certain Covenants--Limitation on Sale of Capital Stock of, and Merger or Sale of Assets by, the Bank" above, (iii) to provide for uncertificated Notes in addition to or in place of certificated Notes (provided that the uncertificated Notes are issued in registered form for purposes of Section 163(f) of the Code, or in a manner such that the uncertificated Notes are described in Section 163(f)(2)(B) of the Code), (iv) to add guarantees with respect to the Notes of any series, or to remove any such guarantee, when permitted by the terms of the Indenture or to secure (or provide additional security for) the Notes of any series, (v) to establish any form of Note and provide for the issuance of securities and to set forth the terms thereof, or to add to the rights of the holders of the Notes of any series, (vi) to add to the covenants of the Issuer or Holdings for the benefit of the holders of the Notes of any series or to surrender any right or power conferred upon the Issuer or Holdings for the benefit of the holders of Notes of any series (and if such covenants or the surrender of such right or power are to be for the benefit of less than all series of Notes, stating that such covenants are expressly being included or that such surrenders are expressly being made for the benefit of one or more specified series), (vii) to evidence and provide for the acceptance of appointment by another corporation as a successor Trustee under the Indenture with respect to one or more series of Notes and to add to or change any

of the provisions of the Indenture as shall be necessary to provide for or facilitate the administration of the trusts thereunder by more than one Trustee, (viii) to add any additional Events of Default in respect of the Notes of any series (and if such additional Events of Default are to be in respect of less than all series of Notes, stating that such Events of Default are expressly being included solely for the benefit of one or more specified series), (ix) to provide for the issuance of Notes in coupon as well as fully registered form or (x) to make any change that does not adversely affect the rights of any holder of the Notes of any series or to comply with any requirement of the SEC in connection with the qualification of the Indenture under the TIA or to otherwise comply with the TIA.

The consent of the holders of the Notes is not necessary under the Indenture to approve the particular form of any proposed amendment. It is sufficient if such consent approves the substance thereof.

After an amendment under the Indenture becomes effective with respect to any series, the Issuer is required to mail to holders of the Notes of such series a notice briefly describing such amendment. However, the failure to give such notice to all holders of the Notes of such series, or any defect therein, will not impair or affect the validity of the amendment.

A consent to any amendment or waiver under the Indenture by any holder of Notes given in connection with a tender of such holder's Notes will not be rendered invalid by such tender.

TRANSFER

The Notes will be issued in registered form and will be transferable only upon the surrender of the Notes being transferred for registration of transfer. The Issuer may require payment of a sum sufficient to cover any tax, assessment or other governmental charge payable in connection with certain transfers and exchanges.

DEFEASANCE

The Issuer at any time may terminate all its obligations under the Notes of any series and the Indenture in respect of such series ("legal defeasance"), except for certain obligations, including those respecting the defeasance trust (as defined herein) and obligations to register the transfer or exchange of the Notes, to replace mutilated, destroyed, lost or stolen Notes and to maintain a registrar and paying agent in respect of the Notes of such series. The Issuer at any time may terminate its obligations in respect of any series under the covenants described under "--Certain Covenants" and "--Change of Control" above, the operation of the cross acceleration provision, the bankruptcy provisions with respect to Significant Subsidiaries and the judgment default provision and the limitations contained in clause (a)(iii) described under "--Successor Company" above ("covenant defeasance").

The Issuer may exercise its legal defeasance option notwithstanding its prior exercise of its covenant defeasance option. If the Issuer exercises its legal defeasance option in respect of any series, payment of the Notes of such series may not be accelerated because of an Event of Default with respect thereto. If the Issuer exercises its covenant defeasance option in respect of any series, payment of the Notes of such series may not be accelerated because of an Event of Default specified in clause (iii), (v), (vi) (with respect only to Significant Subsidiaries) or (vii) under "--Defaults" above, or because of the failure of Holdings to comply with clause (a)(iii) described under "--Successor Company" above.

The Floating Rate Notes will not be subject to either defeasance option prior to August 1, 2000 unless at the time the Issuer is entitled to exercise a right of redemption resulting from the occurrence of a Change of Control Call Event. In connection with the exercise of either defeasance option in respect of the Floating Rate Notes, the Issuer must make irrevocable arrangements with the Trustee to call such notes for redemption on a redemption date not later than the next scheduled Interest Reset Date; provided, however, that such redemption date may be after the next scheduled Interest Reset Date if it is not later than 35 days following the required deposit in the defeasance trust and delivery of the Opinions of Counsel required by the next succeeding paragraph.

In order to exercise either defeasance option with respect to any series of Notes, the Issuer must irrevocably deposit in trust (the "defeasance trust") with the Trustee money or U.S. Government Obligations for the payment of principal on the Notes of such series and interest thereon to maturity or redemption, as the case may be, and must comply with certain other conditions, including, but not limited to (unless the Notes of such series will mature or be redeemed within 60 days), delivering to the Trustee an Opinion of Counsel to the effect that

holders of the Notes of such series will not recognize income, gain or loss for federal income tax purposes as a result of such deposit and defeasance and will be subject to federal income tax on the same amount and in the same manner and at the same times as would have been in the case if such deposit and defeasance had not occurred (and, in the case of legal defeasance only, such Opinion of Counsel must be based on a ruling of the Internal Revenue Service or a change in applicable federal income tax law).

CONCERNING THE TRUSTEE

The Bank of New York is the Trustee under the Indenture and has been appointed by the Issuer as Registrar and Paying Agent with regard to the Notes.

GOVERNING LAW

The Indenture provides that it and the Notes, and the Escrow Agreement provides that it, will be governed by, and construed in accordance with, the laws of the State of New York without giving effect to applicable principles of conflicts of law to the extent that the application of the law of another jurisdiction would be required thereby.

CERTAIN DEFINITIONS

The following are certain definitions used in the Indenture and applicable to the description of the Indenture set forth herein.

"Adjusted Consolidated Net Worth" of any Person means, as of any date of determination in respect of an Issuance of Debt, the Consolidated Net Worth of such Person as of the end of the most recent fiscal quarter ending at least 45 days prior to such determination date; provided, however, that pro forma effect shall be given (x) to any of the following that shall have occurred since the end of such fiscal quarter or that shall occur simultaneously with or immediately following such Issuance and (y) to the use of the proceeds of such Issuance to effect any of the following (in each case without duplication and as if the following had occurred on the last day of such fiscal quarter): (i) all Issuances of Capital Stock by such Person and equity contributions to such Person, (ii) all Investments in or acquisitions of a Subsidiary or Person that becomes a Subsidiary as a result of such Investment or acquisition or in property which constitutes all or substantially all of an operating unit of a business, (iii) all Restricted Payments and Permitted Investments and (iv) all Asset Dispositions. For purposes of this definition, whenever pro forma effect is to be given to an Issuance of Capital Stock or an equity contribution, an Investment in any Person, an acquisition of assets, an Asset Disposition, a Restricted Payment, a Permitted Investment, the amount of revenue or earnings relating thereto, or any other circumstance, the pro forma calculations shall be determined in good faith by a responsible financial or accounting officer of Holdings.

"Affiliate" of any specified Person means: (i) any other Person which, directly or indirectly, is in control of, is controlled by or is under common control with such specified Person or (ii) any other Person who is a director or executive officer (A) of such specified Person, (B) of any Subsidiary of such specified Person or (C) of any Person described in clause (i) above. For purposes of this definition, control of a Person means the power, direct or indirect, to direct or cause the direction of the management and policies of such Person whether by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Affiliated Permitted Holder" means any member of a Permitted Holder Group if the members of such Group own, in the aggregate, legally or beneficially 5% or more of the voting power of the Voting Stock of Escrow Corp. or Holdings.

"Asset Disposition" means any sale, lease, transfer or other disposition (or series of related sales, leases, transfers or dispositions) of shares of Capital Stock of a Subsidiary of Holdings, or property or other assets of Holdings or any Subsidiary of Holdings (each referred to for the purposes of this definition as a "disposition") by Holdings or any of its Subsidiaries (including any disposition by means of a merger, consolidation or similar transaction) other than (i) a disposition by a Wholly Owned Subsidiary of Holdings to Holdings or by Holdings or a Wholly Owned Subsidiary of Holdings to a Wholly Owned Subsidiary of Holdings, (ii) a disposition of

property or assets by Holdings or its Subsidiaries at fair market value in the ordinary course of business and (iii) an issuance of employee stock options.

"Average Life" means, with respect to any Debt, the quotient obtained by dividing: (i) the sum of the products of (a) the number of years from the date of the transaction or event giving rise to the need to calculate the Average Life of such Debt to the date, or dates, of each successive scheduled principal payment of such Debt multiplied by (b) the amount of each such principal payment by (ii) the sum of all such principal payments.

"Bank" means California Federal Bank, a Federal Savings Bank, and its successors, except as otherwise provided in "--Certain Covenants--Limitation on Sale of Capital Stock of, and Merger with Sale or Assets by, the Bank."

"Bank Preferred Stock" means (i) the 11 1/2% Noncumulative Perpetual Preferred Stock issued by the Bank, (ii) the 10 5/8% Noncumulative Perpetual Preferred Stock issued by the Bank, (iii) the 9 1/8% Noncumulative Exchangeable Preferred Stock, Series A, issued by California Federal Preferred Capital Corporation, (iv) the Preferred Stock, Series E, issued by Glendale Federal and (v) at Holdings' election, other Preferred Stock of the Bank or any Subsidiary of the Bank issued to Refinance stock described in the foregoing clauses (i) through (iv) in an aggregate liquidation value at no time exceeding the sum of the liquidation value of the stock to be Refinanced on the Issue Date plus reasonable fees and expenses incurred in connection with such Refinancing and accrued dividends and premium, if any.

"Board of Directors" means, with respect to any Person, the Board of Directors of such Person or any committee thereof duly authorized to act on behalf of such Board.

"Business Day" means each day which is not a Legal Holiday.

"CALGLs" means the Secondary Contingent Litigation Recovery Participation Interests issued by the Bank.

"CALGZs" means the Contingent Litigation Recovery Participation Interests issued by the Bank.

"Capital Lease Obligation" of a Person means any obligation which is required to be classified and accounted for as a capital lease on the face of a balance sheet of such Person prepared in accordance with GAAP; the amount of such obligation shall be the capitalized amount thereof, determined in accordance with GAAP; and the Stated Maturity thereof shall be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be terminated by the lessee without payment of a penalty.

"Capital Stock" of any Person means any and all shares, interests (including partnership interests), rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated) equity of such Person, including any Preferred Stock, but excluding any debt securities convertible into or exchangeable for such equity and, in the case of the Bank, excluding any CALGZs and CALGLs.

"Change of Control" means the occurrence of any of the following events on or after the Issue Date:

(i) any Person other than a Permitted Holder shall be the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Exchange Act), directly or indirectly, of a majority in the aggregate of the total voting power of the Voting Stock of Holdings, whether as a result of the Issuance of securities of Holdings, any merger, consolidation, liquidation or dissolution of Holdings, any direct or indirect transfer of securities by a Permitted Holder or otherwise; or

(ii) during any period of two consecutive years, individuals who at the beginning of such period constituted the Board of Directors of Holdings or Golden State (together with any new directors whose election by such Board of Directors or whose nomination for election by the shareholders of Holdings or of Golden State was approved by a vote of 66 2/3% of the directors of Holdings or Golden State then still in office who were either directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the Board of Directors of Holdings or Golden State then in office;

provided, however, that at and after the occurrence of a transaction referred to in paragraph (d) under "--Certain Covenants--Limitation on Sale of Capital Stock of, and Merger or Sale of Assets by, the Bank," all references to Holdings in the foregoing clauses (i) and (ii) shall be deemed to be references to Holdings or the Bank.

"Code" means the Internal Revenue Code of 1986, as amended.

"Common Stock" of any Person means the common stock of such Person, but in the case of the Bank means the common stock of the Bank excluding any CALGZs and CALGLs.

"Consolidated Common Shareholders' Equity" of the Bank means, at any date, all amounts which would, in conformity with GAAP, be included under shareholders' equity on a consolidated balance sheet of the Bank as at such date, less any amounts included therein attributable to, without duplication, (i) Redeemable Stock, (ii) Exchangeable Stock and (iii) Preferred Stock held by Persons other than Holdings and its Wholly Owned Subsidiaries.

"Consolidated Net Income" of Holdings means for any period the consolidated net income (or loss) of Holdings and its consolidated Subsidiaries for such period determined in accordance with GAAP, less, without duplication, the amount of dividends declared during such period in respect of any Bank Preferred Stock and Qualified Preferred Stock held by Persons other than Holdings and its Wholly Owned Subsidiaries (to the extent not deducted from Consolidated Net Income in accordance with GAAP); provided, however, that there shall be excluded therefrom (to the extent included in calculating such net income (or loss)):

(a) any net income (or loss) of any Person if such Person is not a Subsidiary, except that (A) Holdings' equity in the net income of any such Person for such period shall be included in such Consolidated Net Income up to the aggregate amount of cash actually distributed by such Person during such period to Holdings or a Subsidiary as a dividend or other distribution (subject, in the case of a dividend or other distribution to a Subsidiary, to the limitations contained in clause (c) below) and (B) Holdings' equity in a net loss of any such Person for such period shall be included in determining such Consolidated Net Income;

(b) any net income (or loss) of any Person acquired by Holdings or a Subsidiary in a pooling of interests transaction for any period prior to the date of such acquisition;

(c) any net income (or loss) of any Subsidiary (other than the Bank, any other Depository Institution or any Subsidiaries of any of the foregoing) if such Subsidiary is subject to restrictions, directly or indirectly, on the payment of dividends or the making of distributions by such Subsidiary, directly or indirectly, to Holdings (other than restrictions contained in any Qualified Preferred Stock), except that (A) Holdings' equity in the net income of any such Subsidiary for such period shall be included in such Consolidated Net Income up to the aggregate amount of cash actually distributed by such Subsidiary during such period to Holdings or another Subsidiary as a dividend or other distribution (subject, in the case of a dividend or other distribution to another Subsidiary, to the limitation contained in this clause) and (B) Holdings' equity in a net loss of any such Subsidiary for such period shall be included in determining such Consolidated Net Income;

(d) any gain (but not loss) realized upon the sale or other disposition of any property, plant or equipment of Holdings or its consolidated Subsidiaries (other than in connection with the sale of insured deposits) (including pursuant to any sale-and-leaseback arrangement) and any gain (but not loss) realized upon the sale or other disposition of any Capital Stock of any Person;

(e) the cumulative effect of a change in accounting principles;

(f) the gain (but not the loss) from the sale, transfer, conveyance or other disposition (other than to Holdings or any of its Subsidiaries) in a single transaction or in a series of related transactions, in either case occurring outside the ordinary course of business, of more than 75% of the assets of the Mortgage Bank shown on a balance sheet of the Mortgage Bank as of the end of the most recent fiscal quarter ending at least 45 days prior to such transaction (or the first transaction in such related series of transactions); and

(g) all non-recurring charges or benefits incurred or recorded in connection with the Transactions.

"Consolidated Net Worth" of any Person means, at any date, all amounts which would, in conformity with GAAP, be included under shareholders' equity on a consolidated balance sheet of such Person as at such date, less any amounts included therein attributable to (x) Redeemable Stock and (y) Exchangeable Stock.

"Debt" of any Person means, on any date of determination, without duplication,

(i) the principal of (A) indebtedness of such Person for money borrowed and (B) indebtedness evidenced by notes, debentures, bonds or other similar instruments for the payment of which such Person is responsible or liable, including, in each case, any premium on such indebtedness to the extent such premium has become due and payable;

(ii) all Capital Lease Obligations of such Person;

(iii) all obligations of such Person issued or assumed as the deferred purchase price of property, all conditional sale obligations of such Person and all obligations of such Person under any title retention agreement (but excluding trade accounts payable and other accrued current liabilities arising in the ordinary course of business);

(iv) all obligations of such Person for the reimbursement of any obligor on any letter of credit, banker's acceptance or similar credit transaction (other than obligations with respect to letters of credit securing obligations (other than obligations described in (i) through (iii) above) entered into in the ordinary course of business of such Person to the extent such letters of credit are not drawn upon or, if and to the extent drawn upon, such drawing is reimbursed no later than the third Business Day following receipt by such Person of a demand for reimbursement following payment on the letter of credit);

(v) the amount of all obligations of such Person with respect to the redemption, repayment (including liquidation preference) or other repurchase of any Preferred Stock of any Subsidiary or any Redeemable Stock of Holdings (but excluding in each case any accrued dividends);

(vi) all obligations of the type referred to in clauses (i) through (v) of other Persons and all dividends of other Persons for the payment of which, in either case, such Person is responsible or liable, directly or indirectly, as obligor, guarantor or otherwise, including Guarantees of such obligations and dividends; and

(vii) all obligations of the type referred to in clauses (i) through (vi) of other Persons secured by any Lien on any property or asset of such Person (whether or not such obligation is assumed by such Person), the amount of such obligation being deemed to be the lesser of the value of such property or assets or the amount of the obligation so secured.

"Default" means any event which is, or after notice or passage of time or both would be, an Event of Default.

"Depository Institution" shall have the meaning attributed thereto in Section 3(c)(1) of the FDIA, 12 U.S.C. Section 1813(c)(1), or a similar definition under any successor statute.

"Earnings Available for Fixed Charges" means, for any period, an amount equal to, for Holdings and its consolidated Subsidiaries, the sum of Consolidated Net Income for such period, plus the following to the extent reducing Consolidated Net Income for such period: (i) the provision for taxes based on income or profits or utilized in computing net loss, (ii) Fixed Charges, and (iii) amortization of goodwill. Notwithstanding the foregoing, the provision for taxes based on the income or profits of, and amortization of goodwill of, a Subsidiary shall be added to Consolidated Net Income to compute Earnings Available for Fixed Charges only to the extent (and in the same proportion) that the net income of such Subsidiary was included in calculating Consolidated Net Income and, in the case of any Subsidiary other than the Bank, any other Depository Institution or any Subsidiaries of any of the foregoing, only if a corresponding amount would be permitted at the date of determination to be dividended to Holdings by such Subsidiary without prior approval (that has not been obtained), pursuant to the terms of its charter and all agreements, instruments, judgments, decrees, orders, statutes, rules and governmental regulations applicable to such Subsidiary or its shareholders.

"Escrow Corp." means GS Escrow Corp. not including Holdings or any other successors thereof.

"Escrow Corp. Merger" means the merger of Escrow Corp. with and into Golden State Holdings pursuant to the Escrow Corp. Merger Agreement.

"Escrow Corp. Merger Agreement" mean the Merger Agreement between Golden State Holdings and Escrow Corp., as amended from time to time.

"Escrow Debt" means Debt of the Issuer that is not secured by any Lien on any assets, property or Capital Stock owned by the Issuer or any of its Subsidiaries, the proceeds of which Debt are used solely for deposit (or the purchase of U.S. Government Obligations to be deposited) with the Escrow Agent in an amount not to exceed the amount necessary, together with the net proceeds to the Issuer of the issuance of the Notes, to enable the Issuer to make the Initial Deposit (as defined in the Escrow Agreement).

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Exchangeable Stock" means any Capital Stock of a Person which by its terms or otherwise is required to be exchanged or converted or is exchangeable or convertible at the option of the holder into another security (other than Capital Stock of such Person which is neither Exchangeable Stock nor Redeemable Stock).

"FDIA" means the Federal Deposit Insurance Act.

"Financial Services Subsidiary" means any Subsidiary of Holdings which conducts any financial asset origination, securitization, underwriting, financing or servicing business or any other financial services business.

"Fixed Charge Coverage Ratio" means, as of any date of determination, the ratio of (a) the aggregate amount of Earnings Available for Fixed Charges for the most recent four consecutive fiscal quarters ending at least 45 days prior to such determination date to (b) Fixed Charges for such four fiscal quarters; provided, however, that (i) if (A) since the beginning of such period Holdings has Issued any Debt that remains outstanding or Repaid any Debt or (B) the transaction giving rise to the need to calculate the Fixed Charge Coverage Ratio is an Issuance or Repayment of Debt, Fixed Charges for such period shall be calculated after giving effect on a pro forma basis to such Issuance or Repayment as if such Debt was Issued or Repaid on the first day of such period, provided that, in the event of any such Repayment of Debt, Earnings Available for Fixed Charges for such period shall be calculated as if Holdings or such Subsidiary had not earned any interest income actually earned during such period in respect of the funds used to Repay such Debt, and (ii) if (A) since the beginning of such period Holdings or any Subsidiary shall have made any Asset Disposition or an Investment (by merger or otherwise) in any Subsidiary (or any Person which becomes a Subsidiary) or an acquisition of property which constitutes all or substantially all of an operating unit of a business, (B) the transaction giving rise to the need to calculate the Fixed Charge Coverage Ratio is occurring in connection with such an Asset Disposition, Investment or acquisition or (C) since the beginning of such period any Person (that subsequently became a Subsidiary or was merged with or into Holdings or any Subsidiary since the beginning of such period) shall have made such an Asset Disposition, Investment or acquisition, Earnings Available for Fixed Charges for such period shall be calculated after giving pro forma effect to such Asset Disposition, Investment or acquisition as if such Asset Disposition, Investment or acquisition occurred on the first day of such period. If any Debt bears a floating rate of interest and its Issuance is being given pro forma effect, the interest expense on such Debt shall be calculated as if the base interest rate in effect for such floating rate of interest on the date of determination had been the applicable base interest rate for the entire period (taking into account any interest rate agreement applicable to such Debt if such interest rate agreement has a remaining term in excess of 12 months). In the event the Capital Stock of any Subsidiary is sold during the period, Holdings shall be deemed, for purposes of clause (i) above, to have Repaid as of the beginning of such period the Debt of such Subsidiary to the extent Holdings and its continuing Subsidiaries are no longer liable for such Debt after such sale. For purposes of this definition, whenever pro forma effect is to be given to an Asset Disposition, an Investment in any Person, an acquisition of assets, the amount of revenue or earnings relating thereto, the amount of Fixed Charges associated with any Debt, or any other circumstance, the pro forma calculations shall be determined in good faith by a responsible financial or accounting officer of Holdings.

"Fixed Charges" means, for any period, the sum of (i) the total interest expense of Holdings on an unconsolidated basis determined in accordance with GAAP for such period and (ii) dividends payable on any Redeemable Stock of Holdings for such period.

"Generally Accepted Accounting Principles" or "GAAP" means generally accepted accounting principles in the United States, as in effect from time to time, except that, for purposes of calculating Consolidated Net Income, Consolidated Net Worth and Consolidated Common Shareholders' Equity, it shall mean generally accepted accounting principles in the United States as in effect on the Issue Date.

"Guarantee" means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Debt or other obligation of any other Person and any obligation, direct or indirect, contingent or otherwise, of such Person: (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Debt or other obligation of such other Person (whether arising by virtue of partnership arrangements, or by agreement to keep well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise) or (ii) entered into for purposes of assuring in any other manner the obligee of such Debt or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); provided, however, that the term "Guarantee" shall not include endorsements for collection or deposit in the ordinary course of business. The term "Guarantee" used as a verb has a corresponding meaning.

"Investment" in any Person means any loan or advance to, any net payment on a Guarantee of, any acquisition of Capital Stock, equity interest, obligation or other security of, or capital contribution or other investment in, such Person. Investments shall exclude loans or advances to customers and suppliers in the ordinary course of business. The term "Invest" has a corresponding meaning.

"Investment Grade" means, in respect of any series of Notes, a rating of the Notes of such series by both S&P and Moody's, each such rating being in one of such agency's four highest generic ratings categories that signifies investment grade (i.e. BBB-- (or the equivalent) or higher by S&P and Baa3 (or the equivalent) or higher by Moody's); provided, in each case, such ratings are publicly available; provided further that in the event Moody's or S&P is no longer in existence, for purposes of determining whether such Notes are rated "Investment Grade," such organization may be replaced by a nationally recognized statistical rating organization (as defined in Rule 436 under the Securities Act) designated by the Issuer, notice of which designation shall be given to the Trustee.

"Issue" means issue, assume, Guarantee, incur or otherwise become liable for; provided, however, that any Debt or Capital Stock of a Person existing at the time such Person becomes a Subsidiary of another Person (whether by merger, consolidation, acquisition or otherwise) shall be deemed to be issued by such Subsidiary at the time it becomes a Subsidiary of such other Person.

"Issue Date" means the date of the original issue of the Notes.

"Legal Holiday" means a Saturday, a Sunday or a day on which banking institutions are required or permitted to be closed in the State of New York or in the state where the principal office of the Trustee is located.

"Lien" means any mortgage, pledge, security interest, conditional sale or other title retention agreement or other similar lien.

"Litigations" means (i) the California Federal Litigation, (ii) the Glendale Goodwill Litigation and (iii) the claim against the United States in the lawsuit First Nationwide Bank, et al, v. United States, Civil Action No. 96-590C, filed on September 20, 1996.

"Mafco Holdings" means Mafco Holdings Inc., a Delaware corporation, and its successors.

"Minimum Common Equity Amount" means, as of the end of any fiscal quarter, an amount equal to the sum of (i) $800 million and (ii) the excess, if any, of amounts attributable to goodwill and core deposit intangible on the consolidated balance sheet of the Bank as at the end of such fiscal quarter, over $100 million.

"Mortgage Bank" means the Subsidiary of Holdings which on the Issue Date is a Subsidiary of the Bank that is engaged in the mortgage banking business, including the business of originating or carrying mortgage loans.

"Net Cash Proceeds," with respect to any issuance or sale of Capital Stock, means the cash proceeds of such issuance or sale net of attorneys' fees, accountants' fees, underwriters' or placement agents' fees, discounts or commissions and brokerage, consultant and other fees actually incurred in connection with such issuance or sale and net of taxes paid or estimated in good faith to be payable as a result thereof.

"Non-Convertible Capital Stock" means, with respect to any corporation, any non-convertible Capital Stock of such corporation and any Capital Stock of such corporation convertible solely into non-convertible common stock of such corporation; provided, however, that Non-Convertible Capital Stock shall not include any Redeemable Stock or Exchangeable Stock.

"Officer" means the Chairman of the Board, the Vice Chairman, the President, any Vice President, the Treasurer, an Assistant Treasurer or the Secretary or an Assistant Secretary of the Issuer.

"Officers' Certificate" means a certificate signed by the Chairman of the Board, the Vice Chairman, the President or a Vice President (regardless of Vice Presidential designation), and by the Treasurer, an Assistant Treasurer, Secretary or an Assistant Secretary, of the Issuer, and delivered to the Trustee. One of the Officers signing an Officers' Certificate given pursuant to the requirement for a compliance certificate as described in the last paragraph under "Defaults" above shall be the principal executive, financial or accounting officer of the Issuer.

"Opinion of Counsel" means a written opinion from legal counsel who is reasonably acceptable to the Trustee. The counsel may be an employee of or counsel to the Issuer (or Holdings, Mafco Holdings, Parent or one of its Subsidiaries) or the Trustee.

"Parent" means Golden State and any other person which acquires or owns, after the consummation of the Golden State Acquisition, directly or indirectly 80% or more of the voting power of the Voting Stock of Holdings.

"Permitted Acquisition Debt" shall mean Debt of Holdings the proceeds of which are used for the acquisition of a Depository Institution or a Financial Services Subsidiary or which are used by a Subsidiary that is either a Depository Institution or Financial Services Subsidiary to acquire assets outside the ordinary course of business that extend the geographic scope or product lines of such Depository Institution or Financial Services Subsidiary, and a Refinancing of any such Debt.

"Permitted Affiliate" means any individual who is a director or executive officer of Holdings, of a Subsidiary of Holdings, of an Unrestricted Affiliate or of Golden State, any Person controlled by Golden State or any successor to any of the foregoing; provided, however, that such individual is not also a director or executive officer of Mafco Holdings, any Person that controls Mafco Holdings or any successor to any of the foregoing.

"Permitted Holder Group" means either (i) Ronald O. Perelman and his Related Persons, collectively, or (ii) Gerald J. Ford and his Related Persons (including, without limitation, Hunter's Glen/Ford, Ltd.), collectively.

"Permitted Holders" means the members of the Permitted Holder Groups.

"Permitted Investments" means: (i) Investments consisting of loans to directors and executive officers (other than any such director or executive officer that is the beneficial owner of 5% or more of the voting power of the Voting Stock of Holdings) of any Subsidiary of Holdings made in the ordinary course of its business and in compliance with all regulatory restrictions on such loans, (ii) Investments consisting of loans to Affiliates of Holdings so long as (in the case of this clause (ii) only) the Consolidated Common Shareholders' Equity of the Bank as of the end of the most recent fiscal quarter ending at least 45 days prior to the date of such Investment was at least equal to the Minimum Common Equity Amount as of the end of such fiscal quarter, (iii) Investments in Holdings, in any Subsidiary of Holdings or in any Person which would become a Subsidiary of Holdings as a result of such Investment and (iv) Investments in Unrestricted Affiliates.

"Permitted Refinancing Debt" means any Debt that Refinances any other Debt, including any successive Refinancings, so long as (a) the new Debt is in an aggregate principal amount (or if Issued with original issue discount, an aggregate issue price) not in excess of the sum of (i) the aggregate principal amount then outstanding (or if Issued with original issue discount, the aggregate accreted value on the date of the Refinancing) of the Debt being Refinanced and (ii) an amount necessary to pay any fees and expenses, including underwriters' discounts and commissions, premiums and defeasance costs, related to such Refinancing, (b) the Average Life of such Debt is equal to or greater than the Average Life of the Debt being Refinanced, (c) the Stated Maturity of such Debt is no earlier than the Stated Maturity of the Debt being Refinanced and (d) if the Debt being Refinanced consists of Subordinated Obligations, the new Debt shall consist of Subordinated Obligations.

"Person" means any individual, corporation, limited liability company, partnership, joint venture, association, joint-stock company, trust, unincorporated organization, government or any agency or political subdivision thereof or any other entity.

