FIRSTFED FINANCIAL CORP
Form 10-K/A
March 22, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2001

OR

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

For the Transition Period from N/A to _____

Commission File Number: 1-9566

FirstFed Financial Corp.
(Exact name of registrant as specified in its charter)

Delaware	95-4087449
(State or other jurisdiction of incorporation or organization)	(I. R. S. Employer Identification No.)
401 Wilshire Boulevard Santa Monica, California	90401-1490
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (310)319-6000

Securities registered pursuant to Section 12(b) of the Act:
Common Stock $0.01 par value
(Title of Class)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

The approximate aggregate market value of the voting stock held by non-affiliates of the Registrant as of February 5, 2002: $399,729,000.

The number of shares of Registrant's $0.01 par value common stock outstanding as of February 5, 2002: 17,252,604

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for Annual Meeting of Stockholders, April 24, 2002 (Parts III & IV).

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (sub-section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form 10-K or any amendment to this Form 10-K. [X]

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PART I

ITEM 1--BUSINESS

General Description

FirstFed Financial Corp., a Delaware corporation ["FFC," and collectively with its sole and wholly owned subsidiary, First Federal Bank of California (the "Bank"), the "Company"], was incorporated on February 3, 1987. Since September 22, 1987, FFC has operated as a savings and loan holding company engaged primarily in the business of owning the Bank. Because the Company does not presently engage in any significant independent business operations, substantially all earnings and performance figures herein reflect the operations of the Bank.

The Bank was organized in 1929 as a state-chartered savings and loan association, and, in 1935, converted to a federal mutual charter. In February 1983 the Bank obtained a federal savings bank charter, and, in December 1983, converted from mutual to stock ownership.

The principal business of the Bank is attracting savings and checking deposits from the general public, and using such deposits, together with borrowings and other funds, to make real estate, business and consumer loans.

At December 31, 2001, the Company had assets totaling $4.7 billion, compared to $4.4 billion at December 31, 2000 and $3.9 billion at December 31, 1999. The Company recorded net earnings of $50.3 million for 2001, compared to net earnings of $38.5 million for 2000 and $33.3 million for 1999. Results for 1999 included an extraordinary item of $2.2 million, which resulted from a loss recorded on the early extinguishment of debt. Net earnings before extraordinary items totaled $35.4 million for 1999.

The Bank derives its revenues principally from interest on loans and investments, loan origination fees and servicing fees on loans sold. Its major items of expense are interest on deposits and borrowings, and general and administrative expense.

As of February 15, 2002, the Bank operated 29 retail savings branches, all located in Southern California. The increased number of branches resulted from the acquisition in November 2001 of Frontier State Bank and Del Amo Savings Bank. Permission to operate all full-service branches must be granted by the Office of Thrift Supervision ("OTS"). In addition to its retail branches, the Bank operates a retail call center, which conducts transactions with deposit customers by telephone.

The Bank's principal loan market is Southern California. The Bank has a residential lending group which includes a retail lending division with four loan offices, a wholesale loan office, a correspondent lending group, and "LENDFFB", a loan origination group which operates primarily by telephone.

The Bank has three wholly-owned subsidiaries: Seaside Financial Corporation, Oceanside Insurance Agency, Inc. and Santa Monica Capital Group, all of which are California corporations. See "Subsidiaries."

Current Operating Environment

The Company's operating results are significantly influenced by national and regional economic conditions, monetary and fiscal policies of the federal government, housing demand and affordability, and general levels of interest rates.

The Bank's primary market is the Los Angeles County area of Southern California. According to the UCLA Anderson Forecast for California, December 2001 Report ("Forecast"), California, like the rest of the nation, entered into a recession during 2001. The recession is expected to be short-lived for the nation, as well as California, with a slow rebound starting in the second quarter of 2002. Average unemployment levels in California are expected to rise from 5.2% in 2001 to 6.2% for both 2002 and 2003. The rise in unemployment is due to decreased employment levels in the state's service sector (particularly computer service jobs.) Personal income in California, which increased by 2.1% in 2001, is expected to increase by only 1.3% from 2001 to 2002 but is expected to improve by 5.6% from 2002 to 2003.

Real estate prices in Southern California are expected to remain stable over the next several years due to the low production of new housing units and moderate interest rates. According to the Forecast, home values in Los Angeles County increased by 7.3% during 2001, but are expected to increase by only 3.8% in 2002 and 3.5% in 2003.

Consistent with the favorable real estate climate in the greater Los Angeles area, the Bank's non-performing assets declined to 0.17% of total assets at the end of 2001 from 0.19% at the end of 2000 and 0.40% at the end of 1999.

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The Bank monitors the sufficiency of the collateral supporting its loan portfolio based on many factors including the property location, the date of loan origination and the original loan-to-value ratio. The Bank adjusts its general allowance for anticipated loan losses as a result of these evaluations. No provision for loan losses was necessary during 2001, 2000 or 1999.

The ratio of the general valuation allowance to the Bank's assets with loss exposure (the Bank's loan portfolio, real estate owned, loan commitments, and potential loan buybacks) was 1.70% at the end of 2001 compared to 1.81% at the end of 2000 and 2.15% at the end of 1999. The decline in the ratio over the last three years is due to asset growth. See "Business - Loan Loss Allowance" for additional information.

The Bank also maintains a separate valuation allowance for impaired loans and a repurchase liability for loans sold with recourse. See "Business - Loan Loss Allowance" for additional information regarding valuation allowances for these loans.

Current Interest Rate Environment. In its attempts to encourage economic activity at the national level, the Federal Reserve Board ("FRB") decreased interest rates eleven times during 2001. This is in contrast to 2000 and 1999 when the FRB increased interest rates three times during each year. Through March 5, 2002, the FRB has not changed interest rates.

The Bank's interest rate spread typically increases in a decreasing interest rate environment, (savings and borrowing costs decrease immediately while the loan portfolio yield stays approximately the same or decreases slowly). The reverse is true during periods of increasing interest rates. Changes in interest rates have a moderate impact on the Bank's loan portfolio due to the interest rate adjustment features of its loans. There is also a time lag before changes in interest rates can be implemented with respect to the Bank's loan portfolio due to operational and regulatory constraints. These constraints do not allow the Bank to pass through monthly changes in the primary index utilized for the majority of its adjustable rate loan customers for a period of ninety days.

The Bank's interest rate spread increased to 2.71% in 2001 from 2.37% in 2000 because the cost of its deposits and borrowings decreased more quickly than the rates earned on its loan portfolio. The decrease to 2.37% in 2000 from 2.50% in 1999 was due to the fact that the cost of its deposits and borrowings increased more quickly than the rates earned on the loan portfolio. It is expected that the Bank's interest rate spread will compress during 2002 because the loan yield on adjustable rate mortgages will decrease due to the ninety-day time lag mentioned above. However, the Bank's cost of funds may remain stable or decrease at a much slower pace, particularly if the FRB does not decrease interest rates further in the near future. See "Asset-Liability Management" and "Components of Earnings - Net Interest Income" in "Management's Discussion and Analysis of Financial Condition and Results of Operations" for additional information.

Competition. The Bank experiences strong competition in attracting and retaining deposits and originating real estate loans. It competes for deposits with many of the nation's largest savings institutions and commercial banks that have significant operations in Southern California.

The Bank also competes for deposits with credit unions, thrift and loan associations, money market mutual funds, issuers of corporate debt securities and the government. In addition to the rates of interest offered to depositors, the Bank's ability to attract and retain deposits depends upon the quality and variety of services offered, the convenience of the Bank's locations and its financial strength as perceived by depositors.

The Bank competes for real estate loans primarily with savings institutions, commercial banks, mortgage companies and insurance companies. The primary factors in competing for loans are interest rates, loan fees, interest rate caps, interest rate adjustment provisions and the quality and extent of service to borrowers and mortgage brokers.

Environmental Concerns. In certain circumstances, such as if it actively participates in the management or operation of a property securing its loans, the Bank could have liability for any properties found to have pollutant or toxic features. Environmental protection laws are strict and impose joint and several liability on numerous parties. It is possible for the cost of cleanup of environmental problems to exceed the value of the security property. The Bank has adopted environmental underwriting requirements when considering loans secured by properties which appear to have environmentally high risk characteristics (e.g. commercial, industrial and construction of all types, which may contain friable asbestos or lead paint hazards). These requirements are intended to minimize the risk of environmental hazard liability. The Bank's policies are also designed to avoid the potential for liability imposed on lenders who assume the management of a property.

Business Concentration. The Bank has no single customer or group of customers, either as depositors or borrowers, the loss of any one or more of which would have a material adverse effect on the Bank's operations or earnings prospects.

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Yields Earned and Rates Paid. Net interest income, the major component of core earnings for the Bank, depends primarily upon the difference between the combined average yield earned on the loan and investment security portfolios and the combined average interest rate paid on deposits and borrowings, as well as the relative balances of interest-earning assets and interest-bearing liabilities. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Overview and Components of Earnings - Net Interest Income" for further analysis and discussion.

Lending Activities

General. The Bank's primary lending activity has been the origination of loans for the purpose of enabling borrowers to purchase, refinance or construct improvements on residential real property. The loan portfolio primarily consists of loans made to homebuyers and homeowners on the security of single family dwellings and multi-family dwellings. The loan portfolio also includes loans secured by commercial and industrial properties.

For an analysis of loan portfolio composition and an analysis of the types of loans originated, see "Management's Discussion and Analysis of Financial Condition and Results of Operations - Balance Sheet Analysis - Loan Portfolio and Loan Composition."

Origination and Sale of Loans. The Bank employs loan officers on an incentive compensation basis to obtain qualified applicants for loans. The Bank also derives business from other sources such as mortgage brokers, borrower referrals, direct telephone sales and clients from its retail banking branches.

Loan originations and purchases were $1.5 billion in 2001, $1.1 billion in 2000, and $944.1 million in 1999. Loan origination volume has improved over the last three years due to an increase in real estate activity in the Bank's market areas. The above amounts include loan purchases totaling $132.6 million during 2001, $139.5 million during 2000 and $122.8 million during 1999.

Loans sold totaled $61.2 million in 2001, $9.5 million in 2000 and $133.0 million in 1999. For the year ended December 31, 2001, $64.2 million in loans were originated for sale compared to $10.9 million for 2000 and $120.6 million in 1999. Loans originated for sale totaled 5%, 1% and 14% of loan originations during 2001, 2000 and 1999, respectively. The increase in loans originated for sale is due to borrower preference for 30-year and 15-year fixed rate loans, which were available to borrowers at lower interest rates in 2001 compared to 2000. The Bank originates 30-year and 15-year fixed rate loans only for sale.

Loans held-for-sale at December 31, 2001, 2000 and 1999 were $5.2 million, $2.2 million and $2.3 million, respectively, constituting 0.13%, 0.06% and 0.08%, respectively, of the Bank's total loans at such dates.

Loans originated for sale are recorded at the lower of cost or fair value. The time from origination to sale typically takes up to 30 days. During this time period the Bank may be exposed to price adjustments as a result of fluctuations in market interest rates.

The Bank structures mortgage-backed securities with loans from its loan portfolio for use in collateralized borrowing arrangements. In exchange for the improvement in credit risk when the mortgage-backed securities are formed, guarantee fees are paid to the Federal Home Loan Mortgage Corporation ("FHLMC") or the Federal National Mortgage Association ("FNMA"). No loans were converted into mortgage-backed securities during 2001, 2000 or 1999. The Bank originated all loans underlying the mortgage-backed securities that it owns. Therefore, mortgage-backed securities generally have the same experience with respect to prepayment, repayment, delinquencies and other factors as the remainder of the Bank's portfolio.

The portfolio of mortgage-backed securities was recorded at fair value as of December 31, 2001, 2000 and 1999. A positive fair adjustment of $1.9 million, net of tax, was recorded for mortgage-backed securities during 2001. Negative fair value adjustments for mortgage-backed securities totaling $1.9 million and $6.6 million, net of taxes, were recorded in stockholders' equity at December 31, 2000 and 1999, respectively.

The Bank serviced $257.6 million in loans for other investors as of December 31, 2001. $126.4 million of these loans were sold under recourse arrangements. The Bank has an additional $10.8 million in loans that were formed into mortgage-backed securities with recourse features, but were still owned by the Bank as of December 31, 2001. Due to regulatory requirements, the Bank maintains capital for loans sold with recourse as if those loans had not been sold. The Bank had been active in these types of transactions in the past, but has not entered into any new recourse arrangements since 1989 when a change in the capital regulations took effect. Loans sold with recourse are analyzed in determining the adequacy of the repurchase liability. The decrease in the principal balance of loans sold with recourse to $126.4 million at the end of 2001 from $146.5 million at the end of 2000 and $178.7 million at the end of 1999 is due to loan amortization and payoffs.

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Interest Rates, Terms and Fees. The Bank makes residential adjustable mortgage loans ("AMLs") with 30 and 40 year terms and interest rates which adjust each month based upon the Federal Home Loan Bank's Eleventh District Cost of Funds Index ("Index"). (See "Asset-Liability Management" in "Management's Discussion and Analysis of Financial Condition and Results of Operations.") While the monthly payment adjusts annually, the maximum annual change in the payment is limited to 7.5%. Any additional interest due as a result of a rising Index is added to the principal balance of the loan ("negative amortization"). Payments are adjusted every five years without regard to the 7.5% limitation to provide for full amortization during the balance of the loan term. Although the interest rates are adjusted monthly, these loans have maximum interest rates which can be charged ranging from 400 to 750 basis points above their initial interest rate. Generally, these loans may be assumed at any time during their term provided that the person assuming the loan meets the Bank's credit standards and enters into a separate written agreement with the Bank. Additionally, the new borrower is required to pay assumption fees customarily charged for similar transactions.

The Bank offers two primary AML products based on the Index, the "COFI ONE" and the "COFI THREE." The initial interest rate on the COFI THREE is below-market for the first three months of the loan term. The COFI ONE has no below-market initial interest rate but starts with a pay rate similar to the COFI THREE. This results in immediate negative amortization but allows the loan to earn at the fully indexed interest rate immediately. The difference in negative amortization on these two products is minor. The Bank also originates adjustable rate loans based on the one year U.S. Treasury Security and 12-month average U.S. Treasury Security rates.

The Bank also originates adjustable rate loans with initial fixed interest rates for periods ranging from 3 to 10 years. By policy, the Bank will either match the fixed rate period of these loans with borrowings for the same term or will hold unmatched fixed rate loans in its portfolio up to 5%of total assets. Loans originated under this program totaled $1.0 billion in 2001, $75.9 million in 2000 and $205.7 million in 1999. Adjustable rate loans with initial fixed interest rates were popular during 2001 because their initial interest rates were competitive with longer term fixed rate loan products.

Under current portfolio loan programs, the Bank normally lends no more than 95% of a single family property's appraised value at the time of loan origination. In addition, the Bank has special Community Reinvestment Act loan programs in which it lends up to 95% of the property's appraised value.

The Bank generally requires that borrowers obtain private mortgage insurance on loans in excess of 80% of the appraised property value. On certain loans originated for the portfolio, the Bank charges premium rates and/or fees in exchange for waiving the insurance requirement. Management believes that the additional rates and fees that the Bank receives for these loans compensate for the additional risk associated with this type of loan. Subsequent to the origination of a portfolio loan, the Bank may purchase private mortgage insurance with its own funds. Under certain mortgage insurance programs the Bank acts as co-insurer and participates with the insurer in absorbing any future loss. As of December 31, 2001, 2000 and 1999, loans with co-insurance totaled $140.4 million, $212.6 million and $176.7 million, respectively. Loans over 80% loan-to-value, for which there was no private mortgage insurance, totaled $354.5 million at December 31, 2001, $268.2 million at December 31, 2000 and $274.2 million at December 31, 1999.

Because AML loan-to-value ratios may increase above those established at the time of loan origination due to negative amortization, the Bank rarely lends in excess of 90% of the appraised value on AMLs. When the Bank does lend in excess of 90% of the appraised value, additional fees and higher rates are charged. The amount of negative amortization recorded by the Bank increases during periods of rising interest rates. As of December 31, 2001, negative amortization on all loans serviced by the Bank was immaterial.

Although regulations permit a maximum loan term of 40 years for real estate secured home loans and 30 years for other real estate loans, the majority of the Bank's real estate loans provide for a maximum maturity period of 30 years or less. Loans with 40-year terms constituted 4%, 6% and 8% of loan originations during 2001, 2000 and 1999, respectively.

The following table shows the contractual remaining maturities of the Bank's loans at December 31, 2001:

Loan Maturity Analysis
Maturity Period

	Total Balance	1 Year or Less	>1 Year To 5 Years	>5-10 Years	>10-20 Years	>20-30 Years
	(Dollars In Thousands)					
Interest rate sensitive loans:						
AMLs...............	$3,946,047	$80,962	$743,297	$638,758	$1,385,898	$1,018,55
Fixed-rate loans...	70,713	3,413	25,094	24,759	11,692	5,74
Commercial business loans	18,882	4,534	14,348	-	-	
Construction loans.	38,060	17,505	20,555	-	-	
Consumer and other loans	20,813	18,437	1,879	487	10	
Total.............	$4,094,515	$124,851	$805,173	$664,004	$1,397,600	$1,024,29

Non-accrual, Past Due, Impaired and Restructured Loans

The Bank establishes allowances for delinquent interest equal to the amount of accrued interest on all loans 90 days or more past due or in foreclosure. This practice effectively places such loans on non-accrual status for financial reporting purposes.

The following is a summary of non-accrual loans for which delinquent interest allowances had been established as of the end of each of the periods indicated:

	2001	% of Total	2000	% of Total	1999	% of Total	1998	% of Total	1997	% of Tota
				(Dollars In Thousands)						
Non-accrual Loans:										
Single family.........	$6,062	93%	$5,603	89%	$9,626	70%	$12,270	42%	$16,799	49%
Multi-family..........	422	6	662	11	3,995	29	13,005	44	15,785	46
Commercial ..	-	-	-	-	225	1	4,040	14	1,533	5
Consumer	16	1	-	-	-	-	-	-	-	-
Total Non-accrual Loans.............	$6,500	100%	$6,265	100%	$13,846	100%	$29,315	100%	$34,117	100%

The allowance for delinquent interest, based on loans past due more than 90 days or in foreclosure, totaled $504 thousand, $511 thousand, $720 thousand, $1.9 million and $1.8 million at December 31, 2001, 2000, 1999, 1998 and 1997, respectively.

The Bank's modified loans result primarily from temporary modifications of principal and interest payments. Under these arrangements, loan terms are typically reduced to no less than a monthly interest payment required under the note. If the borrower is unable to return to scheduled principal and interest payments at the end of the modification period, foreclosure proceedings are initiated or the modification period may be extended. As of December 31, 2001, the Bank had modified loans totaling $7.4 million, net of loan loss allowances of $1.9 million. This compares with modified loans totaling $9.6 million, net of loan loss allowances of $1.9 million as of December 31, 2000 and $7.4 million, net of loan loss allowances of $2.6 million as of December 31, 1999. No modified loans were 90 days or more delinquent as of December 31, 2001, 2000 or 1999.

Statement of Financial Accounting Standards No. 114, "Accounting by Creditors for Impairment of a Loan" ("SFAS No. 114"), requires the measurement of impaired loans based on the present value of expected future cash flows discounted at the loan's effective interest rate, or at the loan's observable market price or at the fair value of its collateral. SFAS No. 114 does not apply to large groups of homogeneous loans that are collectively reviewed for impairment.

Pursuant to SFAS No. 114, a loan is considered to be impaired when management believes that it is probable that the Bank will be unable to collect all amounts due under the contractual terms of the loan. Estimated impairment losses are recorded as separate valuation allowances and may be subsequently adjusted based upon changes in the measurement of impairment. Impaired loans, which are disclosed net of valuation allowances, include non-accrual major loans (single family loans with an outstanding principal amount greater than or equal to $500 thousand and multi-family and commercial real estate loans with an outstanding principal amount greater than or equal to $750 thousand), modified loans, and major loans less than 90 days delinquent in which full payment of principal and interest is not expected to be received.

Valuation allowances for impaired loans totaled $1.9 million, $1.8 million and $2.6 million as of December 31, 2001, 2000 and 1999, respectively. The following is a summary of impaired loans, net of valuation allowances for impairment, for the periods indicated:

	December 31, 2001	December 31, 2000	December 31, 1999
	(Dollars In Thousands)		
Non-accrual loans	$ 978	$ -	$ 2,079
Modified loans.........	6,416	8,770	6,534
Other impaired loans...	-	-	2,820
	$ 7,394	$ 8,770	$ 11,433

When a loan is considered impaired the Bank measures impairment based on the present value of expected future cash flows (over a period not to exceed 5 years) discounted at the loan's effective interest rate. However, if the

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loan is "collateral-dependent" or a probable foreclosure, impairment is measured based on the fair value of the collateral. When the measure of an impaired loan is less than the recorded investment in the loan, the Bank records an impairment allowance equal to the excess of the Bank's recorded investment in the loan over its measured value. As of December 31, 2001, December 31, 2000, and December 31, 1999, impaired loans totaling $3.9 million, $5.1 million, and $3.9 million, respectively, had no valuation allowances established. All impaired loans were measured using the fair value method as of December 31, 2001, December 31, 2000 and December 31, 1999, with values totaling $7.4 million, $8.8 million and $11.4 million, respectively.

The present value of an impaired loan's expected future cash flows will change from one reporting period to the next because of the passage of time and also may change because of revised estimates in the amount or timing of those cash flows. The Bank records the entire change in the present value of the expected future cash flows as an impairment valuation allowance, which may necessitate an increase in the provision for loan losses. Similarly, the fair value of the collateral of an impaired collateral-dependent loan may change from one reporting period to the next. The Bank also records a change in the measure of these impaired loans as an impairment valuation allowance, which may necessitate an adjustment to the provision for loan losses.

The following is an analysis of the activity in the Bank's valuation allowance for impaired loans during the periods indicated (dollars in thousands):

Balance at December 31, 1998..	$ 7,634
Provision for loan losses...	-
Net charge-offs............	(5,038)
Balance at December 31, 1999..	2,596
Provision for loan losses...	-
Net charge-offs............	(804)
Balance at December 31, 2000..	1,792
......Provision for loan losses	58
Net charge-offs............	-
Balance at December 31, 2001..	$ 1,850

Cash payments received from impaired loans are recorded in accordance with the contractual terms of the loan. The principal portion of the payment is used to reduce the principal balance of the loan, whereas the interest portion is recognized as interest income.

The average recorded investment in impaired loans during 2001, 2000 and 1999 was $7.4 million, $8.8 million and $11.4 million, respectively. The amount of interest income recognized from impaired loans during 2001, 2000 and 1999 was $597 thousand, $706 thousand and $1.0 million, respectively, under the cash basis method of accounting. Interest income that was recognized under the accrual basis method of accounting for 2001, 2000 and 1999 totaled $587 thousand, $712 thousand and $997 thousand, respectively.