"Preferred Stock" as applied to the Capital Stock of any corporation means Capital Stock of any class or classes (however designated) which is preferred as to the payment of dividends, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such corporation, over shares of Capital Stock of any other class of such corporation.

"Qualified Preferred Stock" means (x) any Preferred Stock of any Subsidiary of Holdings that is a Depository Institution or a Subsidiary thereof (other than Bank Preferred Stock) which meets the requirements set forth in clauses (a), (b) and (c) below, (y) any Preferred Stock of any Subsidiary of Holdings (other than any Subsidiary of Holdings that is a Depository Institution or a Subsidiary thereof) which meets the requirements set forth in clauses (a), (b), (c) and (d) below, and (z) any Preferred Stock of any Subsidiary of Holdings (other than the Bank Preferred Stock) issued to Refinance any other Qualified Preferred Stock or, at Holdings' election, to Refinance any Bank Preferred Stock provided that the Preferred Stock issued in such Refinancing meets the requirements set forth in clauses (a), (b), (c) and (e) below:

(a) Such Preferred Stock does not contain any mandatory redemption provisions which would require it to be redeemed prior to the first anniversary of the Stated Maturity of the Notes outstanding on the date such Preferred Stock is Issued;

(b) The terms of such Preferred Stock do not impose any consensual encumbrance or restriction on the ability of the issuer thereof to pay dividends or make distributions on its common stock except in a manner that is no more restrictive in any material respect than the following, as determined in good faith by the Board of Directors of Holdings and evidenced by a resolution adopted by such Board:

(i) Dividends and distributions on common stock or other capital stock of the issuer may not be declared or paid or set apart for payment at any time when the issuer has not declared and paid any dividends or distributions on such Preferred Stock which are required to be declared and paid as a precondition to dividends or distributions on other capital stock of the issuer;

(ii) Distributions upon the liquidation, dissolution or winding up of the issuer, whether voluntary or involuntary ("Liquidating Distributions"), may not be made on the common stock or other capital stock of the issuer at any time when such Preferred Stock is entitled to receive Liquidating Distributions which have not been paid; and

(iii) Dividends and distributions on common stock or other capital stock of the issuer may not be declared or paid or set apart for payment at any time when such Preferred Stock is required to be, but has not been, redeemed pursuant to redemption provisions which meet the requirements of clause (a) above;

(c) The terms of such Preferred Stock do not impose any consensual encumbrance or restriction on the ability of the issuer thereof (i) to pay any Debt or other obligation owed to Holdings; (ii) to make loans or advances to Holdings; or (iii) to transfer any of its property or assets to Holdings, except, in any such case, any encumbrance or restriction permitted under "--Certain Covenants--Limitations on Restrictions on Distributions by Subsidiaries" (other than clause (h) thereof);

(d) In the case of Preferred Stock issued pursuant to clause (y) above, Consolidated Net Income of Holdings for the Relevant Period (as defined in the next sentence) on a pro forma basis, after giving effect to (i) the issuance of such Preferred Stock (including fees and expenses incurred in connection with such issuance), (ii) the use of the proceeds thereof, if any, (iii) any acquisition of capital stock or assets of another Person occurring in connection with the issuance of such Preferred Stock (including the anticipated revenue and earnings relating thereto) and (iv) any dividend or other payment obligations with respect to such Preferred Stock, in each case as if such Preferred Stock had been issued and any such acquisition had been made on the first day of the Relevant Period, is no less than the actual Consolidated Net Income of Holdings for the Relevant Period. "Relevant Period" means, with respect to any issuance of Preferred Stock, the four full fiscal quarters most recently ended at least 45 days prior to the date of such issuance. For purposes of this clause (d), whenever pro forma effect is to be given to an acquisition of capital stock or assets, the amount of revenue and earnings relating thereto, or any other circumstance, the pro forma calculations shall be determined in good faith by a responsible financial or accounting officer of Holdings; and

(e) In the case of Preferred Stock issued in a Refinancing pursuant to clause (z) above, the aggregate liquidation value of such Preferred Stock shall not exceed the sum of the liquidation value of the Preferred Stock being Refinanced on the date it was originally issued plus reasonable fees and expenses incurred in connection with such Refinancing and accrued dividends and premium, if any.

"Redeemable Stock" means, with respect to any Person, Capital Stock of such Person that by its terms or otherwise is required to be redeemed on or prior to the first anniversary of the Stated Maturity of the Notes outstanding on the date such Capital Stock is Issued or is redeemable at the option of the holder thereof at any time on or prior to the first anniversary of the Stated Maturity of such Notes; provided, however, that any Capital Stock that would not constitute Redeemable Stock but for provisions thereof giving holders thereof the right to require such Person to purchase or redeem such Capital Stock upon the occurrence of an "asset sale" or "change of control" occurring prior to the first anniversary of the Stated Maturity of the Notes shall not constitute Redeemable Stock if (x) the "asset sale" or "change of control" provisions applicable to such Capital Stock are not more favorable to the holders of such Capital Stock than the terms applicable to the Notes in "--Change of Control" and "--Certain Covenants--Limitation on Sale of Capital Stock of, and Merger or Sale of Assets by, the Bank," as determined in good faith by the Board of Directors of Holdings, the determination of which shall be evidenced by a resolution of such Board of Directors, and (y) any such requirement only becomes operative after compliance with such covenants, including the purchase of any Notes tendered pursuant thereto.

"Refinance" or "Repay" means, in respect of any Debt or Preferred Stock, to refinance, extend, renew, refund, repay, prepay, repurchase, redeem, defease or retire, or to issue Debt or Preferred Stock in exchange or replacement for, such Debt or Preferred Stock. "Refinanced" and "Refinancing" and "Repayment" and "Repaid" shall have correlative meanings.

"Refinancing Transactions" means the Offering, the Bank Dividend, the Debt Tender Offers, the Bank Preferred Stock Tender Offers and the Parent Holdings Defeasance.

"Registered Exchange Offer" has the meaning ascribed thereto in the Registration Agreement.

"Registration Agreement" means the Registration Agreement dated July 30, 1998, among Escrow Corp., Golden State Holdings and the Initial Purchasers named therein.

"Related Person" in respect of any specified Person means (i) in the event of his incompetence or death, his estate, heirs, executor, administrator, committee or other personal representative (collectively, "heirs"), (ii) any Person controlled, directly or indirectly, by such specified Person or his heirs, and (iii) any trust, corporation, limited liability company or partnership more than 50% of the beneficial interests of which are held in the aggregate by such specified Person or one or more members of his immediate family (which shall include his parents, spouse, children, grandchildren and siblings) or any combination of the foregoing.

"Restricted Payment" means, as to any Person making a Restricted Payment: (i) the declaration or payment of any dividend or any distribution on or in respect of the Capital Stock of such Person (including any payment in connection with any merger or consolidation involving such Person) or to the holders of the Capital Stock of such Person (except (x) dividends or distributions payable solely in the Non-Convertible Capital Stock of such Person or in options, warrants or other rights to purchase the Non-Convertible Capital Stock of such Person, and (y) dividends or distributions on Capital Stock of a Subsidiary of Holdings payable to Holdings or a Subsidiary of Holdings and to any minority shareholders of a Subsidiary of Holdings), (ii) any purchase, redemption or other acquisition or retirement for value of any Capital Stock of Holdings or any Subsidiary, (iii) any purchase, repurchase, redemption, defeasance or other acquisition or retirement for value, prior to scheduled maturity, scheduled repayment or scheduled sinking fund payment, of any Subordinated Obligation (other than the purchase, repurchase or other acquisition of Subordinated Obligations purchased in anticipation of satisfying a sinking fund obligation, principal installment or final maturity, in each case due within one year of the date of acquisition) and (iv) any Investment (other than a Permitted Investment) in any Affiliate of Holdings.

"Shelf Registration Statement" has the meaning ascribed thereto in the Registration Agreement.

"Significant Subsidiary" means: (i) any Subsidiary of Holdings which at the time of determination either (A) had assets which, as of the date of Holdings' most recent quarterly consolidated balance sheet, constituted at least 5% of Holdings' total assets on a consolidated basis as of such date, in each case determined in accordance with GAAP, or (B) had revenues for the 12-month period ending on the date of Holdings' most recent quarterly consolidated statement of income which constituted at least 5% of Holdings' total revenues on a consolidated basis for such period or (ii) any Subsidiary of Holdings which, if merged with all Defaulting Subsidiaries (as defined below) of Holdings, would at the time of determination either (A) have had assets which, as of the date of Holdings' most recent quarterly consolidated balance sheet, would have constituted at least 10% of Holdings' total assets on a consolidated basis as of such date or (B) have had revenues for the 12-month period ending on the date of Holdings' most recent quarterly consolidated statement of income which would have constituted at least 10% of Holdings' total revenues on a consolidated basis for such period (each such determination being made in accordance with GAAP). "Defaulting Subsidiary" means any Subsidiary of Holdings with respect to which an event described under clause (v), (vi) or (vii) of "--Defaults" above has occurred and is continuing.

"Stated Maturity" means, with respect to any security, the date specified in such security as the fixed date on which the final payment of principal of such security is due and payable, including pursuant to any mandatory redemption provision (but excluding any provision providing for the repurchase of such security at the option of the holder thereof upon the happening of any contingency).

"Subordinated Obligation" means any Debt of Holdings (whether outstanding on the date hereof or hereafter issued) which is subordinate or junior in right of payment to the Notes.

"Subsidiary" means as to any Person any corporation, association, partnership or other business entity of which more than 50% of the total voting power of shares of Capital Stock or other interests (including partnership interests but, in the case of the Bank, excluding any CALGZs and CALGLs) entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned, directly or indirectly, by: (i) such Person, (ii) such Person and one or more Subsidiaries of such Person or (iii) one or more Subsidiaries of such Person.

"Tax Sharing Agreement" means: (i) the Tax Sharing Agreement as in effect as of the Issue Date to which Holdings, certain of its Subsidiaries and Mafco Holdings are parties (as amended in connection with the Transactions on September 11, 1998 and as may be further amended to the extent required in connection with the Transactions) and (ii) any other tax sharing or allocation agreement to which Holdings or any of its Subsidiaries or any direct or indirect shareholder of Holdings or any predecessor entity thereto are parties with respect to consolidated or combined tax returns which include Holdings or any of its Subsidiaries or any predecessor entity thereto but only to the extent that amounts payable from time to time by Holdings or any such Subsidiary under

any such agreement do not exceed the corresponding tax payments that Holdings or such Subsidiary or any predecessor entity thereto would have been required to make to any relevant taxing authority had Holdings or such Subsidiary or any predecessor entity thereto not joined in such consolidated or combined returns, but instead had filed returns including only Holdings or its Subsidiaries or any predecessor entity thereto, provided that any such agreement may provide that, if Holdings or any such Subsidiary or any predecessor entity thereto ceases to be a member of the affiliated or consolidated group of corporations to which such tax sharing or allocation agreement applies (such cessation, a "Deconsolidation Event"), then Holdings or such Subsidiary or any predecessor entity thereto shall indemnify such direct or indirect shareholder with respect to any Federal, state or local income, franchise or other tax liability (including any related interest, additions or penalties) imposed on such shareholder as the result of an audit or other adjustment with respect to any period prior to such Deconsolidation Event that is attributable to Holdings, such Subsidiary or any predecessor entity thereto (computed as if Holdings, such Subsidiary or such predecessor entity, as the case may be, were a stand-alone entity that filed tax returns including only Holdings or its Subsidiaries or any predecessor entity thereto), but only to the extent that any such tax liability exceeds any liability for taxes recorded on the books of Holdings or such Subsidiary or such predecessor entity with respect to any such period.

"Temporary Cash Investments" means any of the following: (i) any investment in direct obligations of the United States of America or any agency thereof or obligations Guaranteed by the United States of America or any agency thereof, in each case, maturing within 360 days of the date of acquisition thereof, (ii) investments in time deposit accounts, certificates of deposit and money market deposits maturing within 180 days of the date of acquisition thereof issued by a bank or trust company (including the Trustee) which is organized under the laws of the United States of America, any state thereof or any foreign country recognized by the United States having capital, surplus and undivided profits aggregating in excess of $250,000,000 and whose debt is rated "A" (or such similar equivalent rating) or higher by at least one nationally recognized statistical rating organization (as defined for purposes of Rule 436 under the Securities Act) or any money-market fund sponsored by any registered broker dealer or mutual fund distributor, (iii) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clause (i) above entered into with a nationally recognized broker-dealer, (iv) investments in commercial paper, maturing not more than 90 days after the date of acquisition, issued by a corporation (other than an Affiliate or Subsidiary of Holdings or the Issuer) organized and in existence under the laws of the United States of America or any foreign country recognized by the United States of America with a rating at the time as of which any investment therein is made of "P-2" (or higher) according to Moody's Investors Service, Inc. or "A-2" (or higher) according to Standard and Poor's Corporation and (v) securities with maturities of six months or less from the date of acquisition backed by standby or direct pay letters of credit issued by any bank satisfying the requirements of clause (ii) above.

"TIA" means the Trust Indenture Act of 1939 (15 U.S.C. Section Section 77aaa-77bbbb) as in effect on the Issue Date; provided, however, that in the event the Trust Indenture Act of 1939 is amended after such date, "TIA" means, to the extent required by any such amendment, the Trust Indenture Act of 1939 as so amended.

"Transactions" means the Refinancing Transactions, the Golden State Acquisition and the Escrow Corp. Merger.

"Trustee" means the party named as such in the Indenture until a successor replaces it and, thereafter, means the successor.

"Trust Officer" means any officer or assistant officer of the Trustee assigned by the Trustee to administer its corporate trust matters.

"Unrestricted Affiliate" means a Person (other than a Subsidiary of Holdings) controlled (as defined in the definition of "Affiliate") by Holdings, in which no Affiliate of Holdings (other than (x) a Wholly Owned Subsidiary, (y) a Permitted Affiliate and (z) another Unrestricted Affiliate) has an Investment.

"U.S. Government Obligations" means direct obligations (or certificates representing an ownership interest in such obligations) of the United States of America (including any agency or instrumentality thereof) for the payment of which the full faith and credit of the United States of America is pledged and which are not callable at the issuer's option.

"Voting Stock" of a Person means all classes of Capital Stock or other interests (including partnership interests but, in the case of the Bank, excluding any CALGZs and CALGLs) of such Person then outstanding and normally entitled (without regard to any contingency) to vote in the election of directors, managers or trustees thereof.

"Wholly Owned Subsidiary" means the Bank and any Subsidiary of Holdings all the Capital Stock of which (other than directors' qualifying shares, Bank Preferred Stock or Qualified Preferred Stock) is owned by Holdings, the Bank or another Wholly Owned Subsidiary thereof or any combination of the foregoing.

BOOK ENTRY SYSTEM

The Notes will be initially issued in the form of one or more global securities (each a "Global Security") registered in the name of The Depository Trust Company ("DTC") or its nominee.

Upon the issuance of a Global Security, DTC or its nominee will credit the accounts of Persons holding through it with the respective principal amounts of the Notes represented by such Global Security purchased by such Persons in the Offering. Such accounts shall be designated by the Initial Purchasers. Ownership of beneficial interests in a Global Security will be limited to Persons that have accounts with DTC ("participants") or Persons that may hold interests through participants. Ownership of beneficial interests in a Global Security will be shown on, and the transfer of that ownership interest will be effected only through, records maintained by DTC (with respect to participants' interests) and such participants (with respect to the owners of beneficial interests in such Global Security other than participants). The laws of some jurisdictions require that certain purchasers of securities take physical delivery of such securities in definitive form. Such limits and such laws may impair the ability to transfer beneficial interests in a Global Security.

Payment of principal of and interest on Notes represented by a Global Security will be made in immediately available funds to DTC or its nominee, as the case may be, as the sole registered owner and the sole holder of the Notes represented thereby for all purposes under the Indenture. The Issuer has been advised by DTC that upon receipt of any payment of principal of or interest on any Global Security, DTC will immediately credit, on its book-entry registration and transfer system, the accounts of participants with payments in amounts proportionate to their respective beneficial interests in the principal or face amount of such Global Security as shown on the records of DTC. Payments by participants to owners of beneficial interests in a Global Security held through such participants will be governed by standing instructions and customary practices as is now the case with securities held for customer accounts registered in "street name" and will be the sole responsibility of such participants.

A Global Security may not be transferred except as a whole by DTC or a nominee of DTC to a nominee of DTC or to DTC. A Global Security is exchangeable for certificated Notes only if (a) DTC notifies the Issuer that it is unwilling or unable to continue as a depositary for such Global Security or if at any time DTC ceases to be a clearing agency registered under the Exchange Act, (b) the Issuer in its discretion at any time determines not to have all the Notes represented by such Global Security or (c) there shall have occurred and be continuing a Default or an Event of Default with respect to the Notes represented by such Global Security. Any Global Security that is exchangeable for certificated Notes pursuant to the preceding sentence will be exchanged for certificated Notes in authorized denominations and registered in such names as DTC or any successor depositary holding such Global Security may direct. Subject to the foregoing, a Global Security is not exchangeable, except for a Global Security of like denomination to be registered in the name of DTC or any successor depositary or its nominee. In the event that a Global Security becomes exchangeable for certificated Notes, (a) certificated Notes will be issued only in fully registered form in denominations of $1,000 or integral multiples thereof, (b) payment of principal of, and premium, if any, and interest on, the certificated Notes will be payable, and the transfer of the certificated Notes will be registerable, at the office or agency of the Issuer maintained for such purposes and (c) no service charge will be made for any registration of transfer or exchange of the certificated Notes, although the Issuer may require payment of a sum sufficient to cover any tax or governmental charge imposed in connection therewith.

So long as DTC or any successor depositary for a Global Security, or any nominee, is the registered owner of such Global Security, DTC or such successor depositary or nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Global Security for all purposes under the Indenture and the Notes. Except as set forth above, owners of beneficial interests in a Global Security will not be entitled to

have the Notes represented by such Global Security registered in their names, will not receive or be entitled to receive physical delivery of certificated Notes in definitive form and will not be considered to be the owners or holders of any Notes under such Global Security. Accordingly, each Person owning a beneficial interest in a Global Security must rely on the procedures of DTC or any successor depositary, and, if such Person is not a participant, on the procedures of the participant through which such Person owns its interest, to exercise any rights of a holder under the Indenture. The Issuer understands that under existing industry practices, in the event that the Issuer requests any action of holders or that an owner of a beneficial interest in a Global Security desires to give or take any action which a holder is entitled to give or take under the Indenture, DTC or any successor depositary would authorize the participants holding the relevant beneficial interest to give or take such action and such participants would authorize beneficial owners owning through such participants to give or take such action or would otherwise act upon the instructions of beneficial owners owning through them.

DTC has advised the Issuer that DTC is a limited-purpose trust company organized under the Banking Law of the State of New York, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered under the Exchange Act. DTC was created to hold the securities of its participants and to facilitate the clearance and settlement of securities transactions among its participants in such securities through electronic book-entry changes in accounts of the participants, thereby eliminating the need for physical movement of securities certificates. DTC's participants include securities brokers and dealers (which may include the Initial Purchasers), banks, trust companies, clearing corporations and certain other organizations some of whom (or their representatives) own DTC. Access to DTC's book-entry system is also available to others, such as banks, brokers, dealers and trust companies, that clear through or maintain a custodial relationship with a participant, either directly or indirectly.

Although DTC has agreed to the foregoing procedures in order to facilitate transfers of interests in Global Securities among participants of DTC, it is under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Trustee or the Initial Purchasers will have any responsibility for the performance by DTC or its participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

REGISTRATION RIGHTS

Holders of the New Notes are not entitled to any registration rights with respect to the New Notes. Escrow Corp. and Golden State Holdings agreed pursuant to a registration agreement (the "Registration Agreement") with the Initial Purchasers, for the benefit of the holders of the Old Notes, that the Issuer would, at its cost, by (i) November 30, 1998, file a registration statement (the "Exchange Offer Registration Statement") with the SEC relating to the exchange of the Old Notes for registered notes and (ii) February 11, 1998 use its best efforts to cause the Exchange Offer Registration Statement to be declared effective under the Securities Act. The Registration Statement of which this Prospectus is a part constitutes the Exchange Offer Registration Statement for purposes of the Registration Agreement. Upon the effectiveness of the Exchange Offer Registration Statement, the Issuer will offer the Exchange Notes in exchange for surrender of the Old Notes. The Issuer will keep the Exchange Offer open for not less than 30 days (or longer if required by applicable law) after the date notice of the Exchange Offer is mailed to the holders of the Notes. For each Note surrendered to the Issuer pursuant to the Exchange Offer, the holder of such Note will receive an Exchange Note having a principal amount equal to that of the surrendered Note. Interest on each Exchange Note will accrue from the last interest payment date on which interest was paid on the Old Note surrendered in exchange therefor or, if no interest has been paid on such Old Note, from the date of its original issue. Under existing SEC interpretations, the Exchange Notes would be freely transferable by holders of the Notes other than affiliates of the Issuer after the Exchange Offer without further registration under the Securities Act if the holder of the Exchange Notes represents that it is acquiring the Exchange Notes in the ordinary course of its business, that it has no arrangement or understanding with any person to participate in the distribution of the Exchange Notes and that it is not an affiliate of the Issuer, as such terms are interpreted by the SEC; provided, however, that in the case of broker-dealers ("Participating Broker-Dealers"), a prospectus meeting the requirements of the Securities Act be delivered as required. The Issuer has agreed for a period of 180 days after consummation of the Exchange Offer to make available a prospectus meeting the requirements of the Securities Act to any broker-dealer for use in connection with any resale of any such Exchange Notes acquired as described below. A broker-dealer which delivers such a prospectus to purchasers in connection with such resales will be subject to certain of the civil liability provisions

under the Securities Act and will be bound by the provisions of the Registration Agreement (including certain indemnification rights and obligations).

The SEC has taken the position that Participating Broker-Dealers may fulfill their prospectus delivery requirements with respect to the Exchange Notes (other than a resale of an unsold allotment from the original sale of the Notes) with the prospectus contained in the Exchange Offer Registration Statement. Under the Registration Agreement, the Issuer is required to allow Participating Broker-Dealers to use the prospectus contained in the Exchange Offer Registration Statement in connection with the resale of such Exchange Notes.

Each holder of Notes who wishes to exchange such Notes for Exchange Notes in the Exchange Offer will be required to represent that (i) any Exchange Notes to be received by it will be acquired in the ordinary course of its business, (ii) at the time of commencement of the Exchange Offer, it has no arrangement or understanding with any person to participate in the distribution (within the meaning of the Securities Act) of the Exchange Notes and (iii) it is not an "affiliate," as defined in Rule 405 of the Securities Act, of the Issuer, or if it is an affiliate, it will comply with the registration and prospectus delivery requirements of the Securities Act to the extent applicable. If the holder is not a broker-dealer, it will be required to represent that it is not engaged in, and does not intend to engage in, the distribution of the Exchange Notes. If the holder is a broker-dealer that will receive Exchange Notes for its own account in exchange for Notes that were acquired as a result of market-making activities or other trading activities, it will be required to acknowledge that it will deliver a prospectus in connection with any resale of such Exchange Notes.

In the event that (i) applicable interpretations of the staff of the SEC do not permit the Issuer to effect such an Exchange Offer, (ii) for any other reason the Exchange Offer is not consummated by March 15, 1999, (iii) under certain circumstances if the Initial Purchasers so request with respect to Notes not eligible to be exchanged for Exchange Notes in the Exchange Offer or (iv) under certain circumstances any holder of Notes (other than an Initial Purchaser) is not eligible to participate in the Exchange Offer or does not receive freely tradeable Exchange Notes in the Exchange Offer other than by reason of such holder being an affiliate of the Issuer (it being understood that the requirement that a Participating Broker-Dealer deliver the prospectus contained in the Exchange Offer Registration Statement in connection with sales of Exchange Notes shall not result in such Exchange Notes being not "freely tradeable"), the Issuer will, at its cost, (a) as promptly as practicable, file the Shelf Registration Statement covering resales of the Notes or the Exchange Notes, (b) use its best efforts to cause the Shelf Registration Statement to be declared effective under the Securities Act and (c) use its best efforts to keep effective the Shelf Registration Statement until two years after its effective date. The Issuer will, in the event of the Shelf Registration Statement, among other things, provide to each holder of the Notes for whom such Shelf Registration Statement was filed, copies of the prospectus, which is a part of the Shelf Registration Statement, notify each such holder when the Shelf Registration Statement for the Notes has become effective and take certain other actions as are required to permit unrestricted resales of the Notes or the Exchange Notes, as the case may be. A holder of Notes or Exchange Notes who sells such Notes or Exchange Notes pursuant to the Shelf Registration Statement generally would be required to be named as a selling securityholder in the related prospectus and to deliver a prospectus to purchasers, will be subject to certain of the civil liability provisions under the Securities Act in connection with such sales and will be bound by the provisions of the Registration Agreement which are applicable to such a holder (including certain indemnification obligations).

The Notes and the Exchange Notes will be treated as a single class for all purposes under the Indenture (except for provisions dealing specifically with registration and Exchange Offer issues).

Although the Issuer has filed the registration statements described above there can be no assurance that any such registration statement will become effective. If by the 180th day after the consummation of both the Golden State Acquisition and the Refinancing Transactions (or if such day is not a business day, the first business day thereafter), neither (i) the Exchange Offer is consummated nor (ii) the Shelf Registration Statement is declared effective, the rate per annum at which the Old Notes bear interest will increase by 0.5% from and including such date, until but excluding the earlier of (i) the consummation of the Exchange Offer and (ii) the effective date of the Shelf Registration Statement.

The summary herein of certain provisions of the Registration Agreement does not purport to be complete and is subject to, and is qualified in its entirety by reference to, all the provisions of the Registration Agreement, a copy of which is filed as an exhibit to the Registration Statement of which this Prospectus forms a part.

CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS

The following is a summary of certain United States ("U.S.") federal income tax consequences associated with the exchange of Old Notes for New Notes and the ownership and disposition of the New Notes applicable to holders of Notes who are United States Holders (as defined below). The summary is based upon current laws, regulations, rulings and judicial decisions all of which are subject to change and such change could affect the continuing validity of this discussion. The discussion below does not address all aspects of U.S. federal income taxation that may be relevant to particular holders in the context of their specific investment circumstances or certain types of holders subject to special treatment under such laws (for example, financial institutions, tax-exempt organizations, insurance companies, dealers in securities, individuals who hold Notes as a "hedge" against currency or interest rate risks or that are part of a "straddle" or "conversion transaction" and persons having a functional currency other than the U.S. dollar). In addition, the discussion does not address any aspect of state, local, or foreign taxation and assumes that purchasers of the Notes will hold them as "capital assets" (generally, property held for investment) within the meaning of Section 1221 of the Internal Revenue Code of 1986, as amended (the "Code").

For purposes of this discussion, a "United States Holder" means a holder of Notes who or which is (i) a citizen or resident of the U.S. for U.S. federal income tax purposes, (ii) a corporation, or other entity taxable as a corporation created or organized in the U.S. or under the laws of the U.S. or any political subdivision thereof (including the District of Columbia), (iii) an estate the income of which is includable in gross income for U.S. federal income tax purposes regardless of its source, or (iv) a trust if (a) a court within the U.S. is able to exercise primary supervision over the administration of the trust and (b) one or more U.S. persons have the authority to control all substantial decisions of the trust.

EACH HOLDER SHOULD CONSULT ITS OWN TAX ADVISOR IN DETERMINING THE FEDERAL, STATE, LOCAL AND ANY OTHER TAX CONSEQUENCES TO THE PARTICULAR HOLDER OF THE EXCHANGE OF OLD NOTES FOR NEW NOTES AND THE OWNERSHIP AND DISPOSITION OF THE NEW NOTES.

EXCHANGE OF NOTES

The exchange of the Old Notes for the New Notes pursuant to the Exchange Offer will not be treated as an "exchange" for U.S. federal income tax purposes because the New Notes do not differ materially from the Old Notes, and because the exchange will occur by operation of the terms of the Old Notes. Rather, the New Notes received by a holder will be treated as a continuation of the Old Notes in the hands of such holder. As a result, no gain or loss will be recognized on the exchange of Old Notes for New Notes pursuant to the Exchange Offer.

DISPOSITION OF NEW NOTES

If a New Note is redeemed, sold or otherwise disposed of, the holder thereof will generally recognize gain or loss equal to the difference between the amount realized on the redemption, sale or other disposition of such New Note and the holder's adjusted basis in the New Note. Subject to the market discount rules discussed below, such gain or loss will be capital gain or loss (except for any accrued but unpaid interest, which will be taxable as ordinary income), provided that the holder held the New Note as a capital asset, which will be long-term capital gain or loss if the United States Holder has held the New Note for more than one year at the time of disposition.

Under the market discount rules of the Code, an exchanging holder (other than a holder who made the election described below) who purchased an Old Note with "market discount" (generally defined as the amount by which the adjusted issue price of the Old Note on the holder's date of purchase exceeds the holder's purchase price) will be required to treat any gain recognized on the redemption, sale or other disposition of the New Note received in the exchange as ordinary income to the extent of the market discount that accrued during the holding period of such New Note (which would include the holding period of the Old Note). A holder who has elected under applicable Code provisions to include market discount in income annually as such discount accrues will not, however, be required to treat any gain recognized as ordinary income under these rules. Holders should

consult their tax advisors as to the portion of any gain that would be taxable as ordinary income under these provisions.

Under the market premium rules of the Code, an exchanging holder that purchased an Old Note for an amount in excess of all amounts payable with respect to such Note, other than "qualified stated interest," will be considered to have purchased the Note at a premium. Such holder may elect to amortize such premium (as an offset to interest income), using a constant-yield method, over the remaining term of the Note. Such election, once made, generally applies to all debt instruments held or subsequently acquired by the United States holder on or after the first taxable year to which the election applies and may be revoked only with the consent of the IRS. A holder that elects to amortize such premium must reduce its tax basis in a Note by the amount of the permium amortized during its holding period. With respect to a holder that does not elect to amortize bond premium, the amount of such premium will be included in the United States holder's tax basis when the Note matures or is disposed of.