The table below shows the Bank's net investment in non-accrual loans which were determined to be impaired, by property type, as of the periods indicated:

	December 31,		
	2001	2000	1999
	(Dollars In Thousands)		
Single family	$ 978	$ -	$ 987
Multi-family.........	-	-	1,092
	$ 978	$ -	$ 2,079

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Loan Loss Allowance

The Bank maintains a general valuation allowance for loan losses for the inherent risks in the loan portfolio which have yet to be specifically identified. Management evaluates the adequacy of the valuation allowance on a quarterly basis. This evaluation is based on a detailed analysis of the entire loan portfolio; considering both internal and external factors that may impact collectibility and risks involved with the various types of lending. The Bank's Internal Asset Review System is used to determine the adequacy of the valuation allowance. In accordance with SFAS No. 114, the Bank identifies and evaluates loans for impairment on an individual basis. The remainder of the portfolio is segmented into groups of loans with similar risk characteristics for evaluation and analysis under Statement of Financial Accounting Standards No. 5, "Accounting for Contingencies" ("SFAS No.5").

Internal Asset Review System. In accordance with the regulations of the Office of Thrift Supervision ("OTS"), the Bank maintains a risk grading system for all assets based on an assessment of the repayment capacities of the borrower, the collateral property, guarantors and endorsers. The risk grading system provides a tool for risk measurement, early problem asset identification and proper pricing for new extensions of credit. Loans are assigned an appropriate risk grade by underwriters at the time of loan origination. These assignments are reviewed by employees responsible for monitoring and classifying assets on an ongoing basis.

Assets are classified according to a nine-tiered risk grade system. The nine risk grades are segmented into three general groups: "unclassified" (risk grades 1 through 5), "criticized" (risk grade 6 - special mention), and "classified" (risk grade 7 - substandard, risk grade 8 - doubtful and risk grade 9 - loss). In determining the appropriate risk grade for a loan asset, consideration is given to information on repayment prospects, including the value of and cash flow provided by the collateral supporting the loan, and any support provided by the borrowers and financially responsible guarantors. Several factors are considered in assigning a risk grade - income, cash flow to service existing debt, stability of income sources, liquidity, credit history, access to alternative financing, collateral type, value, property condition and market influences.

All assets are subject to on-going classification through the Bank's internal review system. For internal asset review purposes, the Bank's asset portfolio is segregated into three distinct groups: assets subject to review by the Loan Workout Committee, a committee of officers responsible for resolving problem asset situations, homogeneous assets and non-homogeneous assets.

Asset Subject to Review by the Loan Workout Committee - The Loan Workout Committee monitors and develops repayment strategies for the Bank's most complex problem assets, such as residential loans greater than $500,000, income property loans with unpaid principal balances of $750,000 or greater, 30 days more contractually delinquent, or with collateral properties currently managed by a court- appointed receiver.

Non-Homogeneous Assets. These are performing income property loans with unpaid balances greater than $1.5 million, 36+ unit apartment loans, and commercial business loans. Other non-homogeneous assets may include investments in subsidiaries, investments in securities, and significant off-balance sheet items.

Homogeneous Assets. These assets are other than non-homogeneous assets and those reviewed by the Loan Workout Committee. Generally, these assets include residential loans, lower-balance income property loans, and consumer loans. These assets are reviewed through a series of monthly tracking reports.

SFAS No. 114, requires the measurement of impaired loans based on the present value of expected future cash flows discounted at the loan's effective interest rate, or at the loan's observable market price or at the fair value of its collateral. SFAS No. 114 does not apply to large groups of homogeneous loans that are collectively reviewed for impairment. For a detailed discussion of impaired loans, see "Business - Non-accrual, Past Due and Restructured Loans".

For loans evaluated on a group basis under SFAS No.5, the Bank defined segments of the loan portfolio by identifying risk characteristics that are common to specified groups of loans. All loans in the Bank's portfolio are subject to this analysis.

The Bank's asset classification system serves as a foundation for determining the appropriate level of General Valuation Allowances (GVA). Within the classification categories, loans are stratified based on factors affecting the perceived level and concentration of risk, such as type of collateral, year of origination, original loan-to-value ratio and geographic location.

The Bank calculates the appropriate level of GVA by applying reserve factors to the balance of assets on which the Bank has loss exposure ("exposure base"). The reserve factors represent the expected likelihood of default multiplied by the expected rate of loss, derived from the Bank's historical loss experience and adjusted for current and anticipated conditions and trends.

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Additionally, due to the economic cycle and its effect on real estate values, the Bank believes that loans originated within the past 12-24 months pose an additional risk. A downturn in the California economy may affect real estate values and, consequently, loans originated at the "top of the market" have the greatest loss exposure. Historical loss analysis provides further insight into risk concentrations within the loan portfolio.

The Bank reviews the GVA for adequacy at least quarterly and evaluates the performance trends in the loan portfolio to establish adequate reserve factors. The Asset Classification Committee reviews the GVA analysis and methodology on a quarterly basis. The Board of Directors reviews the GVA policy annually.

The following is an analysis of the activity in the Bank's general loan valuation allowance for the periods indicated:

	Year Ended December 31,				
	2001	2000	1999	1998	1997
	(Dollars In Thousands)				
Beginning General Loan Valuation Allowance................	$70,809	$69,954	$67,638	$61,237	$54,900
Provision for Loan Losses..	(58)	-	-	6,560	13,155
General Loan Valuation Allowance Obtained in Acquisition.	2,050	-	-	-	-
Charge-offs, Net of Recoveries:					
Single Family............	(322)	(767)	(342)	(1,497)	(5,633)
Multi-Family.............	286	1,692	2,650	1,354	2,341
Commercial...............	-	(105)	111	(32)	482
Non-Real Estate..........	154	35	(103)	16	226
Total Net Recoveries (Charge-offs)	118	855	2,316	(159)	(2,584)
Transfer to Liability Account for Loans Sold with Recourse	-	-	-	-	(4,234)
Ending General Loan Valuation Allowance..........	$72,919	$70,809	$69,954	$67,638	$61,237

The Bank recorded net loan loss recoveries of $118 thousand during 2001 and $51 thousand during 2000. During the previous three years, charge-offs, including net charge-offs from the general valuation allowance and impaired loan allowance totaled $2.7 million, $2.9 million and $12.5 million, respectively, representing 0.09%, 0.10% and 0.39% of the average loan portfolio for such periods. The low level of charge-offs over the last five years is due to the improved condition of the Southern California economy and real estate market since the recession of the mid-1990's.

Any increase in charge-offs would adversely impact the Bank's future loan loss provisions and earnings.

The Bank's total general valuation allowance for loans was 1.70% of total loans with loss exposure at December 31, 2001, 1.81% at December 31, 2000, 2.15% at December 31, 1999, 2.26% at December 31, 1998, and 1.86% at December 31, 1997.

The following table details the general valuation allowance (stratified by loan type) for the periods indicated:

	2001	% of Total	2000	% of Total	1999	% of Total	1998	% of Total	1997	% To
			(Dollars In Thousands)							
Real Estate Loans:										
Single Family	$30,040	41%	$37,695	53%	$24,985	36%	$23,061	34%	$23,640	
Multi-Family.	23,955	33	22,529	32	38,332	55	37,875	56	30,569	
Commercial...	7,860	11	5,797	8	6,129	9	6,034	9	6,986	
Construction.	3,687	5	-	-	-	-	-	-	-	
Total Real Estate Loans	65,542	90	66,021	93	69,446	99	66,970	99	61,195	
Non-Real Estate Loans:										
Commercial ..	5,120	7	3,214	5	65	-	-	-	-	
Consumer	1,918	3	1,073	1	87	-	72	-	42	
Other........	339	0	501	1	356	1	596	1	-	
Total Non-Real Estate Loans.........	7,377	10	4,788	7	508	1	668	1	42	
Total	$72,919	100%	$70,809	100%	$69,954	100%	$67,638	100%	$61,237	

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During 2001, certain changes in the exposure base of the loan portfolio resulted in an increase of $2.1 million in the total general valuation allowance for loans. The exposure base of single-family loans declined by $59 million and the proportion of higher risk loans was reduced, resulting in a $7.7 million reduction in the general valuation allowance. The increase in the multi-family and commercial real estate loan exposure base of $216 million and $118 million, respectively, was partially offset by the reduction in the risk composition, resulting in an increase in general valuation allowance of $1.4 million and $2.1 million, respectively. The newly acquired construction loan portfolio added $3.7 million to the general valuation allowance. The increase in the commercial loan exposure base of $13.3 million and the classification of certain loans as substandard resulted in an increase of $1.9 million in the general valuation allowance. Consumer loan exposure base increased by $31.5 million, thus adding $845 thousand to the general valuation allowance. The remainder of the change in the general valuation allowance for loans was attributable to changes in other loan categories.

During 2000, the total general valuation allowance for loans increased by $854 thousand. The increase of $12.7 million in the general valuation allowance for single family loans was due to an increase of $361 million in the exposure base and to increased risk concentration in the portfolio. The increase of $186 million in the exposure base of multi family loans was offset by the reduction in risk composition, resulting in a decline in the general valuation allowance of $15.8 million. The increase of $3.1 million in the general valuation allowance for commercial non-real estate loans resulted from an increase of $20 million in the exposure base and an increased risk concentration. Consumer loan exposure base increased by $38.3 million, resulting in an increase of $985 thousand in the general valuation allowance. The remainder of the change in the general valuation allowance for loans was attributable to changes in other loan categories.

Depending on the economy and real estate markets in which the Bank operates, increases in the general valuation allowance may be required in future periods. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's general valuation allowance. These agencies may require the Bank to establish additional general valuation allowances based on their judgment of the information available at the time of their examination.

The Bank also maintains a repurchase liability for loans sold with recourse, which is included in "Accrued Expenses and Other Liabilities" in the Company's Statement of Financial Condition. The activity in the repurchase liability for loans sold with recourse for 2001, 2000, 1999, 1998 and 1997 is presented below (dollars in thousands):

Balance at December 31, 1996.............	$ 8,398
Transfer from general valuation allowance.	4,234
Net recoveries...........................	397
Balance at December 31, 1997.............	13,029
Net charge-offs..........................	(483)
Balance at December 31, 1998.............	12,546
Net recoveries...........................	278
Balance at December 31, 1999.............	12,824
Net recoveries...........................	-
Balance at December 31, 2000.............	12,824
Net recoveries...........................	-
Balance at December 31, 2001.............	$ 12,824

See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Asset Quality Ratios" for an analysis of the Bank's general valuation allowances as a percentage of non-accrual loans, the total loan portfolio and total loans with loss exposure.

Potential Problem Loans. The Bank also had \$6.2 million, \$6.7 million and \$6.9 million in potential problem real estate loans as of December 31, 2001, December 31, 2000 and December 31, 1999, respectively. These are loans that do not meet the criteria of impaired or non-performing loans but have displayed some past or present weakness. If the weakness is not corrected, the loan could eventually result in a loss to the Bank.

The Bank's Asset Classification Committee meets at least quarterly to review and monitor the condition of the loan portfolio. Additionally, a special workout group of the Bank's officers meets at least monthly to resolve delinquent loan situations and to initiate actions enforcing the Bank's rights in security properties pending foreclosure and liquidation.

Non-performing Assets. For a further discussion of non-performing assets, see "Management's Discussion and Analysis of Financial Condition and Results of Operations - Non-Performing Assets."

Generally, loans greater than 60 days delinquent are placed into foreclosure and a valuation allowance is established, if necessary. The Bank acquires title to the property in most foreclosure actions in which the loan is not

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reinstated by the borrower. Once real estate is acquired in settlement of a loan, the property is recorded at fair value less estimated costs to sell.

Following the acquisition of foreclosed real estate ("REO"), the Bank evaluates the property and establishes a plan for marketing and disposing of the property. After inspecting the property, the Bank determines whether the property may be disposed of in its present condition or if repairs, rehabilitation or improvements are necessary.

The following table provides information regarding the Bank's REO activity for the periods indicated:

Real Estate Owned Activity Year Ended December 31, (Dollars In Thousands)	2001	2000	1999
Beginning Balance.........	$ 2,157	$ 2,202	$ 4,755
Additions................	5,136	5,050	10,831
Sales....................	(5,808)	(5,095)	(13,384)
Ending Balance...........	$ 1,485	$ 2,157	$ 2,202

Other Interest-Earning Assets. The Bank owned no contractually delinquent interest-earning assets other than loans as of December 31, 2001.

Investment Activities

It is the Bank's policy to maintain liquidity investments at a modest level and to use available cash to originate mortgages that normally command higher yields. Therefore, interest income on investments generally represents approximately 5% of total revenues.

The following table summarizes the total investment portfolio at historical cost by type at the end of the periods indicated:

December 31, (Dollars In Thousands)	2001	2000	1999	1998	1997
U.S. Treasury Securities	$ 300	$ 300	$ 300	$ 300	$ 300
U.S. Agency Securities	28,199	38,185	38,167	28,156	48,142
Collateralized Mortgage Obligations ("CMOs")	80,013	98,562	115,704	36,380	1,009
	108,512	137,047	154,171	64,836	49,451
Unrealized gain (loss) on securities available-for-sale	1,932	(510)	(2,976)	(503)	(541)
	$110,444	$136,537	$151,195	$ 64,333	$ 48,910
Weighted average yield on interest-earnings investments end of period.	6.07%	5.99%	5.86%	5.38%	5.17%

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As of December 31, 2001, the Bank's U.S government and agency securities all matured within one year with a weighted average life of two months and a weighted average yield of 6.00%. The Bank's collateralized mortgage obligations all have expected maturities within five years.

Sources of Funds

General. The Bank's principal sources of funds are savings deposits, advances from the Federal Home Loan Bank of San Francisco ("FHLBSF") and securities sold under agreements to repurchase.

Deposits. The Bank obtains deposits through three different sources: 1) its retail branch system, 2) phone solicitations by designated employees, and 3) national brokerage firms.

Deposits acquired through telemarketing efforts are typically placed with the Bank by professional money managers and represented 4%, 2% and 3% of total deposits at December 31, 2001, 2000 and 1999, respectively. The level of telemarketing deposits varies based on yields available to depositors on other investment instruments and the depositors' perception of the Bank's creditworthiness.

Deposits acquired through national brokerage firms represented 14%, 18% and 22% of total deposits at December 31, 2001, 2000 and 1999, respectively. Any fees paid to deposit brokers are amortized over the term of the deposit. Based on historical renewal percentages, management believes that these deposits are a stable source of funds. Institutions meeting the regulatory capital standards necessary to be deemed well-capitalized are not required to obtain a waiver from the FDIC in order to accept brokered deposits. See "Management's Discussion and Analysis - Capital Resources and Liquidity."

Deposits obtained through the retail branch system were $2.1 billion at December 31, 2001, $1.7 billion at December 31, 2000 and $1.6 billion at December 31, 1999. Retail deposits comprised 82% of total deposits at December 31, 2001, 80% of total deposits at December 31, 2000 and 75% of total deposits at December 31, 1999. Management attributes the increase in retail deposits during 2001 to increased deposits from stock market investors wanting more security for their investments due to variability in the stock market. Additionally, the Bank acquired four retail offices with deposits totaling $174.8 million as part of the purchase of two small banks on November 30, 2001. As of December 31, 2001, deposits at these acquired branches totaled $174.4 million. The increase in retail deposits during 2000 was the result of two branch purchases during that year.

The Bank has concentrated its marketing efforts over the last several years on the attraction and retention of non-term accounts. As a result, the percentage of fixed-term certificates of deposit in the Bank's total deposits has decreased from 62% as of December 31, 1999 and 57% as of December 31, 2000 to 52% as of December 31, 2001.

The following table shows the average balances and average rates paid on deposits by deposit type for the periods indicated:

	During the Year Ended December 31,				
	2001		2000		19
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance
	(Dollars In Thousands)				
Passbook Accounts	$ 94,067	1.53%	$ 81,330	1.98%	$ 82,63
Money Market Deposit Accounts	613,745	3.84	501,084	4.63	380,97
Interest-bearing Checking Accounts	141,282	0.97	128,678	1.19	109,92
Fixed Term Certificate Accounts	1,468,650	4.64	1,421,835	5.20	1,492,17
	$2,317,744	4.08%	$2,132,927	4.70%	$2,065,71

The following table shows the maturity distribution of jumbo certificates of deposit ($100,000 and greater) as of December 31, 2001 (dollars in thousands):

Maturing in:	
1 month or less.....................	$ 66,378
Over 1 month to 3 months............	80,548
Over 3 months to 6 months...........	88,591
Over 6 months to 12 months..........	68,798

Over 12 months......................	1,939
Total.............................	$ 306,254

Based on historical renewal percentages at maturity, management believes that jumbo certificates of deposit are a stable source of funds. For additional information with respect to deposits, see Note 8 of the Notes to Consolidated Financial Statements.

The following tables set forth information regarding the amount of deposits in the various types of savings programs offered by the Bank at the end of the years indicated and the balances and average rates for those dates:

	December 31,				
	2001		2000		1999
	Amount	%	Amount	%	Amount
	(Dollars In Thousands)				
Variable rate non-term accounts:					
Money market deposit accounts (weighted average rate of 2.76%, 4.79% and 4.34%).........	$ 741,978	29%	$ 537,475	25%	$ 446,77
Interest-bearing checking accounts (weighted average rate of 0.72% 1.22% and 1.06%).........	162,309	7	140,151	6	111,36
Passbook accounts (1.59%, 2.00% and 2.00%)...............	104,488	4	80,536	4	78,54
Non-interest bearing checking Accounts.................	205,597	8	176,059	8	144,31
	1,214,372	48	934,221	43	780,99
Fixed-rate term certificate accounts:					
Under six month term (weighted average rate of 2.57%, 5.26% and 5.21%)..............	54,626	2	61,954	3	113,32
Six month term (weighted average rate of 3.29%, 6.41% and 5.68%)	246,161	10	282,922	13	322,69
Nine-month term (weighted average of 3.98%, 6.74% and 5.73%)..	170,190	7	240,598	11	250,46
One year to 18-month term (weighted average rate of 4.45%, 6.11% and 4.99%)..................	469,113	18	367,603	17	284,46
Two year or 30-month term (weighted average rate of 5.38%, 5.83% and 5.13%)..................	45,993	2	31,685	2	19,08
Over 30-month term (weighted average rate of 5.31%, 5.49% and 5.33%)..............	39,938	1	31,088	1	36,52
Negotiable certificates of $100,000 and greater, 30 day to one year terms (weighted average rate of 3.84%, 6.19% and 5.20%).........	306,254	12	214,976	10	253,80
	1,332,275	52	1,230,826	57	1,280,36
Total deposits (weighted average rate of 3.02%, 4.90% and 4.42%)	$2,546,647	100%	$2,165,047	100%	$2,061,35

The cost of funds, operating margins and net earnings of the Bank associated with brokered and telemarketing deposits are generally comparable to the cost of funds, operating margins and net earnings of the Bank associated with retail deposits, FHLBSF borrowings and securities sold under agreements to repurchase. As the cost of each source of funds fluctuates from time to time, the Bank seeks funds from the lowest cost source until the relative cost changes. As the costs of funds, operating margins and net earnings of the Bank associated with each source of funds are generally comparable, the Bank does not deem the impact of a change in incremental use of any one of the specific sources of funds at a given time to be material.

Borrowings. The Federal Home Loan Bank System functions as a source of credit to financial institutions that are members of a regional Federal Home Loan Bank. The Bank may apply for advances from the FHLBSF secured by the FHLBSF capital stock owned by the Bank, certain of the Bank's mortgages and other assets (principally obligations issued or guaranteed by the United States government or agencies thereof). Advances can be requested for any sound business purpose which an institution is authorized to pursue. Any institution not meeting the qualified thrift lender test will be subject to restrictions on its ability to obtain advances from the FHLBSF. See "Summary of Material Legislation and Regulation - Qualified Thrift Lender Test." In granting advances, the FHLBSF also considers a member's creditworthiness and other relevant factors.

Total advances from the FHLBSF were $1.6 billion at December 31, 2001 at a weighted average rate of 5.01%. This compares with advances of $1.6 billion at December 31, 2000 and $1.2 million at December 31, 1999 with weighted average rates of 6.42% and 5.91%, respectively. The level of FHLB borrowings increased because they were often the lowest cost source of funds available to the Bank. The Bank has credit availability with the FHLBSF, which allows it to borrow up to 50% of its assets or approximately $2.4 billion at December 31, 2001.

The Bank enters into sales of securities under agreements to repurchase (reverse repurchase agreements) which require the repurchase of the same securities. The agreements are treated as borrowings in the Company's Consolidated Statements of Financial Condition. There are certain risks involved with doing these types of transactions. In order to minimize these risks, the Bank's policy is to enter into agreements only with well-known national brokerage firms that meet their regulatory capital requirements. Borrowings under reverse repurchase agreements totaled $211.0 million at December 31, 2001 at a weighted average rate of 2.66% and were secured by mortgage-backed securities with principal balances totaling $221.6 million. Borrowings under reverse repurchase agreements totaled $294.1 million at December 31, 2000 and $363.6 million at December 31, 1999 at weighted average rates of 6.65% and 5.76%, respectively. The decrease in borrowings under agreements to repurchase over the last three years is due to paydowns of the underlying mortgage-backed securities.

The Company redeemed its $50 million senior unsecured 11.75% notes during 1999. The premium and related costs of $2.2 million, net of taxes, were recorded as a loss on early extinquishment of debt, which is shown as an extraordinary item in the Consolidated Statements of Operations and Comprehensive Earnings for 1999.

Borrowings from all sources totaled $1.8 billion, $1.9 billion and $1.5 billion at weighted average rates of 4.74%, 6.46% and 5.88% at December 31, 2001, 2000, and 1999, respectively. Due to the high level of loan payoffs and the growth in retail branch deposits, no additional borrowings were necessary to fund asset growth during 2001.

The Bank's portfolio of short-term borrowings includes short-term variable rate credit advances and FHLB advances due in less than one year from the FHLBSF, securities sold under agreements to repurchase and other short term borrowings. The following schedule summarizes short term borrowings for the last three years:

	End of Period Outstanding	Rate	Maximum Month-End Outstanding Balance During the Period	Averag Outstandin
	(Dollars In Thousands)			
2001				
Short-term FHLB Advances...........	$985,000	4.86%	$ 987,000	$ 900,895
Securities sold under agreements to repurchase	211,040	2.66	290,528	251,914
2000				
Short-term FHLB Advances...........	$957,000	6.58%	$1,250,000	$1,065,000
Securities sold under agreements to repurchase	294,110	6.65	355,995	322,593
1999				
Short-term FHLB Advances...........	$920,000	5.97%	$ 920,000	$ 545,000
Securities sold under agreements to repurchase	363,635	5.76	469,655	390,691

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Other Sources

See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Sources of Funds" for a discussion of other funding sources.

Subsidiaries

The Bank has three wholly-owned subsidiaries: Seaside Financial Corporation ("Seaside"), Oceanside Insurance Agency, Inc. ("Oceanside"), and Santa Monica Capital Group ("SMCG"), all of which are California corporations. SMCG is an inactive corporation.

As of December 31, 2001, the Bank's investment in these subsidiaries had been totally repaid by dividends. Revenues and operating results of these subsidiaries accounted for less than 1% of consolidated revenues in 2001 and no material change is presently foreseen.

Real Estate Development Activities. Seaside has not been involved in any real estate development activity for the last several years and there are no plans for future real estate projects. Therefore, no gains or losses on real estate development activities were recorded during 2001, 2000 or 1999. Seaside, from time to time, will purchase individual properties for investment and sell them for a gain. Income from this activity totaled $285 thousand during 2001 and $590 thousand during 2000. The decrease during 2001 compared to 2000 resulted from the closure of a storage facility on leased land operated by Seaside for the last several years. Seaside's lease for this facility expired during 2001.

Seaside continues to hold one condominium unit, which is rented to the Bank for use by its employees. At December 31, 2001, Seaside's investment in the remaining unit totaled $30 thousand. There were no loans outstanding against the property at December 31, 2001. The unit is located in Southern California.

Trustee Activities. Seaside acts as trustee on the Bank's deeds of trust. Trustee fees for this activity amounted to $86 thousand, $65 thousand and $165 thousand in 2001, 2000 and 1999, respectively. The decrease in trustee fees over the last three years is consistent with the decrease in loan foreclosure activity.

Insurance Brokerage Activities. Oceanside engages in limited insurance agent activities. Income to date from this source has been insignificant. Oceanside operates as a licensed life insurance agent for the purpose of receiving commissions on the sale of fixed and variable rate annuities and mutual funds conducted in the Bank's offices by a licensed third party vendor, Invest Financial Corporation, a registered broker-dealer, conducts its sales activities in the Bank's branch offices and the Bank receives a percentage of the commissions on such sales through its licensed insurance agency, Oceanside. During 2001, 2000 and 1999, Oceanside received commission income of $231 thousand, $290 thousand and $451 thousand, respectively, from the sale of non-insured investment products. Additionally, Oceanside receives insurance commissions from the sale of insurance to its borrowers. Commissions received from this activity totaled $35 thousand in 2001 and $444 thousand in 2000. There was no commission income recorded during 1999. The decrease in premiums during 2001 resulted from the rebate of previously earned commissions as interim lender-placed policies were replaced by permanent policies obtained by borrowers.

Employees

As of December 31, 2001, the Bank had a total of 508 full time equivalent employees, including 106 part-time employees. No employees were represented by a collective bargaining group. At present, the Company has no employees who are not also employees of the Bank. The Bank provides its regular full-time employees with a comprehensive benefits program that includes basic and major medical insurance, long-term disability coverage, sick leave, a 401(k) plan and a profit sharing employee stock ownership plan. The Bank considers its employee relations to be excellent.

Summary of Material Legislation and Regulations

General. FFC, as a savings and loan holding company, is registered with and subject to regulation and examination by the OTS. The Bank, which is a federally chartered savings bank and a member of the FHLBSF, is subject to regulation and examination by the OTS with respect to most of its business activities, including, among others, lending activities, capital standards, general investment authority, deposit taking and borrowing authority, mergers and other business combinations, establishment of branch offices, and permitted subsidiary investments and activities. The Bank's deposits are insured by the FDIC through the SAIF. As insurer, the FDIC is authorized to conduct examinations of the Bank. The Bank is also subject to Federal Reserve Board regulations concerning reserves required to be maintained against deposits.

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As a member of the FHLB System, the Bank is required to own capital stock in its regional FHLB, the FHLBSF, in an amount at least equal to the greater of 1% of the aggregate principal amount of its unpaid residential mortgage loans, home purchase contracts and similar obligations at the end of each year, or 5% of its outstanding borrowings from the FHLBSF. The Bank was in compliance with this requirement, with an investment of $91.7 million in FHLBSF stock at December 31, 2001.

The FHLBSF serves as a source of liquidity for the member institutions within its assigned region, the FHLB Eleventh District. It is funded primarily from proceeds derived from the sale of consolidated obligations of the FHLB System. It makes advances to members in accordance with policies and procedures established by the Federal Housing Finance Board and the Board of Directors of the FHLBSF. At December 31, 2001, the Bank's advances from the FHLBSF amounted to $1.6 billion, or 37% of the Company's total funding sources (deposits and borrowings).

The FHLBs provide funds for the resolution of troubled savings institutions and are required to contribute to affordable housing programs through direct loans or interest subsidies on advances targeted for community investment and low and moderate income housing projects. These contributions have adversely affected the level of dividends that the FHLBs have paid to its members. These contributions also could have an adverse effect on the value of FHLB stock in the future. For the year ended December 31, 2001, dividends paid by the FHLBSF to the Bank totaled approximately $5.2 million.

Financial Services Modernization Legislation. On November 12, 1999, the Gramm-Leach-Bliley Act of 1999 (the"Act") was signed into law. The Act makes significant changes to the operations of financial services companies. It repealed key provisions of the 66-year old "Glass-Steagall Act" by repealing prohibitions on affiliations among banks, securities firms and insurance companies. It authorizes a broad range of financial services to be conducted by these types of companies within a new structure known as a "financial holding company" ("FHC"). The FHC may engage in a number of activities deemed to be new activities, such as securities underwriting and dealing activities, insurance underwriting and sales activities, merchant banking and equity investment activities, and "incidental" and "complementary" non-financial activities. While the Act specifies so-called "functional regulation," various federal and state regulators will have continued authority over certain activities of FHCs and other regulated financial institutions. However, the Federal Reserve Board will be the principal regulator for FHCs. These changes do not directly affect the Company, although they are likely to dramatically affect the business activities of many of the Company's financial institution competitors.

Other provisions of the Act also may have an impact on the Company and the Bank. The Act limits the ability of commercial entities to obtain thrift charters. Commencing with applications filed on and after May 5, 1999, entities seeking control of a savings association will be required to conform their activities to those permitted for financial holding companies. Existing thrift holding companies that control only one insured institution (such as the Company) are "grandfathered" with respect to their ability to continue their activities. However, future sales of the savings institution subsidiary of such a unitary thrift holding company will be limited to companies and entities that limit their activities to those permitted for financial holding companies.

The Act establishes a federal right to the confidential treatment of nonpublic personal information about consumers. These provisions of the Act require disclosure of privacy policies to consumers and, in some circumstances, will allow consumers to prevent disclosure of certain personal information to a nonaffiliated third party. The OTS and other banking regulatory agencies issued final rules to implement these provisions of the Act on May 10, 2000. The rules were effective November 13, 2000, and compliance was mandatory starting on July 1, 2001. Pursuant to these rules, a financial institution must provide:

- initial notices to customers (as defined in the rules) about the institution's privacy policies, describing the circumstances under which the institution may disclose nonpublic personal information to nonaffiliated third parties and affiliates;
- annual notices of the institution's privacy policies to all customers; and
- a reasonable method for customers to "opt out" of disclosure to nonaffiliated third parties (except where disclosure is required or otherwise permitted by law).

These new rules will affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors. It is not possible at this time to assess the impact of the privacy provisions on the Company's operations. However, because the Company does not sell or give its customer information to outside third parties or its affiliates except under very limited circumstances (e.g., providing customer information to the Company's data processing provider or to third party providers of financial services under certain types of narrow joint marketing arrangements), it is not anticipated that the new rules will have a significant impact on the Company's results of operations or financial condition.

The Act revised the Community Reinvestment Act (the "CRA", as discussed in more detail below) by, among other things, requiring all insured depository institution members of a FHC to hold at least a satisfactory CRA rating in order to conduct new financial activities authorized by the Act.

On December 21, 2000, the federal bank regulatory agencies approved final rules required by the Act for annual reporting and public disclosure of certain written agreements ("covered agreements") between insured depository institutions and non-governmental entities that are made in connection with fulfillment of CRA. A covered agreement must be made public by being placed immediately in the institution's public CRA file and disclosed annually as part of the CRA statement. These new requirements are not expected to have a material impact on the Company's operations.

The Act also significantly amends the Federal Home Loan Bank System, by modifying membership requirements in local FHLBs to permit membership to be voluntary for both thrift and bank members. The Act changed corporate governance of the FHLBs by eliminating the right of the Federal Housing Finance Board to select the management of the local FHLBs, and returning that authority to the boards of directors of the FHLBs. Additionally, the obligations of the FHLBs to repay federal borrowings to finance the thrift bailout has been restructured from a fixed dollar amount to a fixed percentage of the FHLBs' annual net earnings.

Savings and Loan Holding Company Regulations. The activities of savings and loan holding companies are governed by the Home Owners' Loan Act, as amended. Pursuant to that statute, the Company is subject to certain restrictions with respect to its activities and investments.

A savings and loan holding company, like FFC, which controls only one savings association, is exempt from restrictions on the conduct of unrelated business activities that are applicable to savings and loan holding companies that control more than one savings association. The restrictions on multiple savings and loan holding companies are similar to the restrictions on the conduct of unrelated business activities applicable to bank holding companies under the Bank Holding Company Act. The Company would become subject to these restrictions if it were to acquire control of another savings association or if the Bank were to fail to meet its qualified thrift lender ("QTL") test. See "Qualified Thrift Lender Test."

The OTS may impose restrictions when it has reasonable cause to believe that the continuation of any particular activity by a savings and loan holding company constitutes a serious risk to the financial safety, soundness or stability of such holding company's savings institution. Specifically, the OTS may, as necessary, (i) limit the payment of dividends by the savings institution; (ii) limit transactions between the savings institution and its holding company or its affiliates; and (iii) limit any activities of the savings institution that create a serious risk that the liabilities of the holding company and its affiliates may be imposed on the savings institution. Any such limits will be issued in the form of a directive having the effect of a cease-and-desist order.

Regulatory Capital Requirements. The capital regulations of the OTS (the "Capital Regulations") require, federally insured institutions such as the Bank to meet certain minimum capital requirements. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Capital Resources and Liquidity - Capital Requirements." The OTS may establish, on a case-by-case basis, individual minimum capital requirements for a savings institution which vary from the requirements that would otherwise apply under the Capital Regulations.

The OTS has adopted rules based upon five capital tiers: well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized. An institution falls into one of these classifications depending primarily on its capital ratios. The Bank is considered to be "well capitalized" for purposes of these capital measures.

Insurance of Accounts. The FDIC administers two separate deposit insurance funds. The Bank Insurance Fund ("BIF") insures the deposits of commercial banks and other institutions that were insured by the FDIC prior to the enactment of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA"). The Savings Association Insurance Fund ("SAIF") insures the deposits of savings institutions which were insured by the Federal Savings and Loan Insurance Corporation ("FSLIC") prior to the enactment of FIRREA. The Bank's deposits are insured by the SAIF. The FDIC is authorized to increase deposit insurance premiums if it determines such increases are appropriate to maintain the reserves of either the SAIF or the BIF or to fund the administration of the FDIC. In addition, the FDIC is authorized to levy emergency special assessments on BIF and SAIF members.

The FDIC has implemented a risk-based assessment system, under which an institution's deposit insurance assessment is based on the probability that the deposit insurance fund will incur a loss with respect to the institution, the likely amount of any such loss, and the revenue needs of the deposit insurance fund. Under the risk-based assessment system, a savings institution is categorized into one of three capital categories: well capitalized, adequately capitalized, and undercapitalized. A savings institution is also categorized into one of three supervisory subgroup categories based on examinations by the OTS.

The FDIC may terminate the deposit insurance of any insured depository if the FDIC determines, after a hearing, that the institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation or order or any condition imposed in

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writing by the FDIC. The FDIC may also suspend deposit insurance temporarily during the hearing process if the institution has no tangible capital (which may be calculated under certain conditions by including goodwill). In addition, FDIC regulations provide that any insured institution that falls below a 2% minimum leverage ratio will be subject to FDIC deposit insurance termination proceedings unless it has submitted, and is in compliance with, a capital plan with its primary federal regulator and the FDIC.

The OTS also imposes assessments and examination fees on savings institutions. OTS assessments for the Bank were $653 thousand in 2001, $568 thousand in 2000 and $567 thousand in 1999.

Liquidity. In July 2001, the OTS removed the regulation that required a savings institution to maintain an average daily balance of liquid assets of at least four percent of its liquidity base, and retained a provision requiring a savings institution to maintain sufficient liquidity to ensure its safe and sound operation. The determination of what constitutes safe and sound operation was left to the discretion of management.

For several years it has been the Bank's strategy to keep cash and liquid investments at a modest level due to availability of substantial credit lines. After the repeal of the liquidity regulation, the Bank's liquidity policy was modified to include unused borrowing capacity in the definition of available liquidity. The Bank's current liquidity policy requires that cash and cash equivalents, short-term investments and excess borrowing capacity be maintained at a minimum level of 10% of the Bank's liquidity base (defined as deposits and borrowings due within one year). At December 31, 2001, liquidity-qualifying balances were 27.5% of the Bank's liquidity base.

Community Reinvestment Act. The Community Reinvestment Act ("CRA") requires each savings institution, as well as commercial banks and certain other lenders, to identify the communities served by the institution's offices and to identify the types of credit the institution is prepared to extend within those communities. The CRA also requires the OTS to assess an institution's performance in meeting the credit needs of its identified communities as part of its examination of the institution, and to take such assessments into consideration in reviewing applications with respect to branches, mergers and other business combinations, including acquisitions by savings and loan holding companies. An unsatisfactory CRA rating may be the basis for denying such an application and community groups have successfully protested applications on CRA grounds. In connection with its assessment of CRA performance, the OTS assigns CRA ratings of "outstanding," "satisfactory," "needs to improve" or "substantial noncompliance." The Bank was rated "satisfactory" in its last CRA examination, which was conducted in 2000. For examinations in 1997 and thereafter, institutions are evaluated based on: (i) performance in lending in their assessment areas; (ii) the provision of deposit and other community services in their assessment areas; and (iii) the investment in housing-related and other qualified community investments. An institution that is found to be deficient in its performance in meeting its community's credit needs may be subject to enforcement actions, including cease and desist orders and civil money penalties.

Restrictions on Dividends and Other Capital Distributions. During the first quarter of 1999, the OTS changed its regulations governing capital distributions. Those changes, which became effective on April 1, 1999, require that savings associations controlled by savings and loan holding companies (such as the Bank) file a 30-day advance notice of a proposed capital distribution. The OTS may disapprove a notice if it finds that (a) the savings association will be undercapitalized, significantly undercapitalized or critically undercapitalized following the distribution, (b) the proposed capital distribution raises safety and soundness concerns; or (c) the proposed distribution violates a prohibition contained in a statute, regulation or agreement between the savings association and the OTS (or FDIC) or a condition imposed by an OTS condition or approval.

Under these new regulations, savings associations which are not controlled by a savings and loan holding company may pay capital distributions during a calendar year, without notice or application to the OTS, equal to net income for the applicable calendar year plus retained net income for the two prior calendar years. Under certain circumstances, such savings associations must file applications for approval of a proposed distribution. The new regulations also require a 30-day advance notice to be filed for proposed capital distributions that would result in the savings association being less than well-capitalized or that involve the reduction or retirement of the savings association's stock.

No capital distributions were made to the Company during 2001. During 2000, the Bank paid a total of $10.0 million in capital distributions to the Company.

Limits on Types of Loans and Investments. Federal savings institutions are authorized, without quantitative limits, to make loans on the security of liens upon residential real property and to invest in a variety of instruments such as obligations of, or fully guaranteed as to principal and interest by, the United States; stock or bonds of the FHLB; certain mortgages, obligations, or other securities which have been sold by FHLMC or FNMA; and certain securities issued by, or fully guaranteed as to principal and interest by, the Student Loan Marketing Association and the Government National Mortgage Association. Certain other types of loans or investments may be acquired subject to quantitative limits: secured or unsecured loans for commercial, corporate, business, or agricultural purposes, loans on the security of liens upon nonresidential real property, investments in personal property, consumer loans and certain securities such as commercial paper and corporate debt, and construction loans without security.

Savings institutions are subject to the same loans-to-one borrower ("LTOB") restrictions that are applicable to national banks, with limited provisions for exceptions. In general, the national bank standard restricts loans to a single borrower to no more than 15% of a bank's unimpaired capital and surplus, plus an additional 10% if the loan is collateralized by certain readily marketable collateral. The Bank's loans were within the LTOB limitations at December 31, 2001.

Savings institutions and their subsidiaries are prohibited from acquiring or retaining 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 has no impermissible equity investments in its investment portfolio.

Safety and Soundness Standards. OTS regulations contain "safety and soundness" standards covering various aspects of the operations of savings institutions. The guidelines relate to internal controls, information systems and internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, executive compensation, maximum ratios of classified assets to capital, and minimum earnings sufficient to absorb losses without impairing capital. If the OTS determines that a savings institution has failed to meet the safety and soundness standards, it may require the institution to submit to the OTS, and thereafter comply with, a compliance plan acceptable to the OTS describing the steps the institution will take to attain compliance with the applicable standard and the time within which those steps will be taken.

Federal regulations contain a number of measures intended to promote early identification of management problems at depository institutions and to ensure that regulators intervene promptly to require corrective action by institutions. The Bank's annual management report on the effectiveness of internal control standards and compliance with certain designated laws will be made available in March of 2002.

Prompt Corrective Action. The "prompt corrective action" regulations require insured depository institutions to be classified into one of five categories based primarily upon capital adequacy, ranging from "well capitalized" to "critically undercapitalized." These regulations require, subject to certain exceptions, the appropriate federal banking agency to take "prompt corrective action" with respect to an institution which becomes "undercapitalized" and to take additional actions if the institution becomes "significantly undercapitalized" or "critically undercapitalized."

Only "well capitalized" institutions may obtain brokered deposits without a waiver. An "adequately capitalized" institution can obtain brokered deposits only if it receives a waiver from the FDIC. An "undercapitalized" institution may not accept brokered deposits under any circumstances. The Bank met the "well-capitalized" standards during 2001 and was eligible to accept brokered deposits without a waiver.

Qualified Thrift Lender Test. In general, the QTL test requires that 65% of an institution's portfolio assets be invested in "qualified thrift investments" (primarily loans, securities and other investments related to housing), measured on a monthly average basis for nine out of every 12 months on a rolling basis. Any savings institution that fails to meet the QTL test must either convert to a bank charter or become subject to national bank-type restrictions on branching, business activities, and dividends, and its ability to obtain FHLB advances is affected. The Bank met the QTL test at December 31, 2001, with 94% of its portfolio assets comprised of "qualified thrift investments."

Transactions with Affiliates. Federal savings institutions are subject to the provisions of Sections 23A and 23B of the Federal Reserve Act. Section 23A restricts loans or extensions of credit to, or investments in, or certain other transactions with, affiliates and as to the amount of advances to third parties

collateralized by the securities or obligations of affiliates. Section 23B generally requires that transactions with affiliates must be on a non-preferential basis. Federal savings institutions may not make any extension of credit to an affiliate which is engaged in activities not permitted by bank holding companies, and may not invest in securities issued by an affiliate (except with respect to a subsidiary). The Company is an "affiliate" of the Bank for the purposes of these provisions.

Transactions with Insiders. Federal savings institutions are subject to the restrictions of Sections 22(g) and (h) of the Federal Reserve Act which, among other things, restrict the amount of extensions of credit which may be made to executive officers, directors, certain principal shareholders (collectively "insiders"), and to their related interests. When lending to insiders, a savings association must follow credit underwriting procedures that are not less stringent than those applicable to comparable transactions with persons outside the association. The amount that a savings association can lend in the aggregate to insiders (and to their related interests) is limited to an amount equal to the association's core capital and surplus. Insiders are also prohibited from knowingly receiving (or knowingly permitting their related interests to receive) any extensions of credit not authorized under these statutes.

Federal Reserve System. Federal Reserve Board regulations require savings institutions to maintain non-interest bearing reserves against their transaction accounts. The reserve for transaction accounts as of December 31, 2001 was 0% of the first $5.5 million of such accounts, 3% of the next $37.3 million of such accounts and 10% (subject to

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adjustment by the Federal Reserve Board between 8% and 14%) of the balance of such accounts. The Bank is in compliance with these requirements.

Taxation. The Company, the Bank and its subsidiaries file a consolidated federal income tax return on a calendar year basis using the accrual method. The maximum marginal federal tax rate is currently 35%.

The Bank is required to use the specific charge-off method of accounting for debts for all periods beginning after 1995. Prior to that date, the Bank used the reserve method of accounting for bad debts. The Consolidated Statements of Financial Condition at December 31, 2001 and 2000 do not include a liability of $5,356,000 related to the adjusted base year bad debt reserve. This reserve was created when the Bank was on the reserve method.

These reserves are subject to recapture if: (1) the Bank fails to qualify as a "bank" for federal income tax purposes; (2) certain distributions are made with respect to the stock of the Bank; (3) the bad debt reserves are used for any purpose other than to absorb bad debt losses; or (4) there is a change in federal tax law. Management does not expect for any of these events to occur.

To the extent that distributions by the Bank to the Company that are permitted under federal regulations exceed the Bank's earnings and profits (as computed for federal income tax purposes), such distributions would be treated for tax purposes as being made out of the Bank's base year reserve and would thereby constitute taxable income to the Bank in an amount equal to the lesser of the Bank's base year reserve or the amount which, when reduced by the amount of income tax attributable to the inclusion of such amount in gross income, is equal to the amount of such distribution. At December 31, 2001, the Bank's earnings and profits (as computed for federal income tax purposes) were approximately $340.9 million.

For state tax purposes, the Bank is allowed an addition to its tax bad debt reserves in an amount necessary to fill up to its tax reserve balance calculated using the experience method.

At December 31, 2001, the Bank had $44.9 million in gross deferred tax assets. No valuation allowance was established because management believes that it is more likely than not that the deferred tax assets will be realized. Gross deferred tax liabilities totaled $35.3 million at December 31, 2001.

The Bank is subject to an alternative minimum tax if such tax is larger than the tax otherwise payable. Generally, alternative minimum taxable income is a taxpayer's regular taxable income, increased by the taxpayer's tax preference items for the year and adjusted by computing certain deductions in a special manner which negates the acceleration of such deductions under the regular tax. The adjusted income is then reduced by an exemption amount and is subject to tax at a 20% rate. No alternative minimum taxes were applicable to the Bank for tax years 2001, 2000 or 1999.

California tax laws generally conform to federal tax laws. For California franchise tax purposes, federal savings banks are taxed as "financial corporations" at a rate 2% higher than that applicable to non-financial corporations because of exemptions from certain state and local taxes. The tax rate for 2001, 2000 and 1999 was 10.84%. The Franchise Tax Board ("FTB") has not yet announced any new rate for 2002.

The Internal Revenue Service ("IRS") has completed examinations of the Company's consolidated federal income tax returns for tax years up to and including 1996. Adjustments made by the IRS related to temporary differences as to the recognition of certain taxable income and expense items. While the Company had provided deferred taxes for federal and state purposes, the changes in the period of recognition of certain income and expense items resulted in interest due to the IRS and FTB. During 2001, the Company accrued an additional $300 thousand for interest potentially due on IRS adjustments. No interest was paid as of December 31, 2001. During 1999 and 2000, the Company reversed interest accruals totaling $150 thousand and $350 thousand, respectively.

ITEM 2--PROPERTIES

At December 31, 2001, the Bank owned the building and the land for eight of its branch offices, owned the building but leased the land for three additional offices, and leased its remaining offices. Properties leased by the Bank include its home and executive offices located in a 12-story office tower in downtown Santa Monica and a general services and corporate operations office building in Santa Monica. For information concerning rental obligations, see Note 6 of the Notes to Consolidated Financial Statements.

ITEM 3--LEGAL PROCEEDINGS

The Company is involved as a plaintiff or defendant in various legal actions incident to its business, none of which are believed by management to be material to the Company.