Backup Withholding. Under certain circumstances, the failure of a holder to provide sufficient information to establish that such holder is exempt from the backup withholding provisions of the Code will subject such holder to backup withholding at a rate of 31 percent. In general, backup withholding applies if a holder fails to furnish a correct taxpayer identification number, fails to report interest income in full, or fails to certify that such holder has provided a correct taxpayer identification number and that the holder is not subject to withholding.

Any amount withheld from a payment to a holder under the backup withholding rules is allowable as a credit against such holder's U.S. federal income tax liability, provided that the required information is furnished to the IRS. Certain holders (including, among others, corporations and foreign individuals who comply with certain certification requirements) are not subject to backup withholding.

HOLDERS SHOULD CONSULT THEIR TAX ADVISORS AS TO THEIR QUALIFICATION FOR EXEMPTION FROM BACKUP WITHHOLDING AND THE PROCEDURE FOR OBTAINING SUCH AN EXEMPTION.

On October 6, 1997, the Department of the Treasury issued new regulations (the "New Regulations") which make certain modifications to the withholding, backup withholding and information reporting requirements. The New Regulations attempt to unify certification requirements and modify the reliance standards. The New Regulations will generally be effective for payments made after December 31, 1999, subject to certain transition rules. Prospective investors are urged to consult with their tax advisors regarding the New Regulations.

PLAN OF DISTRIBUTION

Each broker-dealer that receives New Notes for its own account pursuant to the Exchange Offer must acknowledge that it will deliver a prospectus in connection with any resale of such New Notes. This Prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of New Notes received in exchange for Old Notes where such Old Notes were acquired as a result of market-making activities or other trading activities. The Company has agreed that for a period of 180 days after the Expiration Date, it will make this Prospectus, as amended or supplemented, available to any broker-dealer for use in connection with any such resale.

The Issuer will not receive any proceeds from any sale of New Notes by broker-dealers. New Notes received by broker-dealers for their own account pursuant to the Exchange Offer may be sold from time to time in one or more transactions in the over-the-counter market, in negotiated transactions, through the writing of options on the New Notes or a combination of such methods of resale, at market prices prevailing at the time of resale, at prices related to such prevailing market prices or negotiated prices. Any such resale may be made directly to purchasers or to or through brokers or dealers who may receive compensation in the form of commissions or concessions from any such broker-dealer and/or the purchasers of any such New Notes. Any broker-dealer that resells New Notes that were received by it for its own account pursuant to the Exchange Offer and any broker or dealer that participates in a distribution of such New Notes may be deemed to be an "underwriter" within the meaning of the Securities Act and any profit on any such resale of New Notes and any commissions or concessions received by any such persons may be deemed to be underwriting compensation under the Securities Act. The Letter of

Transmittal states that by acknowledging that it will deliver and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act.

For a period of 180 days after the Expiration Date, the Issuer will promptly send additional copies of the Prospectus and any amendment or supplement to this Prospectus to any broker-dealer that requests such document in the Letter of Transmittal. The Issuer has agreed to pay all expenses incident to the Exchange Offer other than commissions or concessions of any brokers or dealers and will indemnify the holders of the Notes (including any broker-dealers) against certain liabilities, including liabilities under the Securities Act.

Following consummation of the Exchange Offer, the Issuer may, in its sole discretion, commence one or more additional exchange offers to holders of Old Notes who did not exchange their Old Notes for New Notes in the Exchange Offer on terms which may differ from those contained in the Registration Agreement. This Prospectus, as it may be amended or supplemented from time to time, may be used by the Issuer in connection with any such additional exchange offers. Such additional exchange offers will take place from time to time until all outstanding Old Notes have been exchanged for New Notes pursuant to the terms and conditions contained herein.

LEGAL MATTERS

Certain legal matters with respect to the validity of the issuance of the New Notes will be passed upon for the Issuer by Paul, Weiss, Rifkind, Wharton & Garrison, New York, New York. Skadden, Arps, Slate, Meagher & Flom LLP has acted as counsel for the Issuer in connection with the Exchange Offer. Skadden, Arps, Slate, Meagher & Flom LLP and Paul, Weiss, Rifkind, Wharton & Garrison have from time to time represented, and may continue to represent, MacAndrews & Forbes and certain of its affiliates (including the Issuer and Revlon) in connection with certain legal matters.

EXPERTS

The Consolidated Financial Statements of FNH as of December 31, 1997 and 1996, and for each of the years in the three-year period ended December 31, 1997, included in this Prospectus, have been audited by KPMG Peat Marwick LLP, independent auditors, as stated in their report thereon. Such financial statements have been included in reliance upon the report of KPMG Peat Marwick LLP.

The Consolidated Financial Statements of Old Cal Fed as of December 31, 1996 and 1995, and for each of the years in the three-year period ended December 31, 1996, included in this Prospectus, have been audited by KPMG Peat Marwick LLP, independent auditors, as stated in their report thereon. Such financial statements have been included in reliance upon the report of KPMG Peat Marwick LLP.

The Consolidated Financial Statements of Glendale Federal as of June 30, 1998 and 1997, and for each of the years in the three-year period ended June 30, 1997, included in this Prospectus, have been audited by KPMG Peat Marwick LLP, independent auditors, as stated in their report thereon. Such financial statements have been included in reliance upon the report of KPMG Peat Marwick LLP.

INDEX OF DEFINED TERMS*

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* Does not include terms defined under "Description of the Notes--Certain Definitions."

EXECUTION COPY

AGREEMENT AND PLAN OF MERGER

BY AND AMONG

CITIGROUP INC.,

MERCURY MERGER SUB, INC.

AND

GOLDEN STATE BANCORP INC.

DATED AS OF MAY 21, 2002

TABLE OF CONTENTS

INDEX OF DEFINED TERMS

AGREEMENT AND PLAN OF MERGER (this "Agreement"), dated as of May 21, 2002, by and among CITIGROUP INC., a Delaware corporation ("Parent"), GOLDEN STATE BANCORP INC., a Delaware corporation (the "Company"), and MERCURY MERGER SUB, INC., a Delaware corporation and a subsidiary of Parent ("Merger Sub").

WHEREAS, each of Parent, Merger Sub and the Company desire to enter into a transaction whereby the Company will merge with and into Merger Sub (the "Merger"), with Merger Sub being the surviving corporation, upon the terms and subject to the conditions set forth in this Agreement, whereby each issued and outstanding share of common stock, par value $1.00 per share, of the Company ("Company Common Stock"), will be converted into the right to receive the Merger Consideration (as defined in Section 2.1(d));

WHEREAS, the respective Boards of Directors of Parent, Merger Sub and the Company have each approved this Agreement and the Merger (as defined below) in accordance with the General Corporation Law of the State of Delaware (the "DGCL") and determined that the Merger is advisable, and Parent has adopted this Agreement and the Merger as the parent of Merger Sub;

WHEREAS, concurrently with the execution of this Agreement, and as an inducement to Parent to enter into this Agreement, Parent and certain stockholders of the Company have entered into a Securityholders Agreement, dated as of the date hereof (the "Securityholders Agreement"), providing, among other things, that such stockholders will vote, or cause to be voted, at the meeting of the Company's stockholders to be called for the purpose of voting on the adoption of this Agreement (the "Company Stockholders Meeting") all of the shares of Company Common Stock owned by them (except as otherwise provided in such Securityholders Agreement) in favor of the Merger; and

WHEREAS, for Federal income tax purposes, it is intended that the Merger will qualify as a reorganization under the provisions of Section 368(a) of the United States Internal Revenue Code of 1986, as amended (the "Code"), and that this Agreement be, and is hereby, adopted as a plan of reorganization for purposes of Sections 354 and 361 of the Code.

NOW, THEREFORE, in consideration of the representations, warranties, covenants and agreements contained in this Agreement, and intending to be legally bound hereby, the parties agree as follows:

ARTICLE I

THE MERGER

SECTION 1.1. The Merger. Upon the terms and subject to the conditions set forth in this Agreement, and in accordance with the DGCL, the Company shall be merged with and into Merger Sub at the Effective Time. Following the Effective Time, Merger Sub shall be the surviving corporation (the "Surviving Corporation"), shall

become a direct, wholly owned subsidiary of Parent and shall succeed to and assume all of the rights and obligations of the Company in accordance with the DGCL.

SECTION 1.2 Closing. Subject to the satisfaction or waiver of all of the conditions to closing contained in Article VI hereof, the closing of the Merger (the "Closing") will take place at 4:00 p.m. on a date to be specified by the parties (the "Closing Date"), which shall be no later than the second business day after satisfaction or waiver of the conditions set forth in Article VI (other than those conditions that by their nature are to be satisfied at the Closing, but subject to the fulfillment or waiver of those conditions), unless another time or date is agreed to by the parties hereto. The Closing will be held at the offices of Skadden, Arps, Slate, Meagher & Flom LLP ("Skadden Arps"), Four Times Square, New York, New York 10036 or at such other location as is agreed to by the parties hereto.

SECTION 1.3 Effective Time. Subject to the provisions of this Agreement, at the Closing, the parties shall cause the Merger to be consummated by filing a certificate of merger (the "Certificate of Merger") executed in accordance with the relevant provisions of the DGCL and shall make all other filings or recordings required under the DGCL to effectuate the Merger. The Merger shall become effective at such time as the Certificate of Merger is duly filed with the Secretary of State of the State of Delaware, or at such subsequent date or time as Parent and the Company shall agree and specify in the Certificate of Merger (the time the Merger becomes effective being hereinafter referred to as the "Effective Time").

SECTION 1.4 Effects of the Merger. The Merger shall have the effects set forth in Section 259 of the DGCL.

SECTION 1.5 Certificate of Incorporation and By-laws of the Surviving Corporation. The certificate of incorporation and the by-laws of Merger Sub, as in effect immediately prior to the Effective Time, shall be the certificate of incorporation and the by-laws of the Surviving Corporation until thereafter changed or amended as provided therein or by applicable law, except that the name of the Merger Sub shall be amended as of the Effective Time to a name designated by Parent prior to the Company Stockholders Meeting.

SECTION 1.6 Directors and Officers. The directors of Merger Sub shall, from and after the Effective Time, become the directors of the Surviving Corporation until their successors shall have been duly elected, appointed or qualified or until their earlier death, resignation or removal in accordance with the certificate of incorporation and the by-laws of the Surviving Corporation. The officers of the Company shall, from and after the Effective Time, become the officers of the Surviving Corporation until their successors shall have been duly elected, appointed or qualified or until their earlier death, resignation or removal in accordance with the certificate of incorporation and the by-laws of the Surviving Corporation.

ARTICLE II

EFFECT OF THE MERGER ON THE CAPITAL STOCK OF THE CONSTITUENT CORPORATIONS; EXCHANGE OF CERTIFICATES

SECTION 2.1 Effect on Capital Stock. As of the Effective Time, by virtue of the Merger and without any action on the part of the holder thereof:

(a) Capital Stock of Merger Sub. Each issued and outstanding share of common stock, par value $.01 per share, of Merger Sub issued and outstanding immediately prior to the Effective Time shall be converted into and become one fully paid and nonassessable share of common stock, par value $.01 per share, of the Surviving Corporation.

(b) Cancellation of Treasury Stock. Each share of Company Common Stock that is owned by the Company shall automatically be cancelled and retired and shall cease to exist, and no consideration shall be delivered in exchange therefor. Each share of Company Common Stock owned by Merger Sub or a subsidiary of Parent or Merger Sub shall be converted pursuant to the Merger as provided in Section 2.1(c) and Section 2.2. Notwithstanding Section 2.1(c) and Section 2.2, each share of Company Common Stock owned by Parent or a subsidiary of the Company shall be converted into Parent Common Stock (as defined below).

(c) Conversion of Company Common Stock. Subject to the provisions of this Article II, each share of Company Common Stock issued and outstanding immediately prior to the Effective Time (other than shares cancelled and retired pursuant to Section 2.1(b) hereof and Dissenting Shares (as defined in Section 2.5 hereof)) shall be converted, at the election of the holder thereof, in accordance with the procedures set forth in Section 2.3 below and subject to Sections 2.2 and 2.4, into the right to receive the following:

(i) for each share of Company Common Stock with respect to which an election to receive cash has been effectively made and not revoked or lost, pursuant to Section 2.3 (a "Cash Election"), the right to receive in cash from Parent an amount equal to the Per Share Amount (as defined below) (the "Cash Consideration") (collectively, "Cash Election Shares");

(ii) for each share of Company Common Stock with respect to which an election to receive common stock, par value $.01 per share, of Parent ("Parent Common Stock") has been effectively made and not revoked or lost, pursuant to Section 2.3 (a "Stock Election"), the right to receive from Parent the fraction of a share of Parent Common Stock as is equal to the Exchange Ratio (as defined below) (the "Stock Consideration") (collectively, the "Stock Election Shares"); and

(iii) for each share of Company Common Stock other than shares as to which a Cash Election or a Stock Election has been effectively made and not revoked or lost, pursuant to Section 2.3 (collectively, "Non-Election Shares"), the right to receive from Parent such Stock Consideration and/or Cash Consideration as is determined in accordance with Section 2.2(b).

(d) Certain Definitions. For purposes of this Agreement, the following terms shall have the following meanings:

(i) "Aggregate Cash Amount" means 40% of the product of (x) the Aggregate Company Share Amount, less the number of outstanding shares of Company Common Stock cancelled pursuant to Section 2.1(b) hereof (but excluding from such reduction the 16,433,269 treasury shares as of May 17, 2002 and treasury shares arising after May 17, 2002 in connection with the exercise of Company Stock Options after May 17, 2002) and (y) $41.00; provided, however, that if, at the Effective Time, the aggregate number of shares of Company Common Stock issuable upon exercise of then outstanding Company Stock Options (as defined below) exceeds the difference between (A) 5,361,680 less (B) the aggregate number of shares of Company Common Stock issued upon exercise of Company Stock Options after May 17, 2002 and prior to the Effective Time (such excess being referred to herein as the "Excess Option Shares"), then the "Aggregate Cash Amount" shall be reduced by the product of (A) the Excess Option Shares and (B) an amount equal to the excess of $41.00 over the weighted average exercise price of the Excess Stock Options (if separately identifiable or, if not, the outstanding Company Stock Options) at the Effective Time.

(ii) "Aggregate Company Share Amount" shall equal 136,041,431 shares of Company Common Stock; provided, however, that the Aggregate Company Share Amount shall be increased (A) by virtue of the issuance of any shares of Company Common Stock upon the exercise from and after May 17, 2002 and prior to the Effective Time of Company Stock Options outstanding on May 17, 2002 and (B) upon the issuance prior to the Effective Time of any shares of Company Common Stock (x) pursuant to Section 1.6(a) or (b) of the 1998 Merger Agreement, or (y) to the extent contemplated by Section 6(c)(iii)(A) of the Securityholders Agreement, pursuant to Section 1.6(c) of the 1998 Merger Agreement or (z) pursuant to the terms of the LTWs, in each case on the basis of one additional share of Company Common Stock for each share so issued; provided, further, that the "Aggregate Company Share Amount" shall in no event exceed 146,773,293 shares of Company Common Stock PLUS any shares of Company Common Stock issued prior to the Effective Time pursuant to the terms of the LTWs (as such term is defined is Section 2.6 of this Agreement) or pursuant to Section 1.6(a) or (b) of the 1998 Merger Agreement.

(iii) "Aggregate Parent Share Amount" shall be equal to 71,204,085 shares of Parent Common Stock; provided, however, that the "Aggregate Parent Share Amount" shall be increased (x) by virtue of the issuance of any shares of Company Common Stock upon the exercise prior to the Effective Time of Company Stock Options outstanding on May 17, 2002 and (y) upon the issuance prior to the Effective Time of any shares of Company Common Stock issuable (x) pursuant to Section 1.6(a) or (b) of the 1998 Merger Agreement, or (y) to the extent contemplated by Section 6(c)(iii)(A) of the Securityholders Agreement, pursuant to Section 1.6(c) of the 1998 Merger Agreement or (z) pursuant to the terms of the LTWs, and shall be decreased in the event any shares of Company Common Stock are cancelled pursuant to Section 2.1(b) hereof, other than the 16,433,269 treasury shares as of May 17, 2002 and treasury shares arising after May 17, 2002 in connection with the exercise of Company Stock Options after May 17, 2002, in each case on a basis of .5234 additional shares of Parent Common Stock for each share of Company Common Stock so issued or cancelled; provided, further that the "Aggregate Parent Share Amount" shall in no event exceed 76,821,142 shares of Parent Common Stock plus any additional shares issuable in respect of shares of Company Common Stock issued prior to the Effective Time pursuant to the terms of the LTWs or pursuant to Section 1.6(a) or (b) of the 1998 Merger Agreement.

(iv) "Closing Parent Share Value" means the arithmetic average of the 4:00 p.m. Eastern Time closing sales prices of Parent Common Stock reported on the New York Stock Exchange (the "NYSE") Composite Tape for the five consecutive trading days immediately preceding but not including the second trading day prior to the Closing Date.

(v) "Closing Transaction Value" means the sum of (A) the Aggregate Cash Amount and (B) the product obtained by multiplying the Aggregate Parent Share Amount by the Closing Parent Share Value.

(vi) "Exchange Ratio" means that fraction of a share of Parent Common Stock as shall be obtained by dividing the Per Share Amount by the Closing Parent Share Value.

(vii) "Exchangeable Shares" means the aggregate number of shares of Company Common Stock issued and outstanding immediately prior to the Effective Time, rounded to the nearest one-thousandth of a share.

(viii) "1998 Merger Agreement" means the Agreement and Plan of Reorganization, by and among the Company, GS Financial Corporation, First Nationwide (Parent) Holdings Inc., First Nationwide Holdings Inc., First Gibraltar Holdings Inc., and Hunter's

Glen/Ford, LTD., dated as of February 4, 1998, as amended and supplemented.

(ix) "Per Share Amount" means the amount obtained by dividing the Closing Transaction Value by the number of Exchangeable Shares.

(x) "Ford Parties" means Gerald J. Ford, Hunter's Glen/Ford, Ltd. and Turtle Creek Revocable Trust.

The Cash Consideration and Stock Consideration are sometimes referred to herein collectively as the "Merger Consideration."

SECTION 2.2 Proration.

(a) Notwithstanding any other provision contained in this Agreement, the total number of shares of Company Common Stock to be converted into Stock Consideration pursuant to Section 2.1(c) (the "Stock Conversion Number") shall be equal to the quotient obtained by dividing (x) the Aggregate Parent Share Amount by (y) the Exchange Ratio. All of the other shares of Company Common Stock shall be converted into Cash Consideration (in each case, excluding shares of Company Common Stock to be canceled as provided in Section 2.1(b) and Dissenting Shares).

(b) Within five business days after the later to occur of the Election Deadline or the Effective Time (as such terms are defined in Sections 2.3(d) and 1.3, respectively), Parent shall cause the Exchange Agent (as defined in Section 2.3) to effect the allocation among holders of Company Common Stock of rights to receive the Cash Consideration and the Stock Consideration as follows:

(i) If the aggregate number of shares of Company Common Stock with respect to which a Stock Election shall have been made (the "Stock Election Number") exceeds the Stock Conversion Number, then all Cash Election Shares and all Non-Election Shares of each holder thereof shall be converted into the right to receive the Cash Consideration, and Stock Election Shares of each holder thereof (other than Stock Election Shares held by the Ford Parties, all of which shall be converted into Stock Consideration) will be converted into the right to receive the Stock Consideration in respect of that number of Stock Election Shares equal to the product obtained by multiplying (x) the number of Stock Election Shares held by such holder (other than the Ford Parties) by (y) a fraction, the numerator of which is the Stock Conversion Number less the number of Stock Election Shares held by the Ford Parties and the denominator of which is the Stock Election Number less the number of Stock Election Shares held by the Ford Parties, with the remaining number of such holder's Stock Election Shares being converted into the right to receive the Cash Consideration; and

(ii) If the Stock Election Number is less than the Stock Conversion Number (the amount by which the Stock Conversion Number exceeds the Stock Election Number being referred to herein as the "Shortfall Number"), then all Stock Election Shares shall be converted into the right to receive the Stock Consideration and the Non-Election Shares and Cash Election Shares shall be treated in the following manner:

(A) If the Shortfall Number is less than or equal to the number of Non-Election Shares, then all Cash Election Shares shall be converted into the right to receive the Cash Consideration and Non-Election Shares of each holder thereof shall convert into the right to receive the Stock Consideration in respect of that number of Non-Election Shares equal to the product obtained by multiplying (x) the number of Non-Election Shares held by such holder by (y) a fraction, the numerator of which is the Shortfall Number and the denominator of which is the total number of Non-Election Shares, with the remaining number of such holder's Non-Election Shares being converted into the right to receive the Cash Consideration; or

(B) If the Shortfall Number exceeds the number of Non-Election Shares, then all Non-Election Shares shall be converted into the right to receive the Stock Consideration and Cash Election Shares of each holder thereof shall convert into the right to receive the Stock Consideration in respect of that number of Cash Election Shares equal to the product obtained by multiplying (x) the number of Cash Election Shares held by such holder by (y) a fraction, the numerator of which is the amount by which (1) the Shortfall Number exceeds (2) the total number of Non-Election Shares and the denominator of which is the total number of Cash Election Shares, with the remaining number of such holder's Cash Election Shares being converted into the right to receive the Cash Consideration.

SECTION 2.3 Election and Exchange Procedures. Each holder of record of shares of Company Common Stock (other than Dissenting Shares) ("Holder") shall have the right, subject to the limitations set forth in this Article II, to submit an election in accordance with the following procedures:

(a) Each Holder may specify in a request made in accordance with the provisions of this Section (herein called an "Election") (x) the number of shares of Company Common Stock owned by such Holder with respect to which such Holder desires to make a Stock Election and (y) the number of shares of Company Common Stock owned by such Holder with respect to which such Holder desires to make a Cash Election.

(b) Parent shall prepare a form reasonably acceptable to the Company (the "Form of Election") which shall be mailed to the Company's stockholders entitled to vote at the Company Stockholders Meeting so as to permit the Company's stockholders to exercise their right to make an Election prior to the Election Deadline (as defined in subsection (d)).

(c) Parent shall make the Form of Election initially available at the time that the Proxy Statement (as defined herein) is made available to the stockholders of the Company, to such stockholders, and shall use all reasonable efforts to make available as promptly as possible a Form of Election to any stockholder of the Company who requests such Form of Election following the initial mailing of the Forms of Election and prior to the Election Deadline. In no event shall the Form of Election be made available less than twenty (20) days prior to the Election Deadline.

(d) Any Election shall have been made properly only if the person authorized to receive Elections and to act as exchange agent under this Agreement, which person shall be designated by Parent and reasonably acceptable to the Company (the "Exchange Agent"), shall have received, by 5:00 p.m. local time in the city in which the principal office of such Exchange Agent is located, on the date of the Election Deadline, a Form of Election properly completed and signed and accompanied by certificates of the shares of Company Common Stock (the "Company Stock Certificates") to which such Form of Election relates or by an appropriate customary guarantee of delivery of such certificates, as set forth in such Form of Election, from a member of any registered national securities exchange or a commercial bank or trust company in the United States; provided, that such certificates are in fact delivered to the Exchange Agent by the time required in such guarantee of delivery. Failure to deliver shares of Company Common Stock covered by such a guarantee of delivery within the time set forth on such guarantee shall be deemed to invalidate any otherwise properly made Election, unless otherwise determined by Parent, in its sole discretion. As used herein, "Election Deadline" means 5:00 p.m. on the date that is the day prior to the date of the Company Stockholder Meeting. The Company and Parent shall cooperate to issue a press release reasonably satisfactory to each of them announcing the date of the Election Deadline not more than fifteen (15) business days before, and at least five (5) business days prior to, the Election Deadline.

(e) Any Company stockholder may, at any time prior to the Election Deadline, change his or her Election by written notice received by the Exchange Agent prior to the Election Deadline accompanied by a properly completed and signed, revised Form of Election. If Parent shall determine in its reasonable discretion that any Election is not properly made with respect to any shares of Company Common Stock, such Election shall be deemed to be not in effect, and the shares of Company Common Stock covered by such Election shall, for purposes hereof, be deemed to be Non-Election Shares, unless a proper Election is thereafter timely made.

(f) Any Company stockholder may, at any time prior to the Election Deadline, revoke his or her Election by written notice received by the Exchange Agent prior to the Election Deadline or by withdrawal prior to the Election Deadline of his or her Company Stock Certificate, or of the guarantee of delivery of such certificates,

previously deposited with the Exchange Agent. All Elections shall be revoked automatically if the Exchange Agent is notified in writing by Parent or the Company that this Agreement has been terminated in accordance with Article VII.

(g) If any portion of the Merger Consideration is to be paid to a person other than the person in whose name a Company Stock Certificate so surrendered is registered, it shall be a condition to such payment that such Company Stock Certificate shall be properly endorsed or otherwise be in proper form for transfer and the person requesting such payment shall pay to the Exchange Agent any transfer or other similar Taxes (as defined in Section 3.1(j)) required as a result of such payment to a person other than the registered holder of such Company Stock Certificate, or establish to the reasonable satisfaction of the Exchange Agent that such Tax has been paid or is not payable. Parent or the Exchange Agent shall be entitled to deduct and withhold from the Merger Consideration (including cash in lieu of fractional shares of Parent Common Stock) otherwise payable pursuant to this Agreement to any holder of Company Common Stock such amounts as Parent or the Exchange Agent are required to deduct and withhold under the Code, or any provision of state, local or foreign Tax law, with respect to the making of such payment. To the extent the amounts are so withheld by Parent or the Exchange Agent, such withheld amounts shall be treated for all purposes of this Agreement as having been paid to the holder of shares of Company Common Stock in respect of whom such deduction and withholding was made by Parent or the Exchange Agent.

(h) After the Effective Time there shall be no further registration or transfers of shares of Company Common Stock. If after the Effective Time, Company Stock Certificates are presented to the Surviving Corporation, they shall be cancelled and exchanged for the Merger Consideration in accordance with the procedures set forth in this Article II.

(i) At any time following the nine month anniversary of the Effective Time, Parent shall be entitled to require the Exchange Agent to deliver to it any remaining portion of the Merger Consideration not distributed to holders of shares of Company Common Stock that was deposited with the Exchange Agent at the Effective Time (the "Exchange Fund") (including any interest received with respect thereto and other income resulting from investments by the Exchange Agent, as directed by Parent), and holders shall be entitled to look only to the Parent (subject to abandoned property, escheat or other similar laws) with respect to the Merger Consideration, any cash in lieu of fractional shares of Parent Common Stock and any dividends or other distributions with respect to Parent Common Stock payable upon due surrender of their Company Stock Certificates, without any interest thereon. Notwithstanding the foregoing, neither the Parent nor the Exchange Agent shall be liable to any holder of a Company Stock Certificate for Merger Consideration (or dividends or distributions with respect thereto) or cash from the Exchange Fund in each case delivered to a public official pursuant to any applicable abandoned property, escheat or similar law.

(j) In the event any Company Stock Certificates shall have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming such Company Stock Certificate(s) to be lost, stolen or destroyed and, if

required by Parent, the posting by such person of a bond in such sum as Parent may reasonably direct as indemnity against any claim that may be made against it or the Surviving Corporation with respect to such Company Stock Certificate(s), the Exchange Agent will issue the Merger Consideration deliverable in respect of the shares of Company Common Stock represented by such lost, stolen or destroyed Company Stock Certificates.

(k) No dividends or other distributions with respect to Parent Common Stock with a record date after the Effective Time shall be paid to the holder of any unsurrendered Company Stock Certificate with respect to the shares of Parent Common Stock represented thereby, and no cash payment in lieu of fractional shares shall be paid to any such holder pursuant to subsection (l) below, and all such dividends, other distributions and cash in lieu of fractional shares of Parent Common Stock shall be paid by Parent to the Exchange Agent and shall be included in the Exchange Fund, in each case until the surrender of such Company Stock Certificate in accordance with subsection (l) below. Subject to the effect of applicable abandoned property, escheat or similar laws, following surrender of any such Company Stock Certificate there shall be paid to the holder of a certificate for Parent Common Stock (a "Parent Stock Certificate") representing whole shares of Parent Common Stock issued in exchange therefor, without interest, (i) at the time of such surrender, the amount of dividends or other distributions with a record date after the Effective Time theretofore paid with respect to such whole shares of Parent Common Stock and the amount of any cash payable in lieu of a fractional share of Parent Common Stock to which such holder is entitled pursuant to subsection (l), and (ii) at the appropriate payment date, the amount of dividends or other distributions with a record date after the Effective Time but prior to such surrender and with a payment date subsequent to such surrender payable with respect to such whole shares of Parent Common Stock. Parent shall make available to the Exchange Agent cash for these purposes, if necessary.

(l) No Parent Stock Certificates representing fractional shares of Parent Common Stock shall be issued upon the surrender for exchange of Company Stock Certificates; no dividend or distribution by Parent shall relate to such fractional share interests; and such fractional share interests will not entitle the owner thereof to vote or to any rights as a shareholder of Parent. In lieu of any such fractional shares, each holder of a Company Stock Certificate who would otherwise have been entitled to receive a fractional share interest in exchange for such Company Stock Certificate shall receive from the Exchange Agent an amount in cash equal to the product obtained by multiplying (A) the fractional share interest to which such holder (after taking into account all shares of Company Common Stock held by such holder at the Effective Time) would otherwise be entitled by (B) the Closing Parent Share Value.

(m) Parent shall have the right to make all determinations, not inconsistent with the terms of this Agreement, governing (A) the validity of the Forms of Election and compliance by any Company Stockholder with the Election procedures set forth herein, (B) the manner and extent to which Elections are to be taken into account in making the determinations prescribed by Section 2.3, (C) the issuance and delivery of Parent Stock Certificates into which shares of Company Common Stock are converted in

the Merger and (D) the method of payment of cash for shares of Company Common Stock converted into the right to receive the Cash Consideration and cash in lieu of fractional shares of Parent Common Stock where the holder of the applicable Company Stock Certificate has no right to receive whole shares of Parent Common Stock.