ITEM 4--SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5--MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

(a) Market Information. The Company's common stock is traded on the New York Stock Exchange ("NYSE") under the symbol "FED." Included in "Management's Discussion and Analysis of Financial Condition and Results of Operations" is a chart representing the range of high and low stock prices for the Company's common stock for each quarterly period for the last five years.

(b) Holders. As of February 5, 2002, 17,252,604 shares of Company common stock, representing approximately 814 record stockholders, were outstanding, which total does not include the number of stockholders whose shares are held in street name.

(c) Dividends. As a publicly traded company, the Company has no history of dividend payments on its common stock. However, the Company may in the future adopt a policy of paying dividends, depending on its net earnings, financial position and capital requirements, as well as regulatory restrictions, tax consequences and the ability of the Company to obtain a dividend from the Bank for payment to stockholders. OTS regulations limit amounts that the Bank can pay as a dividend to the Company. No dividend may be paid if the Bank's net worth falls below regulatory requirements. (See "Business - Summary of Material Legislation and Regulations" for other regulatory restrictions on dividends.) The Board of Directors of the Bank declared and paid to the Company $10.0 million in dividends during 2000 and $99.6 million during 1999. No dividends were paid during 2001. The dividends paid during 2000 were for the purpose of repurchasing 821,500 shares of Company common stock. Dividends paid during 1999 were for the purpose of repurchasing 3,298,150 shares of Company common stock and servicing and paying off the Company's $50 million in senior unsecured 11.75% notes, which were redeemed on December 30, 1999.

ITEM 6--SELECTED FINANCIAL DATA

Selected financial data for the Company is presented below:

FIRSTFED FINANCIAL CORP. AND SUBSIDIARY
FIVE YEAR CONSOLIDATED SUMMARY OF OPERATIONS

	2001	2000	1999	1998	1997
	(Dollars In Thousands, Except Per Share Data)				
For the Year Ended December 31:					
Interest income......	$ 333,932	$ 314,320	$ 260,001	$ 289,769	$ 299,220
Interest expense.....	201,754	206,505	161,031	186,491	204,226
Net interest income..	132,178	107,815	98,970	103,278	94,994
Provision for loan losses	-	-	-	7,200	20,500
Other income.........	8,919	7,747	12,688	13,657	10,218

Non-interest expense.	53,174	48,265	49,159	48,924	44,151
Earnings before income taxes	87,923	67,297	62,499	60,811	40,561
Income taxes.........	37,621	28,832	27,052	26,182	17,461
Earnings before extra-ordinary items.....	50,302	38,465	35,447	34,629	23,100
Extraordinary item					
Loss on early extinquishment of debt, net of taxes	-	-	(2,195)	-	-
Net earnings........	50,302	38,465	33,252	34,629	23,100
Basic earnings per share					
EPS before extraordinary item	2.92	2.23	1.84	1.63	1.09
Extraordinary item	-	-	(.11)	-	-
EPS after extraordinary item	2.92	2.23	1.73	1.63	1.09
Dilutive earnings per share					
EPS before extraordinary item	2.85	2.20	1.83	1.60	1.07
Extraordinary item	-	-	(.12)	-	-
EPS after extraordinary item	2.85	2.20	1.71	1.60	1.07
End of Year:					
Loans receivable, net (2).	4,004,889	3,629,284	3,060,547	2,808,221	3,145,164
Mortgage-backed securities	284,079	374,405	428,641	556,679	676,058
Investment securities	110,444	136,537	151,195	64,333	48,910
Total assets.........	4,726,289	4,365,242	3,872,051	3,677,128	4,160,115
Deposits............	2,546,647	2,165,047	2,061,357	2,135,909	1,943,647
Borrowings...........	1,808,040	1,873,110	1,532,635	1,235,172	1,941,670
Liabilities..........	4,400,611	4,097,800	3,640,918	3,420,128	3,937,328
Stockholders' equity.	325,678	267,442	231,133	257,000	222,787
Book value per share(1)	18.88	15.52	12.82	12.16	10.52
Tangible book value per share	18.22	14.98	12.78	12.10	10.43
Selected Ratios:					
Return on average assets	1.10%	0.93%	0.94%	0.88%	0.56%
Return on average equity	16.93%	15.85%	14.91%	14.40%	11.25%
Ratio of non-performing assets to total assets	0.17%	0.19%	0.40%	0.84%	0.95%
Other Data:					
Number of Bank full service branches.................	29	25	24	24	24

(1) All per share amounts have been adjusted for the two-for-one stock split declared June 25, 1998.
(2) Includes loans held for sale.

Also see summarized results of operations on a quarterly basis for 2001, 2000 and 1999 in Note 15 of the Notes to Consolidated Financial Statements.

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ITEM 7--MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

The Company's results of operations are primarily affected by its levels of net interest income, provisions for loan losses, non-interest income, non-interest expense and income taxes. The Company's results are strongly influenced by the Southern California economy in which it operates.

Net earnings of $50.3 million or $2.85 per diluted share were recorded in 2001, compared to net earnings of $38.5 million or $2.20 per diluted share in 2000 and net earnings of $33.3 million or $1.71 per diluted share in 1999.

The increase in net earnings from 2000 to 2001 was primarily due to higher net interest income, which resulted from growth in average interest-earning assets and improved interest spreads due to repeated interest rate cuts by the Federal Reserve Bank throughout 2001. The increase in net earnings from 1999 to 2000 was primarily due to higher net interest income due to growth in interest-earning assets.

No loan loss provision was recorded in 2001, 2000 or 1999. The Southern California economy and real estate market has remained stable over the last few years. As a result, the Bank recorded net loan loss recoveries of $118 thousand in 2001 and $51 thousand in 2000. Net loan charge-offs totaling $2.4 million were recorded in 1999.

Certain key financial ratios for the Company are presented below:

	Return on Average Assets	Return on Average Equity	Average Equity to Average Assets
2001......	1.10%	16.93%	6.52%
2000......	.93	15.85	5.85
1999......	.94	14.91	6.29
1998......	.88	14.40	6.09
1997......	.56	11.25	4.95
1996......	.20	4.22	4.61

Non-performing assets (primarily loans 90 days past due or in foreclosure plus foreclosed real estate) decreased to $7.9 million or 0.17% of total assets as of December 31, 2001 from $8.3 million or 0.19% of total assets as of December 31, 2000 and $15.4 million or 0.40% of total assets at December 31, 1999. The decreasing amount of real estate owned over the last several years is due to lower balances of delinquent loans and decreased foreclosures in the improved Southern California real estate markets.

The Company repurchased common shares totaling 821,500 and 3,298,150 during 2000 and 1999, respectively. As of February 14, 2002, 889,016 shares remain eligible for repurchase under the Company's authorized repurchase program. No additional shares were purchased during 2001 or thus far during 2002.

At December 31, 2001 the Bank's regulatory risk-based capital ratio was 12.51% and its tangible and core capital ratios were 6.42%. The Bank met the regulatory capital standards necessary to be deemed "well-capitalized" at December 31, 2001.

The Bank's deposits are insured by the SAIF up to a maximum of $100,000 for each insured depositor. The Bank's FDIC insurance premiums were $418 thousand during 2001, $538 thousand during 2000 and $1.2 million during 1999. The lower premiums paid during 2001 and 2000 were due to a drop in the deposit insurance assessment rate from 5.9 basis points in 1999 to 2.07 basis points in 2000 and 1.90 basis points in 2001, due to an improvement in the Bank's regulatory rating.

Risks and Uncertainties

In the normal course of business, the Company encounters two significant types of risk: economic risk and regulatory risk.

ECONOMIC RISK

There are two main components of economic risk: credit risk and market risk (which includes interest rate risk.)

Credit Risk

Credit risk is the risk of default in the Company's loan portfolio that results from a borrower's inability to make contractually required payments. See "Loss Provision" and "Non-performing Assets."

The determination of the allowance for loan losses and the valuation of real estate collateral are based on estimates that are susceptible to changes in the economic environment and market conditions. No loan loss provision was recorded during 2001. A downward turn in the current economic climate could increase the likelihood of losses due to credit risks. This could create the need for additional loan loss provisions.

Market Risk

Market risk is the risk of loss from unfavorable changes in market prices and interest rates. The Bank's market risk arises primarily from the interest rate risk inherent in its lending and deposit taking activities.

See "Asset-Liability Management" for additional information relating to market risk.

REGULATORY RISK

Regulatory risk is the risk that the regulators will reach different conclusions than management regarding the financial position of the Company. The OTS examines the Bank's financial results annually. The OTS reviews the allowance for loan losses and may require the Bank to adjust the allowance based on information available at the time of their examination.

OTHER RISKS

Inflation

Inflation substantially impacts the financial position and operations of financial intermediaries, such as banks and savings institutions. These entities primarily hold monetary assets and liabilities and, as such, can experience significant purchasing power gains and losses over relatively short periods of time. In addition, interest rate changes during inflationary periods change the amounts and composition of assets and liabilities held by financial intermediaries and could result in regulatory pressure for an additional equity investment.

Pending Lawsuits

The Bank has been named as a defendant in various lawsuits, none of which is expected to have a materially adverse effect on the Company.

CRITICAL ACCOUNTING POLICIES

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared In accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements require management to make estimates and judgements that affect the reported amounts of assets and liabilities at the date of our financial statements. Actual results may differ from these estimates under different assumptions or conditions.

Accounting for the allowance for loan losses involves significant judgements and assumptions by management which have a material impact on the carrying value of net loans; management considers this accounting policy to be a critical accounting policy. The judgements and assumptions used by management are based on historical experience and other factors, which are believed reasonable under the circumstances as described in the "Business - Loan Loss Allowance" section.

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COMPONENTS OF EARNINGS

Net Interest Income

Net interest income is the primary component of the Company's earnings. The chief determinants of net interest income are the dollar amounts of interest-earning assets and interest-bearing liabilities and the interest rates earned or paid thereon. The greater the excess of average interest-earning assets over average interest-bearing liabilities, the more beneficial the impact on net interest income. The excess of average interest-earning assets over average interest-bearing liabilities was $179.2 million in 2001, $148.2 million in 2000 and $144.4 million in 1999. The increase over the last three years was due to improvement in asset quality and asset growth.

The Company's net interest income is also impacted by a three-month time lag before changes in the cost of funds can be passed along to monthly adjustable rate loan customers. Savings and borrowing costs adjust to market rates immediately while it takes several months for the loan yield to adjust. This time lag decreases the Company's net interest income during periods of rising interest rates. The reverse is true during periods of declining interest rates. See "Asset-Liability Management" for further discussion.

The following table sets forth the components of interest-earning assets and liabilities, the excess of interest-earning assets over interest-bearing liabilities, the yields earned and rates paid and net interest income for the periods indicated:

	2001	2000	1999
	(Dollars In Thousands)		
Average loans and mortgage-backed securities (1).........	$4,181,554	$3,793,351	$3,328,723
Average investment securities	200,807	176,476	204,741
Average interest-earning assets	4,382,361	3,969,827	3,533,464
Average deposits........	2,317,744	2,132,927	2,065,712
Average borrowings......	1,885,426	1,688,738	1,323,362
Average interest-bearing liabilities	4,203,170	3,821,665	3,389,074
Excess of interest-earning assets over interest-bearing liabilities	$ 179,191	$ 148,162	$ 144,390
Yields earned on average interest earning assets.........	7.50%	7.77%	7.26%
Rates paid on average interest-bearing liabilities....	4.79	5.40	4.76
Net interest rate spread	2.71	2.37	2.50
Effective net spread....	2.90	2.57	2.69
Total interest income...	$328,679	$308,487	$256,335
Total interest expense..	201,420	206,473	161,160

	127,259	102,014	95,175
Total other items (2)...	4,919	5,801	3,795
Net interest income.....	$132,178	$107,815	$ 98,970

(1) Non-accrual loans were included in the average dollar amount of loans outstanding, but no income was recognized during the period that each such loan was on non-accrual status.
(2) Includes dividends on FHLB stock and other miscellaneous items.

The Bank's interest rate spread increased by 34 basis points in 2001 compared to 2000 because the yield on earning assets declined by only 27 basis points while the cost of funds fell by 61 basis points in response to aggressive rate cuts by the Federal Reserve Bank. The Bank's cost of funds is immediately impacted by decreases in interest rates while the yield on earning assets responds more slowly to changes in interest rates due to the three month time lag inherent in the adjustable rate loan portfolio and the increased percentage of hybrid/adjustable products originated by the Bank during 2001. The Bank's interest rate spread fell by 13 basis points in 2000 compared to 1999 because the cost of funds was increasing by more than the yield on earning assets during that time. The Federal Reserve was increasing rates during the 1999 to 2000 time frame.

The table below sets forth certain information regarding changes in the interest income and interest expense of the Bank for the periods indicated. 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 balance multiplied by old rate) and (ii) changes in rates (changes in rate multiplied by prior year average balance):

	Year Ended December 31, 2001 Versus December 31, 2000 Change Due To			Year Ended December 31, 2000 Versus December 31, 1999 Change Due To		
	Volume	Rate	Total	Volume	Rate	Total
	(Dollars In Thousands)					
Interest Income:						
Loans and mortgage-backed						
Securities..........	$29,831	$(9,296)	$20,535	$35,723	$16,485	$52,20
Investments..........	1,379	(1,722)	(343)	(1,629)	1,339	(29
Total interest income	31,210	(11,018)	20,192	34,094	17,824	51,91
Interest Expense:						
Deposits.............	8,229	(13,835)	(5,606)	2,910	10,037	12,94
Borrowings..........	11,690	(11,137)	553	22,176	10,191	32,36
Total interest expense	19,919	(24,972)	(5,053)	25,086	20,228	45,31
Change in net interest income	11,291	13,954	25,245	9,008	(2,404)	6,60
Change in other items (1)			(882)			2,24
Total change in net interest income including other items			$24,363			$ 8,84

(1) Includes dividends on FHLB stock and other miscellaneous

items.

Note: Changes in rate/volume (change in rate multiplied by the change in average volume) have been allocated to the change in rate or the change in volume based upon the respective percentages of the combined totals.

Interest Rate Spreads and Yield on Average Interest-Earning Assets
Year Ended December 31,

	2001		2000		1999		1998		
	During Period	End of Period	During Period	End of Period	During Period	End of Period	During Period	End of Period	Dur Per
Weighted average yield on loans and mortgage-backed securities.........	7.61%	6.57%	7.85%	8.15%	7.37%	7.31%	7.63%	7.48%	7.4
Weighted average yield on investment portfolio(1)	5.20	3.52	6.11	5.63	5.41	5.69	5.29	5.14	5.4
Weighted average yield on all interest-earning assets..................	7.50	6.40	7.77	8.04	7.26	7.25	7.54	7.39	7.4
Weighted average rate paid on deposits...........	4.08	3.02	4.70	4.90	4.22	4.42	4.61	4.36	4.7
Weighted average rate paid on borrowings and FHLB advances.............	5.67	4.74	6.29	6.46	5.59	5.88	5.81	5.66	5.8
Weighted average rate paid on all interest-bearing liabilities.......	4.79	3.73	5.40	5.62	4.76	5.04	5.11	4.84	5.2
Interest rate spread(2)....	2.71	2.67	2.37	2.42	2.50	2.21	2.43	2.55	2.1
Effective net spread(3)....	2.90		2.57		2.69		2.60		2.2

(1) Dividends on FHLB stock and miscellaneous interest income were not considered in this analysis
(2) Weighted average yield on all interest-earning assets less weighted average rate paid on all interest-bearing liabilities
(3) Net interest income (the difference in the dollar amounts of interest earned and paid) divided by average interest-earning assets

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Loss Provision

The Company did not record a loan loss provision during 2001, 2000 or 1999. No provision was recorded during the last three years because, based on analysis done by management, existing allowances were sufficient to cover the credit risks inherent in the loan portfolio. Non- performing assets decreased to $7.9 million in 2001 from $8.3 million in 2000 and $15.4 million in 1999 due to improvement in the economy and real estate markets in which the Bank operates. The Bank has a policy of providing for general valuation allowances, unallocated to any specific loan, but available to offset any loan losses. The allowance is maintained at an amount that management believes adequate to cover estimable and probable loan losses. The Company also maintains valuation allowances for impaired loans and loans sold with recourse. See "Business - Loan Loss Allowance." Management performs regular risk assessments of the Bank's loan portfolio to maintain appropriate valuation allowances. Additional loan loss provisions may be required to the extent that charge-offs are recorded against the valuation allowance for impaired loans, the general valuation allowance, or the valuation allowance for loans sold with recourse.

The Company recorded net loan loss recoveries of $118 thousand during 2001 and $51 thousand during 2000. Net loan charge-offs totaling $2.4 million were recorded in 1999. The recoveries recorded during 2001 and 2000 resulted from cash payments by borrowers on loans that had been previously charged-off. The charge-offs during 1999 were 0.08% of average loans outstanding. Charge-offs primarily result from declines in the value of the underlying collateral of the non-performing loans.

Non-interest Income

Loan servicing and other fees were $3.3 million in 2001 compared to $2.8 million in 2000 and $4.2 million in 1999. Fees earned during 2001 and 2000 include adjustments of $134 thousand and $500 thousand, respectively, to provide for impairment of the Bank's servicing asset due to accelerated payoffs and prepayments of loans serviced for others.

Gain on sale of loans was $656 thousand in 2001, $64 thousand in 2000 and $1.2 million in 1999. The gain realized on loan sales fluctuates due to changes in market pricing based on interest rate trends. Also, the dollar amount of loans originated for sale varies based on the availability of attractive fixed rate loan programs to borrowers compared to the Bank's adjustable rate loan programs.

Real estate operations resulted in a net gain of $304 thousand in 2001, $594 thousand in 2000 and $3.2 million in 1999. Real estate operations include gain on sale of foreclosed properties, operational income and expenses during the holding period, and recoveries of prior losses on real estate sold.

Non-interest Expense

The ratio of non-interest expense to average total assets was 1.17% for both 2001 and 2000, a decrease from 1.30% for 1999. The additional costs of acquiring and operating the four branches purchased during 2001 were offset by asset growth during 2001. The decrease from 1999 to 2000 was attributable to decreased legal costs and federal deposit insurance, offset by additional amortization of core deposit intangible assets and increased data processing costs.

Salary and benefit costs increased 12% in 2001 compared to 2000 due to higher incentives, bonuses and profit sharing costs. Salary and benefit costs were approximately the same in 2000 compared to 1999 because increased compensation and incentive costs were offset by decreased bonus and other benefit costs.

Occupancy expense increased slightly in 2001 compared to 2000 due to additional occupancy costs associated with the four retail savings branches acquired during the year and increased repair and maintenance costs for the remaining branches. Occupancy expense increased slightly in 2000 compared to 1999 due to the acquisition of two branches. One branch was closed and its deposits were transferred to one of the acquired branches.

Other operating expenses increased 10% in 2001 compared to 2000 due to deconversion costs associated with the institutions acquired during 2001 and other legal expense. Other operating expenses increased slightly in 2000 compared to 1999 due to increases in data processing costs associated with the creation of the Bank's new web page and internet site. Also, the amortization of core deposit intangible assets increased substantially in 2000 compared to 1999 due to the write off of the core deposit intangible asset associated with a closed branch and a re-evaluation of the core deposit intangible asset on a second branch location.

The following table details the components of non-interest expense for the periods indicated:

	2001	2000	1999	1998	1997
	Non-Interest Expense Year Ended December 31, (Dollars In Thousands)				
Salaries and Employee Benefits:					
Salaries..................	$18,119	$17,354	$16,631	$16,035	$15,157
Incentive compensation.....	2,472	1,987	1,677	1,478	883
Payroll taxes.............	1,652	1,486	1,607	1,455	1,371
Employee benefit insurance.	1,203	1,320	1,220	1,069	1,048
Bonus compensation.........	1,500	920	1,583	1,335	1,100
Profit sharing............	2,020	1,778	1,100	1,000	501
SERP......................	970	906	988	795	628
401(k)....................	356	354	299	235	392
Other salaries and benefits	1,390	339	1,559	2,409	1,660
	29,682	26,444	26,664	25,811	22,740
Occupancy:					
Rent......................	4,439	4,539	4,395	5,105	4,351
Equipment.................	1,971	2,318	2,145	1,855	1,336
Maintenance costs..........	914	571	469	344	450
Other occupancy...........	978	603	850	1,189	741
	8,302	8,031	7,859	8,493	6,878
Other Operating Expense:					
Insurance.................	582	541	430	362	345
Amortization of core deposit intangible	1,564	1,965	452	565	839
Data processing...........	2,490	2,488	1,930	3,359	2,539
Contributions.............	450	518	299	509	412
Professional services......	207	301	8	259	373
Legal expenses............	1,393	632	3,516	1,479	1,309
Supervisory exam..........	653	568	567	599	610
Federal deposit insurance premiums	418	538	1,236	1,241	1,872
Other operating costs......	5,633	4,822	4,334	4,288	3,439
	13,390	12,373	12,772	12,661	11,738
Advertising...............	1,800	1,417	1,864	1,959	2,795
Total..................	$53,174	$48,265	$49,159	$48,924	$44,151
Non-interest expense as % of average assets.......	1.17%	1.17%	1.30%	1.24%	1.06%

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BALANCE SHEET ANALYSIS

Consolidated assets at the end of 2001 were $4.7 billion, representing an 8% increase from $4.4 billion at the end of 2000 and a 22% increase from $3.9 billion at the end of 1999. Assets have increased over the last two years due to strong loan originations, which totaled $1.5 billion in 2001, $1.1 billion in 2000 and $944.1 million in 1999. Loan purchases totaled $132.6 million during 2001, $139.5 million during 2000 and $122.8 million during 1999.

Loan Portfolio

At the end of 2001, over 67% of the Bank's loans had adjustable interest rates based on monthly changes in the FHLBSF Eleventh District Cost of Funds Index. As part of its asset-liability management strategy, the Bank has maintained a high level of adjustable loans in its portfolio for several years. Management believes that the high level of adjustable rate mortgages will help insulate the Bank from fluctuations in interest rates, notwithstanding the several month time lag between a change in its monthly cost of funds and a corresponding change in its loan yields. See "Asset - Liability Management."

The Bank also originates adjustable rate loans with initial fixed interest rates with periods ranging from 3 to 10 years. By policy, the Bank will either match the fixed rate period of these loans with borrowings for the same term or will hold unmatched fixed rate loans in its portfolio up to 5% of total assets. Management believes that the limited origination of fixed-rate loans will enhance the Company's overall return on assets and improve loan originations in this economy. Loans originated under this limited program totaled $1.0 billion in 2001, $75.9 million in 2000 and $205.7 million in 1999.

In 2001, 2000 and 1999, the Bank placed $5.0 million, $3.9 million and $9.9 million, respectively, in mortgages with other lenders under fee arrangements. These loans are not not included in the Bank's loan originations. In 2001, loans made on the security of single family properties (one to four units) comprised 62% of the dollar amount of new loan originations. Loans made on the security of multi-family properties (five or more units) comprised 27% of new originations. Loans made on the security of commercial real estate properties comprised 11% of new loan originations. Business loans originated by the commercial lending units totaled 1% of new loan originations. Adjustable rate mortgages comprised 18% of new loan activity during 2001 compared with 90% during 2000 and 63% during 1999.