(n) As soon as reasonably practicable following the Effective Time, Parent will deposit with the Exchange Agent certificates representing shares of Parent Common Stock sufficient to pay in a timely manner, and the Parent shall instruct the Exchange Agent to timely pay, the aggregate Stock Consideration. In addition, Parent shall make available to the Exchange Agent on a daily basis sufficient cash to permit prompt payment of the Cash Consideration and cash in lieu of fractional shares of Parent Common Stock, and Parent shall instruct the Exchange Agent to timely pay the Cash Consideration and cash in lieu of fractional shares of Parent Common Stock where the holder of the applicable Company Stock Certificate has no right to receive whole shares of Parent Common Stock.

(o) As soon as reasonably practicable after the Effective Time, the Exchange Agent shall mail to each holder of record of a Company Stock Certificate(s) which immediately prior to the Effective Time represented outstanding shares of Company Common Stock whose shares were converted into the right to receive the Merger Consideration pursuant to Section 2.1 and any cash in lieu of fractional shares of Parent Common Stock to be issued or paid in consideration therefor who did not complete an Election Form, (i) a letter of transmittal (which shall specify that delivery shall be effected, and risk of loss and title to the Company Stock Certificate(s) shall pass, only upon delivery of the Company Stock Certificate(s) (or affidavits of loss in lieu of such certificates) (the "Letter of Transmittal") to the Exchange Agent and shall be in such form and have such other provisions as Parent or the Exchange Agent may reasonably specify) and (ii) instructions for use in surrendering the Company Stock Certificate(s) in exchange for the Merger Consideration and any cash in lieu of fractional shares of Parent Common Stock to be issued or paid in consideration therefor upon surrender of such certificate in accordance with Section 2.3(l) and any dividends or distributions to which such holder is entitled pursuant to Section 2.3(k).

(p) Upon surrender to the Exchange Agent of its Company Stock Certificate or Company Stock Certificates, accompanied by a properly completed Form of Election or a properly completed Letter of Transmittal a holder of Company Common Stock will be entitled to receive promptly after the Effective Time the Merger Consideration (elected or deemed elected by it, subject to Sections 2.1 and 2.2) in respect of the shares of Company Common Stock represented by its Company Stock Certificate. Until so surrendered, each such Company Stock Certificate shall represent after the Effective Time, for all purposes, only the right to receive the Merger Consideration and any cash in lieu of fractional shares of Parent Common Stock to be issued or paid in consideration therefor upon surrender of such certificate in accordance with Section 2.3(l) and any dividends or distributions to which such holder is entitled pursuant to Section 2.3(k).

SECTION 2.4 Certain Adjustments. If after the date hereof and on or prior to the Effective Time the outstanding shares of Parent Common Stock or Company Common Stock shall be changed into a different number of shares by reason of any reclassification, recapitalization or combination, stock split, reverse stock split, stock dividend or rights issued in respect of such stock, or any similar event shall occur (any such action, an "Adjustment Event"), the Aggregate Parent Share Amount shall be adjusted accordingly to provide to the holders of Company Common Stock the same economic effect as contemplated by this Agreement prior to such Adjustment Event; provided, further, that, in the case of an Adjustment Event in respect of the distribution of shares of Travelers Property and Casualty Corp. capital stock to Parent's stockholders, the Aggregate Parent Share Amount shall be adjusted by determining the value of the distribution based on the NYSE methodology for setting the opening trading price for shares of Parent Common Stock on the date that shares of Parent Common Stock begin trading on an ex-dividend basis (which valuation methodology is the same methodology that will be used in the anti-dilution adjustments made to the outstanding employee stock options to purchase Parent Common Stock).

SECTION 2.5 Shares of Dissenting Stockholders. Notwithstanding anything in this Agreement to the contrary, any shares of Company Common Stock that are issued and outstanding as of the Effective Time and that are held by a stockholder who has properly exercised his appraisal rights under the DGCL (the "Dissenting Shares") shall not be converted into the right to receive the Merger Consideration unless and until the holder shall have failed to perfect, or shall have effectively withdrawn or lost, his right to dissent from the Merger under the DGCL and to receive such consideration as may be determined to be due with respect to such Dissenting Shares pursuant to and subject to the requirements of the DGCL. If any such holder shall have so failed to perfect or have effectively withdrawn or lost such right after the Election Deadline, each share of such holder's Company Common Stock shall thereupon be deemed to have been converted into and to have become, as of the Effective Time, the right to receive, without any interest thereon, the Stock Election Consideration or the Cash Election Consideration or a combination thereof as determined by Parent in its sole discretion. The Company shall give Parent (i) prompt notice of any notice or demands for appraisal or payment for shares of Company Common Stock received by the Company and (ii) the opportunity to participate in and direct all negotiations and proceedings with respect to any such demands or notices. The Company shall not, without the prior written consent of Parent, make any payment with respect to, or settle, offer to settle or otherwise negotiate, any such demands.

SECTION 2.6 Litigation Tracking Warrants. Following the Effective Time, the outstanding litigation tracking warrants issued by the Company to purchase shares of Company Common Stock and those held in tandem with stock options outstanding under the Amended and Restated Golden State Bancorp Inc. Stock Option and Long-Term Performance Incentive Plan, as amended (the "LTWs"), whether or not then exercisable, shall be assumed by Parent. Each LTW shall continue to have, and be subject to, the same terms and conditions applicable to such LTW immediately prior to the Effective Time, except that, from and after the Effective Time, each LTW shall, when and if it becomes exercisable in accordance with its terms, be exercisable in respect of

Parent Common Stock and cash in the same proportion that the holders of Company Common Stock receive in the aggregate in the Merger as measured as of the Effective Time. Parent shall be solely responsible for the issuance of Parent Common Stock and the delivery of the cash amount upon such exercise. From and after the Effective Time, (i) Parent shall (A) assume all of the obligations and obtain all of the rights of the Company under the Warrant Agreement and in connection with the LTWs and (B) be solely responsible for the issuance of Parent Common Stock and the delivery of the cash amount upon exercise of the LTWs, and (ii) the Company shall have no further rights and obligations under the Warrant Agreement and in connection with the LTWs.

ARTICLE III

REPRESENTATIONS AND WARRANTIES

SECTION 3.1 Representations and Warranties of the Company. Except as set forth on the Disclosure Schedule delivered by the Company to Parent prior to the execution of this Agreement (the "Company Disclosure Schedule") and making reference to the particular subsection of this Agreement to which exception is being taken, the Company represents and warrants to Parent as follows:

(a) Organization, Standing and Corporate Power.

(i) Each of the Company and its subsidiaries (as defined in Section 8.3) is a corporation or other legal entity duly organized, validly existing and in good standing (with respect to jurisdictions which recognize such concept) under the laws of the jurisdiction in which it is organized and has the requisite corporate or other power, as the case may be, and authority to carry on its business as now being conducted. Each of the Company and its subsidiaries is duly qualified or licensed to do business and is in good standing in each jurisdiction in which the nature of its business or the ownership, leasing or operation of its properties makes such qualification or licensing necessary, except for those jurisdictions where the failure to be so qualified or licensed or to be in good standing individually or in the aggregate would not reasonably be expected to have a material adverse effect on the Company or the applicable subsidiary.

(ii) The Company has delivered or made available to Parent prior to the execution of this Agreement complete and correct copies of the certificate of incorporation and by-laws or other organizational documents, as amended to date, of the Company and its subsidiaries.

(iii) The minute books of the Company, in all material respects, contain accurate records of all meetings and accurately reflect all other material actions taken by the stockholders, the Board of

Directors and all standing committees of the Board of Directors of the Company since January 1, 1999.

(b) Subsidiaries. Section 3.1(b) of the Company Disclosure Schedule lists all the subsidiaries of the Company, whether consolidated or unconsolidated. The issued and outstanding securities of California Federal Bank (the "Bank") consists of: (i) 60,880,000 issued and outstanding shares of common stock and 1,725,000 issued and outstanding shares of 10-5/8% Noncumulative Perpetual Preferred Stock, Series B and 3,007,900 issued and outstanding shares of 11-1/2% Noncumulative Perpetual Preferred Stock, Series C, all of which are owned by Golden State Holdings Inc., a wholly-owned subsidiary of the Company; (ii) 5,077,323 Contingent Litigation Recovery Participation Interests ("CALGZs"), issued by the Bank, pursuant to an Agreement, dated as of June 30, 1995, between the Bank and Chemical Trust Company of California; and (iii) 5,078,221 Secondary Contingent Litigation Recovery Participation Interests ("CALGLs"), issued by the Bank, pursuant to an Agreement, dated as of December 2, 1996, between the Bank and ChaseMellon Shareholder Services, LLC. Except for the securities of the Bank identified above the issued and outstanding securities of the subsidiaries of the Company consists of: (i) 20,000,000 shares of preferred stock of Preferred Capital Corp. (the "REIT Preferred Stock") with a stated liquidation value of $25 per share; (ii) shares of capital stock, or other equity interests, that are owned, directly or indirectly, by the Company; and (iii) such securities as are set forth in Section 3.1(b) of the Company Disclosure Schedule. Except as set forth in Section 3.1(b) of the Company Disclosure Schedule, all outstanding shares of capital stock of, or other equity interests in, each such subsidiary: (i) have been validly issued and are fully paid and nonassessable; (ii) are owned directly or indirectly by the Company (other than the REIT Preferred Stock, the CALGZs and the CALGLs), free and clear of all pledges, claims, liens, charges, encumbrances and security interests of any kind or nature whatsoever, other than those imposed generally on similar entities under applicable law (collectively, "Liens"); and (iii) are free of any other material restriction (including any restriction on the right to vote, sell or otherwise dispose of such capital stock or other ownership interests) that would prevent the operation by the Surviving Corporation of such subsidiary's business as currently conducted. Neither the Company nor any of its subsidiaries conducts any international operations or is subject to any regulatory oversight by foreign Governmental Entities (as defined below in Section 3.1(d)).

(c) Capital Structure. The authorized capital stock of the Company consists of 250,000,000 shares of Company Common Stock and 50,000,000 shares of preferred stock, par value $1.00 per share, of the Company ("Company Preferred Stock"). As of May 17, 2002: (i) 152,474,700 shares of Company Common Stock were issued and outstanding, of which 160,056 shares are restricted shares of Company Common Stock issued pursuant to the Company Stock Plans (as defined below); (ii) 16,433,269 shares of Company Common Stock were held by the Company in its treasury and no shares of Company Common Stock were held by subsidiaries of the Company; (iii) no shares of Company Preferred Stock were issued and outstanding; (iv) no shares of Company Preferred Stock were held by the Company in its treasury or were held by any subsidiary of the Company; (v) 7,821,666 shares of Company Common

Stock were reserved for issuance pursuant to the Company's Omnibus Stock Plan and all other plans, agreements or arrangements providing for equity-based compensation to any director, Employee, consultant or independent contractor of the Company or any of its subsidiaries (collectively, the "Company Stock Plans"), of which 5,361,680 shares are subject to outstanding Company Stock Options (as defined below); and (vi) 83,687,589 LTWs were issued and outstanding pursuant to the Warrant Agreement dated as of May 4, 1998 between the Company and Chase Mellon Shareholder Services L.L.C. (the "Warrant Agreement"). All outstanding shares of capital stock of the Company are, and all shares thereof which may be issued prior to the Closing will be, when issued, duly authorized, validly issued, fully paid and nonassessable and not subject to preemptive rights. The Company has delivered to Parent a true and complete list, as of the close of business on May 17, 2002, of all outstanding stock options to purchase or receive Company Common Stock and all other rights to purchase or receive Company Common Stock granted under the Company Stock Plans (collectively, the "Company Stock Options"), the number of shares subject to each such Company Stock Option, the grant dates and exercise prices of each such Company Stock Option and the names of the holders thereof. Except as set forth in this Section 3.1(c) and in Section 3.1(c) of the Company Disclosure Schedule and except for changes since May 17, 2002, resulting from (i) the issuance of shares of Company Common Stock pursuant to and in accordance with Company Stock Options outstanding prior to May 17, 2002; (ii) transactions contemplated by the 1998 Merger Agreement pursuant to the terms thereof; (ii) the issuance of Company Common Stock upon exercise of the LTWs pursuant to the terms thereof and (iv) as expressly contemplated hereby or by the Securityholders Agreement, (x) there are not issued, reserved for issuance or outstanding (A) any shares of capital stock or voting securities or other ownership interests of the Company, (B) any securities of the Company or any Company subsidiary convertible into or exchangeable or exercisable for shares of capital stock or voting securities or other ownership interests of the Company, or (C) any warrants, calls, options or other rights to acquire from the Company or any Company subsidiary, or any obligation of the Company or any of its subsidiaries to issue, any capital stock, voting securities or other ownership interests in, or securities convertible into or exchangeable or exercisable for, capital stock or voting securities or other ownership interests of the Company, and (y) there are no outstanding obligations of the Company or any of its subsidiaries to repurchase, redeem or otherwise acquire any such securities or to issue, deliver or sell, or cause to be issued, delivered or sold, any such securities, other than pursuant to any "cashless exercise" provision of any Company Stock Options. Except as set forth in Section 3.1(c) of the Company Disclosure Schedule, there are no outstanding (A) securities of the Company or any of its subsidiaries convertible into or exchangeable or exercisable for shares of capital stock or voting securities or other ownership interests in any subsidiary of the Company, (B) warrants, calls, options or other rights to acquire from the Company or any of its subsidiaries, or any obligation of the Company or any of its subsidiaries to issue, any capital stock, voting securities or other ownership interests in, or any securities convertible into or exchangeable or exercisable for, any capital stock, voting securities or other ownership interests in, any subsidiary of the Company or (C) obligations of the Company or any of its subsidiaries to repurchase, redeem or otherwise acquire any such outstanding securities of subsidiaries of the Company or to issue, deliver or sell, or cause to be issued, delivered or sold, any such securities. Neither the Company nor any of its

subsidiaries is a party and, other than the Securityholders Agreement and other than as described in Section 3.1(c) of the Company Disclosure Schedule, to the knowledge of the Company, as of the date hereof, no other person having beneficial ownership (within the meaning of Rule 13d-3) of more than 5% of the outstanding Company Common Stock (a "Major Shareholder") is a party to any agreement restricting the transfer of, relating to the voting of, requiring registration of, or granting any preemptive or antidilutive rights with respect to any of the securities of the Company or any of its subsidiaries. There are no voting trusts or other agreements or understandings to which the Company or any of its subsidiaries is a party or, other than the Securityholders Agreement or as described in Section 3.1(c) of the Company Disclosure Schedule, to the knowledge of the Company, as of the date hereof, any Major Shareholder is a party with respect to the voting of the capital stock of the Company or any of the subsidiaries.

(d) Authority; Noncontravention. The Company has all requisite corporate power and authority to enter into this Agreement and, subject, in the case of the Merger, to the Company Stockholder Approval (as defined in Section 3.1(r)) to consummate the transactions contemplated hereby and thereby. The execution and delivery of this Agreement and the consummation by the Company of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of the Company, subject, in the case of the Merger, to the Company Stockholder Approval. This Agreement has been duly executed and delivered by the Company and, assuming the due authorization, execution and delivery by Parent and Merger Sub, constitutes the legal, valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, except that (i) such enforceability may be subject to applicable bankruptcy, insolvency or other similar laws now or hereafter in effect affecting creditors' rights generally and (ii) the availability of the remedy of specific performance or injunction or other forms of equitable relief may be subject to equitable defenses and would be subject to the discretion of the court before which any proceeding therefor may be brought. The execution and delivery of this Agreement does not, and the consummation of the transactions contemplated hereby (including, without limitation, the Bank Combination (as defined in Section 5.5)) and compliance with the provisions of this Agreement will not, conflict with, or result in any violation, forfeiture or termination of, or default (with or without notice or lapse of time, or both) under, or give rise to a right of forfeiture, termination, cancellation or acceleration (with or without notice or lapse of time, or both) of any obligation or loss of a benefit or, in the case of clause (iii) below, any material obligation or loss of a material benefit, under, or result in the creation of any Lien upon any of the properties or assets of the Company or any of its subsidiaries under, (i) the certificate of incorporation or by-laws of the Company, (ii) the certificate of incorporation or by-laws or the comparable organizational documents of any of its subsidiaries, (iii) any loan or credit agreement, note, bond, mortgage, indenture, lease, vendor agreement, software agreement or other agreement, instrument, Intellectual Property (as defined in Section 3.1(n)) right, permit, concession, franchise, license or similar authorization applicable to the Company or any of its subsidiaries or their respective properties or assets that is material to the operations of the Company and its subsidiaries taken as a whole or (iv) subject to the governmental filings and other matters referred to in the following sentence, any judgment, order, decree, statute, law, ordinance, rule or regulation applicable to the Company or any of its subsidiaries or their respective

properties or assets, other than, in the case of clause (iv), any such conflicts, violations, defaults, rights, losses or Liens that individually or in the aggregate would not (x) reasonably be expected to have a material adverse effect on the Company or (y) reasonably be expected to materially impair or materially delay the ability of the Company to perform its obligations under this Agreement. Except as set forth in Section 3.1(d) of the Company Disclosure Schedule, no consent, approval, order or authorization of, action by or in respect of, or registration, declaration or filing with, any (i) Federal, state, local, municipal or foreign government, (ii) governmental, quasi-governmental authority (including any governmental agency, commission, branch, department or official, and any court or other tribunal) or body exercising, or entitled to exercise, any governmentally-derived administrative, executive, judicial, legislative, police, regulatory or taxing authority, or (iii) any self-regulatory organization, administrative or regulatory agency, commission or authority (each, a "Governmental Entity") is required by or with respect to the Company or any of its subsidiaries in connection with the execution and delivery of this Agreement by the Company or the consummation by the Company of the transactions contemplated hereby, except for (1) the filing of a pre-merger notification and report form by the Company under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"), and filing of a copy of the application to the Federal Reserve Board pursuant to Section 7A(c)(8) of the HSR Act; (2) the filings with the SEC of (A) a proxy statement relating to the Company Stockholders Meeting (such proxy statement, as amended or supplemented from time to time, the "Proxy Statement") and a registration statement on Form S-4 to be prepared and filed in connection with the issuance of Parent Common Stock in the Merger (the "Form S-4"), and (B) such reports under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as may be required in connection with this Agreement and the transactions contemplated by this Agreement; (3) the filing of the Certificate of Merger with the Secretary of State of the State of Delaware and such filings with Governmental Entities to satisfy the applicable requirements of the laws of states in which the Company and its subsidiaries are qualified or licensed to do business or state securities or "blue sky" laws; (4) the approval of the Board of Governors of the Federal Reserve System (the "Federal Reserve") under Section 4(j) of the Bank Holding Company Act; (5) the approval of the Office of Thrift Supervision under the Homeowners' Loan Act (the "OTS Approval"); (6) filings in respect of, and approvals and authorizations of, any Governmental Entity having jurisdiction over the consumer lending, banking, insurance or other financial services businesses; and (7) filings required as a result of the particular status of Parent or Merger Sub (collectively, the "Governmental Approvals").

(e) Company Documents; Undisclosed Liabilities. Since January 1, 1999, the Company and each of its SEC reporting subsidiaries have filed all required reports, schedules, forms, statements and other documents (including exhibits and all other information incorporated therein) with the SEC (the "Company SEC Documents"). As of their respective filing dates, (i) the Company SEC Documents complied in all material respects with the requirements of the Securities Act of 1933, as amended (the "Securities Act"), or the Exchange Act, as the case may be, and the rules and regulations of the SEC promulgated thereunder applicable to such Company SEC Documents, and (ii) no Company SEC Document, as of their respective dates, except as amended or supplemented by a subsequent Company Filed SEC Document (as defined in

Section 3.1(g)), contained, and no Company SEC Document filed subsequent to the date hereof will contain as of their respective dates, any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. The financial statements of the Company and its subsidiaries included in Company SEC Documents (including the related notes) complied as to form, as of their respective dates of filing with the SEC, in all material respects with applicable accounting requirements and the published rules and regulations of the SEC with respect thereto, have been prepared in accordance with generally accepted accounting principles in the United States ("GAAP") (except, in the case of unaudited statements, as permitted by Form 10-Q of the SEC) applied on a consistent basis during the periods involved (except as may be indicated in the notes thereto) and fairly present in all material respects the consolidated financial position of the Company and/or its subsidiaries, as the case may be, as of the dates thereof and the consolidated results of their operations and cash flows for the periods then ended (subject, in the case of unaudited statements, to notes and normal year-end audit adjustments that were not, or with respect to any such financial statements contained in any Company SEC Documents to be filed subsequent to the date hereof are not reasonably expected to be material in amount or effect). Except (A) as reflected in the Company's unaudited balance sheet as of March 31, 2002 or liabilities described in any notes thereto (or liabilities for which neither accrual nor footnote disclosure is required pursuant to GAAP) or (B) for liabilities incurred in the ordinary course of business since March 31, 2002 consistent with past practice or in connection with this Agreement or the transactions contemplated hereby, neither the Company nor any of its subsidiaries has any material liabilities or obligations of any nature. Section 3.1(e) of the Company Disclosure Schedule identifies each subsidiary of the Company that is required to file Company SEC Documents with the SEC.

(f) Certain Contracts. Except as set forth in the exhibit index for the Company's Report on Form 10-K for the year ended December 31, 2001 or as permitted pursuant to Section 4.1 or as set forth on Section 3.1(f) of the Company Disclosure Schedule, neither the Company nor any of its subsidiaries is a party to or bound by (a) any agreement relating to the incurring of indebtedness by the Company or any of its subsidiaries (including sale and leaseback transaction in excess of $2,100,000 and including capitalized lease transactions and other similar financing transactions) including, without limitation, any such agreement which contains provisions which in any non-de-minimis manner restrict, or may restrict, the conduct of business of the issuer thereof as currently conducted (collectively, "Instruments of Indebtedness"), (b) any "material contract" (as such term is defined in Item 601(b)(10) of Regulation S-K of the SEC), (c) any non-competition agreement or any other agreement or obligation which purports to limit in any respect (i) the ability of the Company or its businesses to solicit customers or (ii) the manner in which, or the localities in which, all or any substantial portion of the business of the Company and its subsidiaries, taken as a whole, or, following consummation of the transactions contemplated by this Agreement, Parent and its subsidiaries, is or would be conducted, (d) any agreement providing for the indemnification by the Company or a subsidiary of the Company of any person, other than customary agreements relating to the indemnity of directors, officers and employees of the Company or its subsidiaries, (e) any joint venture or partnership agreement, (f) any

agreement that grants any right of first refusal or right of first offer or similar right or that limits or purports to limit the ability of the Company or any of its subsidiaries to own, operate, sell, transfer, pledge or otherwise dispose of any material amount of assets or business (other than in connection with securitization or financing transactions or contracts entered into in the ordinary course of business that require that the particular transactions that are the subject thereof to be conducted with the counterparty or counterparties to the contract), (g) any contract or agreement providing for any material future payments that are conditioned, in whole or in part, on a change of control of the Company or any of its subsidiaries, (h) any collective bargaining agreement, (i) any employment agreement or any agreement or arrangement that contains any material severance pay or post-employment liabilities or obligations to any current or former employee of the Company or its subsidiaries (any such person, hereinafter, an "Employee"), other than as required under law, (j) any agreement regarding any agent bank or other similar relationships with respect to lines of business, (k) any material agreement that contains a "most favored nation" clause, (l) any material agreement pertaining to the use of or granting any right to use or practice any rights under any Intellectual Property, whether the Company is the licensee or licensor thereunder, (m) any material agreements pursuant to which the Company or any of its subsidiaries leases any real property, and (n) any contract or other agreement not made in the ordinary course of business which is material to the Company and its subsidiaries taken as a whole or which would reasonably be expected to materially delay the consummation of the Merger or any of the transactions contemplated by this Agreement (the agreements, contracts and obligations of the type described in clauses (a) through (n) being referred to herein as "Company Material Contracts"). Each Company Material Contract is valid and binding on the Company (or, to the extent a subsidiary of the Company is a party, such subsidiary) and, to the knowledge of the Company, any other party thereto and is in full force and effect. Neither the Company nor any of its subsidiaries is in breach or default under any Company Material Contract. Neither the Company nor any subsidiary of the Company knows of, or has received notice of, any violation or default under (nor, to the knowledge of the Company, does there exist any condition which with the passage of time or the giving of notice or both would result in such a violation or default under) any Company Material Contract by any other party thereto. Prior to the date hereof, the Company has made available to Parent true and complete copies of all Company Material Contracts. Except as set forth in Section 3.1(f) of the Company Disclosure Schedule, there are no provisions in any Instrument of Indebtedness that provide any restrictions on, or that require that any financial payment (other than payment of outstanding principal and accrued principal) be made in the event of, the repayment of the outstanding indebtedness thereunder prior to its term.

(g) Absence of Certain Changes or Events. Except for liabilities incurred in connection with this Agreement or the transactions contemplated hereby, and except as set forth in Section 3.1(g) of the Company Disclosure Schedule, or as disclosed in the Company SEC Documents filed and publicly available prior to the date hereof (as amended to the date hereof, "Company Filed SEC Documents"), since December 31, 2001, the Company and its subsidiaries have conducted their respective businesses only in the ordinary course, and there has not been:

(i) any material adverse change in the Company, including, but not limited to, any material adverse change arising from or relating to fraudulent or unauthorized activity,

(ii) any issuance of Company Stock Options or restricted shares of Company Common Stock (in any event identifying in Section 3.1(g) of the Company Disclosure Schedule the issue date, exercise price and vesting schedule, as applicable, for issuances since December 31, 2001),

(iii) any declaration, setting aside or payment of any dividend or other distribution (whether in cash, stock or property) with respect to any of the Company's capital stock, other than regular quarterly cash dividends not to exceed $0.10 on the Company Common Stock in accordance with its terms and regular cash dividends on the REIT Preferred Stock of Preferred Capital Corp. in accordance with its terms,

(iv) any split, combination or reclassification of any of the Company's capital stock or any issuance or the authorization of any issuance of any other securities in respect of, in lieu of or in substitution for shares of the Company's capital stock, except for issuances of Company Common Stock (and LTWs, if any) upon the exercise of Company Stock Options awarded prior to the date hereof in accordance with their present terms,

(v) prior to the date hereof (A) any granting by the Company or any of its subsidiaries to any current or former director, executive officer or other Employee of any increase in compensation, bonus or other benefits, except for increases to then current Employees who are not directors or executive officers that were made in the ordinary course of business, (B) any granting by the Company or any of its subsidiaries to any such current or former director, executive officer or Employee of any increase in severance or termination pay, or (C) any entry by the Company or any of its subsidiaries into, or any amendment of, any employment, deferred compensation, consulting, severance, termination or indemnification agreement with any such current or former director, executive officer or any Employee,

(vi) except insofar as may have been required by a change in GAAP or regulatory accounting principles, any change in accounting methods, principles or practices by the Company affecting its assets, liabilities or business, including, without limitation, any reserving, renewal or residual method, or estimate of practice or policy,

(vii) any Tax election or change in any Tax election, amendment to any Tax Return (as defined in Section 3.1(j)), closing agreement with respect to Taxes, or settlement or compromise of

any income Tax liability by the Company or its subsidiaries, except as would not be required to be disclosed in the Company SEC Documents,

(viii) any material change in investment policies, or

(ix) any agreement or commitment (contingent or otherwise) to do any of the foregoing.

(h) Licenses; Compliance with Applicable Laws

(i) Section 3.1(h) of the Company Disclosure Schedule sets forth a true and complete listing of all states in which the Company and its subsidiaries are licensed to conduct business, including in connection with their mortgage or auto lending businesses. The Company, its subsidiaries and Employees hold all material permits, licenses, variances, authorizations, exemptions, orders, registrations and approvals of all Governmental Entities which are required for the operation of the respective businesses of the Company and its subsidiaries (the "Permits") as presently conducted. Each of the Company and its subsidiaries is, and for the last five years has been, in compliance in all material respects with the terms of the Permits and all the Permits are in full force and effect and no suspension modification or revocation of any of them is pending or, to the knowledge of the Company, threatened nor, to the knowledge of the Company, do grounds exist for any such action.

(ii) Each of the Company and its subsidiaries is, and for the last five years has been, in compliance in all material respects with all applicable statutes, laws, regulations, ordinances, Permits, rules, judgments, orders, decrees or arbitration awards of any Governmental Entity applicable to the Company or its subsidiaries.

(iii) Neither the Company nor any of its subsidiaries is subject to any outstanding order, injunction or decree or is a party to any written agreement, consent agreement or memorandum of understanding with, or is a party to any commitment letter or similar undertaking to, or, except as would not have a material adverse effect on the Company, is subject to any order or directive by, or is a recipient of any supervisory letter from or has adopted any resolutions at the request of any Governmental Entity that restricts in any respect the conduct of its business or, except as would not have a material adverse effect on the Company, that in any manner relates to its capital adequacy, its policies, its management or its business (each, a "Company Regulatory Agreement"), nor has the Company or any of its subsidiaries or affiliates (as defined in Section 8.3(a)) (A) to the Company's knowledge, been advised since January 1, 2001 by any Governmental Entity that it is considering issuing or requesting any such Company Regulatory

Agreement or (B) have knowledge of any pending or threatened regulatory investigation.

(iv) Except for filings with the SEC, which are the subject of Section 3.1(e), the Company and each of its subsidiaries have timely filed all regulatory reports, schedules, forms, registrations and other documents, together with any amendments required to be made with respect thereto, that they were required to file since January 1, 1999 with any Governmental Entity (the "Other Company Documents"), and have timely paid all taxes, fees and assessments due and payable in connection therewith, except where the failure to make such payments and filings individually or in the aggregate would not have a material adverse effect on the Company. There is no material unresolved violation or exception by any of such Governmental Entities with respect to any report or statement relating to any examinations of the Company or any of its subsidiaries. No Other Company Document, as of their respective dates, except as amended or supplemented by an Other Company Document filed prior to the date hereof, contained, and no Other Company Document filed subsequent to the date hereof will contain as of their respective dates, any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. The Company has delivered or made available to Parent a true and complete copy of each material Other Company Document, including currently effective Forms BD.