The following table details loan originations and loan purchases by loan type for the periods indicated:

	Loan Originations and Purchases by Type Year Ended December 31,				
	2001	2000	1999	1998	1997
	(Dollars In Thousands)				
Single Family (one to four units)	$ 924,794	$ 658,808	$779,698	$594,763	$430,223
Multi-Family............	402,022	333,466	118,622	37,720	48,033
Commercial Real Estate..	158,169	70,807	37,744	383	2,551
Commercial Business Loans	16,172	11,759	7,768	1,733	-
Other..................	1,178	6,170	301	2,428	444
Total.................	$1,502,335	$1,081,010	$944,133	$637,027	$481,251

No loans were originated upon the sale of real estate owned during 2001.

From time to time, the Bank converts loans into mortgage-backed securities for use in securitized borrowings (reverse repurchase agreements). No loans were converted into mortgage-backed securities during 2001, 2000 or 1999. Securitized loans have a lower risk weighting for regulatory risk-based capital purposes. In exchange for the enhanced credit risk associated with mortgage-backed securities, the Bank pays guarantee fees to FHLMC and/or FNMA.

The Bank's adjustable rate loan products often provide for first year monthly payments that are lower than the fully-indexed interest and principal due. Any interest not fully paid by such lower first year payments is added to the principal balance of the loan. This causes negative amortization until payments increase to cover interest and principal repayment shortfalls. Due to negative amortization, loan-to-value ratios may increase above those calculated at the inception of the loan.

The Bank does not normally lend in excess of 90% of the appraised collateral value on adjustable mortgage loans ("AMLs"). Where the Bank does lend in excess of 90% of the appraised value, additional fees and rates are charged. Mortgage insurance is required on loans in excess of 80% or premium rates and/or fees

are charged if the mortgage insurance requirement is waived. Subsequent to the origination of a loan, the Bank may purchase private mortgage insurance with its own funds. Loans originated under this program for which there is no private mortgage insurance totaled $354.5 million at December 31, 2001 compared to $268.2 million at December 31, 2000 and $274.2 million at December 31, 1999. See "Business - Interest Rates, Terms and Fees."

Loan Composition

Loans based on the security of single family properties (one to four units) comprise the largest category of the Bank's loan portfolio (including mortgage-backed securities). The loan portfolio also includes loans secured by multi-family and commercial properties. At December 31, 2001, approximately 55% of the loan and mortgage-backed securities portfolio consisted of first liens on single family properties while first liens on multi-family properties comprised approximately 35% of the portfolio, and first liens on commercial properties represented approximately 8% of the portfolio. Construction loans, the majority of which were acquired in the Bank's purchase of two small banks on November 30, 2001, comprised 1% of the loan portfolio. Commercial business loans and consumer loans comprised the remaining 1% of the loan portfolio at December 31, 2001.

Multi-family and commercial real estate loans are considered more susceptible to market risk than single family loans and higher interest rates and fees are charged to borrowers for these loans. Approximately 37% of loan originations in 2001 and 2000 were multi-family, commercial and industrial loans compared to 17% in 1999. No multi-family loans were originated upon the sale of REO during 2001. During 2000 and 1999, 0.1% and 0.4% of total loan originations were originated upon the sale of multi-family loans, respectively.

The Bank has loss exposure on certain loans sold with recourse. These loans are substantially all secured by multi-family properties. Loans sold with recourse totaled $126.4 million as of December 31, 2001, $146.5 million as of December 31, 2000 and $178.7 million as of December 31, 1999. Although no longer owned by the Bank, these loans are evaluated for the purposes of computing the repurchase liability and measuring risk exposure for regulatory capital. Under the Bank's current policy, it no longer enters into loans sold with recourse agreements.

The following table sets forth the composition of the Bank's portfolio of loans and mortgage-backed securities for each of the last five years:

	December 31,				
	2001	2000	1999	1998	1997
	(Dollars In Thousands)				
REAL ESTATE LOANS:					
First trust deed residential loans:					
One to four units........	$2,121,899	$2,158,940	$1,813,783	$1,564,392	$1,801,608

Five or more units.......	1,525,749	1,308,440	1,123,308	1,127,228	1,217,577
Residential loans..........	3,647,648	3,467,380	2,937,091	2,691,620	3,019,185
OTHER REAL ESTATE LOANS					
Commercial and industrial	358,159	217,619	183,194	181,772	196,575
Construction.............	38,060	-	-	-	-
Land.....................	1,481	-	-	-	-
Second trust deeds.......	9,472	8,453	13,489	15,357	15,441
Other....................	-	-	-	-	6,303
Real estate loans......	4,054,820	3,693,542	3,133,774	2,888,749	3,237,504
NON-REAL ESTATE LOANS:					
Manufactured housing.....	-	391	613	893	1,154
Deposit accounts.........	1,267	576	683	1,002	1,644
Commercial business loans	18,882	12,600	8,140	1,259	-
Consumer.................	19,546	6,555	593	621	185
Loans receivable.......	4,094,515	3,713,664	3,143,803	2,892,524	3,240,487
LESS:					
General valuation allowance	72,919	70,809	69,954	67,638	61,237
Impaired loan valuation allowance	1,850	1,792	2,596	7,634	9,775
Unrealized loan fees.....	14,857	11,779	10,706	9,031	24,311
Net loans receivable (1)	4,004,889	3,629,284	3,060,547	2,808,221	3,145,164
FHLMC AND FNMA MORTGAGE-BACKED SECURITIES:					
Secured by single family dwellings	272,419	360,210	412,469	539,079	657,342
Secured by multi-family dwellings	11,660	14,195	16,172	17,600	18,716
Mortgage-backed securities	284,079	374,405	428,641	556,679	676,058
TOTAL................	$4,288,968	$4,003,689	$3,489,188	$3,364,900	$3,821,222

(1) Includes loans held for sale.

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ASSET QUALITY

Asset Quality Ratios

The following table sets forth certain asset quality ratios of the Bank for the periods indicated:

	December 31,				
	2001	2000	1999	1998	1997
Non-performing Loans to Loans Receivable(1)	0.16%	0.17%	0.42%	0.90%	0.91%
Non-performing Assets to Total Assets(2)	0.17%	0.19%	0.40%	0.84%	0.95%
Loan Loss Allowances to Non-performing Loans(3).........................	1122.71%	1132.19%	509.74%	242.09%	193.38%
General Loss Allowances to Assets with Loss Exposure(4).............	1.70%	1.81%	2.15%	2.26%	1.86%
General Loss Allowances to Total Assets with Loss Exposure(5).................	1.94%	2.06%	2.41%	2.51%	2.12%

(1) Non-performing loans are net of valuation allowances related to those loans. Loans receivable exclude mortgage-backed securities and are before deducting unrealized loan fees, general valuation allowances and valuation allowances for impaired loans.

(2) Non-performing assets are net of valuation allowances related to those assets.

(3) The Bank's loan loss allowances, including valuation allowances for non-performing loans and general valuation allowances but excluding repurchase

liability for loans sold with full or limited recourse. Non-performing loans are before deducting specific valuation allowances related to those loans.

(4) The Bank's general valuation allowances, excluding repurchase liability for loans sold with full or limited recourse. The Bank's assets with loss exposure includes its loan portfolio, real estate owned, loan commitments and potential loan buybacks but excludes mortgage-backed securities.

(5) The Bank's general valuation allowances, repurchase liability for loans sold with full or limited recourse. Assets with loss exposure include the Bank's loan portfolio plus loans sold with recourse, but exclude mortgage-backed securities.

NON-PERFORMING ASSETS

Non-performing assets, as defined by the Bank, include loans delinquent over 90 days or in foreclosure, real estate acquired in settlement of loans, and other loans less than 90 days delinquent but for which collectibility is questionable.

The table below details the amounts of non-performing assets by type of collateral. Also shown is the ratio of non-performing assets to total assets.

	Non-Performing Assets December 31, (Dollars In Thousands)								
	2001		2000		1999		1998		19
	$	%	$	%	$	%	$	%	$
Real Estate Owned:									
Single Family.....	$1,671	21.08%	$2,507	30.21%	$1,069	6.93%	$3,946	12.84%	$5,8
Multi-Family......	164	2.06	-	-	1,483	9.62	1,309	4.26	4,0
Commercial and Industrial	-	-	-	-	-	-	-	-	8
Less: General Valuation Allowance......	(350)	(4.41)	(350)	(4.22)	(350)	(2.27)	(500)	(1.63)	(5
Other............	-	-	-	-	-	-	-	-	
Total Real Estate Owned...........	1,485	18.73	2,157	25.99	2,202	14.28	4,755	15.47	10,
Non-Performing Loans:									
Single Family.....	6,062	76.46	5,603	67.51	9,626	62.41	12,270	39.92	16,
Multi-Family......	422	5.32	662	7.98	3,995	25.90	13,005	42.31	15,
Commercial and Industrial	-	-	-	-	225	1.46	4,040	13.14	1,
Other............	16	.21	-	-	-	-	-	-	
Less Valuation Allowances.......	(57)	(.72)	(123)	(1.48)	(625)	(4.05)	(3,332)	(10.84)	(4,
Total Non-Performing Loans...........	6,443	81.27	6,142	74.01	13,221	85.72	25,983	84.53	29,
Total............	$7,928	100.00%	$8,299	100.00%	$15,423	100.00%	$30,738	100.00%	$39,
Ratio of Non-Performing Assets To Total Assets:		0.17%		0.19%		0.40%		0.84%	

The decrease in non-performing loans for the last several years is due to reductions in delinquent loans and non-performing loans due to continued strength in the Southern California real estate markets.

Single family non-performing loans are primarily due to factors such as layoffs and decreased incomes. Multi-family and commercial non-performing loans are attributable primarily to factors such as declines in occupancy rates and decreased real estate values. The Bank actively monitors the status of all non-performing loans.

Impaired loans totaled $7.4 million, $8.8 million and $11.4 million, net of related allowances of $1.9 million, $1.8 million and $2.6 million as of December 31, 2001, 2000 and 1999, respectively. See "Business - Non-accrual, Past Due, Impaired and Restructured Loans" for further discussion of impaired loans.

The Bank's modified loans result primarily from temporary modifications of principal and interest payments. Under these arrangements, loan terms are typically reduced to no less than a required monthly interest payment. Any loss of revenues under the modified terms would be immaterial to the Bank. If the borrower is unable to return to scheduled principal and interest payments at the end of the modification period, foreclosure procedures are initiated, or, in certain circumstances, the modification period is extended. As of December 31, 2001, the Bank had modified loans totaling $7.4 million, net of loan loss allowances of $1.9 million. This compares with $9.6 million and $7.4 million, net of allowances, as of December 31, 2000 and December 31, 1999 respectively. Modified loans included as impaired loans totaled $6.4 million, $8.8 million and $6.5 million, net of valuation allowances, as of December 31, 2001, 2000 and 1999, respectively. No modified loans were 90 days or more delinquent as of December 31, 2001, 2000 or 1999.

CAPITAL RESOURCES AND LIQUIDITY

Liquidity Requirements

In July, 2001, the OTS removed the regulation that required a savings institution to maintain an average daily balance of liquid assets of at least four percent of its liquidity base, and retained a provision requiring a savings institution to maintain sufficient liquidity to ensure its safe and sound operation. The determination of what constitutes safe and sound operation was left to the discretion of management.

For several years it has been the Bank's strategy to keep cash and liquid investments at a modest level due to availability of substantial credit lines. After the repeal of the liquidity regulation, the Bank's liquidity policy was modified to include unused borrowing capacity in the definition of available liquidity. The Bank's current liquidity policy requires that cash and cash equivalents, short-term investments and excess borrowing capacity be maintained at a minimum level of 10% of the Bank's liquidity base (defined as deposits and borrowings due within one year.) As of December 31, 2001, liquidity-qualifying balances were 27.5% of the Bank's liquidity base.

External Sources of Funds

External sources of funds include savings deposits, loan sales, advances from the FHLBSF and reverse repurchase agreements ("reverse repos"). For purposes of funding asset growth, the source or sources of funds with the lowest total cost for the desired term are generally selected. The incremental source of funds used most often during the last three years was advances from the FHLBSF.

Deposits obtained from national brokerage firms ("brokered deposits") are considered a source of funds similar to a borrowing. In evaluating brokered deposits as a source of funds, the cost of these deposits, including commission fees, is compared to other funding sources. Brokered deposits were $356.8 million at December 31, 2001. This compares to $381.2 million at December 31, 2000 and $445.9 million at December 31, 1999.

Deposits at retail savings offices were $2.1 billion at December 31, 2001, $1.7 billion as of December 31, 2000 and $1.6 billion at December 1999. Management attributes the increase in retail deposits during 2001 to increased deposits from stock market investors wanting more security for their investments due to variability in the stock market. Additionally, the Bank acquired four retail offices with deposits totaling $174.8 million as part of the purchase of two small banks on November 30, 2001. As of December 31, 2001, deposits at these acquired branches totaled $174.4 million.

The Bank also solicits deposits through telemarketing efforts. Telemarketing deposits are obtained by the Bank's employees via telephone, from depositors outside of the Bank's normal service areas. Telemarketing deposits increased by 105% to $100.7 million at the end of 2001. This compares with $49.1 million at the end of 2000 and $84.5 million at the end of 1999. The level of telemarketing deposits varies based on the activity of investors, who are typically professional money managers. The availability of telemarketing deposits also varies based on the investors' perception of the Bank's creditworthiness.

Reverse repurchase agreements are short term borrowings secured by mortgage-backed securities. These borrowings decreased 28% to $211.0 million at the end of 2001 from $294.1 million at the end of 2000 and $363.6 million at the end of 1999. Borrowings under reverse repurchase agreements have decreased over the last three years due to prepayments of the underlying collateral. The Bank has not securitized any mortgage loans for use in collateralized borrowings for several years.

FHLB advances remained flat at $1.6 billion at the end of 2001 and 2000 compared to and $1.2 billion at the end of 1999. FHLB advances were often the lowest cost source funds available to the Bank. Due to high levels of loan payoffs and the growth in retail branch deposits, no additional borrowings were required to fund asset growth during 2001.

Loan sales were $61.2 million in 2001. This compares to $9.5 million during 2000 and $133.0 million during 1999. Loan sales increased during 2001 due to the increased demand for 30-year and 15-year fixed rate mortgages which are only originated by the Bank for sale.

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Internal Sources of Funds

Internal sources of funds include scheduled loan principal payments, loan payoffs, and positive cash flows from operations. Principal payments were $1.3 billion in 2001 compared to $560.5 million in 2000 and $670.5 million in 1999. Principal payments include both amortization and prepayments and are a function of real estate activity and the general level of interest rates. The increase in prepayments during 2001 was due to the low level of interest rates available on 30-year and 15-year fixed rate loans available to customers. The decrease in prepayments during 2000 compared to 1999 is due to higher interest rates on fixed rate loans that decreased refinancing activity. Prepayment activity was very high in 1999 due to refinancing activity into fixed rate loans, which were available to borrowers at favorable interest rates for the first half of 1999.

Capital Requirements

Current OTS regulatory capital standards require that the Bank maintain tangible capital of at least 1.5% of total assets, core capital of 4.0% of total assets, and risk-based capital of 8.0% of total assets, risk-weighted. Among other things, failure to comply with these capital standards will result in restrictions on asset growth and necessitate the preparation of a capital plan, subject to regulatory approval. Generally, any institution with a risk-based capital ratio in excess of 10% and a core capital ratio greater than 5% is considered well capitalized for regulatory purposes. Institutions who maintain this capital level can take in brokered deposits at their discretion, and if they achieve a sufficient ranking on their regulatory examination, may be assessed a lower deposit insurance rate.

Management presently intends to maintain its capital position at levels above those required by regulators to ensure operating flexibility and growth capacity for the Bank. The Bank's capital position is actively monitored by management. The Bank met the regulatory capital standards to be deemed "well-capitalized" for purposes of the various regulatory measures of capital including the prompt corrective action regulations.

To be considered "well capitalized" for purposes of the prompt corrective action requirements the Bank must maintain the capital ratios as set forth in the table below:

	December 31, 2001	
	Amount	%
	(Dollars In Thousands)	
Core capital requirement.........	$ 235,391	5.00%
Bank's core capital.............	302,448	6.42
Excess core capital...........	$ 67,057	1.42%
Tier 1 risk-based capital requirement	$ 161,388	6.00%
Bank's tier 1 risk-based capital.	302,448	11.24
Excess tier 1 risk-based capital	$ 141,060	5.24%
Risk-based capital requirement...	$ 268,980	10.00%
Bank's risk-based capital........	336,556	12.51
Excess risk-based capital......	$ 67,576	2.51%

ASSET-LIABILITY MANAGEMENT

The Bank's primary objective in managing interest rate risk is to minimize the adverse impact of changes in interest rates on the Bank's net interest income and capital, while, at the same time, adjusting the Bank's asset-liability mix to achieve the most favorable impact on earnings.

The Bank's asset-liability management policy is designed to improve the balance between the maturities and repricings of interest-earning assets and interest-bearing liabilities in order to better insulate net earnings from interest rate fluctuations. Under this program, the Bank emphasizes the funding of monthly adjustable mortgages with short term savings and borrowings and matching the maturities of these assets and liabilities. The Bank also originates adjustable rate loans with initial fixed interest rates for periods ranging from 3 to 10 years. By policy, the Bank will either match the fixed rate period of these loans with borrowings for the same term or will hold unmatched fixed rate loans in its portfolio up to 5%of total assets.

The majority of the Bank's assets are monthly adjustable rate mortgages with interest rates that fluctuate based on changes in the FHLBSF Eleventh District Cost of Funds. These mortgages constitute over 67% of the loan portfolio at the end of 2001. Comparisons over the last several years show that a change in the Bank's cost of funds generally correlates with changes in the

Index. The Bank does not use any futures, options or swaps in its asset-liability strategy.

Assets and liabilities that are subject to repricing are considered rate sensitive. The mis-match in the repricing of rate sensitive assets and liabilities is referred to as a company's "GAP." The GAP is positive if rate-sensitive assets exceed rate-sensitive liabilities. Generally, a positive GAP benefits a company during periods of increasing interest rates. The reverse is true during periods of decreasing interest rates. However, because the Index lags changes in market interest rates by three months while the Bank's short-term savings and borrowing costs adjust immediately, the Bank's net interest income initially decreases during periods of rising interest rates and increases during periods of declining interest rates.

In order to minimize the impact of rate fluctuations on earnings, management's goal is to keep the one-year GAP at less than 20% of total assets (positive or negative). At December 31, 2001, the Company's one-year GAP was a negative $288.7 million or 6.1% of total assets. This compares with positive GAP ratios of 11.8% and 2.81% of total assets at December 31, 2000 and December 31, 1999, respectively. The change from a positive GAP ratio at December 31, 2000 reflects the increase in adjustable rate loans with initial fixed interest periods which do not reprice within the first year. The Bank has also lengthened the maturities of its borrowings, but not to the same extent due to the high level of payoffs anticipated within the next year.

Another measure of interest rate risk, that is required to be performed by OTS-regulated institutions, is an analysis specified by OTS Thrift Bulletin TB-13a, "Management of Interest Rate Risk, Investment Securities, and Derivatives Activities". Under this regulation institutions are required to establish limits on the sensitivity of their net interest income and net portfolio value to changes in interest rates. Such changes in interest rates are defined as instantaneous and sustained movements in interest rates in 100 basis point increments.

The following table shows the estimated impact of a parallel shift in interest rates on the Bank's portfolio value at December 31, 2001 and December 31, 2000:

Change in Interest Rates (In Basis Points)	Percentage Change in Net Portfolio Value(1) 2001	2000
+300................	(16)%	(8)%
+200................	(11)%	(4)%
+100................	(6)%	(2)%
--100...............	6%	(2)%
--200...............	-%(2)	(4)%
--300...............	-%(2)	(2)%

(1) The percentage change represents the projected change in the net portfolio value of the Bank 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 cash flows from existing assets minus the present value of expected cash flows from existing liabilities.

(2) A downward shift in interest rates of 200 basis points or 300 basis points from the December 31, 2001 levels would result in negative interest rates in many cases. Therefore, modeling the impact of such declines as of December 31, 2001 is not meaningful or practical.

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The percentage change in net portfolio value is affected by many different factors. While the Bank's approach to interest rate risk management has not changed significantly since 2000, a combination of factors resulted in net portfolio values as of December 31, 2001 that were different from those as of December 31, 2000. The net portfolio value was affected by lower interest rates at December 31, 2001 compared to December 31, 2000. In a decreasing rate scenario, interest rates on certain loans within the Bank's loan portfolio reached lifetime floors. Additionally, interest rates on interest-bearing checking deposits and passbook accounts reached very low levels from which they could not drop farther.