(v) Neither the Company nor any of its subsidiaries nor any of their respective current directors, executive officers or Employees has been the subject of any disciplinary proceedings or orders of any Governmental Entity arising under applicable laws or regulations which would be required to be disclosed in any Other Company Document except as disclosed therein, and no such disciplinary proceeding or order is pending, nor to the knowledge of the Company threatened.

(vi) Except as disclosed on such Forms BD or Forms U-4, neither the Company or any of its affiliates, nor, to the knowledge of the Company, any "affiliated person" (as defined in the Investment Company Act) of the Company or any of its affiliates, is ineligible pursuant to Section 9(a) or 9(b) of the Investment Company Act to act as, or subject to any disqualification which would form a reasonable basis for any denial, suspension or revocation of the registration of or licenses or for any limitation on the activities of the Company or any its affiliates as, an investment advisor (or in any other capacity contemplated by the Investment Company Act) to a registered investment company. Neither the Company or any of its affiliates, nor to the knowledge of the Company, any "associated person of a broker or dealer" (as defined in the

Exchange Act) of the Company or any of its affiliates, is ineligible pursuant to Section 15(b) of the Exchange Act to act as a broker-dealer or as an associated person to a registered broker-dealer or is subject to a "statutory disqualification" as defined in Section 3(a)(39) of the Exchange Act or otherwise ineligible to serve as a broker-dealer or as an associated person to a registered broker-dealer.

(vii) Each of the Company's insured depository institution subsidiaries is "well-capitalized" (as that term is defined at 12 C.F.R. 225.2(r)(2)(i)) and "well managed" (as that term is defined at 12 C.F.R. 225.81(c)), and each institution's examination rating under the Community Reinvestment Act of 1977 is satisfactory or outstanding.

(viii) The business and operations of the Company and of each of the Company's subsidiaries through which the Company conducts its finance activities (including mortgage banking and mortgage lending activities and consumer finance activities, which consumer finance activities include direct and indirect automobile lending, banking, home equity operations and consumer financial services (together the "Company Finance Subsidiaries") have been conducted in compliance in all material respects with all applicable statutes and regulations regulating the business of consumer lending, including state usury laws, the Truth in Lending Act, the Real Estate Settlement Procedures Act, the Consumer Credit Protection Act, the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Homeowners Ownership and Equity Protection Act, the Fair Debt Collections Act and other Federal, state, local and foreign laws regulating lending ("Finance Laws"), and have complied in all material respects with all applicable collection practices in seeking payment under any loan or credit extension of such subsidiaries. In addition, there is no pending or, to the knowledge of the Company, threatened charge by any Governmental Entity that any of the Company Finance Subsidiaries has violated, nor any pending or, to the knowledge of the Company, threatened investigation by any Governmental Entity with respect to possible violations of, any applicable Finance Laws where such violations would, individually or in the aggregate, have a material adverse effect on the Company.

(ix) Since December 31, 1999, neither the Company nor any of its subsidiaries, nor to the knowledge of the Company any other person acting on behalf of the Company or any of its subsidiaries that qualifies as a "financial institution" under the U.S. Anti-Money Laundering laws has knowingly acted, by itself or in conjunction with another, in any act in connection with the concealment of any currency, securities, other proprietary interest that is the result of a felony as defined in the U.S. Anti-Money Laundering laws ("Unlawful Gains"), nor knowingly accepted, transported, stored, dealt in or brokered any sale, purchase or any transaction of other nature for Unlawful Gains. The

Company and each of its subsidiaries that qualifies as a "financial institution" under the U.S. Anti-Money Laundering laws has, during the past three years, implemented in all material respects such anti-money laundry mechanisms and kept and filed all material reports and other necessary material documents as required by, and otherwise complied in all material respects with, the U.S. Anti-Money Laundering laws and the rules and regulations issued thereunder.

(i) Litigation. Except as set forth in Section 3.1(i) of the Company Disclosure Schedule, which contains a true and current summary description of any pending and, to the Company's knowledge, threatened material litigation, action, suit, proceeding, investigation or arbitration, the forum, the parties thereto, the subject matter thereof and the amount of damages claimed or other remedies requested as of the date hereof, no material action, demand, charge, requirement or investigation by any Governmental Entity and no material litigation, action, suit, proceeding, investigation or arbitration by any person or Governmental Entity, in each case with respect to the Company or any of its subsidiaries or any of their respective properties or Permits, is pending or, to the knowledge of the Company, threatened. Except as set forth in Section 3.1(i) of the Company Disclosure Schedule or as contemplated by the LTWs, the CALGZs, the CALGLs and the 1998 Merger Agreement, no person is entitled, directly or indirectly, to participate or receive any portion of any recovery, settlement or award granted in respect of any litigation, action, suit, proceeding or arbitration in which the Company or any of its subsidiaries is plaintiff or claimant.

(j) Taxes. For purposes of this Section 3.1(j) any reference to the Company or the Company's subsidiaries shall be deemed to include a reference to the Company's predecessors or the Company's subsidiaries' predecessors, respectively, except where inconsistent with the language of this Section 3.1(j).

(i) Each of the Company and each of its subsidiaries has (A) timely filed (or there have been timely filed on its behalf) with the appropriate Governmental Entities all income and other material Tax Returns required to be filed by it (giving effect to all extensions) and such Tax Returns are true, correct and complete; (B) timely paid in full (or there has been timely paid in full on its behalf) all income and other material Taxes required to have been paid by it; and (C) made adequate provision (or adequate provision has been made on its behalf) for all accrued Taxes not yet due. The accruals and reserves for Taxes reflected in the Company's audited consolidated balance sheet as of December 31, 2001 (and the notes thereto) and the most recent quarterly financial statements (and the notes thereto) are adequate in accordance with GAAP to cover all Taxes accrued or accruable through the date thereof.

(ii) There are no material Liens for Taxes upon any property or assets of the Company or any subsidiary of the Company, except for Liens for Taxes not yet due or for Taxes which are being contested in good faith by appropriate proceedings (and for which

adequate reserves have been established in the Company's audited consolidated financial statements in accordance with GAAP).

(iii) Each of the Company and its subsidiaries has complied in all material respects with all applicable laws, rules and regulations relating to the payment and withholding of Taxes and has, within the time and in the manner prescribed by law, withheld and paid over to the proper Governmental Entities all material amounts required to be so withheld and paid over under applicable laws.

(iv) As of the date of this Agreement, no Federal, state, local or foreign audits or other administrative proceedings or court proceedings are presently pending with regard to any Taxes or Tax Returns of the Company or any of its subsidiaries, and neither the Company nor any subsidiary of the Company has received a written notice of any material pending or proposed claims, audits or proceedings with respect to Taxes.

(v) Neither the Company nor any of its subsidiaries has granted in writing any power of attorney which is currently in force with respect to any Taxes or Tax Returns.

(vi) Other than in the ordinary course of business, and except as provided in Section 3.1(j)(vi) of the Company Disclosure Schedule, which may be delivered to Parent no later than 30 days after the date hereof, neither the Company nor any of its subsidiaries has requested an extension of time within which to file any Tax Return which has not since been filed and no currently effective waivers, extensions, or comparable consents regarding the application of the statute of limitations with respect to Taxes or Tax Returns has been given by or on behalf of the Company or any of its subsidiaries.

(vii) Neither the Company nor any of its subsidiaries is a party to any agreement providing for the allocation, sharing or indemnification of Taxes.

(viii) The Federal income Tax Returns of the Company and each of its subsidiaries have been examined and any disputes relating thereto have been settled with the Internal Revenue Service (the "IRS") (or the applicable statutes of limitation for the assessment of Taxes for such periods have expired) for all periods through and including December 31, 1988.

(ix) Neither the Company nor any of its subsidiaries has been included in any "consolidated," "unitary" or "combined" Tax Return (other than Tax Returns which include only the Company and any of its subsidiaries) provided for under the laws of the

United States, any foreign jurisdiction or any state or locality with respect to Taxes for any taxable year ending after December 31, 1988.

(x) No election under Section 341(f) of the Code has been made by the Company or any of its subsidiaries.

(xi) Neither the Company nor any of its subsidiaries has constituted either a "distributing corporation" or a "controlled corporation" (within the meaning of Section 355(a)(1)(A) of the Code) in a distribution of stock to which Section 355 of the Code (or so much of Section 356 of the Code as relates to Section 355 of the Code) applies and which occurred within two years of the date of this Agreement.

(xii) Except as provided in Section 3.1(j)(xii) of the Company Disclosure Schedule, which may be delivered to Parent no later than 30 days after the date hereof, neither the Company nor any of its subsidiaries have agreed, or is required, to make any material adjustment under Section 481 of the Code affecting any taxable year ending after December 31, 1997.

(xiii) Except as disclosed in Section 3.1(j)(xiii) of the Company Disclosure Schedule, there have not been, within two years of the date of this Agreement, any (i) redemptions by the Company or any of its subsidiaries, (ii) transfers or dispositions of property by the Company or any of its subsidiaries for which the Company or its subsidiary did not receive adequate consideration, (iii) distributions to the holders of Company Common Stock with respect to their stock other than distributions of cash in the ordinary course of business, (iv) distributions of cash with respect to the LTWs, (v) distributions of cash or stock with respect to the CALGZs or CALGLs, or (vi) distributions of cash or stock with respect to Section 1.6(a), Section 1.6(b) or Section 1.6(c) of the 1998 Merger Agreement.

(xiv) No claim has been made in writing by any Governmental Entities in a jurisdiction where the Company or any of its subsidiaries does not file Tax Returns that any such entity is, or may be, subject to taxation by that jurisdiction.

(xv) Each of the Company and each of its subsidiaries has made available to Parent correct and complete copies of (i) all of their material Tax Returns filed within the past three years, (ii) all audit reports, letter rulings, technical advice memoranda and similar documents issued by a Governmental Entity within the past five years relating to the Federal, state, local or foreign Taxes due from or with respect to the Company or any of its subsidiaries, and (iii) any closing letters or agreements entered into by the Company or any of its

subsidiaries with any Governmental Entities within the past five years with respect to Taxes.

(xvi) Neither the Company nor any of its affiliates or subsidiaries has taken or agreed to take any action, has failed to take any action or knows of any fact, agreement, plan or other circumstance that could prevent the Merger from qualifying as a "reorganization" within the meaning of Section 368(a) of the Code.

(xvii) Neither the Company nor any of its subsidiaries has received any notice of deficiency or assessment from any Governmental Entity for any amount of Tax that has not been fully settled or satisfied, and to the knowledge of the Company and its subsidiaries no such deficiency or assessment is proposed.

(xviii) Preferred Capital Corp. ("PCC") (f/k/a California Federal Preferred Capital Corporation f/k/a First Nationwide Preferred Capital Corporation (A) was formed in 1996 and included in the 1996 consolidated Federal income tax return of the affiliated group of which Mafco Holdings Inc. was the common parent, (B) has been at all times since January 1, 1997 a "real estate investment trust" ("REIT") as defined in Section 856(a) of the Code, (C) has met at all times since January 1, 1997 the requirements of Section 857(a) of the Code, (D) has not been at any time since January 1, 1997 described in Section 856(c)(6) of the Code, (E) has not had at any time since January 1, 1997 any "net income derived from prohibited transactions" within the meaning of Section 857(b)(6) of the Code and (F) has not issued any stock or securities as part of a multiple party financing transaction described in IRS Notice 97-21, 1997-11 I.R.B. 2, or Treasury Regulations Section 1.7701(l)-3.

(xix) For purposes of this Agreement (A) "Tax" or "Taxes" shall mean (I) any and all taxes, customs, duties, tariffs, imposts, charges, deficiencies, assessments, levies or other like governmental charges, including, without limitation, income, gross receipts, excise, real or personal property, ad valorem, value added, estimated, alternative minimum, stamp, sales, withholding, social security, occupation, use, service, service use, license, net worth, payroll, franchise, transfer and recording taxes and charges, imposed by the IRS or any other taxing authority (whether domestic or foreign including, without limitation, any state, county, local or foreign government or any subdivision or taxing agency thereof (including a United States possession)), whether computed on a separate, consolidated, unitary, combined or any other basis; and such term shall include any interest, fines, penalties or additional amounts attributable to, or imposed upon, or with respect to, any such amounts, (II) any liability for the payment of any amounts described in (I) as a result of being a member of an affiliated, consolidated, combined, unitary, or similar group or as a result of

transferor or successor liability, and (III) any liability for the payment of any amounts as a result of being a party to any tax sharing agreement or as a result of any obligation to indemnify any other person with respect to the payment of any amounts of the type described in (I) or (II), and (B) "Tax Return" shall mean any report, return, document, declaration, election or other information or filing required to be supplied to any taxing authority or jurisdiction (foreign or domestic) with respect to Taxes, including, without limitation, information returns and any documents with respect to or accompanying payments of estimated Taxes or requests for the extension of time in which to file any such report, return, document, declaration or other information.

(k) Employee Benefit Plans.

(i) Section 3.1(k) of the Company Disclosure Schedule contains a true and complete list of each deferred compensation and each bonus or other incentive compensation, stock purchase, stock option and other equity compensation plan, program, agreement or arrangement; each severance or termination pay, medical, surgical, hospitalization, life insurance and other "welfare" plan, fund or program (within the meaning of Section 3(1) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA")); each profit-sharing, stock bonus or other "pension" plan, fund or program (within the meaning of Section 3(2) of ERISA); each employment, termination or severance agreement or arrangement with any director or former director of the Company or any of its subsidiaries or any Employee and each other employee benefit plan, fund, program, agreement or arrangement, in each case, that is sponsored, maintained or contributed to or required to be contributed to by the Company or by any trade or business, whether or not incorporated, that together with the Company is a "single employer" within the meaning of Section 4001(b) of ERISA (an "ERISA Affiliate"), or to which the Company or an ERISA Affiliate is party, whether written or oral, for the benefit of any Employee or any director or former director of the Company or any of its subsidiaries (the "Plans"). Section 3.1(k)(i) of the Company Disclosure Schedule identifies each of the Plans that is subject to section 302 or Title IV of ERISA or section 412 of the Code (the "Title IV Plans"). Neither the Company nor any subsidiary of the Company has any commitment or formal plan, whether legally binding or not, to create any additional employee benefit plan or modify or change any existing Plan other than as may be required by the terms of such Plan or applicable law.

(ii) With respect to each Plan, the Company has heretofore delivered or made available to Parent true and complete copies of each of the following documents:

(A) a copy of the Plan and any amendments thereto (or if the Plan is not a written Plan, a description thereof);

(B) a copy of the most recent annual report and actuarial report, if required under ERISA, and the most recent report prepared with respect thereto in accordance with Statement of Financial Accounting Standards No. 87;

(C) a copy of the most recent Summary Plan Description required under ERISA with respect thereto;

(D) if the Plan is funded through a trust or any third party funding vehicle, a copy of the trust or other funding agreement and the latest financial statements thereof; and

(E) the most recent determination letter received from the Internal Revenue Service with respect to each Plan intended to qualify under Section 401 of the Code.

(iii) All contributions required to have been made with respect to any Plan have been paid when due. There has been no amendment to, written interpretation of or announcement (whether or not written) by the Company or any affiliate or the Company or any subsidiary of the Company relating to, or change in the Plan provisions relating to employee participation or coverage under, any Plan that would increase materially the expense of maintaining such Plan above the level or expense incurred in respect thereof for the most recent fiscal year ended prior to the date hereof, except as required by applicable law or previously disclosed contractual commitment as set forth in Section 3.1(k)(iii) of the Company Disclosure Schedule.

(iv) Neither the Company nor any ERISA Affiliate contributes to, or is obligated to contribute to, a "multiemployer pension plan," as defined in Section 3(37) of ERISA nor has the Company or any ERISA Affiliate, during the five year period prior to the date hereof been obligated, to contribute to such plan for which the Company or any of its subsidiaries could reasonably be expected to have any material liability.

(v) Neither the Company or any subsidiary of the Company, any Plan, any trust created thereunder, nor, to the knowledge of the Company, any trustee or administrator thereof has engaged in a transaction in connection with which the Company or any

subsidiary of the Company, any Plan, any such trust, or any trustee or administrator thereof, or any party dealing with any Plan or any such trust could be subject to either any material civil penalty assessed pursuant to Section 409 or 502(i) of ERISA or a material tax imposed pursuant to Section 4975 or 4976 of the Code.

(vi) Each Plan has been operated and administered in accordance with its terms and applicable law in all material respects, including but not limited to ERISA and the Code.

(vii) The IRS has issued a favorable determination letter with respect to each Plan intended to be "qualified" within the meaning of Section 401(a) of the Code that has not been revoked, and, to the knowledge of the Company no circumstances exist that could adversely affect the qualified status of any such plan and the exemption under Section 501(a) of the Code of the trust maintained thereunder. Each Plan intended to satisfy the requirements of Section 501(c)(9) of the Code has satisfied such requirements in all material respects.

(viii) With respect to any plan subject to Title IV of ERISA, to which the Company or any ERISA Affiliate made, or was required to make, contributions on behalf of any Employee or any director or former director during the five (5)-year period ending on the last day of the most recent plan year ended prior to the Closing Date, (a) no liability under Title IV or Section 302 of ERISA has been incurred by the Company or any ERISA Affiliate that has not been satisfied in full, and (b) to the knowledge of the Company, no condition exists that presents a material risk to the Company or any ERISA Affiliate of incurring any such liability, other than liability for premiums due the Pension Benefit Guaranty Corporation ("PBGC") (which premiums have been paid when due).

(ix) The PBGC has not instituted proceedings to terminate any Title IV Plan and, to the knowledge of the Company, no condition exists that presents a material risk that such proceedings will be instituted. With respect to each Title IV Plan, the present value of accrued benefits under such plan, based upon the actuarial assumptions used for funding purposes in the most recent actuarial report prepared by such plan's actuary with respect to such plan did not exceed, as of its latest valuation date, the then current value of the assets of such plan allocable to such accrued benefits. No Title IV Plan or any trust established thereunder has incurred any "accumulated funding deficiency" (as defined in Section 302 of ERISA and Section 412 of the Code), whether or not waived, as of the last day of the most recently ended fiscal year.

(x) No Plan provides medical, surgical, hospitalization, death or similar benefits (whether or not insured) for

Employees for periods extending beyond their retirement or other termination of service, other than (i) coverage mandated by applicable law, (ii) death benefits under any "pension plan," (iii) benefits the full cost of which is borne by the Employee (or his beneficiary) or (iv) Plans that can be amended or terminated by the Company without consent.

(xi) No material amounts payable under the Plans will fail to be deductible for Federal income tax purposes by virtue of Section 162(m) of the Code.

(xii) The consummation of the transactions contemplated by this Agreement will not, either alone or in combination with another event, (i) entitle any current or former employee or officer of the Company to severance pay, unemployment compensation or any other payment, except as expressly provided in this Agreement, or (ii) accelerate the time of payment or vesting, or increase the amount of compensation due any such employee or officer.

(xiii) There are no pending or, to the knowledge of the Company, threatened or anticipated claims by or on behalf of any Plan by any Employee or beneficiary covered under any such Plan, or otherwise involving any such Plan (other than routine claims for benefits).

(xiv) Except with respect to Employees listed on Section 3.1(k) (xiv) of the Company Disclosure Schedule, no person will be entitled to a "gross up" or other similar payment in respect of excise taxes under Section 4999 of the Code with respect to the transactions contemplated by this Agreement.

(xv) To the extent that the Company or any of its subsidiaries is deemed to be a fiduciary with respect to any Plan that is subject to ERISA, the Company or such subsidiary (1) during the past five years has complied with the requirements of ERISA and the Code in the performance of its duties and responsibilities with respect to such employee benefit plan and (2) has not knowingly caused any of the trusts for which it serves as an investment manager, as defined in Section 3(38) of ERISA, to enter into any transaction that would constitute a "prohibited transaction" under Section 406 of ERISA or Section 4975 of the Code, with respect to any such trusts, except for transactions that are the subject of a statutory or administrative exemption.

(l) Labor Matters. There are no labor or collective bargaining agreements to which the Company or any subsidiary of the Company is a party. There is no union organizing effort pending or, the Company's knowledge, threatened against the Company or any subsidiary of the Company. There is no labor strike, labor dispute (other than routine employee grievances that are not related to union Employees), work slowdown, stoppage or lockout pending or, to the Company's knowledge, threatened against the Company or any subsidiary of the Company. There is no material unfair labor

practice or labor arbitration proceeding pending or, to the knowledge of the Company, threatened against the Company or any subsidiary of the Company (other than routine employee grievances). The Company and its subsidiaries are in compliance in all material respects with all applicable laws respecting employment and employment practices, terms and conditions of employment and wages and hours, and are not engaged in any unfair labor practice.

(m) Environmental Liability. Except as set forth in the Company Filed SEC Documents and except as would not have a material adverse effect on the Company, there are no pending or threatened legal, administrative, arbitral or other proceedings, claims, actions, causes of action, notices, private environmental investigations or remediation activities or governmental investigations of any nature (including, without limitations, claims of alleging potential liability for investigating costs, cleanup costs, governmental response costs, natural resources damage, property damages, personal injuries or penalties) by any person or entity (collectively, "Environmental Claims") or any conditions or circumstances that could form the basis of any Environmental Claim seeking to impose on the Company or any of its subsidiaries, or that reasonably could be expected to result in the imposition on the Company or any of its subsidiaries of, any liability or obligation arising under applicable common law standards relating to pollution or protection of the environment, human health or safety, or under any local, state or Federal environmental statute, regulation, ordinance, decree, judgment or order relating to pollution or protection of the environment, human health or safety including, without limitation, the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended pending or, to the knowledge of the Company, threatened, against the Company or any of its subsidiaries as a result of the transactions contemplated by this Agreement.

(n) Intellectual Property.

(i) Section 3.1(n)(i) of the Company Disclosure Schedule sets forth, for the Intellectual Property (as defined below) owned by the Company or any of its subsidiaries, a complete and accurate list of all material U.S. and foreign (A) patents and patent applications, (B) trademark or service mark registrations and applications, (C) copyright registrations and applications, and (D) Internet domain names. The Company or one of its subsidiaries owns or has the valid right to use all material patents and patent applications, trademarks, service marks, trademark or service mark registrations and applications, trade names, logos, designs, Internet domain names, slogans and general intangibles of like nature, together with all goodwill related to the foregoing, copyrights, copyright registrations, renewals and applications, Software (as defined below), technology, trade secrets and other confidential information, know-how, proprietary processes, formulae, algorithms, models and methodologies, licenses, agreements and all other material proprietary rights (collectively, the "Intellectual Property"), used in the business of the Company as it currently is conducted. "Software" means any and all (A) computer programs, including any and all software implementations of

algorithms, models and methodologies, whether in source code or object code, (B) databases and compilations, including any and all data and collections of data, whether machine readable or otherwise, (C) descriptions, flow-charts and other work product used to design, plan, organize and develop any of the foregoing, (D) the technology supporting and content contained on any owned or operated Internet site(s), and (E) all documentation, including user manuals and training materials, relating to any of the foregoing.

(ii) All of the material Intellectual Property owned by the Company or one of its subsidiaries is free and clear of all Liens. The Company or one of its subsidiaries is listed in the records of the appropriate United States, state or foreign agency as, the sole owner of record for each application and registration listed in Section 3.1(n)(i) of the Company Disclosure Schedule.

(iii) All of the material registrations listed in Section 3.1(n) (i) of the Company Disclosure Schedule are valid, subsisting, enforceable, in full force and effect, and have not been cancelled, expired, abandoned or otherwise terminated and all renewal fees in respect thereof have been duly paid. There is no pending or, to the Company's knowledge, threatened opposition, interference or cancellation proceeding before any court or registration authority in any jurisdiction against the registrations and applications listed in Section 3.1(n)(i) of the Company Disclosure Schedule or, to the Company's knowledge, against any other material Intellectual Property used by the Company or its subsidiaries.

(iv) The conduct of the Company's and its subsidiaries' business as currently conducted or planned by the Company to be conducted does not, in any material respect, infringe upon (either directly or indirectly such as through contributory infringement or inducement to infringe), dilute, misappropriate or otherwise violate any Intellectual Property owned or controlled by any third party.

(v) To the Company's knowledge, no third party is misappropriating, infringing, diluting, or violating any material Intellectual Property owned by or licensed to or by the Company or its subsidiaries and no such claims have been made against a third party by the Company or its subsidiaries.

(vi) Each material item of Software, which is used by the Company or its subsidiaries in connection with the operation of their businesses as currently conducted, is either (A) owned by the Company or its subsidiaries, (B) currently in the public domain or otherwise available to the Company without the need of a license, lease or consent of any third party, or (C) used under rights granted to the

Company or its subsidiaries pursuant to a written agreement, license or lease from a third party.

(o) Insurance Matters. The Company and its subsidiaries have all material primary, excess and umbrella policies of general liability, fire, workers' compensation, products liability, completed operations, employers, liability, health, bonds, earthquake and other forms of insurance providing insurance coverage that is customary in amount and scope for other companies in the industry in which they operate, are in full force and effect on the date hereof and shall be kept in full force and effect by the Company through the Effective Time. All such policies, considered collectively with other such policies providing the same type of coverage, are sufficient for compliance in all material respects with all requirements of law and of all requirements under contracts or leases to which the Company is a party. With respect to all such policies that are individually or in the aggregate material to the Company or its subsidiaries, all premiums currently payable or previously due and payable with respect to all periods up to and including the Effective Time have been paid to the extent such premiums are due and payable on or prior to the date hereof and, with respect to premiums not due or payable at or prior to the date hereof, subject to Section 4.1 of this Agreement, all premiums due and payable prior to the Effective Time, will have been paid prior to the Effective Time and no notice of cancellation or termination has been received with respect to any such policy.

(p) Information Supplied. None of the information supplied or to be supplied by the Company in writing specifically for inclusion or incorporation by reference in (i) the Form S-4 will, at the time the Form S-4 becomes effective under the Securities Act, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading or (ii) the Proxy Statement will, at the date it is first mailed to the Company's stockholders or at the time of the Company Stockholders Meeting, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading, except that no representation or warranty is made by the Company with respect to statements made or incorporated by reference therein based on information supplied by Parent specifically for inclusion or incorporation by reference in the Proxy Statement. The Proxy Statement will comply as to form in all material respects with the requirements of the Exchange Act and the rules and regulations thereunder.

(q) Transactions with Affiliates. Except as set forth in Section 3.1(q) of the Company Disclosure Schedule there are no outstanding amounts payable to or receivable from, or advances by the Company or any of its subsidiaries to, and neither the Company nor any of its subsidiaries is otherwise a creditor or debtor to, any stockholder, director, Employee or affiliate of the Company or any of its subsidiaries, other than as part of the normal and customary terms of such persons' employment or service as a director with the Company or any of its subsidiaries. Except as set forth in Section 3.1(q) or Section 3.1(k) of the Company Disclosure Schedule neither the Company nor any subsidiary of the Company is a party to any transaction or agreement

with any affiliate, stockholder, director or executive officer of the Company or any of its subsidiaries or any material transaction or agreement with any Employee other than executive officers.

(r) Voting Requirements. The affirmative vote at the Company Stockholders Meeting (the "Company Stockholder Approval") of a majority of the number of outstanding shares of Company Common Stock to approve and adopt this Agreement is the only vote of the holders of any class or series of the Company's capital stock necessary to approve and adopt this Agreement and the transactions contemplated hereby, including the Merger.

(s) Opinions of Financial Advisor. The Company has received the opinion of Goldman Sachs, dated the date hereof, to the effect that, as of such date, the aggregate Merger Consideration is fair from a financial point of view to the stockholders of the Company.

(t) Brokers. Except for Goldman Sachs, whose fees in connection with the transactions contemplated hereby shall not exceed the amount set forth on Section 3.1(t) of the Company Disclosure Schedule, no broker, investment banker, financial advisor or other person is entitled to any broker's, finder's, financial advisor's or other similar fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by or on behalf of the Company. The Company has delivered to Parent complete and correct copies of such arrangements which are set forth as part of the Company Disclosure Schedule.

(u) Takeover Laws. The approval of this Agreement, the Securityholders Agreement and the Merger by the Board of Directors of the Company constitutes approval of this Agreement, the Securityholders Agreement and the Merger and the transactions contemplated hereby for purposes of Section 203 of the DGCL. Except for Section 203 of the DGCL (which has been rendered inapplicable), no "moratorium", "control share", "fair price" or other antitakeover laws and regulations of any state are applicable to the Merger or other transactions contemplated by this Agreement.

(v) Derivative Transactions.

(i) Except as would not reasonably be expected to have a material adverse effect on the Company, all Derivative Transactions (as defined herein) entered into by the Company or any of its subsidiaries were entered into in accordance with applicable rules, regulations and policies of any regulatory authority, and in accordance with the investment, securities, commodities, risk management and other policies, practices and procedures employed by the Company and its subsidiaries, and were entered into with counter parties believed at the time to be financially responsible and able to understand (either alone or in consultation with their advisers) and to bear the risks of such Derivative Transactions; and the Company and each of its subsidiaries have duly performed all of their obligations under the Derivative Transactions to the

extent that such obligations to perform have accrued, and, to the Company's knowledge, there are no material breaches, violations or defaults or allegations or assertions of such by any party thereunder.

(ii) For purposes of this Section 3.1(v), "Derivative Transactions" means any swap transaction, option, warrant, forward purchase or sale transaction, futures transaction, cap transaction, floor transaction or collar transaction relating to one or more currencies, commodities, bonds, equity securities, loans, interest rates, credit-related events or conditions or any indexes, or any other similar transaction or combination of any of these transactions, including collateralized mortgage obligations or other similar instruments or any debt or equity instruments evidencing or embedding any such types of transactions, and any related credit support, collateral or other similar arrangements related to such transactions; provided that, for the avoidance of doubt, the term "Derivative Transactions" shall not include any of Company Stock Options or the LTWs.

(w) Investment Securities and Commodities.

(i) Except as would not reasonably be expected to have a material adverse effect on the Company, each of the Company and its subsidiaries has good title to all securities and commodities owned by it (except those sold under repurchase agreements or held in any fiduciary or agency capacity), free and clear of any Lien, except to the extent such securities or commodities are pledged in the ordinary course of business to secure obligations of the Company or its subsidiaries. Such securities and commodities are valued on the books of the Company in accordance with GAAP in all material respects.

(ii) The Company and its subsidiaries and their respective businesses employ investment, securities, commodities, risk management and other policies, practices and procedures (the "Policies, Practices and Procedures") which the Company believes are prudent and reasonable in the context of such businesses. Prior to the date hereof, the Company has made available to Parent in writing the material Policies, Practices and Procedures.

(x) Loan Portfolio.

(i) Section 3.1(x)(i) of the Company Disclosure Schedule sets forth (A) the aggregate outstanding principal amount, as of the date hereof, of all written or oral loan agreements, notes or borrowing arrangements (including, without limitation, leases, credit enhancements, commitments, guarantees and interest-bearing assets) payable to the Company or its subsidiaries (collectively, "Loans"), other than "non-accrual" Loans, and (B) the aggregate outstanding principal amount, as of April 30, 2002, of all "non-accrual" Loans. As of April 30, 2002, the

Company and its subsidiaries, taken as a whole, did not have outstanding Loans and assets classified as "Other Real Estate Owned" with an aggregate then outstanding, fully committed principal amount in excess of $320,000,000, net of specific reserves with respect to such Loans and assets, that were designated by the Company as "Special Mention", "Substandard", "Doubtful", "Loss", or words of similar import ("Criticized Assets"). Section 3.1(x) of the Company Disclosure Schedule sets forth (A) a summary of Criticized Assets as of April 30, 2002, by category of Loan (e.g., commercial, consumer, etc.), together with the aggregate principal amount of such Loans by category and (B) each asset of the Company that, as of April 30, 2002, is classified as "Other Real Estate Owned" and the book value thereof.

(ii) Except as would not have a material adverse effect on the Company, each Loan (i) is evidenced by notes, agreements or other evidences of indebtedness which are true, genuine and what they purport to be, (ii) to the extent secured, has been secured by valid liens and security interests which have been perfected and (iii) is the legal, valid and binding obligation of the obligor named therein, enforceable in accordance with its terms, subject to bankruptcy, insolvency, fraudulent conveyance and other laws of general applicability relating to or affecting creditors' rights and to general equity principles. Except as would not have a material adverse effect on the Company, all Loans originated by the Company or its subsidiaries, and all such Loans purchased by the Company or its subsidiaries, were made or purchased in accordance with customary lending and leading standards of the Company or its subsidiaries, as applicable. Except as set forth in Section 3.1(x) of the Company Disclosure Schedule, all such Loans (and any related guarantees) and payments due thereunder are, and on the Closing Date will be, free and clear of any Lien, and the Company or its subsidiaries has complied in all material respects, and on the Closing Date will have complied in all material respects, with all laws and regulations relating to such Loans.

(y) Real Property.

(i) Each of the Company and its subsidiaries has good title free and clear of all Liens to all real property (the "Owned Properties") owned by such entities, except for (i) Liens for taxes not yet due and payable or contested in good faith by appropriate proceedings, (ii) such imperfections of title, easements and encumbrances, if any, as do not interfere in any material respect with the use of the property as such property is used on the date of this Agreement or (iii) mechanics' materialmen's, workmen's, repairmen's, warehousemen's, carrier's and other similar Liens arising in the ordinary course of business.

(ii) A true and complete copy of each agreement pursuant to which the Company or any of its subsidiaries leases any real

property (such agreements, together with any amendments, modifications and other supplements thereto, collectively, the "Leases") has heretofore been made available to Parent. Each Lease is valid, binding and enforceable against the Company or its applicable subsidiary in accordance with its terms and is in full force and effect. There are no existing defaults by the Company or any of its subsidiaries, as applicable, under any of the Leases which, in the aggregate, would result in the termination of such Leases and a material adverse effect on the Company. The consummation of the transactions contemplated by this Agreement will not cause defaults under the Leases which, in the aggregate, would result in a material adverse effect on the Company.

(iii) The Owned Properties and the properties (the "Leased Properties") leased pursuant to the Leases constitute all of the real estate within which the Company and its subsidiaries conduct their respective business operations as of the date of this Agreement, except for locations the loss of which would not constitute a material adverse effect on the Company. The Owned Properties and the Leased Properties are in compliance with all laws in all material respects, except for any lack of compliance which would not result in a material adverse effect on the Company. Neither any agreement relating to the Owned Properties nor any of the Leases requires consent of any third party for the consummation of the transactions contemplated hereby except for (i) such consents which will be obtained prior to Closing, and (ii) such consents which, if not obtained, will not, in the aggregate, result in a material adverse effect on the Company.

(iv) A true and complete copy of each agreement pursuant to which the Company or any of its subsidiaries leases real property to a third party (such agreements, together with any amendments, modifications and other supplements thereto, collectively, the "Third Party Leases") has heretofore been made available to Parent. Each Third Party Lease is valid, binding and enforceable in accordance with its terms and is in full force and effect, except that (i) such enforceability may be subject to applicable bankruptcy, insolvency or other similar laws now or hereafter in effect affecting creditors' rights generally and (ii) the availability of the remedy of specific performance or injunction or other forms of equitable relief may be subject to equitable defenses and would be subject to the discretion of the court before which any proceeding therefor may be brought. There are no existing defaults by the tenant under any Third Party Lease which, in the aggregate, would result in the termination of such Third Party Leases and a material adverse effect on the Company. The consummation of the transactions contemplated by this Agreement will not cause defaults under the Third Party Leases which, in the aggregate, would result in a material adverse effect on the Company.

SECTION 3.2 Representations and Warranties of Parent. Except as set forth on the Disclosure Schedule delivered by Parent to the Company prior to the execution of this Agreement (the "Parent Disclosure Schedule") and making reference to the particular subsection of this Agreement to which exception is being taken, Parent represents and warrants to the Company as follows:

(a) Organization, Standing and Corporate Power.

(i) Each of Parent, its subsidiaries (as defined in Rule 1-02 of Regulation S-X, promulgated pursuant to the Securities Act by the SEC ("significant subsidiaries")) and Merger Sub is a corporation or other legal entity duly organized, validly existing and in good standing (with respect to jurisdictions which recognize such concept) under the laws of the jurisdiction in which it is organized and has the requisite corporate or other power, as the case may be, and authority to carry on its business as now being conducted except, as to subsidiaries, for those jurisdictions where the failure to be duly organized, validly existing and in good standing, individually or in the aggregate, would not have a material adverse effect on Parent. Each of Parent and its subsidiaries is duly qualified or licensed to do business and is in good standing in each jurisdiction in which the nature of its business or the ownership, leasing or operation of its properties makes such qualification or licensing necessary, except for those jurisdictions where the failure to be so qualified or licensed or to be in good standing, individually or in the aggregate, would not have a material adverse effect on Parent.

(ii) Merger Sub is a newly formed corporation with no material assets or liabilities, except for liabilities arising under this Agreement. Merger Sub will not conduct any business or activities other than the issuance of its stock to Parent prior to the Merger.

(b) Capital Structure. The authorized capital stock of Parent consists of 15,000,000,000 shares of Parent Common Stock and 30,000,000 shares of preferred stock, par value $1.00 per share, of Parent ("Parent Authorized Preferred Stock"), of which, as of the date hereof, 1,600,000 shares have been designated as 6.365% Cumulative Preferred Stock, Series F ("Parent Series F Preferred Stock"), 800,000 shares have been designated as 6.213% Cumulative Preferred Stock, Series G ("Parent Series G Preferred Stock"), 800,000 shares have been designated as 6.231% Cumulative Preferred Stock, Series H ("Parent Series H Preferred Stock"), 800,000 shares have been designated as 5.864% Cumulative Preferred Stock, Series M ("Parent Series M Preferred Stock"), 700,000 shares have been designated as Adjustable Rate Cumulative Preferred Stock, Series Q ("Parent Series Q Preferred Stock"), 400,000 shares have been designated as Adjustable Rate Cumulative Preferred Stock, Series R ("Parent Series R Preferred Stock"), 250,000 shares have been designated as Fixed/Adjustable Rate Cumulative Preferred Stock, Series V ("Parent Series V Preferred Stock"), 5,000 shares have been designated as Cumulative Adjustable Rate Preferred Stock, Series Y ("Parent Series Y Preferred Stock"), 987 shares have been designated as 5.321% Cumulative Preferred Stock, Series YY ("Parent Series YY Preferred Stock")

and 2,597 shares have been designated 6.767% Cumulative Preferred Stock, Series YYY ("Parent Series YYY Preferred Stock"). At the close of business on May 6, 2002: (i) 5,477,416,254 shares of Parent Common Stock were issued and outstanding; (ii) 331,997,699 shares of Parent Common Stock were held by Parent in its treasury; (iii) no shares of Parent Common Stock were held by subsidiaries of Parent; (iv) 1,600,000 shares of Parent Series F Preferred Stock were issued and outstanding; (v) 800,000 shares of Parent Series G Preferred Stock were issued and outstanding; (vi) 800,000 shares of Parent Series H Preferred Stock were issued and outstanding; (vii) 800,000 shares of Parent Series M Preferred Stock were issued and outstanding; (viii) 700,000 shares of Parent Series Q Preferred Stock were issued and outstanding; (ix) 400,000 shares of Parent Series R Preferred Stock were issued and outstanding ; (x) 250,000 shares of Parent Series V Preferred Stock were issued and outstanding; (xi) 2,262 shares of Parent Series Y Preferred Stock were issued and outstanding; (xii) 987 shares of Parent Series YY Preferred Stock were issued and outstanding; (xiii) 2,597 shares of Parent Series YYY Preferred Stock were issued and outstanding; (xiv) approximately 976.4 million shares of Parent Common Stock were reserved for issuance pursuant to the stock-based plans identified in Section 3.2(b) of the Parent Disclosure Schedule (such plans, collectively, the "Parent Stock Plans"), of which approximately 429 million shares are subject to outstanding employee stock options or other rights to purchase or receive Parent Common Stock granted under the Parent Stock Plans (collectively, "Parent Employee Stock Options"); (xv) 1,116,769 shares of Parent Common Stock are reserved for issuance pursuant to convertible securities; and (xvi) other than as set forth above, no other shares of Parent Authorized Preferred Stock have been designated or issued. All outstanding shares of capital stock of Parent are, and all shares thereof which may be issued pursuant to this Agreement or otherwise will be, when issued, duly authorized, validly issued, fully paid and nonassessable and not subject to preemptive rights. Except as set forth in this Section 3.2(b) and except for changes since May 6, 2002 resulting from the issuance of shares of Parent Common Stock pursuant to the Parent Stock Plans, Parent Employee Stock Options or Parent Convertible Securities and other rights referred to in this Section 3.2(b), as of the date hereof, (x) there are not issued, reserved for issuance or outstanding (A) any shares of capital stock or other voting securities of Parent, (B) any securities of Parent or any Parent subsidiary convertible into or exchangeable or exercisable for shares of capital stock or voting securities of Parent, (C) any warrants, calls, options or other rights to acquire from Parent or any Parent subsidiary, and any obligation of Parent or any Parent subsidiary to issue, any capital stock, voting securities or securities convertible into or exchangeable or exercisable for capital stock or voting securities of Parent or other ownership interests of Parent, and (y) there are no outstanding obligations of Parent or any Parent subsidiary to repurchase, redeem or otherwise acquire any such securities or to issue, deliver or sell, or cause to be issued, delivered or sold, any such securities. As of the date hereof, there are no outstanding (A) securities of Parent or any Parent subsidiary convertible into or exchangeable or exercisable for shares of capital stock or other voting securities or other ownership interests in any Parent subsidiary, (B) warrants, calls, options or other rights to acquire from Parent or any Parent subsidiary, and any obligation of Parent or any Parent subsidiary to issue, any capital stock, voting securities or other ownership interests in, or any securities convertible into or exchangeable or exercisable for any capital stock, voting securities or ownership interests in, any Parent subsidiary or (C) obligations of

Parent or any Parent subsidiary to repurchase, redeem or otherwise acquire any such outstanding securities of Parent subsidiaries or to issue, deliver or sell, or cause to be issued, delivered or sold, any such securities. Parent does not own any shares of Company Common Stock.

(c) Authority; Noncontravention. Each of Parent and Merger Sub has all requisite corporate power and authority to enter into this Agreement, and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement by Parent and Merger Sub and the consummation by Parent and Merger Sub of the transactions contemplated by this Agreement have been duly authorized by all necessary corporate and shareholder action on the part of Parent and Merger Sub, respectively. This Agreement has been duly executed and delivered by each of Parent and Merger Sub, and, assuming the due authorization, execution and delivery by the Company, constitutes the legal, valid and binding obligations of Parent and Merger Sub, respectively, enforceable against Parent and Merger Sub, respectively, in accordance with their terms except that (i) such enforceability may be subject to applicable bankruptcy, insolvency or other similar laws now or hereafter in effect affecting creditors' rights generally and (ii) the availability of the remedy of specific performance or injunction or other forms of equitable relief may be subject to equitable defenses and would be subject to the discretion of the courts for which any proceeding therefor may be brought. The execution and delivery of this Agreement does not, and the consummation of the transactions contemplated hereby and compliance with the provisions of this Agreement will not, conflict with, or result in any violation of, or default (with or without notice or lapse of time, or both) under, or give rise to a right of termination, cancellation or acceleration of any obligation or loss of a benefit under, or result in the creation of any Lien upon any of the properties or assets of Parent or any of its subsidiaries under, (i) the certificate of incorporation or by-laws of Parent, (ii) the certificate of incorporation or by-laws of the comparable organizational documents of any of its significant subsidiaries or Merger Sub, (iii) any loan or credit agreement, note, bond, mortgage, indenture, lease or other agreement, instrument, permit, concession, franchise, license or similar authorization applicable to Parent or any of its subsidiaries or their respective properties or assets or (iv) subject to the governmental filings and other matters referred to in the following sentence, any judgment, order, decree, statute, law, ordinance, rule or regulation applicable to Parent or any of its subsidiaries or their respective properties or assets, other than, in the case of clauses (ii), (iii) and (iv), any such conflicts, violations, defaults, rights, losses or Liens that individually or in the aggregate would not (x) have a material adverse effect on Parent or (y) reasonably be expected to materially impair or materially delay the ability of Parent or Merger Sub to perform its obligations under this Agreement. No consent, approval, order or authorization of, action by, or in respect of, or registration, declaration or filing with, any Governmental Entity is required by or with respect to Parent or any of its subsidiaries in connection with the execution and delivery of this Agreement by Parent and Merger Sub or the consummation by Parent and Merger Sub of the transactions contemplated by this Agreement, except for (1) the filing of a pre-merger notification and report form by Parent under the HSR Act, and filing of a copy of the application to the Federal Reserve Board pursuant to Section 7A(c)(8) of the HSR Act; (2) the filing with the SEC of (A) the Form S-4 and the Proxy Statement and (B) such reports under the Exchange Act as may be required in connection with this

Agreement and the transactions contemplated hereby; (3) the filing of the Certificate of Merger with the Secretary of State of the State of Delaware and such filings with Governmental Entities to satisfy the applicable requirements of the laws of states in which Parent and its subsidiaries are qualified or licensed to do business or state securities or "blue sky" laws; (4) such filings with and approvals of the NYSE and the Pacific Stock Exchange (the "PSX") to permit the shares of Parent Common Stock to be issued in the Merger and under the Company Stock Plan to be listed on the NYSE and PSX; (5) the approval of the Federal Reserve under Section 4(j) of the Bank Holding Company Act; and (6) filings in respect of, and approvals and authorizations of, any Governmental Entity having jurisdiction over the consumer lending, banking, insurance or other financial services businesses.

(d) Parent Documents. Since January 1, 1999, Parent has filed all required reports, schedules, forms, statements and other documents (including exhibits and all other information incorporated therein) with the SEC (the "Parent SEC Documents"). As of their respective filing dates, (i) the Parent SEC Documents complied in all material respects with the requirements of the Securities Act or the Exchange Act, as the case may be, and the rules and regulations of the SEC promulgated thereunder applicable to such Parent SEC Documents, and (ii) none of the Parent SEC Documents when filed (or when amended and restated and as supplemented by subsequently filed Parent SEC Document) contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. The financial statements of Parent included in the Parent SEC Documents complied as to form, as of their respective dates of filing with the SEC, in all material respects with applicable accounting requirements and the published rules and regulations of the SEC with respect thereto, have been prepared in accordance with GAAP (except, in the case of unaudited statements, as permitted by Form 10-Q of the SEC) applied on a consistent basis during the periods involved (except as may be indicated in the notes thereto) and fairly present the consolidated financial position of Parent and its consolidated subsidiaries as of the dates thereof and the consolidated results of their operations and cash flows for the periods then ended (subject, in the case of unaudited statements, to normal year-end audit adjustments and to other adjustments described in the notes to such unaudited statements). Except (A) as reflected in Parent's unaudited balance sheet as of March 31, 2002 or liabilities described in any notes thereto (or liabilities for which neither accrual nor footnote disclosure is required pursuant to GAAP) or (B) for liabilities incurred in the ordinary course of business since March 31, 2002 consistent with past practice or in connection with this Agreement or the transactions contemplated hereby, neither Parent nor any of its subsidiaries has any liabilities or obligations of any nature other than liabilities or obligations that would not, individually or in the aggregate, reasonably be expected to have a material adverse effect on Parent.

(e) Information Supplied. None of the information supplied or to be supplied by Parent specifically for inclusion or incorporation by reference in (i) the Form S-4 will, at the time the Form S-4 becomes effective under the Securities Act, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading or (ii) the

Proxy Statement will, at the date it is first mailed to the Company's stockholders or at the time of the Company Stockholders Meeting, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading, in either case, no representation or warranty is made by Parent with respect to statements made or incorporated by reference therein based on information supplied by the Company specifically for inclusion or incorporation by reference in the Form S-4. The Form S-4 will comply as to form in all material respects with the requirements of the Securities Act and the rules and regulations thereunder.

(f) Brokers. No broker, investment broker, financial advisor or other person is entitled to a broker's, finder's, financial advisor's or other similar fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by or on behalf of Parent.

(g) Tax Matters. Neither Parent nor any of its affiliates or subsidiaries has taken or agreed to take any action, has failed to take any action or knows of any fact, agreement, plan or other circumstance that could prevent the Merger from qualifying as a "reorganization" within the meaning of Section 368(a) of the Code.

(h) Compliance with Laws.

(i) Except as set forth in the Parent SEC Document filed publicly available prior to the date hereof, and except as would not have a material adverse effect on Parent, each of Parent and its subsidiaries is, and for the last five years has been, in compliance in all material respects with all applicable statutes, laws, regulations, ordinances, permits, rules, judgments, orders, decrees or arbitration awards of any Governmental Entity applicable to Parent or its subsidiaries.

(ii) Except as would not reasonably be expected to have a material adverse effect on Parent, neither Parent nor any of its subsidiaries is subject to any outstanding order, injunction or decree or is a party to any written agreement, consent agreement or memorandum of understanding with, or is a party to any commitment letter or similar undertaking to, or, except as would not have a material adverse effect on Parent, is subject to any order or directive by, or is a recipient of any supervisory letter from or has adopted any resolutions at the request of any Governmental Entity that restricts in any respect the conduct of its business or, except as would not have a material adverse effect on Parent, that in any manner currently relates to its capital adequacy, its policies, its management or its business currently (each, a "Parent Regulatory Agreement"), nor has Parent or any of its subsidiaries or affiliates (A) to its knowledge, been advised since January 1, 2001 by any Governmental Entity that it is considering issuing or requesting any Parent Regulatory Agreement that is reasonably be expected to have a material adverse effect on Parent or (B) have knowledge of any pending or threatened regulatory investigation that would result in a material adverse effect on Parent.

(i) Litigation. Except as described in the Parent SEC Document filed and publicly available prior to the date hereof, as of the date hereof there are no pending or, to Parent's knowledge, threatened litigations, actions, suits, proceedings, investigations or arbitrations with respect to Parent or any of its subsidiaries or any of their respective properties that would result in a material adverse effect on Parent.

(j) Absence of Certain Changes. Except for liabilities incurred in connection with this Agreement or the transactions contemplated hereby, and except as disclosed in the Parent SEC Documents filed and publicly available prior to the date hereof, since December 31, 2001, (A) there has not been any material adverse change in Parent or (B) there are not, to Parent's knowledge, any facts, circumstances or events that make it reasonably likely that Parent will not be able to fulfill its obligations under this Agreement in all material respects.

ARTICLE IV

COVENANTS RELATING TO CONDUCT OF BUSINESS

SECTION 4.1 Conduct of Business by the Company. Except as set forth in Section 4.1 of the Company Disclosure Schedule, except as otherwise expressly contemplated by this Agreement or except as consented to by Parent in writing or required by applicable law or regulation, during the period from the date of this Agreement and continuing until the earlier of the termination of this Agreement and the Effective Time, the Company shall, and shall cause its subsidiaries to, carry on their respective businesses in the usual, regular and ordinary course consistent with past practice and in compliance in all material respects with all applicable laws and regulations, pay their respective material debts and material Taxes when due, pay or perform their other respective material obligations when due, and, use all commercially reasonable efforts consistent with the other terms of this Agreement to preserve intact their current business organizations, use all commercially reasonable efforts consistent with the other terms of this Agreement to keep available the services of their current officers and employees and preserve their relationships with those persons having business dealings with them, all with the goal of preserving unimpaired their goodwill and ongoing businesses at the Effective Time. Without limiting the generality of the foregoing, senior officers of Parent and the Company shall meet on a reasonably regular basis to review the financial and operational affairs of the Company and its subsidiaries, in accordance with applicable law, and the Company shall give due consideration to Parent's input on such matters, consistent with Section 4.5 hereof, with the understanding that Parent shall in no event be permitted to exercise control of the Company prior to the Effective Time. Except as expressly contemplated by this Agreement, except as disclosed in Section 4.1 of the Company Disclosure Schedule, or except as consented to by Parent in writing or required by applicable law or regulation, after the date hereof the Company shall not, and shall not permit any of its subsidiaries to:

(i) other than dividends and distributions by a direct or indirect wholly owned subsidiary of the Company to its parent,

(x) declare, set aside or pay any dividends on, make any other distributions in respect of, or enter into any agreement with respect to the voting of, any of its capital stock (except for regular quarterly cash dividends not to exceed $0.10 on the Company Common Stock and regular cash dividends on the REIT Preferred Stock of Preferred Capital Corp. and pursuant to the terms of the LTWs and the CALGZs and the CALGLs), (y) split, combine or reclassify any of its capital stock or issue or authorize the issuance of any other securities in respect of, in lieu of, or in substitution for, shares of its capital stock, except upon the exercise of Company Stock Options that are outstanding as of the date hereof in accordance with their present terms, or pursuant to the terms of the LTWs or pursuant to Section 1.6 of the 1998 Merger Agreement, or (z) purchase, redeem or otherwise acquire any shares of capital stock of the Company or any of its subsidiaries, other securities thereof or any rights, warrants or options to acquire any such shares or other securities (other than the issuance of Company Common Stock upon the exercise of Company Stock Options that are outstanding as of the date hereof in accordance with their present terms, pursuant to the terms of the LTWs or pursuant to Section 1.6 of the 1998 Merger Agreement);

(ii) issue, deliver, sell, pledge or otherwise encumber or subject to any Lien any shares of its capital stock, any other voting securities, including, without limitation, any restricted shares of Company Common Stock, or any securities convertible into, or any rights, warrants or options to acquire, any such shares, voting securities or convertible securities, including, without limitation, any Company Stock Options (other than the issuance of Company Common Stock upon the exercise of Company Stock Options that are outstanding as of the date hereof in accordance with their present terms, or (x) pursuant to the terms of the LTWs or pursuant to Section 1.6(a) or (b) of the 1998 Merger Agreement, or (y) to the extent contemplated by Section 6(c)(iii)(A) of the Securityholders Agreement, pursuant to Section 1.6(c) of the 1998 Merger Agreement);

(iii) amend its certificate of incorporation, by-laws or other comparable organizational documents;

(iv) (A) acquire or agree to acquire by merging or consolidating with, or by purchasing any assets or any equity securities of, or by any other manner, any business or any person, or otherwise acquire or agree to acquire any assets for consideration in excess of $1,000,000 in any one transaction or series of related transactions or $5,000,000 in the aggregate, except for investment securities and mortgage and automobile loans purchased in the ordinary course of business and except for foreclosures, settlements in lieu of foreclosure or troubled loan or debt restructurings in the ordinary course of business

consistent with past practice or (B) open, close, sell or acquire any branches;

(v) sell, lease, license, mortgage or otherwise encumber or subject to any Lien or otherwise dispose of any of its properties or assets other than securitizations and other transactions in the ordinary course of business and consistent with past practices or create any security interest in such assets or properties;

(vi) except for borrowings under existing credit facilities or lines of credit or refinancing of indebtedness outstanding on the date hereof not to exceed $100,000,000 and except for the incurring of deposit liabilities in the ordinary course of business, incur any indebtedness for borrowed money or issue any debt securities or assume, guarantee or endorse, or otherwise become responsible for the obligations of any person, or, other than in the ordinary course of business, make any loans, advances or capital contributions to, or investments in, any person other than its wholly owned subsidiaries and as a result of ordinary advances and reimbursements to employees and endorsements of banking instruments;

(vii) change in any material respect its accounting methods (or underlying assumptions), principles or practices affecting its assets, liabilities or business, including without limitation, any reserving, renewal or residual method, practice or policy, in each case, in effect on the date hereof, except as required by changes in GAAP or regulatory accounting principles, or change in any material respect any of its methods of reporting income and deductions for Federal income tax purposes from those employed in the preparation of the Federal income tax returns of the Company for the taxable year ending December 31, 2000, except as required by changes in law or regulation;

(viii) change in any material respects its investment or risk management or other similar policies of the Company or any of its subsidiaries;

(ix) make or change any material Tax election, file any material amended Tax Return, enter into any material closing agreement, settle or compromise any material liability with respect to Taxes, agree to any material adjustment of any Tax attribute, file any claim for a material refund of Taxes, or consent to any extension or waiver of the limitation period applicable to any material Tax claim or assessment, provided, that for purposes of this subparagraph (ix), "material" shall mean affecting or relating to $5 million of taxable income;

(x) create, renew or amend, or take any other action that may result in the creation, renewal, or amendment, of any agreement or contract or other binding obligation of the Company or its

subsidiaries containing (A) any non-de-minimis restriction on the ability of the Company and its subsidiaries, taken as a whole, to conduct its business as it is presently being conducted or (B) any non-de-minimis restriction on the Company or its subsidiaries engaging in any type or activity or business;

(xi) (A) incur any capital expenditures in an annual aggregate amount in excess of $7,500,000 or (B) enter into any agreement obligating the Company to spend more than $1,000,000 annually, or $5,000,000 in the aggregate, or undertake any material commitment or material transaction of the type described in Section 3.1(f) of this Agreement, other than in the ordinary course of business consistent with past practice;

(xii) amend or otherwise modify, except in the ordinary course of business, or knowingly violate in any material respect the terms of, any of the Company Material Contracts or other binding material obligations of the Company or its subsidiaries;

(xiii) except as required by agreements or instruments in effect on the date hereof, alter in any material respect, or enter into any commitment to alter in any material respect, its interest in any material corporation, association, joint venture, partnership or business entity in which the Company directly or indirectly holds any equity or ownership interest on the date hereof (other than any interest arising from any foreclosure, settlement in lieu of foreclosure or troubled loan or debt restructuring in the ordinary course of business consistent with past practice);

(xiv) (A) grant to any current or former director, executive officer or other Employee of the Company or its subsidiaries any increase in compensation, bonus or other benefits, except for salary, wage, bonus or benefit increases to current Employees who are not executive officers and which are in the ordinary course of business, consistent with past practice, (B) grant to any such current or former director, executive officer or other Employee of the Company any increase in severance or termination pay, (C) enter into, or amend, or take any action to clarify any provision of, any Plan or any employment, deferred compensation, consulting, severance, termination or indemnification agreement with any such current or former director, executive officer or other Employee except as required by applicable law or (D) modify any Company Stock Option;

(xv) except pursuant to agreements or arrangements in effect on the date hereof and disclosed in writing and provided or made available to Parent and except for compensation for service as an officer, employee or director consistent with past practice, pay, loan or advance any amount to, or sell, transfer or lease any

properties or assets (real, personal or mixed, tangible or intangible) to, or enter into any agreement or arrangement with, any of its officers or directors or any affiliate or the immediate family members or associates of any of its officers or directors other than compensation in the ordinary course of business consistent with past practice;

(xvi) agree or consent to any material agreement or material modifications of existing agreements with any Governmental Entity in respect of the operations of its business, except (i) as required by law or (ii) to effect the consummation of the transactions contemplated hereby;

(xvii) pay, discharge, settle, compromise or satisfy any material claims, liabilities or obligations (absolute, accrued, asserted or unasserted, contingent or otherwise), including taking any action to settle or compromise any litigation, other than any such payment, discharge, settlement, compromise or satisfaction in the ordinary course of business consistent with past practice or in accordance with their terms, of liabilities reflected or reserved against in, or contemplated by, the most recent consolidated financial statements (or the notes thereto) of the Company included in the Company Filed SEC Documents, or incurred since March 31, 2002 in the ordinary course of business consistent with past practice;

(xviii) authorize, or commit or agree to take, any of the foregoing actions or any other action that would be reasonably likely to prevent the Company from performing or would be reasonably likely to cause the Company not to perform its covenants hereunder in all material respects;

(xix) issue any broadly distributed communication of a general nature to Employees (including general communications relating to benefits and compensation) or customers without the prior written approval of Parent (which will not be unreasonably delayed or withheld), except for communications in the ordinary course of business that do not relate to the Merger or other transactions contemplated hereby;

(xx) create, renew, amend or permit to expire, lapse or terminate or knowingly take any action reasonably likely to result in the creation, renewal, amendment, expiration, lapse or termination of any insurance policies referred to in Section 3.1(o), except that the Company shall be permitted to take any such action without Parent's consent in the event that Parent shall fail to reasonably consent to such action; or

(xxi) knowingly take any action or knowingly fail to take any action which would result in any of the conditions of Article VI not being satisfied.