The following chart shows the interest sensitivity of the Company's assets and liabilities by repricing period at December 31, 2001 and the consolidated GAP position as a percentage of total assets at that time:

INTEREST-SENSITIVITY GAP

(Dollars In Thousands)

	Total Balance	Balances Repricing Within 0-12 Months	Balances Repricing Within 1-3 Years	Balances Repricing Within 4-10	Balan Repri After 10 Ye
Interest-Earning Assets:					
FHLB Interest Bearing Deposits	$ 18,814	$ 18,814	$ -	$ -	$
Overnight Investments......	123,000	123,000	-	-	
Investment Securities....	110,444	42,863	33,634	33,947	
Mortgage-backed Securities.	284,079	283,353	480	222	
Loans Receivable...........	4,004,890	2,914,676	712,458	372,996	
Total Interest-Earning Assets................	$4,541,227	$3,382,706	$ 746,572	$ 407,165	$
Interest-Bearing Liabilities:					
Demand Accounts...........	$1,214,372	$1,214,372	$ -	$ -	$
Fixed Rate Term Certificate	1,332,275	1,260,976	58,496	11,800	
Borrowings:					
FHLB Advances...........	1,597,000	985,000	347,000	265,000	
Reverse Repurchase Agreements.......	211,040	211,040	-	-	
Other Borrowings........	-	-	-	-	
Total Interest-Bearing Liabilities.......	$4,354,687	$3,671,388	$ 405,496	$ 276,800	$
Interest-Sensitivity Gap.....	$ 188,540	$ (288,682)	$ 341,076	$ 130,365	$
Interest-Sensitivity Gap as a Percentage of Total Assets.		(6.11)%	7.22%	2.76%	
Cumulative Interest-Sensitivity Gap		$ (288,682)	$ 52,394	$ 182,759	$ 18
Cumulative Interest-Sensitivity Gap as a Percentage of Total Assets...................		(6.11)%	1.11%	3.87%	

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The following table shows the fair value and contract terms of the Bank's interest-earning assets and interest-bearing liabilities as of December 31, 2001 categorized by type and expected maturity for each of the next five years and thereafter:

	Expected Maturity Date as of December 31, (1)						
	2002	2003	2004	2005	2006	There-after	Total Balance
	(Dollars In Thousands)						
Interest Earning Assets							
Loans Receivable:							
Adjustable Rate Loans:							
Single family	$ 578,695	$505,385	$372,304	$239,042	$148,380	$247,492	$2,091,29
Average interest rate	6.76%	6.79%	6.79%	6.79%	6.79%	6.79%	6.7
Multi-family	317,605	286,382	244,202	176,607	192,950	295,331	1,513,07
Average interest rate	6.68%	6.72%	6.71%	6.72%	6.88%	6.65%	6.7
Commercial and Industrial	61,420	65,195	58,953	42,517	46,401	60,759	335,24
Average interest rate	7.36%	7.42%	7.26%	7.50%	7.60%	7.42%	7.4
Fixed Rate Loans:							
Single family	8,452	6,295	4,573	2,903	1,794	2,842	26,85
Average interest rate	7.90%	7.57%	7.34%	7.31%	7.30%	7.28%	7.5
Multi-family	3,489	3,777	2,873	2,122	3,384	2,071	17,71
Average interest rate	8.33%	8.14%	7.93%	7.90%	7.55%	7.93%	7.9
Commercial and Industrial	5,499	5,315	5,375	2,582	3,510	3,857	26,13
Average interest rate	8.67%	8.50%	8.39%	8.31%	8.05%	8.46%	8.4
Commercial Business Loans	4,534	4,816	5,114	3,950	468	-	18,88
Average interest rate	6.03%	6.03%	6.03%	6.03%	6.03%	-	6.0
Construction Loans	17,506	18,911	1,643	-	-	-	38,06
Average interest rate	7.75%	7.75%	7.75%	-	-	-	7.7
Consumer loans	18,421	1,668	65	70	76	497	20,79
Average interest rate	5.90%	5.98%	8.12%	8.12%	8.12%	8.12%	5.9
Mortgage-backed Securities:							
Adjustable	91,993	62,365	42,205	28,504	19,211	38,546	282,82
Average interest rate	4.97%	4.97%	4.97%	4.97%	4.97%	4.97%	4.9
Fixed	490	312	196	119	71	67	1,25
Average interest rate	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.0
Investment Securities, Overnight Investments & Interest-Bearing Deposits	186,223	15,424	16,402	17,441	16,768	-	252,2
Average interest rate	2.64%	6.16%	6.16%	6.16%	6.15%	-	3.
Total Interest-Earning Assets	$1,293,779	$975,013	$753,296	$515,399	$432,666	$651,027	$4,621,1
Interest-Bearing Liabilities							
Deposits:							
Checking Accounts	$ 365,790	$ -	$ -	$ -	$ -	$ -	$ 367,9
Average interest rate	0.30%	-	-	-	-	-	0.
Savings Accounts	848,582	-	-	-	-	-	846,4
Average interest rate	2.64%	-	-	-	-	-	2.
Certificate Accounts	1,260,976	40,371	18,125	8,768	2,361	1,674	1,332,2
Average interest rate	3.88%	4.66%	5.02%	6.04%	4.70%	4.48%	3.
Borrowings:							
FHLB Advances	985,000	62,000	285,000	55,000	175,000	35,000	1,597,0
Average interest rate	4.86%	6.24%	4.74%	5.54%	5.57%	5.88%	5.
Reverse repurchase agreements	211,040	-	-	-	-	-	211,0
Average interest rate	2.66%	-	-	-	-	-	2.
Total Interest-Earning Liabilities	$3,671,388	$102,371	$303,125	$63,768	$177,361	$ 36,674	$4,354,6

(1) Expected maturities are contractual maturities adjusted for prepayments of principal. The Bank uses certain assumptions to estimate

fair values and expected maturities. For assets, expected maturities are based upon contractual maturity, projected repayments and prepayments of principal. The prepayment experience used is based on the Bank's historical experience. The Bank's average CPR (Constant Prepayment Rate) is 36% for the single family portfolio and 24% for its multi-family and commercial real estate portfolios. The Bank used estimated deposit runoff based on available industry information.

STOCK PRICES

The common stock of FirstFed Financial Corp. is traded on the New York Stock Exchange under the trading symbol "FED." The quarterly high and low information presented below is based on information supplied by the New York Stock Exchange.

The Company has never declared or paid a cash dividend.

As of February 5, 2002, there remain 889,016 shares eligible for repurchase under the Company's stock repurchase program. No shares were repurchased during 2001 or 2002. The Company repurchased 821,500 shares of its common stock during 2000 and 3,298,150 shares of its common stock during 1999.

PRICE RANGE OF COMMON STOCK

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
	High	Low	High	Low	High	Low	High	Low
2001	$32.06	$26.25	$31.00	$28.00	$36.30	$24.00	$25.95	$21.90
2000	16.63	11.88	14.56	11.69	23.00	14.06	33.13	21.31
1999	18.00	15.56	20.00	15.31	17.81	15.00	18.50	12.81
1998	21.19	15.94	26.41	20.41	26.94	14.75	18.56	14.13
1997(1)	14.00	10.75	15.53	11.25	17.44	15.38	19.75	17.50

(1) All amounts have been adjusted for the two-for-one stock split declared June 25, 1998.

FORWARD LOOKING STATEMENTS

The preceding Management's Discussion and Analysis of the Company's Financial Condition and Results of Operations contain certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, which provides a "safe harbor" for these types of statements. This Annual Report on form 10-K contains forward-looking statements which reflect the current views of the Company's and the Bank's management with regard to future events and financial performance. These forward looking statements are subject to certain risks and uncertainties including those identified herein which could cause actual results to differ materially form historical results or those anticipated. Forward-looking terminology can be identified by the use of terms such as "may", "will", "expect", "anticipate", "estimate", "should" or "continue" or other variations or comparable terms. Readers should not place undue reliance on these forward-looking statements, which speak only of their date. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. The following factors could cause actual results to differ materially from historical results or those anticipated: (1) the level of demand for adjustable rate mortgages, which is affected by external factors such as interest rates, the strength of the California economy and Southern California economy in particular, and demographics of the lending areas of the Bank, (2) fluctuations between consumer interest rates and the cost of funds; (3) federal and state regulation of lending and other operations, and (4) competition within the Bank's market areas.

Investors should carefully consider the risks in an evaluation of the Company and its common stock. The risks and uncertainties described herein are not the only ones facing the Company. Additional risks and uncertainties, including but not limited to credit, economic, competitive, governmental and financial factors affecting the Company's operations, markets, financial products, and services and other factors discussed in the Company's fillings with the Securities and Exchange Commission, may also adversely impact and impair its business. If any of these risks actually occur, the Company's business, results of operation, cash flows or financial condition would likely suffer. In such case, the trading price of the Company's common stock could decline, and an investor may lose all or part of the money paid to buy such common stock.

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ITEM 8--FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

FIRSTFED FINANCIAL CORP. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Dollars in thousands, except share data)

ASSETS	December 31, 2001	December 31, 2000
Cash and cash equivalents	$ 174,171	$ 77,677
Investment securities, available-for-sale (at fair value) (Note 2)	110,444	136,537
Mortgage-backed securities, available-for-sale (at fair value;$224,114 and $308,836 pledged) (Notes 3 and 10)	284,079	374,405
Loans receivable, held-for-sale (fair value of $5,246 and $2,246) (Note 4)	5,246	2,246
Loans receivable, net (Notes 4 and 9)	3,999,643	3,627,038
Accrued interest and dividends receivable	22,076	28,488
Real estate (Note 5)	1,515	2,189
Office properties and equipment, net (Note 6)	10,822	10,651
Investment in Federal Home Loan Bank (FHLB) stock, at cost (Notes 7 and 9)	91,713	80,885
Other assets (Note 1)	26,580	25,126
	$4,726,289	$4,365,242
LIABILITIES		
Deposits (Note 8)	$2,546,647	$2,165,047
FHLB advances (Notes 7 and 9)	1,597,000	1,579,000
Securities sold under agreements to repurchase (Note 10)	211,040	294,110
Accrued expenses and other liabilities	45,924	59,643
	4,400,611	4,097,800
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 4, 6 and 13)		
STOCKHOLDERS' EQUITY (Notes 12 and 13)		
Common stock, par value $.01 per share; authorized 100,000,000 shares; issued 23,362,196		

and 23,299,707 shares, outstanding		
17,251,300 and 17,232,217 shares	234	233
Additional paid-in capital	34,670	32,540
Retained earnings - substantially restricted	363,713	313,411
Unreleased shares to employee stock ownership plan	-	(841)
Treasury stock, at cost, 6,110,896 shares and 6,067,490 shares	(75,930)	(75,743)
Accumulated other comprehensive earnings (loss), net of taxes	2,991	(2,158)
	325,678	267,442
	$ 4,726,289	$ 4,365,242

See accompanying notes to consolidated financial statements.

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FIRSTFED FINANCIAL CORP. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE EARNINGS
YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999
(Dollars In Thousands, Except Per Share Data)

	2001	2000	1999
Interest income:			
Interest on loans....................	$298,942	$274,720	$216,634
Interest on mortgage-backed securities	19,803	24,448	28,700
Interest and dividends on investments.	15,187	15,152	14,667
Total interest income	333,932	314,320	260,001
Interest expense:			
Interest on deposits (Note 8)	94,568	100,174	87,199
Interest on borrowings (Notes 9 and 10)	107,186	106,331	73,832
Total interest expense	201,754	206,505	161,031
Net interest income	132,178	107,815	98,970
Provision for loan losses (Note 4) ...	-	-	-
Net interest income after provision for loan losses.............	132,178	107,815	98,970
Other income:			
Loan servicing and other fees	3,319	2,804	4,204
Gain on sale of loans...............	656	64	1,221
Real estate operations, net	304	594	3,217
Other operating income..............	4,640	4,285	4,046
Total other income	8,919	7,747	12,688
Non-interest expense:			
Salaries and employee benefits (Note 13)	29,682	26,444	26,664
Occupancy (Note 6)	8,302	8,031	7,859
Advertising	1,800	1,417	1,864
Federal deposit insurance	418	538	1,236
Other operating expense	12,972	11,835	11,536
Total non-interest expense	53,174	48,265	49,159
Earnings before income taxes and extraordinary item	87,923	67,297	62,499
Income taxes (Note 11)	37,621	28,832	27,052
Earnings before extraordinary item	50,302	38,465	35,447
Extraordinary item:			
Loss on early extinguishment of debt,			

net of taxes......................	-	-	(2,195)
Net earnings..........................	$ 50,302	$ 38,465	$ 33,252
Other comprehensive earnings (loss):			
Unrealized gain (loss) on mortgage-backed-securities and securities available-for-sale, net of taxes.....	5,149	6,122	(7,577)
Comprehensive earnings................	$55,451	$ 44,587	$ 25,675
Earnings per share (Notes 12 and 15):			
Basic EPS before extraordinary item	$ 2.92	$ 2.23	$ 1.84
Extraordinary item	-	-	(.11)
Basic EPS after extraordinary item.	$ 2.92	$ 2.23	$ 1.73
Diluted EPS before extraordinary item	$ 2.85	$ 2.20	$ 1.83
Extraordinary item	-	-	(.12)
Diluted EPS after extraordinary item	$ 2.85	$ 2.20	$ 1.71

See accompanying notes to consolidated financial statements.

FIRSTFED FINANCIAL CORP. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999
(Dollars In Thousands)

	Common Stock	Additional Paid-In Capital	Retained Earnings (Sub-stantially Restricted) (Note 12)	Unreleased Shares to ESOP (Notes 12 and 13)	Treasury Stock	C Ea
Balance, December 31, 1998.	$ 231	$ 29,965	$241,694	$ (833)	$ (13,354)	$
Exercise of employee stock options	2	1,098	-	-	-	
Net increase in unreleased shares to the ESOP..............	-	-	-	(926)	-	
Benefit from stock option tax adjustment.	-	498	-	-	-	
Unrealized loss on securities available-for-sale, net of taxes	-	-	-	-	-	
Common stock repurchased (3,298,150) shares.......	-	-	-	-	(52,214)	
Net earnings 1999..........	-	-	33,252	-	-	
Balance, December 31, 1999.	233	31,561	274,946	(1,759)	(65,568)	
Exercise of employee stock options	-	793	-	-	-	
Net decrease in unreleased shares to the ESOP..............	-	186	-	918	-	
Unrealized gain on securities available-for-sale, net of taxes	-	-	-	-	-	
Common stock repurchased (821,500) shares.........	-	-	-	-	(10,175)	
Net earnings 2000..........	-	-	38,465	-	-	
Balance, December 31, 2000.	233	32,540	313,411	(841)	(75,743)	

Exercise of employee stock options	1	764	-	-	-
Net decrease in unreleased shares to the ESOP..............	-	1,179	-	841	-
Unrealized gain on securities available-for-sale, net of taxes	-	-	-	-	-
Restricted common stock forfeited	-	187	-	-	(187)
Net earnings 2001.........	-	-	50,302	-	-
Balance, December 31, 2001.	$ 234	$ 34,670	$363,713	$ -	$ (75,930)

See accompanying notes to consolidated financial statements.

FIRSTFED FINANCIAL CORP. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999
(Dollars In Thousands)

	2001	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings......................	$ 50,302	$ 38,465	$ 33,252
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Net change in loans held-for-sale.	(3,000)	57	14,147
Depreciation and amortization.....	1,919	1,874	2,193
Provision (benefit) for losses on real estate owned	-	-	(54
Valuation adjustments on real estate sold	(525)	(491)	(2,542
Amortization of fees and discounts	5,913	1,703	(597
Decrease in servicing asset.......	375	905	318
Change in taxes payable..........	(1,738)	(323)	(1,643
Increase (decrease) in tax interest accrual	300	(350)	(150
(Increase) decrease in interest and dividends receivable......................	7,392	(6,663)	1,651
Increase (decrease) in interest payable	(13,855)	11,298	(6,819
Amortization of core deposit intangible asset	1,564	1,964	452
Increase in other assets..........	(5,505)	(5,179)	(2,767
Increase (decrease) in accrued expenses and other liabilities................	(1,875)	675	(2,074
Total adjustments................	(9,035)	5,470	2,115
Net cash and cash equivalents provided by operating activities	41,267	43,935	35,367
CASH FLOWS FROM INVESTING ACTIVITIES:			
Loans made to customers and principal collections on loans.........................	(96,132)	(434,026)	(149,842
Loans repurchased under recourse arrangements	-	(240)	(1,242
Loans purchased....................	(132,625)	(14,077)	(121,522
Proceeds from sales of real estate owned	4,968	5,290	15,980
Proceeds from maturities and principal payments of investment securities available-for-sale	48,962	20,589	6,809
Principal reductions of mortgage-backed securities available-for-sale......	96,770	62,332	117,440
Purchases of investment securities available-for-sale................	(19,964)	(3,547)	(96,300
Redemption (purchase) of FHLB stock.	(4,025)	(4,079)	4,823
Other.............................	(4,105)	(1,205)	(5,536
Net cash from acquisitions..........	17,680	32,866	-

Net cash and cash equivalents used by investing activities	(88,471)	(336,097)	(229,390
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase (decrease) in deposits.	206,824	(64,767)	(74,552
Net increase (decrease) in short term borrowings	(65,070)	340,475	347,463
Repayment of long-term borrowings...	-	-	(50,000
Purchases of treasury stock.........	-	(10,175)	(52,214
Other..............................	1,944	2,499	(1,147
Net cash and cash equivalents provided by financing activities	143,698	268,032	169,550
Net decrease in cash and cash equivalents.......................	96,494	(24,130)	(24,473
Cash and cash equivalents at beginning of year	77,677	101,807	126,280
Cash and cash equivalents at end of year	$ 174,171	$ 77,677	$ 101,807

See accompanying notes to consolidated financial statements.

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FIRSTFED FINANCIAL CORP. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies of FirstFed Financial Corp. ("Company") and its wholly-owned subsidiary First Federal Bank of California ("Bank").

The preparation of the Company's financial statements in conformity with Accounting Principles Generally Accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported operations of the Company for the periods presented. Actual results may differ from those estimates calculated by management.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiary, the Bank. The Bank maintains 29 full-service savings branches in Southern California. The Bank's primary business consists of attracting retail deposits from the general public and originating loans secured by mortgages on residential real estate. All significant inter-company balances and transactions have been eliminated in consolidation. Certain items in the 1999 and 2000, consolidated financial statements have been reclassified to conform to the 2001 presentation.

First Federal Bank acquired the assets and liabilities of Del Amo Savings Bank and Frontier State Bank as of November 30, 2001. The financial results of the acquired entities since the date of acquisition have been included herein.

Statement of Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include cash, overnight investments and securities purchased under agreements to resell with maturities within 90 days of the date of purchase.

Financial Instruments

GAAP requires the disclosure of the fair value of financial instruments, whether or not recognized on the Statement of Financial Condition, whenever it is practicable to estimate the value. A significant portion of the Bank's assets and liabilities are financial instruments as defined under GAAP. Fair values, estimates and assumptions are set forth in Note 16, Fair Value of Financial Instruments.

Risks Associated with Financial Instruments

The credit risk of a financial instrument is the possibility that a loss may result from the failure of another party to perform in accordance with the terms of the contract. The most significant credit risk associated with the Bank's financial instruments is concentrated in its loans receivable. Additionally, the Bank is subject to credit risk on certain loans sold with recourse. The Bank has established a system for monitoring the level of credit risk in its loan portfolio and for loans sold with recourse.

The market risk of a financial instrument is the possibility that future changes in market prices may reduce the value of a financial instrument or increase the contractual obligations of the Bank. The Bank's market risk is concentrated in its portfolios of loans receivable and real estate acquired by foreclosure. When a borrower fails to meet the contractual requirements of his or her loan agreement, the Bank is subject to the market risk of the collateral securing the loan. Likewise, the Bank is subject to the volatility of real estate prices with respect to real estate acquired by foreclosure. The Bank's securities available-for-sale are traded in active markets. The value of these securities is susceptible to the fluctuations of the market.

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(1) Summary of Significant Accounting Policies (continued)

Interest Rate Risk

Financial instruments are subject to interest rate risk to the extent that they reprice on a frequency, degree or basis that varies from market pricing. The Bank is subject to interest rate risk to the degree that its interest-earning assets reprice on a different frequency or schedule than its interest-bearing liabilities. A majority of the Bank's loans receivable and mortgage-backed securities reprice based on the Federal Home Loan Bank Eleventh District Cost of Funds Index (the "Index"). The repricing of the Index tends to lag market interest rates. The Bank closely monitors the pricing sensitivity of its financial instruments.

Concentrations of Credit Risk

Concentrations of credit risk would exist for groups of borrowers when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The ability of the Bank's borrowers to repay their commitments is contingent on several factors, including the economic condition in the borrowers' geographic area and the individual financial condition of the borrowers. The Company generally requires collateral or other security to support borrower commitments on loans receivable. This collateral may take several forms. Generally, on the Bank's mortgage loans, the collateral will be the underlying mortgaged property. The Bank's lending activities are primarily concentrated in Southern California. The Bank does not have significant exposure to any individual customer.

Securities Purchased under Agreements to Resell

The Bank invests in securities purchased under agreements to resell ("repurchase agreements"). The Bank obtains collateral for these agreements, which normally consists of U.S. treasury securities or mortgage-backed securities guaranteed by agencies of the U.S. government. The collateral is held in the custody of a trustee, who is not a party to the transaction. The duration of these agreements is typically 1 to 30 days. The Bank deals only with nationally recognized investment banking firms as the counterparties to these agreements. The Bank's investment in repurchase agreements consisted solely of securities purchased under agreements to resell identical securities.

Investments and Mortgage-Backed Securities

The Bank's investment in securities principally consists of U.S. Treasury and agency securities and mortgage-backed securities. The Bank creates mortgage-backed securities when it exchanges pools of its own loans for mortgage-backed securities.

The Bank classifies all of its investments and mortgage-backed securities as "available-for-sale" based upon a determination that such securities might be sold at a future date or that there may be foreseeable circumstances under which the Bank would sell such securities.

Securities designated as available-for-sale are recorded at fair value. Changes in the fair value of debt securities available-for-sale are included in stockholders' equity as unrealized gains (losses) on securities available-for-sale, net of taxes. Unrealized losses on available-for-sale securities, reflecting a decline in value judged to be other than temporary, are charged to earnings in the Consolidated Statements of Operations and Comprehensive Earnings. Unrealized gains or losses on available-for-sale securities are computed on a specific identification basis.

The Bank did not hold any trading securities at December 31, 2001 or 2000.

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(1) Summary of Significant Accounting Policies (continued)

Loans Held-for-Investment

The Bank's loan portfolio is primarily comprised of single family residential loans (one to four units), and multi-family loans (five or more units). Loans are generally recorded at the contractual amounts owed by borrowers, less unearned interest and allowances for loan losses.

Loans Held-for-Sale

The Bank identifies loans that foreseeably may be sold prior to maturity and classifies them as held-for-sale. These loans are carried at the lower of amortized cost or fair value on an aggregate basis by type of asset. For loans, fair value is calculated on an aggregate basis as determined by current market investor yield requirements.

Impaired Loans

The Bank evaluates loans for impairment whenever the collectibility of contractual principal and interest payments is questionable. A loan is impaired when, based on current circumstances and events, a creditor will be unable to collect all amounts contractually due under a loan agreement. Large groups of smaller balance homogenous loans that are collectively evaluated for impairment are not subject to the evaluation of impairment on an individual basis.

When a loan is considered impaired, the Bank measures impairment based on the present value of expected future cash flows (over a period not to exceed 5 years) discounted at the loan's effective interest rate. However, if the loan is "collateral-dependent" or a probable foreclosure, impairment is measured based on the fair value of the collateral. When the measure of an impaired loan is less than the recorded investment in the loan, the Bank records an impairment allowance equal to the excess of the Bank's recorded investment in the loan over its measured value.

Cash payments received from impaired loans are recorded in accordance with the contractual terms of the loan. The principal portion of the payment is used to reduce the principal balance of the loan, whereas the interest portion is recognized as interest income.

Non-Accrual Loans

The Bank establishes allowances for delinquent interest equal to the amount of accrued interest on all loans 90 days or more past due or in foreclosure. This practice effectively places such loans on non-accrual status for financial reporting purposes. Loans are returned to accrual status only when the ultimate collectibility of current interest is no longer in doubt.

Allowances for Loan Losses

The Bank maintains a general valuation allowance for loan losses for the inherent risk in the loan portfolio which has yet to be specifically identified. The allowance is not allocated to any specific loan. The allowance is maintained at an amount that management believes adequate to cover estimable and probable loan losses based on a risk analysis of the current portfolio. Additionally, management performs periodic reviews of the loan portfolio to identify potential problems and to establish impairment allowances if losses are expected to be incurred. Additions to the allowances are charged to earnings. The regulatory agencies periodically review the allowances for loan losses and may require the Bank to adjust the allowances based on information available to them at the time of their examination.

General allowances are provided for all loans, regardless of any specific allowances provided. The determination of the Bank's general allowance for loan losses is based on estimates that are affected by changes in the regional or national economy and market conditions. The Bank's management believes, based on economic and market conditions, that the general allowance for loan losses is adequate as of December 31, 2001 and 2000. Should there be an economic or market downturn or if market interest rates increase significantly, the Bank could experience a material increase in the level of loan defaults and charge-offs.

Loan Origination Fees and Costs

Loan origination fees and certain direct loan origination costs are deferred and recognized over the lives of the related loans as an adjustment of loan yields using the interest method. When a loan is repaid or sold, any unamortized net deferred fee balance is credited to income.

Gain or Loss on Sale of Loans

The Bank primarily sells its mortgage loans on a servicing released basis and recognizes cash gains or losses immediately in its Statement of Operations and Comprehensive Earnings. The Bank has previously sold mortgage loans and loan participation's on a servicing retained basis with yield rates to the buyer based upon the current market rates which may differ from the contractual rate of the loans sold. Under GAAP, servicing assets or liabilities and other retained interests are required to be recorded as an allocation of the carrying amount of the loans sold based on the estimated relative fair values of the loans sold and any retained interests, less liabilities incurred. Servicing assets are evaluated for impairment based on the asset's fair value. The Bank estimates fair values by discounting servicing assets cash flows using discount and prepayment rates that it believes market participants would use. The Bank had no such activity during 2001, 2000 or 1999.

Servicing assets arising from the sale of loans are included in other assets and were $1,087,000 and $1,462,000 at December 31, 2001 and 2000, respectively. No additional servicing assets were recorded in 2001, 2000 or 1999.

Core Deposit Intangible

Loans, deposits and other assets and liabilities assumed in connection with acquisitions are accounted for under the purchase method of accounting. Assets and liabilities are recorded at their fair values as of the date of the acquisition and the excess cost over fair values of the assets and liabilities is classified as goodwill or a core deposit intangible asset. This asset is being amortized over its estimated useful life.

Real Estate

The Bank's real estate acquired in settlement of loans ("REO") consists of property acquired through foreclosure proceedings or by deed in lieu of foreclosure. Generally, all loans greater than 60 days delinquent are placed into foreclosure and, if necessary, a valuation allowance is established. The Bank acquires title to the property in most foreclosure actions that are not reinstated by the borrower. Once real estate is acquired in settlement of a loan, the property is recorded as REO at fair market value, less estimated selling costs. The REO balance is adjusted for any subsequent declines in fair value through a valuation allowance.

The recognition of gain on the sale of real estate is dependent on a number of factors relating to the nature of the property, terms of sale, and any future involvement of the Bank or its subsidiaries in the property sold. If a real estate transaction does not meet certain down payment, cash flow and loan amortization requirements, gain is deferred and recognized under an alternative method.

Depreciation and Amortization

Depreciation of office properties and equipment is provided by use of the straight-line method over the estimated useful lives of the related assets. Amortization of leasehold improvements is provided by use of the straight-line method over the lesser of the life of the improvement or the term of the lease.

Securities Sold Under Agreements to Repurchase

The Company enters into sales of securities under agreements to repurchase ("reverse repurchase agreements"). Reverse repurchase agreements are treated as financing arrangements and, accordingly, the obligations to repurchase the securities sold are reflected as liabilities in the consolidated financial statements. The mortgage-backed securities collateralizing reverse repurchase agreements are delivered to several major brokerage firms who arranged the transactions. These securities are reflected as assets in the Company's consolidated financial statements. The brokerage firms may loan such securities to other parties in the normal course of their operations and agree to return the identical securities to the Company at the maturity of the agreements.

Income Taxes

The Company files a consolidated federal income tax return and a combined California franchise tax report with the Bank and its subsidiaries. The Bank accounts for income taxes using the asset and liability method. In the asset and liability method, deferred tax assets and liabilities are established as of the reporting date for the realizable cumulative temporary differences between the financial reporting and tax return bases of the Bank's assets and liabilities. The tax rates applied are the statutory rates expected to be in effect when the temporary differences are realized or settled.

Cash Flows

Cash and cash equivalents include short-term, highly liquid investments that generally have an original maturity date of three months or less. Non-cash investing transactions during 2001 include the acquisition of $158,654,000 of loans and other assets and the assumption of $176,334,000 in deposits and other liabilities and the recognition of $3,573,000 of intangible assets. A net total of $17,680,000 in cash was received in the acquisition of two small banks during 2001. Non-cash investing transactions during 2000 include the acquisition of $125,171,000 of loans and the assumption of $168,457,000 in deposits and the recognition of $10,420,000 of intangible assets. A net total of $32,866,000 in cash was received related to the acquisition of certain branches during 2000.

(1) Summary of Significant Accounting Policies (continued)

Earnings Per Share

The Company reports both basic and diluted net earnings per share. Basic net earnings per share is determined by dividing net earnings by the average number of shares of common stock outstanding, while diluted net earnings per share is determined by dividing net earnings by the average number of shares of common stock outstanding adjusted for the dilutive effect of common stock equivalents.

Comprehensive Earnings

GAAP establishes standards for reporting and presentation of comprehensive earnings and its components in a full set of financial statements. Comprehensive earnings consists of net earnings and net unrealized gains (losses) on securities available-for-sale and is presented in the consolidated statements of operations and comprehensive earnings and consolidated statements of stockholders' equity. The Statement requires only additional disclosures in the consolidated statements; it does not affect the Company's financial position or results of operations.

Segment Information and Disclosures

GAAP establishes standards to report information about operating segments in annual financial statements and requires reporting of selected information about operating segments in interim reports to stockholders. It also establishes standards for related disclosures about products and services, geographic areas and major customers. The Company manages its business as one segment.

Derivative Instruments

The Company accounts for derivative instruments in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." A derivative is considered either an asset or liability in the statement of financial condition and measured at fair value. If a derivative is designated as a hedging instrument the changes in fair value of the derivative are either (a) recognized in earnings in the period of change together with the offsetting gain or loss on the hedged item or (b) reported as a component of other comprehensive earnings and subsequently reclassified into earnings when the forecasted transaction affects earnings. For a derivative not designated as a hedging instrument, changes in fair value are recognized in earnings in the period of change. As of December 31, 2001, the Company has approximately $9.3 million of commitments to originate loans, which will be held for sale and approximately $6.0 million of loan sale commitments that qualify as derivatives under SFAS No. 133. The commitments are recorded at fair value at December 31, 2001.

Recent Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement No. 141, Business Combinations ("SFAS No. 141") and Statement No. 142, Goodwill and Other Intangible Assets ("SFAS No. 142"). SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS No. 141 also applies to all business combinations using the purchase method completed after June 30, 2001. SFAS No. 141 specifies the criteria that intangible assets acquired in a purchase method business combination must meet in order to be recognized and reported apart from goodwill. SFAS No. 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS No. 142. SFAS No. 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their residual values, and reviewed for impairment in accordance with SFAS No.121, Accounting for the Impairment of Long-Lived Assets and for long-lived Assets to be Disposed Of.

The Company was required to adopt the provisions of SFAS No. 141 immediately and SFAS No. 142 effective January 1, 2002. As of December 31, 2001, the Company has no assets to be classified as goodwill under these new pronouncements. All assets and liabilities acquired in the purchase of two small banks were deemed to be at fair value except for the retail savings deposits. The Company recorded $3,573,000 in core deposit intangible assets related to the acquisition of the retail savings deposits during 2001. Under the provisions of SFAS No. 142, the Company expects to continue amortizing these intangible assets over their estimated useful lives. Amortization of the Company's total core deposit intangible assets was $1,564,000 and $1,965,000 for the years ended December 31, 2001 and 2000, respectively. Total core deposit intangible assets were $11,312,000 and $9,304,000 for the years ended December 31, 2001 and 2000, respectively.

On October 3, 2001, the Financial Accounting Standards Board (FASB or the Board) issued FASB Statement No. 144 (SFAS No. 144), Accounting for the Impairment or Disposal of Long-Lived Assets, which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. While SFAS No. 144 supersedes FASB Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of", it retains many of the fundamental provisions of that statement. The statement is effective for fiscal years beginning after December 15, 2001 and must be adopted as of the beginning of the fiscal year. Management does not expect the implementation of SFAS No. 144 to have a material impact on the Company's consolidated financial statements.

(2) Investment Securities

The amounts advanced under agreements to resell securities (repurchase agreements) represent short-term investments. During the agreement period the securities are maintained by the dealer under a written custodial agreement that explicitly recognizes the Bank's interest in the securities. The Bank had $123,000,000 and $33,000,000 in agreements to resell securities at December 31, 2001 and 2000, respectively, which are classified as cash and cash equivalents in the accompanying Consolidated Statements of Financial Condition. Securities purchased under agreements to resell averaged $62,860,000 and $5,333,000 during 2001 and 2000, and the maximum amounts outstanding at any month end during 2001 and 2000 were $123,000,000 and $33,000,000 respectively.

The Bank also had overnight deposits on hand with the Federal Home Loan Bank of San Francisco which totaled $18,814,000 and $15,245,000, respectively, as of December 31, 2001 and December 31, 2000.

Investment securities, available-for-sale, are recorded at fair value and summarized below for the periods indicated:

	2001			
	Historical Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars In Thousands)			
United States Government and federal agency obligations...........	$ 28,499	$ 3	$ (34)	$ 28,468
Collateralized Mortgage Obligations..	80,013	1,973	(10)	81,976
	$108,512	$1,976	$ (44)	$110,444

	2000			
	Historical Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars In Thousands)			
United States Government and federal agency obligations...........	$ 38,485	$ 3	$ (424)	$ 38,064
Collateralized Mortgage Obligations..	98,562	254	(343)	98,473
	$137,047	$ 257	$ (767)	$136,537

Related maturity data for U.S. government and agency securities, available-for-sale, is summarized below for the period indicated:

	2001			
	Historical Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars In Thousands)			
Maturing within 1 year..	$ 28,499	$ 3	$ (34)	$ 28,468
	$ 28,499	$ 3	$ (34)	$ 28,468

Collateralized Mortgage Obligations as of December 31, 2001 all have expected maturities within five years. There were no sales of investment securities during 2001, 2000 or 1999. Accrued interest on investments was $1,275,000 and $1,257,000 at December 31, 2001 and 2000, respectively.

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(3) Mortgage-backed Securities

Mortgage-backed securities, available-for-sale, are due through the year 2035 and are summarized below for the periods indicated:

	2001			
	Historical Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars In Thousands)			
FNMA...........	$ 11,657	$ 173	$ -	$ 11,830
FHLMC..........	269,195	3,054	-	272,249
Total..........	$ 280,852	$ 3,227	$ -	$284,079

	2000			
	Historical Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars In Thousands)			
FNMA...........	$ 14,234	$ 17	$ (99)	$ 14,152
FHLMC..........	363,386	21	(3,154)	360,253
Total..........	$ 377,620	$ 38	$ (3,253)	$374,405

There were no mortgage-backed securities created with loans originated by the Bank in 2001, 2000 or 1999. There were no sales of mortgage-backed securities during 2001, 2000 or 1999.

Accrued interest receivable related to mortgage-backed securities outstanding at December 31, 2001 and 2000 totaled $2,461,000 and $4,945,000 respectively.

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(4) Loans Receivable

Loans receivable are summarized as follows:

	2001	2000
	(Dollars In Thousands)	
Real estate loans:		

First trust deed residential loans:		
One to four units..........	$2,121,899	$2,158,940
Five or more units.........	1,525,749	1,308,440
Residential loans..........	3,647,648	3,467,380
Other real estate loans:		
Commercial and industrial..	358,159	217,619
Construction...............	38,060	-
Land.......................	1,481	-
Second trust deeds.........	9,472	8,543
Real estate loans.............	4,054,820	3,693,542
Non-real estate loans:		
Manufactured housing.........	-	391
Deposit accounts.............	1,267	576
Commercial business loans....	18,882	12,600
Consumer.....................	19,546	6,555
Loans receivable.........	4,094,515	3,713,664
Less:		
General loan valuation allowance	72,919	70,809
Valuation allowances for impaired loans	1,850	1,792
Unearned loan fees...........	14,857	11,779
Subtotal.................	4,004,889	3,629,284
Less:		
Loans held-for-sale..........	5,246	2,246
Loans receivable, net....	$3,999,643	$3,627,038

Loans serviced for others totaled $257,629,000, $322,315,000 and $377,661,000 at December 31, 2001, 2000 and 1999, respectively.

The Bank had outstanding commitments to fund $105,045,000 and $150,276,000 in real estate loans at December 31,2001 and December 31, 2000, respectively. Of these totals, $95,770,000 and $140,007,000 had variable interest rates and $9,275,000 and $10,269,000 had fixed interest rates. The Bank had outstanding commitments to sell real estate loans of $5,955,000 and $2,091,000, respectively at December 31, 2001 and December 31, 2000, respectively.

Accrued interest receivable related to loans outstanding at December 31, 2001 and 2000 totaled $17,664,000 and $21,619,000, respectively.

Loans delinquent greater than 90 days or in foreclosure were $16,205,000 and $6,265,000 at December 31, 2001 and 2000, respectively, and the related allowances for delinquent interest were $504,000 and $511,000 respectively.

There were no loans originated upon the sale of real estate owned during 2001. Loans originated upon the sale of real estate owned totaled $645,000 and $4,792,000 during 2000 and 1999, respectively.

Loans made to directors and officers totaled $3,386,000 and $1,767,000 as of December 31, 2001 and 2000, respectively.

See Note 9 for loans that were pledged as security for borrowings.

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4) Loans Receivable (continued)

The following is a summary of the activity in general loan valuation allowances and impaired valuation allowances for the periods indicated:

	General Valuation Allowance	Impaired Valuation Allowance	Total

	(Dollars In Thousands)		
Balance at December 31, 1998.............	$67,638	$ 7,634	$75,272
Charge-off.............................	(1,362)	(5,038)	(6,400)
Recoveries.............................	3,678	-	3,678
Balance at December 31, 1999.............	69,954	2,596	72,550
Charge-offs............................	(1,443)	(804)	(2,247)
Recoveries.............................	2,298	-	2,298
Balance at December 31, 2000.............	70,809	1,792	72,601
Balance obtained from acquisition.........	2,050	-	2,050
Provision for loan losses................	(58)	58	-
Charge-offs............................	(369)	-	(369)
Recoveries.............................	487	-	487
Balance at December 31, 2001.............	$72,919	$ 1,850	$74,769

The Bank has loss exposure on certain loans sold with recourse. The dollar amount of loans sold with recourse totaled $126,432,000 and $146,537,000 at December 31, 2001 and 2000, respectively. The maximum potential recourse liability totaled $27,274,000 and $32,177,000 at December 31, 2001 and December 31, 2000, respectively.

The Bank maintains a repurchase liability for loans sold with recourse. This liability is included in accrued expenses and other liabilities in the Consolidated Statements of Financial Condition and was $12,824,000 at December 31, 2001, December 31, 2000 and December 31, 1999.

The following is a summary of impaired loans, net of valuation allowances for impairment, for the periods indicated:

	2001	2000
	(Dollars In Thousands)	
Non-accrual loans........................	$ 978	$ -
Modified loans...........................	6,416	8,770
	$ 7,394	$ 8,770

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(4) Loans Receivable (continued)

The Bank considers a loan to be impaired when management believes that it is probable that the Bank will be unable to collect all amounts due under the contractual terms of the loan. Estimated impairment losses are included in the Bank's impairment allowances. At December 31, 2001, the total recorded amount of loans for which impairment had been recognized in accordance with SFAS No. 114 was $7,394,000 (after deducting $1,850,000 of impairment allowances attributable to such loans). At December 31, 2000, the total recorded amount of loans for which impairment had been recognized in accordance with SFAS No. 114 was $8,770,000 (after deducting $1,792,000 of impairment allowances attributable to such loans). The Bank's impaired non-accrual loans consist of single family loans with an outstanding principal amount greater than or equal to $500,000 and multi-family loans with an outstanding principal amount greater than or equal to $750,000.

As of December 2001 and December 2000, impaired loans totaling $3,929,000 and $5,075,000, respectively, had no valuation allowances established.

The average recorded investment in impaired loans during the years ended December 31, 2001, 2000 and 1999 was $7,429,000, $8,784,000 and $11,448,000 respectively. The amount of interest income recognized for impaired loans during the years ended December 31, 2001, 2000 and 1999 was $597,000, $706,000, and

$1,045,000 respectively, under the cash basis method of accounting. Interest income recognized under the accrual basis method of accounting for the years ended December 31, 2001, 2000 and 1999 totaled $587,000, $712,000 and $997,000, respectively. There were no commitments to lend additional funds to borrowers whose loan terms have been modified.

(5) Real Estate

Real estate consists of the following:

	2001	2000
	(Dollars In Thousands)	
Real estate acquired by (or deed in lieu of) foreclosure ("REO")..	$ 1,835	$ 2,507
Valuation allowance......................	(350)	(350)
	1,485	2,157
Real estate held-for-investment..........	30	32
Real estate, net.......................	$ 1,515	$ 2,189

Listed below is a summary of the activity in the general valuation allowance for real estate owned for the periods indicated (dollars in thousands):

Balance at December 31, 1998.............	$500
Provision for losses on REO..............	(54)
Charge-offs..............................	(96)
Balance at December 31, 1999.............	350
Provision for losses on REO..............	-
Charge-offs..............................	-
Balance at December 31, 2000.............	350
Provision for losses on REO..............	-
Charge-offs..............................	-
Balance at December 31, 2001.............	$350

(5) Real Estate (continued)

The following table summarizes real estate operations, net:

	For the Years Ended December 31,		
	2001	2000	1999
(Dollars In Thousands)			
Net income (loss) from operations:			
Gain on sales of REO...............	$ 1,501	$ 949	$ 3,852
Other REO operations...............	(1,197)	(355)	(635)
Real estate operations, net	$ 304	$ 594	$ 3,217

The Bank acquired $5,135,000, $5,050,000 and $10,831,000 of real estate in settlement of loans during 2001, 2000 and 1999, respectively.

(6) Office Properties, Equipment and Lease Commitments

Office properties and equipment, at cost, less accumulated depreciation and amortization, are summarized as follows:

	2001	2000
	(Dollars In Thousands)	
Land....................................	$ 3,361	$ 3,061
Office buildings.........................	5,615	4,603
Furniture, fixtures and equipment.........	15,101	15,129
Leasehold improvements...................	10,386	10,076
Other....................................	56	56
	34,519	32,925
Less accumulated depreciation and amortization	23,697	22,274
	$10,822	$10,651

The Bank is obligated under non-cancelable operating leases for periods ranging from five to thirty years. The leases are for certain of the Bank's office facilities. Approximately half of the leases for office facilities contain five and ten year renewal options. Minimum rental commitments at December 31, 2001 under all non-cancelable leases are as follows (dollars in thousands):

2002..............................	$ 4,151
2003..............................	3,857
2004..............................	3,415
2005..............................	3,192
2006..............................	2,969
Thereafter........................	6,212
	$23,796

Rent payments under these leases were $4,309,000, $4,278,000 and $4,055,000 for 2001, 2000 and 1999, respectively. Certain leases require the Bank to pay property taxes and insurance. Additionally, certain leases have rent escalation clauses based on specified indices.

(7) Federal Home Loan Bank Stock

The Bank's investment in FHLB stock at December 31, 2001 and 2000 was $91,713,000 and $80,885,000, respectively. The FHLB provides a central credit facility for member institutions. As a member of the FHLB system, the Bank is required to own capital stock in the FHLBSF in an amount at least equal to the greater of 1% of the aggregate principal amount of its unpaid home loans, home purchase contracts and similar obligations at the end of each calendar year, assuming for such purposes that at least 30% of its assets were home mortgage loans, or 5% of its advances (borrowings) from the FHLBSF. The Bank was in compliance with this requirement at December 31, 2001. The Bank's investment in FHLB stock was pledged as collateral for advances from the FHLB at December 31, 2001 and 2000. The fair value of the Bank's FHLB stock approximates book value due to the Bank's ability to redeem such stock with the FHLB at par value. Accrued dividends on FHLB stock totaled $1,173,000 and $1,178,000 as of December 31, 2001 and December 31, 2000, respectively.

(8) Deposits

Deposit account balances are summarized as follows:

	2001		2000	
	Amount	%	Amount	%
	(Dollars In Thousands)			
Variable rate non-term accounts:				

Money market deposit accounts (weighted average rate of 2.76% and 4.79%)	$ 741,978	29%	$ 537,475	25%
Interest-bearing checking accounts (weighted average rate of 0.72% and 1.22%)........................	162,309	7	140,151	6
Passbook accounts (weighted average rate of 1.59% and 2.00%)........	104,488	4	80,536	4
Non-interest bearing checking accounts	205,597	8	176,059	8
	1,214,372	48	934,221	43
Fixed-rate term certificate accounts:				
Under six-month term (weighted average rate of 2.57% and 5.26%)........	54,626	2	61,954	3
Six-month term (weighted average rate of 3.29% and 6.41%)...............	246,161	10	282,922	13
Nine-month term (weighted average rate of 3.98% and 6.74%)...............	170,190	7	240,598	11
One year to 18-month term (weighted average rate of 4.45% and 6.11%)	469,113	18	367,603	17
Two year or 30-month term (weighted average rate of 5.38% and 5.83%)	45,993	2	31,685	2
Over 30-month term (weighted average rate of 5.31% and 5.49%)...........	39,938	1	31,088	1
Negotiable certificates of $100,000 and greater, 30 day to one year terms (weighted average rate of 3.84% and 6.19%)	306,254	12	214,976	10
	1,332,275	52	1,230,826	57
Total Deposits (weighted average rate of 3.02% and 4.90%).............	$2,546,647	100%	$2,165,047	100%

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(8) Deposits (continued)

Certificates of deposit, placed through five major national brokerage firms, totaled $356,819,000 and $381,196,000 at December 31, 2001 and 2000, respectively.

Cash payments for interest on deposits (including interest credited) totaled $96,482,000, $97,624,000 and $90,604,000 during 2001, 2000 and 1999, respectively. Accrued interest on deposits at December 31, 2001 and 2000 totaled $8,921,000 and $10,834,000, respectively, and is included in accrued expenses and other liabilities in the accompanying Consolidated Statements of Financial Condition.

The following table indicates the maturities and weighted average interest rates of the Bank's deposits at December 31, 2001:

	Non-Term Accounts	2002	2003	2004	2005	There-after	Total
	(Dollars In Thousands)						
Deposits at December 31, 2001	$1,214,372	$1,260,976	$40,371	$18,125	$8,768	$4,035	$2,546,647
Weighted average interest rates..	2.01%	3.88%	4.66%	5.02%	6.04%	4.61%	3.02%

Interest expense on deposits is summarized as follows:

For the Years Ended		
2001	2000	1999

	(Dollars In Thousands)		
Passbook accounts............	$ 1,443	$ 1,611	$ 1,618
Money market deposits and interest-bearing checking accounts	24,929	24,709	17,035
Certificate accounts..........	68,196	73,854	68,546
	$ 94,568	$ 100,174	$ 87,199

(9) Federal Home Loan Bank Advances

Federal Home Loan Bank (FHLB) advances consist of the following:

	2001	2000
	(Dollars In Thousands)	
Advances from the FHLB of San Francisco with a weighted average interest rate of 5.01% and 6.42%, respectively, secured by FHLB stock and certain real estate loans with unpaid principal balances of approximately $3.2 billion at December 31, 2001, advances mature through 2010........	$1,597,000	$1,579,000
	$1,597,000	$1,579,000

At December 31, 2001 and 2000, accrued interest payable on FHLB advances totaled $219,000 and $8,687,000, respectively, which is included in accrued expenses and other liabilities in the accompanying Consolidated Statements of Financial Condition.

The Bank has a credit facility with the FHLB in the form of FHLB advances and letters of credit which allow borrowings up to 50% of the Bank's assets, as computed for regulatory purposes, or approximately $2,363,145,000 at December 31, 2001 with terms up to 30 years.