SECTION 4.2 Advice of Changes. Except to the extent prohibited by applicable law or regulation, the Company, Parent and Merger Sub shall promptly advise the other party orally and in writing to the extent it has knowledge of (i) any representation or warranty made by it contained in this Agreement that is qualified as to materiality becoming untrue or inaccurate in any respect or any such representation or warranty that is not so qualified becoming untrue or inaccurate in any material respect, (ii) the failure by it to comply in any material respect with or satisfy in any material respect any covenant, condition or agreement to be complied with or satisfied by it under this Agreement and (iii) any change or event having, or which, insofar as can reasonably be foreseen, could have a material adverse effect on such party or on the truth of their respective representations and warranties or the ability of the conditions set forth in Article VI to be satisfied; provided, however, that no such notification shall affect the representations, warranties, covenants or agreements of the parties (or remedies with respect thereto) or the conditions to the obligations of the parties under this Agreement; provided further that a failure to comply with this Section 4.2 shall not constitute a failure to be satisfied of any condition set forth in Article VI unless the underlying untruth, inaccuracy, failure to comply or satisfy, or change or event would independently result in a failure to be satisfied of a condition set forth in Article VI.

SECTION 4.3 No Solicitation by the Company. (a) Except as otherwise provided in this Section 4.3, until the earlier of the Effective Time and the date of termination of this Agreement, neither the Company, nor any of its subsidiaries or any of the officers, directors, agents, representatives or affiliates of it or its subsidiaries (including any investment banker, attorney or accountant retained by it or any of its subsidiaries) shall (i) solicit, initiate or encourage (including by way of furnishing information), or take any other action designed to facilitate, any inquiries or the making of any proposal which constitutes a Company Takeover Proposal (as defined below), (ii) participate in any discussions or negotiations regarding any Company Takeover Proposal, (iii) enter into any agreement regarding any Company Takeover Proposal or (iv) make or authorize any statement, recommendation or solicitation in support of any Company Takeover Proposal. If and only to the extent that (i) the Company Stockholders Meeting shall not have occurred, (ii) the Board of Directors of the Company determines in good faith, after consultation with outside counsel, that it is necessary to do so in order to comply with its fiduciary duties to the Company's stockholders under applicable law, (iii) the Company's Board of Directors concludes in good faith that such Company Takeover Proposal constitutes a Company Superior Proposal (as defined below), (iv) such Company Takeover Proposal was not solicited by it and did not otherwise result from a breach of this Section 4.3(a), and (v) the Company provides prior written notice to Parent of its decision to take such action, the Company shall be permitted to (A) furnish information with respect to the Company and any of its subsidiaries to such person pursuant to a customary confidentiality agreement, (B) participate in discussions and negotiations with such person, (C) subject to first complying with the provisions of Section 5.8(b) hereof, enter into a Company Acquisition Agreement and (D) effect a Change in the Company Recommendation (as defined below); provided, that at least five business days prior to taking any actions set forth in clause (C) or (D) above, the Company's Board of Directors provides Parent written notice advising Parent that the Company's Board of Directors is prepared to conclude that such Company Takeover

Proposal constitutes a Company Superior Proposal and during such five business day period the Company and its advisors shall have negotiated in good faith with Parent to make adjustments in the terms and conditions of this Agreement such that such Company Takeover Proposal would no longer constitute a Company Superior Proposal and the Company's Board of Directors fully considers any such adjustment and nonetheless concludes in good faith that such Company Takeover Proposal constitutes a Company Superior Proposal. The Company, its subsidiaries and their representatives immediately shall cease and cause to be terminated any existing activities, discussions or negotiations with any parties with respect to any Company Takeover Proposal.

For purposes of this Agreement, "Company Takeover Proposal" means any inquiry, proposal or offer from any person relating to any direct or indirect acquisition or purchase of a business that constitutes 20% or more of the net revenues, net income or assets of the Company and its subsidiaries, taken as a whole, or 20% or more of any class of equity securities of the Company, any tender offer or exchange offer that if consummated would result in any person beneficially owning 20% or more of any class of any equity securities of the Company, or any merger, consolidation, business combination, recapitalization, liquidation, dissolution or similar transaction involving the Company (or any subsidiary of the Company whose business constitutes 20% or more of the net revenues, net income or assets of the Company and its subsidiaries, taken as a whole), other than the transactions contemplated by this Agreement. For purposes of this Agreement, a "Company Superior Proposal" means any proposal made by a third party (A) to acquire, directly or indirectly, including pursuant to a tender offer, exchange offer, merger, consolidation, business combination, recapitalization, liquidation, sale, lease, exchange, transfer or other disposition (including a contribution to a joint venture), dissolution or similar transaction, for consideration consisting of cash and/or securities, 100% of the combined voting power of the shares of the Company's capital stock then outstanding or 100% of the net revenues, net income or assets of the Company and its subsidiaries, taken as a whole and (B) which is otherwise on terms which the Board of Directors of the Company determines in its good faith judgment (after consultation with (i) either Goldman Sachs & Co. or another nationally recognized investment banking firm and (ii) outside counsel), taking into account, among other things, all legal, financial, regulatory and other aspects of the proposal and the person making the proposal, that the proposal, (i) if consummated would result in a transaction that is more favorable to the Company's stockholders than the Merger and the other transactions contemplated hereby and (ii) is reasonably capable of being completed, including to the extent required, financing which is then committed or which, in the good faith judgment of the Board of Directors of the Company, is reasonably capable of being obtained by such third party.

(b) Except as expressly permitted by this Section 4.3, neither the Board of Directors of the Company nor any committee thereof shall (i) withdraw, modify or qualify, or propose publicly to withdraw, modify or qualify, in a manner adverse to Parent, the approval of the Agreement, the Merger or the Company Recommendation (as defined in Section 5.1(d)) or take any action or make any statement in connection with the Company Stockholders Meeting inconsistent with such approval or Company Recommendation (collectively, a "Change in the Company Recommendation"), (ii) approve or recommend, or propose publicly to approve or

recommend, any Company Takeover Proposal, or (iii) cause the Company to enter into any letter of intent, agreement in principle, acquisition agreement or other similar agreement (each, a "Company Acquisition Agreement") related to any Company Takeover Proposal. For purposes of this Agreement, a Change in the Company Recommendation shall include any approval or recommendation (or public proposal to approve or recommend), by the Company Board of a Company Takeover Proposal, or any failure by the Company Board to recommend against a Company Takeover Proposal. Notwithstanding the foregoing, the Board of Directors of the Company, to the extent that it determines in good faith, after consultation with outside counsel, that in light of a Company Superior Proposal it is necessary to do so in order to comply with its fiduciary duties to the Company's stockholders under applicable law, may terminate this Agreement solely in order to concurrently enter into a Company Acquisition Agreement with respect to any Company Superior Proposal, but only at a time that is after the fifth business day following Parent's receipt of the written notice specified in Section 4.3(a) and compliance by the Company with the terms of Sections 4.3(a) and 5.8(b).

(c) In addition to the obligations of the Company set forth in paragraphs (a) and (b) of this Section 4.3, the Company shall immediately advise Parent orally and in writing of any request for information relating to a Company Takeover Proposal, or of any Company Takeover Proposal, the material terms and conditions of such request or Company Takeover Proposal and the identity of the person making such request or Company Takeover Proposal, and shall promptly provide a copy of any written request or Company Takeover Proposal to Parent. The Company will keep Parent promptly informed of the status and details (including amendments or proposed amendments) of any such request or Company Takeover Proposal.

(d) Nothing contained in this Section 4.3 shall prohibit the Company from taking and disclosing to its stockholders a position contemplated by Rule 14e-2(a) promulgated under the Exchange Act or from making any disclosure if, in the good faith judgment of the Board of Directors of the Company, after consultation with outside counsel, failure so to disclose would violate its obligations under applicable law; provided, however, any such disclosure relating to a Company Takeover Proposal shall be deemed to be a Change in the Company Recommendation unless the Board of Directors of the Company reaffirms the Company Recommendation in such disclosure.

SECTION 4.4 Certain Tax Matters. During the period from the date of this Agreement to the Effective Time, the Company shall, and shall cause each of its subsidiaries to: (i) timely file (taking into account any extensions of time within which to file) all Tax Returns ("Post-Signing Returns") required to be filed by it and such Post-Signing Returns shall be prepared in a manner reasonably consistent with past practice; (ii) timely pay all Taxes shown as due and payable on such Post-Signing Returns that are so filed; (iii) accrue a reserve in its books and records and financial statements in accordance with past practice for all Taxes payable by it for which no Post-Signing Return is due prior to the Effective Time; and (iv) promptly notify Parent of any material suit, claim, action, investigation, proceeding or audit (collectively, "Actions") pending against or with respect to the Company or any of its subsidiaries in respect of any Tax matter, including (without limitation) Tax liabilities and refund claims.

SECTION 4.5 Transition. Commencing following the date hereof, Parent and the Company shall, and shall cause their respective subsidiaries to, use their reasonable best efforts to facilitate the integration of the Company and its subsidiaries, including the Bank, with the businesses of Parent and its subsidiaries to be effective as of the Closing Date. Without limiting the generality of the foregoing, from the date hereof through the Closing Date and consistent with the performance of their day-to-day operations and the continuous operation of the Company and its subsidiaries in the ordinary course of business, the Company shall cause the employees and officers of the Company and its subsidiaries, including the Bank, to use their reasonable best efforts to provide support, including support from its outside contractors, and to assist Parent in performing all tasks, including, without limitation, equipment installation, reasonably required to result in a successful integration at the Closing.

SECTION 4.6 No Fundamental Changes in the Conduct of Business by Parent. Except as set forth in Section 4.6 of the Parent Disclosure Schedule, except as otherwise expressly contemplated by this Agreement or except as consented to by the Company in writing or required by applicable law or regulation, during the period from the date of this Agreement to the Effective Time, Parent shall not, and shall not permit any of it subsidiaries to:

(i) except as contemplated hereby, amend its certificate of incorporation or by-laws in a manner that would adversely affect the economic benefits of the Merger to the holders of Company Common Stock; provided that the authorization or issuance of preferred stock in a manner that would not require Parent stockholder approval shall not be deemed to violate this clause (i);

(ii) enter into any agreement to acquire all or substantially all of the capital stock or assets of any other person or business unless such transaction would not materially delay or impede the consummation of the Merger;

(iii) knowingly take any action or knowingly fail to take any action which would result in any of the conditions of Article VI not being satisfied;

(iv) authorize, or commit or agree to take, any of the foregoing actions or any other action that would be reasonably likely to prevent Parent from performing or would be reasonably likely to cause Parent not to perform its covenants hereunder in all material respects; or

(v) directly purchase or otherwise acquire any shares of Company Common Stock.

ARTICLE V

ADDITIONAL AGREEMENTS

SECTION 5.1 Preparation of the Form S-4, Proxy Statement; Stockholders Meeting.

(a) As promptly as practicable following the date of this Agreement, Parent and the Company shall prepare and file with the SEC the Form S-4, in which the Proxy Statement will be included as a prospectus. Each of Parent and the Company shall use all reasonable efforts to have the Form S-4 declared effective under the Securities Act as promptly as practicable after such filing. The Company shall use reasonable best efforts to cause the Proxy Statement to be mailed to holders of Company Common Stock as promptly as practicable after the Form S-4 is declared effective.

(b) If at any time prior to the Effective Time there shall occur (i) any event with respect to the Company or any of its subsidiaries, or with respect to other information supplied by Company for inclusion in the Form S-4 or the Proxy Statement or (ii) any event with respect to Parent, or with respect to information supplied by Parent for inclusion in the Form S-4 or the Proxy Statement, in either case, which event is required to be described in an amendment of, or a supplement, to the Form S-4 or the Proxy Statement, such event shall be so described, and such amendment or supplement shall be promptly filed with the SEC and, as required by law, disseminated to the stockholders of Company.

(c) Each of the Company and Parent shall promptly notify the other of the receipt of any comments from the SEC or its staff or any other appropriate government official and of any requests by the SEC or its staff or any other appropriate government official for amendments or supplements to any of the filings with the SEC in connection with the Merger and other transactions contemplated hereby or for additional information and shall supply the other with copies of all correspondence between the Company or any of its representatives, or Parent or any of its representatives, as the case may be, on the one hand, and the SEC or its staff or any other appropriate government official, on the other hand, with respect thereto. The Company and Parent shall use their respective reasonable best efforts to respond to any comments of the SEC with respect to the Form S-4 and the Proxy Statement as promptly as practicable. The Company and Parent shall cooperate with each other and provide to each other all information necessary in order to prepare the Form S-4 and the Proxy Statement, and shall provide promptly to the other party any information such party may obtain that could necessitate amending any such document.

(d) The Company shall, as promptly as practicable after the Form S-4 is declared effective under the Securities Act, duly call, give notice of, convene and hold the Company Stockholders Meeting in accordance with the DGCL for the purpose of obtaining the Company Stockholder Approval and subject to Section 4.3, the Board of Directors of the Company shall recommend to the Company's stockholders the approval and adoption of this Agreement, the Merger and the other transactions contemplated hereby (the "Company Recommendation"). Without limiting the generality

of the foregoing, the Company agrees that its obligations pursuant to the first sentence of this Section 5.1(d) shall not be affected by the commencement, public proposal, public disclosure or communication to the Company of any Company Takeover Proposal. Notwithstanding any Change in the Company Recommendation, unless otherwise directed in writing by Parent, this Agreement and the Merger shall be submitted to the stockholders of the Company at the Company Stockholders Meeting for the purpose of approving the Agreement and the Merger and nothing contained herein shall be deemed to relieve the Company of such obligation.

(e) The Company shall coordinate and cooperate with Parent with respect to the timing of the Company Stockholders Meeting.

SECTION 5.2 Letters of the Company's Accountants. The Company shall cause to be delivered to Parent two letters from the Company's independent accountants, one dated a date within two business days before the date on which the Form S-4 shall become effective and one dated a date within two business days before the Closing Date, each addressed to Parent, in form and substance reasonably satisfactory to Parent and customary in scope and substance for comfort letters delivered by independent public accountants in connection with registration statements similar to the Form S-4.

SECTION 5.3 Letters of Parent's Accountants. Parent shall cause to be delivered to the Company two letters from Parent's independent accountants, one dated a date within two business days before the date on which the Form S-4 shall become effective and one dated a date within two business days before the Closing Date, each addressed to the Company, in form and substance reasonably satisfactory to the Company and customary in scope and substance for comfort letters delivered by independent public accountants in connection with registration statements similar to the Form S-4.

SECTION 5.4 Access to Information; Confidentiality. Subject to the Agreement, dated as of April 4, 2002 (executed as of April 8, 2002) between Parent and the Company (the "Confidentiality Agreement"), and subject to applicable law, the Company shall, and shall cause its subsidiaries to, afford Parent and to the officers, employees, accountants, counsel, financial advisors and other representatives of Parent, reasonable access during normal business hours during the period prior to the Effective Time to all its respective properties, books, contracts, commitments, personnel and records and, during such period, the Company shall, and shall cause each of its subsidiaries to, furnish promptly to Parent (a) a copy of each material report, schedule, registration statement and other document filed by it with any Governmental Entity and (b) all other information concerning its business, properties and personnel as such other party may reasonably request. In addition, the Company will deliver, or cause to be delivered, to Parent the internal or external reports prepared by the Company and/or its subsidiaries in the ordinary course that are reasonably required by Parent promptly after such reports are made available to the Company's personnel. No review pursuant to this Section 5.4 shall affect any representation or warranty given by the Company to Parent. Parent will hold, and will cause its officers, employees, accountants, counsel, financial advisors and other representatives and affiliates to hold, any nonpublic information in accordance with the terms of the Confidentiality Agreement.

SECTION 5.5 Reasonable Best Efforts. (a) Subject to the terms and conditions set forth in this Agreement, each of the parties hereto shall use its reasonable best efforts (subject to, and in accordance with, applicable law) to take promptly, or cause to be taken, all actions, and to do promptly, or cause to be done, and to assist and cooperate with the other parties in doing, all things necessary, proper or advisable under applicable laws and regulations to consummate and make effective the Merger and the other transactions contemplated by this Agreement, including (i) the obtaining of all necessary actions or nonactions, waivers, consents and approvals from Governmental Entities and the making of all necessary registrations and filings and the taking of all steps as may be necessary to obtain an approval or waiver from, or to avoid an action or proceeding by, any Governmental Entity, (ii) the obtaining of all necessary consents, approvals or waivers from third parties, (iii) the defending of any lawsuits or other legal proceedings, whether judicial or administrative, challenging this Agreement or the consummation of the transactions contemplated by this Agreement and (iv) the execution and delivery of any additional instruments necessary to consummate the transactions contemplated by, and to fully carry out the purposes of, this Agreement.

(b) In connection with and without limiting the foregoing, the Company and Parent shall (i) use their reasonable best efforts to ensure that no state takeover statute or similar statute or regulation is or becomes applicable to this Agreement or the Merger or any of the other transactions contemplated hereby, and (ii) if any state takeover statute or similar statute or regulation becomes applicable to this Agreement or the Merger or any other transaction contemplated hereby, take all action necessary to ensure that the Merger and the other transactions contemplated by this Agreement may be consummated as promptly as practicable on the terms contemplated hereby and otherwise to minimize the effect of such statute or regulation on the Merger and the other transactions contemplated hereby.

(c) In connection with and without limiting the foregoing, the Company and Parent shall use their reasonable best efforts to effect the combination (the "Bank Combination") of the Bank with Citibank FSB, or another banking subsidiary of Parent, including, without limitation, the obtaining of all necessary actions or nonactions, waivers, consents and approvals from Governmental Entities (including the OTS Approval) and the making of all necessary registrations and filings and the taking of all steps as may be necessary to obtain an approval or waiver from, or to avoid an action or proceeding by, any Governmental Entity (including the OTS Approval).

(d) At the reasonable request of Parent, the Company and its subsidiaries shall use their reasonable best efforts and cooperate with Parent in order to permit all of the indebtedness outstanding under the Indenture, dated as of August 6, 1998, between Mercury State Holdings Inc. and The Bank of New York, as trustee (including any amendments and supplemental indentures, the "Indenture"), to be called for redemption and redeemed as promptly as possible following the Closing. In furtherance thereof, the Company and its subsidiaries agree to request that The Bank of New York consent to shorten the notice period required pursuant to Section 3.02 of the Indenture from 60 days to 30 days or agree to accept a redemption notice that is conditioned upon the consummation of the Merger.

SECTION 5.6 Company Equity-Based Incentives. (a) As of the Effective Time, each outstanding Company Stock Option representing a right to receive Company Common Stock upon exercise of such Company Stock Option shall be converted into an option (an "Adjusted Option") to purchase the number of shares of Parent Common Stock (rounded to the nearest whole number of shares of Parent Common Stock) equal to the number of shares of Company Common Stock subject to such Company Stock Option immediately prior to the Effective Time multiplied by the Exchange Ratio, at an exercise price per share (rounded to the nearest whole cent) equal to the exercise price for each such share of Company Common Stock subject to such Company Stock Option divided by the Exchange Ratio, and references in each such option to the Company shall be deemed to refer to Parent, where appropriate; provided, however, Parent shall assume the obligations of the Company under the applicable Company Stock Plan and agreements under which the Adjusted Option was originally granted, subject to the adjustments required by this Section 5.6(a). The other terms of each such Adjusted Option, and the plans under which they were issued, shall continue to apply in accordance with their terms. Notwithstanding anything contained herein to the contrary, with respect to the Company Stock Options granted under the LTIP, (i) the rights with respect to LTWs attached to such Company Stock Options shall continue in full force and effect following the Effective Time, with such LTWs to be adjusted in accordance with Section 2.6 hereof, (ii) the exercise price of such Company Stock Options relating to such LTWs shall be adjusted to include the adjusted LTW exercise price in lieu of the current LTW exercise price and (iii) such Company Stock Options to be subject to adjustment following the Effective Time in accordance with the special LTW anti-dilution provision of the LTIP upon the exercise of any such Company Stock Option on or after the Triggering Event (as defined in the Warrant Agreement). Notwithstanding the foregoing, in the case of any Company Stock Option to which Section 421 of the Code applies by reason of its qualification as an incentive stock option under Section 422 of the Code, the conversion formula shall be adjusted if necessary to comply with Section 424(a) of the Code.

(b) The Company shall adopt such resolutions and take all such other actions as may be required to permit the transactions contemplated by this Section 5.6, including, but not limited to the conversion of shares of Company Common Stock held or to be awarded or paid pursuant to such benefit plans, programs or arrangements into shares of Parent Common Stock on a basis consistent with the transactions contemplated by this Agreement.

(c) Parent shall (i) reserve for issuance the number of shares of Parent Common Stock that will become subject to the plans referred to in this Section 5.6 and (ii) issue or cause to be issued the appropriate number of shares of Parent Common Stock pursuant to applicable plans upon the exercise or maturation of rights existing thereunder on the Effective Time or thereafter granted or awarded. As soon as practicable following the Effective Time, Parent shall prepare and file with the SEC a registration statement on Form S-8 (or other appropriate form) registering a number of shares of Parent Common Stock necessary to fulfill Parent's obligations under this Section 5.6.

(d) As soon as practicable after the Effective Time, Parent shall deliver to the holders of Company Stock Options appropriate notices setting forth such holders' rights pursuant to awards granted under the Company Stock Plans.

(e) Prior to the Effective Time, the Company shall take all such steps as may be required to cause any dispositions of Company Common Stock or acquisitions of Parent Common Stock (including derivative securities with respect to Company Common Stock or Parent Common Stock) resulting from the transactions contemplated by Article I and II or Section 5.6 of this Agreement by each individual who is subject to the reporting requirements of Section 16(a) of the Exchange Act with respect to the Company or by each individual, if any, who will be so subject, immediately following the Effective Time, with respect to Parent, to be exempt under Rule 16b-3 promulgated under the Exchange Act, such steps to be taken in accordance with the No-Action Letter dated January 12, 1999, issued by the SEC to Skadden, Arps, Slate, Meagher & Flom LLP.

SECTION 5.7 Indemnification, Exculpation and Insurance. (a) All rights to indemnification and exculpation from liabilities for acts or omissions occurring at or prior to the Effective Time now existing in favor of the current or former directors or officers of the Company and its subsidiaries as provided in their respective certificates of incorporation or by-laws (or comparable organizational documents) and any existing indemnification agreements or arrangements of the Company and its subsidiaries shall survive the Merger and shall continue in full force and effect in accordance with their terms, and shall not be amended, repealed or otherwise modified for a period of six years after the Effective Time in any manner that would adversely affect the rights thereunder of such individuals for acts or omissions occurring at or prior to the Effective Time.

(b) In the event of any threatened or actual claim, action, suit, proceeding or investigation, whether civil, criminal or administrative, including, without limitation, any such claim, action suit, proceeding or investigation in which any individual who is now, or has been at any time prior to the date of this Agreement, or who becomes prior to the Effective Time, a director or officer of the Company or any of its subsidiaries (the "Indemnified Parties"), is, or is threatened to be, made a party based in whole or in part on, or arising in whole or in part out of, or pertaining to (i) the fact that he is or was a director, officer or employee of the Company or any of its subsidiaries or their respective predecessors or (ii) this Agreement or any of the transactions contemplated hereby, whether in any case asserted or arising before or after the Effective Time, the parties hereto agree to cooperate and use their best efforts to defend against and respond thereto.

(c) For six years after the Effective Time, the Surviving Corporation shall maintain in effect the Company's current directors' and officers' liability insurance covering acts or omissions occurring prior to the Effective Time with respect to those persons who are currently covered by the Company's directors' and officers' liability insurance policy on terms with respect to such coverage and amount no less favorable to the Company's directors and officers currently covered by such insurance than those of such policy in effect on the date hereof; provided, that the Surviving Corporation may substitute therefor policies of Parent or its subsidiaries

(including self insurance) containing terms with respect to coverage and amount no less favorable to such directors or officers; provided, further, that in no event shall the Surviving Corporation be required to pay aggregate premiums for insurance under this Section 5.7(c) in excess of 200% of the aggregate premiums paid by the Company in 2001 on an annualized basis for such purpose and, if the annual premiums of such insurance coverage exceed such amount, the Surviving Corporation shall be obligated to obtain a policy with the greatest coverage available for a cost not exceeding such amount.

(d) Parent shall cause the Surviving Corporation or any successor thereto, whether by consolidation, merger or transfer of substantially all of its properties or assets, to comply with its obligations under this Section 5.7. The provisions of this Section 5.7 shall survive the Effective Time and are intended to be for the benefit of, and shall be enforceable by, each Indemnified Party and other person named herein and his or her heirs and representatives.

SECTION 5.8 Fees and Expenses. (a) Except as provided in this Section 5.8 or in Section 5.14, all fees and expenses incurred in connection with the Merger, this Agreement, and the transactions contemplated by this Agreement shall be paid by the party incurring such fees or expenses, whether or not the Merger is consummated. Subject to Section 5.14, the Company shall not become or agree to become liable for any fees and expenses related to work performed on behalf of its major stockholders.

(b) (i) In the event that this Agreement is terminated by Parent pursuant to Section 7.1(c)(ii), then, upon such termination, the Company shall pay Parent a fee equal to $117,500,000 by wire transfer of same day funds within two business days after such termination; furthermore, if, prior to the date that is twelve (12) months after the date of such termination the Company consummates a Company Takeover Proposal or enters into a Company Acquisition Agreement (provided that, for purposes of this Section 5.8(b)(i), the percentage referred to in the definition of Company Takeover Proposal shall be 50% or more and any reference in such definition to any merger, consolidation, business combination, recapitalization or substantially similar transaction involving the Company shall mean any such transaction in which the stockholders of the Company immediately prior to such transaction, as a group, own less than a majority of the outstanding common stock or other ownership interests of the Company or the surviving or resulting corporation in such transaction or, as applicable, the publicly traded parent corporation thereof, immediately following such transaction (and shall not include any such transaction solely with a wholly owned subsidiary and not involving the Company), and any references to liquidation or dissolution shall not include any such transaction not undertaken in connection with any third-party transaction of the type contemplated above), then the Company shall, on the date such Company Takeover Proposal is consummated or such Company Acquisition Agreement is entered into, pay Parent a fee equal to $117,500,000 by wire transfer of same day funds.

(ii) In the event that (A) a Pre-Termination Takeover Proposal Event (as defined below) shall occur after the date of this Agreement and thereafter this Agreement is terminated by either Parent or the Company pursuant to Section 7.1(b)(ii) and (B) prior to the

date that is twelve (12) months after the date of such termination the Company consummates a Company Takeover Proposal or enters into a Company Acquisition Agreement (provided that for purposes of this Section 5.8(b)(ii), the percentage referred to in the definition of Company Takeover Proposal shall be 50% or more and any reference in such definition to any merger, consolidation, business combination, recapitalization or substantially similar transaction involving the Company shall mean any such transaction in which the stockholders of the Company immediately prior to such transaction own less than a majority of the outstanding common stock or other ownership interests of the Company or the surviving or resulting corporation in such transaction immediately following such transaction (and shall not include any such transaction solely with a wholly owned subsidiary and not involving the Company), and any references to liquidation or dissolution shall not include any such transaction not undertaken in connection with any third-party transaction of the type contemplated above), then the Company shall, on the date such Company Takeover Proposal is consummated or such Company Acquisition Agreement is entered into, pay Parent a fee equal to $235,000,000 by wire transfer of same day funds.

(iii) In the event that this Agreement is terminated by the Company pursuant to Section 7.1(d), then concurrently with such termination, the Company shall pay to Parent a fee equal to $235,000,000 by wire transfer of same day funds.

(iv) For purposes of this Section 5.8(b), a "Pre-Termination Takeover Proposal Event" shall be deemed to occur if, prior to the event giving rise to the right to terminate this Agreement, a bona fide Company Takeover Proposal shall have been made known to the Company or any of its subsidiaries or has been made directly to its stockholders generally or any person shall have publicly announced an intention (whether or not conditional) to make a Company Takeover Proposal, and such Company Takeover Proposal or public announcement shall not have been irrevocably withdrawn not less than five business days prior to the Company Stockholders Meeting. The Company acknowledges that the agreements contained in this Section 5.8(b) are an integral part of the transactions contemplated by this Agreement, and that, without these agreements, Parent would not enter into this Agreement; accordingly, if the Company fails promptly to pay the amount due pursuant to this Section 5.8(b), and, in order to obtain such payment, Parent commences a suit which results in a judgment against the Company for the fee set forth in this Section 5.8(b), the Company shall pay to Parent its costs and expenses (including attorneys' fees and expenses) in connection with such suit, together with interest on the amount of the fee at the rate on six-month U.S. Treasury obligations plus 300 basis points in effect on the date such payment was required to be made.

SECTION 5.9 Public Announcements. Parent and the Company will consult with each other before issuing, and provide each other the opportunity to review, comment upon and concur with and use reasonable efforts to agree on, any press release or other public statements and any broadly distributed internal communications with respect to the transactions contemplated by this Agreement, including the Merger, and shall not issue any such press release or make any such public statement prior to such consultation, except as either party may determine is required by applicable law, court process or by obligations pursuant to any listing agreement with any national securities exchange and except for any discussions with rating agencies. The parties agree that the initial press release to be issued with respect to the transactions contemplated by this Agreement shall be in the form heretofore agreed to by the parties.