The following is a summary of FHLB advance maturities at December 31, 2001 (dollars in thousands):

2002..................	$ 985,000
2003..................	62,000
2004..................	285,000
2005..................	55,000
2006..................	175,000
2008..................	10,000
2009..................	5,000
2010..................	20,000
	$1,597,000

Cash payments for interest on borrowings (including reverse repurchase agreements) totaled $118,194,000, $77,621,000 and $77,372,000 during 2001, 2000 and 1999, respectively.

Interest expense on borrowings is comprised of the following for the years indicated:

	Year Ended December 31,		
	2001	2000	1999
	(Dollars In Thousands)		
FHLB Advances..............	$ 94,506	$ 85,603	$ 48,077
Reverse Repurchase Agreements	12,346	21,041	20,396

10 Year Senior Unsecured Notes	-	-	5,459
Other......................	334	(313)	(100)
	$ 107,186	$ 106,331	$ 73,832

Other interest expense in 2001, 2000 and 1999 includes the additional accruals and reversals of accrued interest due to the IRS. See Note 11.

(10) Securities Sold Under Agreements to Repurchase

The Bank enters into sales of securities under agreements to repurchase (reverse repurchase agreements) which require the repurchase of the same securities. Reverse repurchase agreements are treated as financing arrangements, and the obligation to repurchase securities sold is reflected as a borrowing in the Consolidated Statements of Financial Condition. The mortgage-backed securities underlying the agreements were delivered to the dealer who arranged the transactions or its trustee.

At December 31, 2001, $211,040,000 in reverse repurchase agreements were collateralized by mortgage-backed securities with principal balances totaling $221,618,000 and fair values totaling $224,114,000. At December 31, 2000, $294,110,000 in reverse repurchase agreements were collateralized by mortgage-backed securities with principal balances totaling $311,840,000 and fair values totaling $308,836,000.

The weighted average interest rates for borrowings under reverse repurchase agreements were 2.66% and 6.65%, respectively, as of December 31, 2001 and December 31, 2000.

Securities sold under agreements to repurchase averaged $255,747,000 and $326,004,000 during 2001 and 2000, respectively, and the maximum amounts outstanding at any month-end during 2001 and 2000 were $294,110,000 and $355,995,000 respectively.

The following is a summary of maturities at December 31, 2001 (dollars in thousands):

Up to 30 days...........	$ 19,556
30 to 90 days...........	102,058
Over 90 to 182 days.....	89,426
	$211,040

Accrued interest on securities sold under agreements to repurchase which is included in accrued expenses and other liabilities in the accompanying Consolidated Statements of Financial Condition was $1,452,000 and $4,326,000 at December 31, 2001 and 2000, respectively.

(11) Income Taxes

Income taxes (benefit) consist of the following:

	2001	2000	1999
		(Dollars In Thousands)	
Current:			
Federal.....................	$30,305	$ 20,764	$ 20,093
State.......................	9,889	8,391	8,602
	40,194	29,155	28,695

Deferred:			
Federal....................	(2,492)	722	(456)
State......................	(81)	(1,045)	(1,187)
	(2,573)	(323)	(1,643)
Total:			
Federal....................	27,813	21,486	19,637
State......................	9,808	7,346	7,415
	$37,621	$28,832	$27,052

(11) Income Taxes (continued)

A reconciliation of the statutory federal corporate income tax rate to the Company's effective income tax rate follows:

	2001	2000	1999
Statutory federal income tax rate	35.0%	35.0%	35.0%
Increase in taxes resulting from:			
State franchise tax, net of federal income tax benefit..................	7.2	7.3	7.7
Core deposit intangibles.......	-	0.3	0.1
Other, net...................	0.6	0.2	0.5
Effective rate..............	42.8%	42.8%	43.3%

Cash payments for income taxes totaled $43,100,000, $28,300,000 and $29,609,000 during 2001, 2000 and 1999, respectively. The Company received cash refunds totaling $667,000 during 2000. No refunds were received during 2001 and 1999.

Current income tax receivable were $2.0 million at December 31, 2001 and $325,000 at December 31, 1999. Current income taxes payable at December 31, 2000 were $530,000.

Listed below are the significant components of the net deferred tax (asset) and liability:

	2001	2000
	(Dollars In Thousands)	
Components of the deferred tax asset:		
Bad debts............................	$ (34,501)	$ (33,533)
Pension expense......................	(3,901)	(3,580)
State taxes..........................	(3,903)	(3,003)
Tax effect of unrealized loss on securities available-for-sale..........	-	(1,566)
Other................................	(2,575)	(2,592)
Total deferred tax asset.............	(44,880)	(44,274)
Components of the deferred tax liability:		
Loan fees............................	11,978	14,349
Loan sales...........................	477	639
FHLB stock dividends.................	20,411	18,049
Tax effect of unrealized gain on securities available for sale..........	2,170	-
Other................................	313	543
Total deferred tax liability.........	35,349	33,580
Net deferred tax asset...................	$ (9,531)	$(10,694)

The Company provides for recognition and measurement of deductible temporary differences to the extent that it is more likely than not that the deferred tax asset will be realized. The Company did not have a valuation allowance for the deferred tax asset at December 31, 2001 or 2000, as it is more likely than not that the deferred tax asset will be realized through loss carrybacks and the timing of future reversals of existing temporary differences.

(11) Income Taxes (continued)

The Internal Revenue Service ("IRS") has examined the Company's consolidated federal income tax returns for tax years up to and including 1996. The adjustments proposed by the IRS were primarily related to temporary differences as to the recognition of certain taxable income and expense items. While the Company had provided for deferred taxes for federal and state purposes, the change in the period of recognition of certain income and expense items resulted in interest due to the IRS and Franchise Tax Board ("FTB"). A liability of $300,000 was recorded during 2001 for interest on amended returns. Interest accruals totaling $350,000 and $150,000, respectively, were reversed during 2000 and 1999, respectively. The balance of accrued interest payable for amended returns was $300,000 as of December 31, 2001. There was no balance of accrued interest payable for amended returns as of December 31, 2000.

The Bank is required to use the specific charge-off method of accounting for debts for all periods beginning after 1995. Prior to that date, the Bank used the reserve method of accounting for bad debts. The Consolidated Statements of Financial Condition at December 31, 2001 and 2000 do not include a liability of $5,356,000 related to the adjusted base year bad debt reserve. This reserve was created when the Bank was on the reserve method.

(12) Stockholders' Equity and Earnings Per Share

The Company's stock charter authorizes 5,000,000 shares of serial preferred stock. As of December 31, 2001 no preferred shares had been issued.

The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations for the years indicated:

	For the Year Ended December 31, 2001			For the Year Ended December 31, 2000			For t Decem
	Earnings (Numerator)	Shares (Denominator)	Per Share Amount	Earnings (Numerator)	Shares (Denominator)	Per Share Amount	Earning (Numerat
	(Dollars in thousands except per share data)						
Basic EPS:							
Earnings before extraordinary item	$50,302	17,270,579	$2.91	$38,465	17,372,225	$2.23	$35,447
Unreleased shares		(35,988)			(120,607)		
Extraordinary item, net of taxes......	-	-	-	-	-		(2,195
Net earnings....	$50,302	17,234,591	$2.92	$38,465	17,251,618	$2.23	$33,252
Diluted EPS:							
Earnings before extraordinary item	$50,302	17,270,579	$2.91	$38,465	17,372,225	$2.23	$35,447
Unreleased shares		(35,988)			(120,607)		
Options-common stock equivalents...		411,056			205,277		

Earnings before extraordinary item	50,302	17,645,647	2.85	38,465	17,456,895	2.20	35,447
Extraordinary item, net of taxes......	-	-	-	-	-	-	(2,195
Net earnings....	$50,302	17,645,647	$2.85	$38,465	17,456,895	$2.20	$33,252

(12) Stockholders' Equity and Earnings Per Share (continued)

Regulatory Capital

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk weighted assets (as defined). Management believes that the Bank meets all capital adequacy requirements to which it is subject as of December 31, 2001.

As of December 31, 2001, the most recent notification from the OTS indicated that the Bank was well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since December 31, 2001 that management believes have changed the Bank's classification.

The following table summarizes the Bank's regulatory capital and required capital for the years indicated (dollars in thousands):

	December 31, 2001			
	Tangible Capital	Core Capital	Tier 1 Risk-based Capital	Risk-based Capital
Actual Capital:				
Amount......................	$302,448	$302,448	$302,448	$336,556
Ratio.......................	6.42%	6.42%	11.24%	12.51%
FIRREA minimum required capital:				
Amount......................	$ 70,617	$188,522	-	$215,184
Ratio.......................	1.50%	4.00%	-	8.00%
FIDICIA well capitalized required capital:				
Amount......................	-	$235,391	$161,388	$268,980
Ratio.......................	-	5.00%	6.00%	10.00%

	December 31, 2000			
	Tangible Capital	Core Capital	Tier 1 Risk-based Capital	Risk-based Capital
Actual Capital:				
Amount......................	$254,974	$254,974	$254,974	$286,937
Ratio.......................	5.84%	5.84%	10.13%	11.39%

FIRREA minimum required capital:				
Amount......................	$ 65,471	$174,588	-	$201,454
Ratio.......................	1.50%	4.00%	-	8.00%
FIDICIA well capitalized required capital:				
Amount......................	-	$218,236	$151,091	$251,818
Ratio.......................	-	5.00%	6.00%	10.00%

(12) Stockholders' Equity and Earnings Per Share (continued)

The payment of dividends is subject to certain federal income tax consequences. Specifically, the Bank is capable of paying dividends to the Company in any year without incurring tax liability only if such dividends do not exceed both the tax basis current year earnings and profits and accumulated tax earnings and profits as of the beginning of the year.

Thirty days' prior notice to the OTS of the intent to declare dividends is required for the declaration of such dividends by the Bank. The OTS generally allows a savings institution which meets its fully phased-in capital requirements to distribute without OTS approval dividends up to 100% of the institution's net income for the applicable calendar year plus retained net income for the two prior calendar years. However, the OTS has the authority to preclude the declaration of any dividends or adopt more stringent amendments to its capital regulations.

The Company may loan up to $6,000,000 to the Employee Stock Ownership Plan ("ESOP") under a line of credit loan. There was no balance outstanding as of December 31, 2001. At December 31, 2000, the loan to the ESOP totaled $656,000. Interest on any outstanding loan balance is due each December 31. Interest varies based on the Bank's monthly cost of funds. The average rates paid during 2001 and 2000 were 4.79% and 5.40%, respectively.

The Company maintains a Shareholder Rights Plan ("Rights Plan") which is designed to protect shareholders from attempts to acquire control of the Company at an inadequate price. Under the Rights Plan, the owner of each share of Company stock received a dividend of one right ("Right") to purchase one one-thousandth of a share of a new series of preferred stock for its estimated long term value of $200.00. In the event of certain acquisitions of 15% or more of the voting stock or a tender offer for 15% or more of the voting stock of the Company, each holder of a Right who exercises such Right will receive shares of the Company with a market value equal to two times the exercise price of the Right. Also, in the event of certain business combination transactions following the acquisition by a person of 15% or more of the Company stock, each Rights holder will have the right to receive upon exercise of the Right common stock of the surviving company in such transaction having a market value of two times the exercise price of the Right. The Company may redeem the Rights at any time prior to such acquisition or tender offer should the Board of Directors deem redemption to be in its stockholders' best interests.

(13) Employee Benefit Plans

The Bank maintains a qualified defined contribution plan established under Section 401 (k) of the Internal Revenue Code, as amended (the "401(k) Plan").

Participants are permitted to make contributions on a pre-tax basis, a portion of which is matched by the Bank. The 401(k) Plan expense was $356,000, $354,000 and $299,000 for 2001, 2000 and 1999, respectively.

The Bank has a Supplementary Executive Retirement Plan ("SERP") which covers any individual employed by the Bank as its Chief Executive Officer or Chief Operating Officer. The pension expense for the SERP was $970,000, $906,000 and $988,000 in 2001, 2000 and 1999, respectively. The SERP is unfunded.

The discount rate used in determining the actuarial value of benefit obligations were 7.00% and 7.25%, respectively, as of December 31, 2001 and 2000. The rate of increase in future compensation levels used in determining the pension cost for the SERP was 4.0% as of December 31, 2001 and 2000. The plan had no assets at December 31, 2001 or 2000.

The following table sets forth the funded status of the SERP and amounts recognized in the Company's Statements of Financial Condition for the years indicated:

	2001	2000
	(Dollars In Thousands)	
Change in Benefit Obligation		
Projected benefit obligation, beginning of the year	$ 6,594	$ 5,837
Service cost..................................	304	264
Interest cost.................................	468	441
Benefits paid.................................	(287)	(287)
Actuarial loss................................	806	339
Projected benefit obligation, end of the year...	$ 7,885	$ 6,594
Change in Plan Assets		
Funded status.................................	$ (7,885)	$ (6,594)
Unrecognized transition obligation.............	-	63
Unrecognized prior service cost................	419	553
Unrecognized (gain)/loss.......................	1,419	613
Net amount recognized..........................	$ (6,047)	$ (5,365)
Components of Net Periodic Benefit Cost		
Service cost..................................	$ 304	$ 264
Interest cost.................................	467	441
Amortization of unrecognized transition obligation	62	62
Amortization of unrecognized prior service cost.	135	135
Pension cost..................................	$ 968	$ 902

The projected benefit obligation, accumulated benefit obligation, and fair value of assets were $7,885,000, $6,131,000, and $0 respectively, at December 31, 2001 and $6,594,000, $5,255,000, and $0, respectively, at December 31, 2000.

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(13) Employee Benefit Plans (continued)

The Bank has a profit sharing plan (the "ESOP") for all salaried employees and officers who have completed one year of continuous service. At December 31, 2001, the ESOP held 4.87% of outstanding stock of the Company. Profit sharing expense for the years ended December 31, 2001, 2000 and 1999 $2,020,000, $1,778,000 and $1,100,000, respectively. The amount of the contribution made by the Bank is determined each year by the Board of Directors, but is not to exceed 15% of the participants' aggregated compensation. The Bank does not offer post retirement benefits under this plan.

Stock Compensation Plans

At December 31, 2001, the Company had two stock-based compensation programs, which are described below. The Company applies APB Opinion 25 and related interpretations in accounting for its plans. Accordingly, no compensation cost has been recognized for its stock compensation plans.

Stock Option Programs

Under the 1994 Stock Option and Stock Appreciation Rights Plan (the "1994 Plan"), the Company may grant options to employees of the Bank for up to 3,000,000 shares of common stock, subject to limitations set forth under the 1994 Plan. Under the 1994 Plan, the exercise price of each option equals the market value of the Company's stock on the date of the grant, and an option's maximum term is 10 years. Options typically begin to vest on the second anniversary date of the grant.

The Company also has a stock option plan for outside directors, the 1997 Non-employee Directors Stock Incentive Plan (the "Directors Stock Plan"). The Directors Stock Plan provides for the issuance of up to 400,000 shares of common stock to non-employee directors of the Company. The exercise price of each option equals the market value of the Company's stock on the date of the grant, and an option's maximum term is 10 years plus one month. Options typically vest 100% on the one year anniversary date of the grant.

The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants in 2001, 2000 and 1999, respectively: no dividend yield in any year; expected volatility of 38%, 37% and 38%; risk free interest rates of 5.1%, 6.7% and 6.6%; and expected average lives of 6 years in all three periods. The weighted-average grant date fair value of options granted during the year are $9.45, $23.75 and $6.04 for 2001, 2000 and 1999, respectively. The Company has elected to recognize forfeitures in the year they occur.

Had compensation cost for the Company's stock-option programs been determined based on the fair value at the grant dates for awards under those plans consistent with the method of Statement of Financial Standards No. 123, "Accounting for Stock Based Compensation," the Company's net earnings and earnings per share would have been reduced to the pro forma amounts indicated below:

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(13) Employee Benefit Plans (continued)

	2001	2000	1999
	(Dollars In Thousands, Except Per Share Data)		
Before Extraordinary Items:			
Earnings before extraordinary items:			
As reported.....	$50,302	$38,465	$35,447
Pro forma.......	$49,368	$37,677	$35,085
Earnings per share:			
Basic:			
As reported.....	$2.92	$2.23	$1.84
Pro forma.......	$2.83	$2.18	$1.83
Diluted:			
As reported.....	$2.85	$2.20	$1.83
Pro forma.......	$2.76	$2.16	$1.81

After Extraordinary Items:

Net earnings:			
As reported.....	$50,302	$38,465	$33,252
Pro forma.......	$49,368	$37,677	$32,890
Earnings per share:			
Basic:			
As reported.....	$2.92	$2.23	$1.73
Pro forma.......	$2.83	$2.18	$1.71
Diluted:			
As reported.....	$2.85	$2.20	$1.71
Pro forma.......	$2.76	$2.16	$1.70

Pro forma net earnings and earnings per share reflect only options granted since 1995. Therefore, the full impact of calculating compensation cost for stock options under SFAS No. 123 is not reflected in the pro forma net earnings per share amounts presented above because compensation cost is reflected over the options' vesting period and compensation cost for options granted prior to January 1, 1995 is not considered.

The following table summarizes information about stock option activity during the periods indicated:

Options Outstanding (Weighted average option prices)	2001	2000 (In Shares)	1999
Beginning of year ($12.84, $12.54 and $9.84)	796,538	653,742	713,500
Granted ($31.44, $13.13 and $16.13)	127,050	219,275	181,130
Exercised ($12.22, $7.04 and $5.68)	(62,489)	(30,656)	(193,785)
Canceled ($18.12, $13.77 and $13.64)	(41,184)	(45,823)	(47,103)
End of Year ($15.51, $12.84 and $12.54)	819,915	796,538	653,742
Shares exercisable at December 31.. ($11.53, $11.22 and $10.09)......	309,808	252,121	193,684

(13) Employee Benefit Plans (continued)

Additional information with respect to stock options outstanding at December 31, 2001 follows:

	Price Ranges ($5.63 - $14.23)	($14.24 - $22.84)	($22.85- $31.45)
Options outstanding:			
Number of outstanding shares.........	449,195	252,620	118,100
Weighted-average contractual life ...	5.73	6.60	9.07
Weighted-average exercise price	$10.67	$16.66	$31.44
Options exercisable:			
Number of exercisable shares.........	220,884	88,924	-
Weighted-average exercise price	$9.45	$16.67	$-

Restricted Stock Plan

The Company's 1991 Restricted Stock Plan (the "Restricted Stock Plan") has expired pursuant to its terms. Under the Restricted Stock Plan, the Company issued shares of restricted to employees of the Company, including officers and directors. All shares issued under the Plan to current employees have been vested. The remaining 43,406 shares which were available for issuance under the Plan, consisting of previously issued shares reacquired by the Company, are no longer authorized for issuance under the Plan due to the Plan's termination. Accordingly, these shares are included in the Company's treasury stock.

(14) Parent Company Financial Information

The following condensed parent company financial information should be read in conjunction with the other Notes to the Consolidated Financial Statements.

CONDENSED STATEMENTS OF FINANCIAL CONDITION

	December 31, 2001	December 31, 2000
	(Dollars In Thousands)	
Assets:		
Cash..........................	$ 6,263	$ 3,531
Fixed assets..................	419	491
Other assets..................	-	1,334
Investment in subsidiary.......	319,276	262,119
	$ 325,958	$ 267,475
Liabilities and Stockholders' Equity:		
Other liabilities.............	280	33
Stockholders' equity.........	325,678	267,442
	$ 325,958	$ 267,475

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(14) Parent Company Financial Information (continued)

CONDENSED STATEMENTS OF OPERATIONS AND COMPREHENSIVE EARNINGS	Years Ended December 31, 2001	2000	1999
	(Dollars In Thousands)		
Dividends received from Bank...	$ -	$10,000	$99,554
Equity in undistributed (distributed) net earnings of subsidiary	52,007	29,263	(60,508)
Other expense, net............	(1,705)	(798)	(5,794)
Net earnings..................	$50,302	$38,465	$33,252
Other comprehensive earnings (loss), net of taxes.................	5,149	6,122	(7,577)
Comprehensive earnings.........	$55,451	$44,587	$25,675

CONDENSED STATEMENTS OF CASH FLOWS	Years Ended December 31, 2001	2000	1999
	(Dollars In Thousands)		
Net Cash Flows from Operating Activities:			
Net earnings.......................	$ 50,302	$ 38,465	$ 33,252
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Equity in undistributed (distributed) net net earnings of subsidiary.........	(52,007)	(29,263)	60,508
Write-off deferred issuance cost....	-	-	1,332
Depreciation expense...............	184	89	-
Other.............................	1,581	-	1,326

Net cash provided (used) by operating activities	60	9,291	96,418
Cash Flows from Investing Activities:			
Increase in fixed assets...........	(112)	(580)	-
(Increase) decrease in unreleased shares	(841)	918	(926)
Net cash (used) provided by investing Activities........................	(953)	338	(926)
Cash Flows from Financing Activities:			
Repayment of long term borrowings...	-	-	(50,000)
Premiums paid on early extinguishment of debt	-	-	(2,655)
Purchase of treasury stock.........	-	(10,175)	(52,214)
Other.............................	3,625	988	-
Net cash provided (used by) financing activities	3,625	(9,187)	(104,869)
Net increase in cash.................	2,732	442	(9,377)
Cash at beginning of period..........	3,531	3,089	12,466
Cash at end of period................	$ 6,263	$ 3,531	$ 3,089

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(15) Quarterly Results of Operations: (unaudited)

Summarized below are the Company's results of operations on a quarterly basis for 2001, 2000 and 1999:

	Interest Income	Interest Expense	Provision For Loan Losses	Other Income	Non-Interest Expense	Net Earnings	Basic Earnings Per Share	Di Ea Pe
	(Dollars In Thousands, Except Per Share Data)							
First quarter								
2001........	$ 88,017	$ 55,865	$ -	$ 2,007	$ 12,533	$ 12,373	$ 0.72	$
2000........	71,102	45,122	-	1,725	12,245	8,835	0.50	
1999........	64,737	39,572	-	3,133	12,588	8,915	0.43	
Second quarter								
2001........	$ 87,443	$ 53,881	$ -	$ 1,641	$ 13,195	$ 12,592	$ 0.73	$
2000........	76,455	50,288	-	2,418	12,570	9,351	0.54	
1999........	63,697	38,478	-	4,157	13,113	9,103	0.47	
Third quarter								
2001........	$ 81,837	$ 49,397	$ -	$ 3,019	$ 13,738	$ 12,427	$ 0.72	$
2000........	81,980	55,290	-	1,950	12,276	9,497	0.55	
1999........	63,671	39,376	-	2,813	11,990	8,358	0.44	
Fourth quarter								
2001........	$ 76,635	$ 42,611	$ -	$ 2,252	$ 13,708	$ 12,910	$ 0.75	$
2000........	84,783	55,805	-	1,654	11,174	10,782	0.63	
1999........	67,896	43,605	-	2,585	11,468	6,876	0.38	
Total year								
2001........	$333,932	$201,754	$ -	$ 8,919	$ 53,174	$ 50,302	$ 2.92	$
2000........	314,320	206,505	-	7,747	48,265	38,465	2.23	
1999........	260,001	161,031