SECTION 5.10 Affiliates. Concurrently with the execution of this Agreement (or to the extent not practicable, as soon as practicable and in any event within 10 business days after the date hereof), the Company shall deliver to Parent a written agreement substantially in the form attached as Exhibit A hereto of all of the persons who are "affiliates" of the Company for purposes of Rule 145 under the Securities Act; all of such affiliates, who are affiliates as of the date of this Agreement, are identified in Section 5.10 of the Company Disclosure Schedule. Section 5.10 of the Company Disclosure Schedule shall be updated by the Company as necessary to reflect changes from the date hereof and the Company shall use reasonable best efforts to cause each person added to such schedule after the date hereof to deliver a similar agreement.

SECTION 5.11 Stock Exchange Listing. Parent shall use best efforts to cause the Parent Common Stock issuable (i) under Article II or (ii) upon exercise of the LTWs and Adjusted Options pursuant to Section 5.6 to be approved for issuance on the NYSE and the PSX, in each case subject to official notice of issuance, as promptly as practicable after the date hereof, and in any event prior to the Closing Date.

SECTION 5.12 Stockholder Litigation. Each of the Company and Parent shall give the other the reasonable opportunity to participate in the defense of any stockholder litigation against the Company or Parent, as applicable, and its directors relating to the transactions contemplated by this Agreement.

SECTION 5.13 Standstill Agreements; Confidentiality Agreements. During the period from the date of this Agreement through the Effective Time, the Company shall not terminate, amend, modify or waive any provision of any confidentiality or standstill agreement to which it or any of its respective subsidiaries is a party and which relates to the confidentiality or information regarding the Company or its subsidiaries or which relate to securities of the Company. During such period, the Company shall use reasonably best efforts to enforce, to the fullest extent permitted under applicable law, the provisions of any such agreement, including by using reasonable best efforts to obtain injunctions to prevent any breaches of such agreements and to enforce specifically the terms and provisions thereof in any court having jurisdiction.

SECTION 5.14 Conveyance Taxes. Parent and the Company shall cooperate in the preparation, execution and filing of all returns, questionnaires, applications or other documents regarding any real property transfer, real property

transfer gains, sales, use, transfer, value added, stock transfer and stamp Taxes, any transfer, recording, registration and other fees or any similar Taxes which become payable in connection with the transactions contemplated by this Agreement that are required or permitted to be filed on or before the Effective Time. The Company shall pay on behalf of its stockholders any such Taxes or fees imposed by any Governmental Entity which become payable in connection with the transactions contemplated by this Agreement for which such stockholders are primarily liable and in no event shall Parent pay such amounts.

SECTION 5.15 Employee Benefits. (a) Parent shall, or shall cause the Surviving Corporation and its subsidiaries to, (i) give those Employees who are, as of the Effective Time, employed by the Company and its subsidiaries (the "Continuing Employees") full credit for purposes of eligibility, vesting and benefit accruals (other than for purposes of benefit accruals under any defined benefit pension plan) under any employee benefit plans or arrangements maintained by Parent, the Surviving Corporation or any subsidiary of Parent or the Surviving Corporation for such Continuing Employees' service with the Company or any subsidiary of the Company (or any predecessor entity) to the same extent recognized by the Company and its subsidiaries, and (ii) waive all limitations as to preexisting conditions, exclusions and waiting periods with respect to participation and coverage requirements applicable to the Continuing Employees under any welfare plan that such employees may be eligible to participate in after the Effective Time, other than limitations or waiting periods that are already in effect with respect to such employees and that have not been satisfied as of the Effective Time under any welfare plan maintained for the Continuing Employees immediately prior to the Effective Time, and provide credit under any such welfare plan for any copayments, deductibles and out-of-pocket expenditures for the remainder of the coverage period during which any transfer of coverage occurs.

(b) From and after the Effective Time and through December 31 of the calendar year in which the Effective Time occurs (the "Continuation Period"), Parent shall provide, or shall cause to be provided, to the Continuing Employees compensation and employee benefit plans, programs and arrangements that are, in the aggregate, comparable to those generally provided to such employees as of the date hereof. From and after the expiration of the Continuation Period, Parent shall provide, or shall cause to be provided, to the Continuing Employees compensation and employee benefit plans, programs and arrangements that are no less favorable than those generally provided to similarly situated employees of Parent. Notwithstanding anything contained herein to the contrary, each Continuing Employee whose employment is terminated during the twelve-month period (or such longer period as may be required by the terms of the applicable Company Severance Plan as in effect on the date hereof) following the Effective Time shall be entitled to receive severance pay and benefits equal to the severance pay and benefits under the applicable severance plan of the Company listed on Section 5.15(b) of the Company Disclosure Schedule, as in effect on the date hereof.

(c) From and after the Effective Time, Parent shall, or shall cause the Surviving Corporation to, assume and honor all Plans (including the Litigation Management Agreement, dated as of February 4, 1998, entered into by the Company and

the other parties thereto, as amended), as in effect on the date hereof; provided, however, nothing herein shall restrict Parent's or the Surviving Corporation's ability to amend or terminate such Plans in accordance with their terms.

SECTION 5.16 Tax Matters. Parent and the Company shall use reasonable best efforts to cause the Merger to qualify as a reorganization within the meaning of Section 368(a) of the Code and to obtain the Tax opinions set forth in Sections 6.2(d) and 6.3(c) hereof. This Agreement is intended to constitute a "plan of reorganization" within the meaning of Treas. Reg. Sec. 1.368-2(g). Officers of Parent, Merger Sub and the Company shall execute and deliver to Wachtell, Lipton, Rosen & Katz ("Wachtell"), counsel to the Company, and Skadden Arps, counsel to Parent, certificates containing appropriate representations at such time or times as may be reasonably requested by such law firms, including the effective date of the Form S-4 and the Closing Date, in connection with their respective deliveries of opinions, pursuant to Sections 6.2(d) and 6.3(c) hereof, with respect to the Tax treatment of the Merger. None of Parent, Merger Sub or the Company shall take or cause to be taken any action which would cause to be untrue (or fail to take or cause not to be taken any action which would cause to be untrue) any of such certificates and representations.

SECTION 5.17 Amendment of Warrant Agreement. The Company's Board of Directors, in accordance with Section 4.5 of the Warrant Agreement, has determined that, following the Effective Time, by virtue of the Merger, holders of LTWs shall be exercisable in respect of an amount in cash and shares of Parent Common Stock as provided for in Section 2.6 of this Agreement and, in connection therewith, the Company shall cause the Warrant Agreement to be amended and signed by Parent with the consent of the warrant agent to so provide and to provide for Parent's assumption of the Company's obligations thereunder by virtue of such determination as provided in Section 2.6.

ARTICLE VI

CONDITIONS PRECEDENT

SECTION 6.1 Conditions to Each Party's Obligation to Effect the Merger. The respective obligation of each party to effect the Merger is subject to the satisfaction or waiver by each of Parent and the Company on or prior to the Closing Date of the following conditions:

(a) Stockholder Approval. The Company Stockholder Approval shall have been obtained.

(b) Governmental and Regulatory Approvals. Other than the filing provided for under Section 1.3 and the waiting period pursuant to the HSR Act (which is addressed in Section 6.1(f)), all consents, approvals and actions of, filings with and notices to any Governmental Entity required by the Company, Parent or any of their subsidiaries under applicable law or regulation to consummate the Merger, the Bank Combination and the other transactions contemplated hereby, the failure of which to be obtained or made would result in a material adverse effect on Parent's ability to conduct

the business in the Company in substantially the same manner as presently conducted, shall have been obtained or made, including, without limitation, approval of the Federal Reserve and the OTS Approval (all such approvals and the expiration of all such waiting periods, the "Requisite Regulatory Approvals").

(c) No Injunctions or Restraints. No judgment, order, decree, statute, law, ordinance, rule or regulation, entered, enacted, promulgated, enforced or issued by any court or other Governmental Entity of competent jurisdiction or other legal restraint or prohibition (collectively, "Restraints") shall be in effect preventing the consummation of the Merger; provided, however, that each of the parties shall have used its best efforts to prevent the entry of any such Restraints and to appeal as promptly as possible any such Restraints that may be entered.

(d) Form S-4. The Form S-4 shall have become effective under the Securities Act and no stop order or proceedings seeking a stop order shall have been entered or be pending by the SEC.

(e) Stock Exchange Listing. The shares of Parent Common Stock issuable to the Company's stockholders (i) as contemplated by Article II or (ii) upon exercise of the LTWs and the Adjusted Options pursuant to Section 5.6 shall have been approved for listing on the NYSE and the PSX, subject to official notice of issuance.

(f) HSR Act. The waiting period (and any extension thereof) applicable to the Merger under the HSR Act shall have been terminated or shall have expired.

SECTION 6.2 Conditions to Obligations of Parent. The obligation of Parent to effect the Merger is further subject to satisfaction or waiver of the following conditions:

(a) Representations and Warranties. The representations and warranties of the Company set forth herein shall be true and correct at and as of the Closing Date, as if made at and as of such time (except to the extent expressly made as of an earlier date, in which case as of such date), provided that no representation or warranty of the Company shall be deemed untrue or incorrect for purposes hereunder as a consequence of the existence of any fact, event or circumstance inconsistent with such representation or warranty, unless such fact, event or circumstance, individually or taken together with all other facts, events or circumstances inconsistent with any representation or warranty of the Company, has had or would result in a material adverse effect on the Company, disregarding for these purposes (x) any qualification or exception for, or reference to, materiality in any such representation or warranty and (y) any use of the terms "material," "materially," "in all material respects," "material adverse change," "material adverse effect" or similar terms or phrases in any such representation or warranty.

(b) Performance of Obligations of the Company. The Company shall have performed in all material respects all material obligations, taken as a

whole, required to be performed by it at or prior to the Closing Date under this Agreement.

(c) Regulatory Condition. No condition or requirement has been imposed by one or more Governmental Entities in connection with any required approval by them of the Merger or the Bank Combination that requires the Company or its subsidiaries to be operated in a manner that would have a material adverse effect on the Company.

(d) Tax Opinion. Parent shall have received the opinion of Skadden, Arps, in form and substance reasonably satisfactory to Parent, dated the Closing Date, rendered on the basis of facts, representations and assumptions set forth in such opinion and the certificates obtained from officers of Parent, Merger Sub and the Company, all of which are consistent with the state of facts existing as of the Effective Time, to the effect that the Merger will qualify as a reorganization within the meaning of Section 368(a) of the Code. In rendering the opinion described in this Section 6.2(d), Skadden Arps shall have received and may rely upon the certificates and representations referred to in Section 5.16 hereof.

SECTION 6.3 Conditions to Obligations of the Company. The obligation of the Company to effect the Merger is further subject to satisfaction or waiver of the following conditions:

(a) Representations and Warranties. The representations and warranties of Parent set forth herein shall be true and correct at and as of the Closing Date, as if made at and as of such time (except to the extent expressly made as of an earlier date, in which case as of such date), provided that no representation or warranty of Parent shall be deemed untrue or incorrect for purposes hereunder as a consequence of the existence of any fact, event or circumstance inconsistent with such representation or warranty, unless such fact, event or circumstance, individually or taken together with all other facts, events or circumstances inconsistent with any representation or warranty of Parent, has had or would result in a material adverse effect on Parent, disregarding for these purposes (x) any qualification or exception for, or reference to, materiality in any such representation or warranty and (y) any use of the terms "material," "materially," "in all material respects," "material adverse change," "material adverse effect" or similar terms or phrases in any such representation or warranty.

(b) Performance of Obligations of Parent. Parent shall have performed in all material respects all material obligations, taken as a whole, required to be performed by it at or prior to the Closing Date under this Agreement.

(c) Tax Opinion. The Company shall have received the opinion of Wachtell, in form and substance reasonably satisfactory to the Company, dated the Closing Date, rendered on the basis of facts, representations and assumptions set forth in such opinion and the certificates obtained from officers of Parent, Merger Sub and the Company, all of which are consistent with the state of facts existing as of the Effective Time, to the effect that the Merger will qualify as a reorganization within the meaning of Section 368(a) of the Code. In rendering the tax opinion described in this

Section 6.3(c), Wachtell shall have received and may rely upon the certificates and representations referred to in Section 5.16 hereof.

SECTION 6.4 Frustration of Closing Conditions. Neither Parent nor the Company may rely on the failure of any condition set forth in Section 6.1, 6.2 or 6.3, as the case may be, to be satisfied if such failure was caused by such party's failure to use reasonable best efforts to consummate the Merger and the other transactions contemplated by this Agreement, as required by and subject to Section 5.5.

ARTICLE VII

TERMINATION, AMENDMENT AND WAIVER

SECTION 7.1 Termination. This Agreement may be terminated at any time prior to the Effective Time, and whether before or after the Company Stockholder Approval:

(a) by mutual written consent of Parent and the Company;

(b) by either Parent or the Company:

(i) if the Merger shall not have been consummated by the date that is twelve months following the date hereof, provided, however, that the right to terminate this Agreement pursuant to this Section 7.1(b) shall not be available to any party whose failure to perform any of its obligations under this Agreement results in the failure of the Merger to be consummated by such time;

(ii) if the Company Stockholder Approval shall not have been obtained at the Company Stockholders Meeting duly convened therefor or at any adjournment or postponement thereof;

(iii) if any Restraint having any of the effects set forth in Section 6.1(c) shall be in effect and shall have become final and nonappealable; provided, that the party seeking to terminate this Agreement pursuant to this Section 7.1(b)(iii) shall have used reasonable best efforts to prevent the entry of and to remove such Restraint; or

(iv) if any Governmental Entity that must grant a Requisite Regulatory Approval has denied the applicable Requisite Regulatory Approval and such denial has become final and nonappealable;

(c) by Parent, if (i) the Company shall have failed to make the Company Recommendation in the Proxy Statement, (ii) the Company shall have effected a Change in the Company Recommendation in accordance with the terms hereof, (iii) the Company shall have effected a Change in the Company Recommendation in violation of the terms hereof, or (iv) the Company shall have breached its obligations under this

Agreement by reason of a failure to call or convene the Company Stockholders Meeting in accordance with Section 5.1(d);

(d) by the Company in accordance with Section 4.3(b); provided, that in order for the termination of this Agreement pursuant to this paragraph (d) to be deemed effective, the Company shall have complied in all material respects with all provisions of Section 4.3, including the notice provisions therein, and with applicable requirements, including the payment of the fee, referred to in paragraph (b)(iii) of Section 5.8;

(e) by Parent, if the Company shall have breached any of its representations, warranties, covenants or other agreements contained in this Agreement, which breach (i) would give rise to the failure of a condition set forth in Section 6.2(a) or (b), and (ii) is incapable of being cured by the Company or is not cured within 30 days of written notice thereof; or

(f) by the Company, if Parent shall have breached any of its representations, warranties, covenants or other agreements contained in this Agreement, which breach (A) would give rise to the failure of a condition set forth in Section 6.3(a) or (b), and (B) is incapable of being cured by Parent or is not cured within 30 days of written notice thereof.

The party desiring to terminate this Agreement pursuant to clause (b), (c), (d), (e) or (f) of this Section 7.1 shall give written notice of such termination to the other party in accordance with Section 8.2, specifying the provision hereof pursuant to which such termination is effected.

SECTION 7.2 Effect of Termination. In the event of termination of this Agreement by either the Company or Parent as provided in Section 7.1, this Agreement shall forthwith become void and have no effect, without any liability or obligation on the part of Parent or the Company, other than that the provisions of Section 5.8, this Section 7.2 and Article VIII shall survive such termination, provided, however, that nothing herein (including the payment of any amounts pursuant to Section 5.8 hereof) shall relieve any party from any liability for any willful breach by a party of any of its representations, warranties, covenants or agreements set forth in this Agreement.

SECTION 7.3 Amendment. This Agreement may be amended by the parties at any time before or after the Company Stockholder Approval; provided, however, that after such approval, there shall not be made any amendment that by law requires further approval by the stockholders of the Company without the further approval of such stockholders. This Agreement may not be amended except by an instrument in writing signed on behalf of all of the parties.

SECTION 7.4 Extension; Waiver. At any time prior to the Effective Time, a party may (a) extend the time for the performance of any of the obligations or other acts of the other party, (b) waive any inaccuracies in the representations and warranties of the other party contained in this Agreement or in any document delivered pursuant to this Agreement or (c) subject to the proviso of Section 7.3, waive compliance

by the other party with any of the agreements or conditions contained in this Agreement. Any agreement on the part of a party to any such extension or waiver shall be valid only if set forth in an instrument in writing signed on behalf of such party. The failure of any party to this Agreement to assert any of its rights under this Agreement or otherwise shall not constitute a waiver of such rights.

ARTICLE VIII

GENERAL PROVISIONS

SECTION 8.1 Nonsurvival of Representations and Warranties. None of the representations and warranties in this Agreement or in any instrument delivered pursuant to this Agreement shall survive the Effective Time. This Section 8.1 shall not limit any covenant or agreement of the parties which by its terms contemplates performance after the Effective Time.

SECTION 8.2 Notices. All notices, requests, claims, demands and other communications under this Agreement shall be in writing and shall be deemed given if delivered personally, telecopied (which is confirmed) or sent by overnight courier (providing proof of delivery) to the parties at the following addresses (or at such other address for a party as shall be specified by like notice):

(a) if to Parent or Merger Sub, to

Citigroup Inc.
Corporate Law Department
425 Park Avenue, 2nd Fl.
New York, New York 10043
Telecopy No.: (212) 793-7600
Attention: Associate General Counsel
Mergers & Acquisitions

with a copy to:

Skadden, Arps, Slate, Meagher & Flom LLP
Four Times Square
New York, New York 10036

Telecopy No.: (212) 735-2000
Attention: Kenneth J. Bialkin, Esq.
Eric J. Friedman, Esq.

if to the Company, to

Golden State Bancorp Inc.
135 Main Street
San Francisco, California 94105
Telecopy No.: (415) 904-1157
Attention: General Counsel

with a copy to:

Wachtell, Lipton, Rosen & Katz
51 West 52nd Street
New York, New York

Telecopy No.: (212) 403-2000
Attention: Craig M. Wasserman

SECTION 8.3 Definitions. For purposes of this Agreement:

(a) an "affiliate" of any person means another person that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, such first person, where "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management policies of a person, whether through the ownership of voting securities, by contract, as trustee or executor, or otherwise; provided, that (x) any investment account advised or managed by such person or one of its subsidiaries or affiliates on behalf of third parties, or (y) any partnership, limited liability company, or other similar investment vehicle or entity engaged in the business of making investments of which such person acts as the general partner, managing member, manager, investment advisor, principal underwriter or the equivalent shall not be deemed an affiliate of such person.

(b) "Closing Parent Share Value" shall have the meaning set forth in Section 2.1(d)(iv) hereof; provided, however, if necessary to comply with any requirements of the Securities and Exchange Commission (the "SEC"), the term Closing Parent Share Value shall be deemed to mean the date which is the closest in time but prior to the Closing Date which complies with such rules and regulations.

(c) "material adverse change" or "material adverse effect" means, when used in connection with the Company or Parent, any change, effect, event, occurrence or state of facts that is, or would reasonably be expected to be, materially adverse to the business, financial condition or results of operations of such party and its subsidiaries taken as a whole, other than (i) any change, effect, event or occurrence relating to the United States economy or financial or securities markets in general, (ii) any change, effect, event or occurrence relating to the financial services industry to the extent not affecting such person to a materially greater extent than it affects other persons in industries in which such person competes, (iv) any change, effect, event or occurrence relating to the announcement or performance hereof and the transactions contemplated

hereby (including without limitation the impact thereof on relationships with customers, suppliers or employees), (v) any change in banking, savings association and similar laws, rules or regulations of general applicability or interpretations thereof by courts or governmental authorities and (vi) any change in GAAP or regulatory accounting requirements applicable to banks, savings associations or their holding companies generally.

(d) "person" means an individual, corporation, partnership, limited liability company, joint venture, association, trust, unincorporated organization or other entity.

(e) a "subsidiary" of any person means another person, an amount of the voting securities, other voting ownership or voting partnership interests of which is sufficient to elect at least a majority of its Board of Directors or other governing body (or, if there are no such voting interests, 50% or more of the equity interests of which) is owned directly or indirectly by such first person; provided, however, that (x) any investment account advised or managed by such person or one of its subsidiaries or affiliates on behalf of third parties, or (y) any partnership, limited liability company, or other similar investment vehicle or entity engaged in the business of making investments of which such person acts as the general partner, managing member, manager, investment advisor, principal underwriter or the equivalent shall not be deemed an affiliate of such person.

(f) "knowledge" means, (i) with respect to the Company, the knowledge of the individuals listed on Section 8.3(f) of the Company Disclosure Schedule and (ii) with respect to Parent, the knowledge of Parent's executive officers.

SECTION 8.4 Interpretation. When a reference is made in this Agreement to an Article, Section or Exhibit, such reference shall be to an Article or Section of, or an Exhibit to, this Agreement unless otherwise indicated. The table of contents and headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Whenever the words "include," "includes" or "including" are used in this Agreement, they shall be deemed to be followed by the words "without limitation." The words "hereof," "herein" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement. All terms defined in this Agreement shall have the defined meanings when used in any certificate or other document made or delivered pursuant hereto unless otherwise defined therein. The definitions contained in this Agreement are applicable to the singular as well as the plural forms of such terms and to the masculine as well as to the feminine and neuter genders of such term. Any agreement, instrument or statute defined or referred to herein or in any agreement or instrument that is referred to herein means, in the case of any agreement or instrument, such agreement or instrument as from time to time amended, modified or supplemented, including by waiver or consent and, in the case of statutes, such statutes as in effect on the date of this Agreement. References to a person are also to its permitted successors and assigns. The parties have participated jointly in the negotiation and drafting of this Agreement. In the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by

the parties and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any of the provisions of this Agreement. Any reference to any Federal, state, local or foreign statute or law shall be deemed to also refer to any amendments thereto and all rules and regulations promulgated thereunder, unless the context requires otherwise.

SECTION 8.5 Counterparts. This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same agreement and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other parties. A facsimile copy of a signature page shall be deemed to be an original signature page.

SECTION 8.6 Entire Agreement; No Third-Party Beneficiaries. This Agreement (including the documents and instruments referred to herein) and the Confidentiality Agreement (a) constitute the entire agreement, and supersede all prior agreements and understandings, both written and oral, between the parties with respect to the subject matter of this Agreement and (b) except for the provisions of Section 5.7 and Sections 2 and 3 of Schedule 3.1(q) of the Company Disclosure Schedule which shall inure to the benefit of and be enforceable by the persons referred to therein, are not intended to confer upon any person other than the parties any rights or remedies.

SECTION 8.7 Governing Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Delaware, regardless of the laws that might otherwise govern under applicable principles of conflict of laws thereof.

SECTION 8.8 Assignment. Neither this Agreement nor any of the rights, interests or obligations under this Agreement shall be assigned, in whole or in part, by operation of law or otherwise by any of the parties hereto without the prior written consent of the other parties, provided, however, that Parent may assign Merger Sub's rights and obligations, in whole or in part, under this Agreement to Parent or any other, wholly-owned, direct subsidiary of Parent. Any assignment in violation of the preceding sentence shall be void. Subject to the preceding two sentences, this Agreement will be binding upon, inure to the benefit of, and be enforceable by, the parties and their respective successors and assigns.

SECTION 8.9 Consent to Jurisdiction. Each of the parties hereto (a) consents to submit itself to the personal jurisdiction of any Federal court located in the State of Delaware or any Delaware state court in the event any dispute arises out of this Agreement or any of the transactions contemplated by this Agreement, (b) agrees that it will not attempt to deny or defeat such personal jurisdiction by motion or other request for leave from any such court, and (c) agrees that it will not bring any action relating to this Agreement or any of the transactions contemplated by this Agreement in any court other than a Federal court sitting in the State of Delaware or a Delaware state court.

SECTION 8.10 Headings. The headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

SECTION 8.11 Severability. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule of law or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible to the fullest extent permitted by applicable law in an acceptable manner to the end that the transactions contemplated hereby are fulfilled to the extent possible.

SECTION 8.12 Enforcement. The parties agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that the parties shall be entitled to an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions of this Agreement, this being in addition to any other remedy to which they are entitled at law or in equity.

IN WITNESS WHEREOF, Parent, the Company and Merger Sub have caused this Agreement to be signed by their respective officers thereunto duly authorized, all as of the date first written above.

CITIGROUP INC.

By /s/ Robert B. Willumstad

Name: Robert B. Willumstad
Title: President

GOLDEN STATE BANCORP INC.

By /s/ Gerald J. Ford

Name: Gerald J. Ford
Title: Chairman of the Board and CEO

MERCURY MERGER SUB, INC.

By /s/ Robert B. Willumstead

Name: Robert B. Willumstad
Title: President

EXHIBIT A

Form of Affiliate Letter

_____, 2002

Citigroup, Inc.
Corporate Law Department
425 Park Avenue, 2nd Fl.
New York, New York 10043
Attention: Assistant General Counsel, M&A

Ladies and Gentlemen:

I have been advised that I may be deemed to be an "affiliate" of Golden State Bancorp Inc., a Delaware corporation (the "Company"), as that term is defined in Rule 145 promulgated by the Securities and Exchange Commission (the "SEC") under the Securities Act of 1933, as amended (the "Securities Act"). I understand that pursuant to the terms of the Agreement and Plan of Merger dated as of May 21, 2002 (the "Merger Agreement"), by and among Citigroup Inc., a Delaware corporation ("Parent"), Mercury Merger Sub, Inc., a Delaware corporation and a subsidiary of Parent ("Merger Sub") and the Company, the Company plans to merge with and into Merger Sub (the "Merger") with Merger Sub being the surviving corporation. Capitalized terms used herein but not otherwise defined shall have the meanings given to such terms in the Merger Agreement.

I further understand that, as a result of the Merger, in exchange for shares of common stock, par value $1.00 per share, of the Company ("Company Common Stock") or upon the exercise of the Company Stock Options that will be assumed by Parent in the Merger ("Assumed Options"), I may receive common stock, par value $0.01 per share, of Parent ("Parent Common Stock").

I have read this letter and discussed the requirements hereof to the extent I felt necessary with my counsel or counsel for the Company.

I represent, warrant and covenant with and to Parent that in the event I receive any Parent Common Stock as a result of the Merger or the exercise of Assumed Options:

1. I shall not make any sale, transfer, or other disposition of such Parent Common Stock unless (i) such sale, transfer or other disposition has been registered under the Securities Act, (ii) such sale, transfer or other disposition is made in conformity with the provisions of Rule 145 under the Securities Act (as such rule may be amended from time to time), (iii) in the opinion of counsel in form and substance reasonably satisfactory to Parent, or under a "no-action" letter or interpretive letter from the staff of the SEC, such sale, transfer or other disposition will not violate or is otherwise exempt from registration under the Securities Act, or (iii) I have the right to have the legend set forth in Sections 3 and 4 below removed pursuant to Section 4 below.

2. I understand that Parent is under no obligation to register the sale, transfer or other disposition of Parent Common Stock by me or on my behalf under the Securities Act or, other than as set forth below, to take any other action necessary in order to make compliance with an exemption from such registration available.

3. I understand that stop transfer instructions will be given to Parent's transfer agent with respect to the Parent Common Stock issued to me as a result of the Merger or the exercise of Assumed Options and that there will be placed on the certificates, if any, for such shares, or any substitutions therefor, a legend stating in substance:

> "The shares represented by this certificate were issued in a transaction to which Rule 145 promulgated under the Securities Act of 1933 applies. The shares represented by this certificate may be transferred only in accordance with the terms of a letter agreement between the registered holder hereof and Citigroup Inc., a copy of which agreement is on file at the principal offices of Citigroup Inc."

4. I understand that, unless the transfer by me of the Parent Common Stock issued to me as a result of the Merger or upon the exercise of Assumed Options has been registered under the Securities Act or such transfer is made in conformity with the provisions of Rule 145(d) under the Securities Act, Parent reserves the right, in its sole discretion, to place the following legend on the certificates, if any, issued to my transferee:

> "The shares represented by this certificate have not been registered under the Securities Act of 1933 and were acquired from a person who received such shares in a transaction to which Rule 145 under the Securities Act of 1933 applies. The shares may not be sold, transferred or otherwise disposed of except pursuant to an effective registration statement under, or in accordance with an exemption from the registration requirements of, the Securities Act of 1933."

It is understood and agreed that the legends set forth in paragraphs (3) and (4) above shall be removed by delivery of substitute certificates without such legend and/or any stop transfer instructions will be lifted (A) if one year (or such other period as may be required by Rule 145(d)(2) or any successor thereto) shall have elapsed from the date I acquired the Parent Common Stock received in the Merger and the provisions of Rule 145(d)(2) (or any successor thereto) are then available to me, (B) if two years (or such other period as may be required by Rule 145(d)(3) or any successor thereto) shall have elapsed from the date I acquired the Parent Common Stock received in the Merger and the provisions of Rule 145(d)(3) (or any successor thereto) are then available to me or (C) if I shall have delivered to Parent (i) a copy of a "no-action" letter or interpretative letter from the staff of the SEC, or an opinion of counsel in form and substance reasonably satisfactory to Parent, to the effect that such legend is not required for purposes of the Securities Act or (ii) a written statement from me representing that that the Parent Common Stock represented by such certificates are being or have been sold in

conformity with the provisions of Rule 145(d) or pursuant to an effective registration statement under the Securities Act.

Execution of this letter should not be considered an admission on my part of "affiliate" status as described in the first paragraph of this letter agreement, or as a waiver of any rights I may have to object to any claim that I am such an affiliate on or after the date of this letter.

Very truly yours,

By: _____
Name:

Accepted this ____ day of
_____, 2002.

CITIGROUP INC.

By: _____
Name:
Title: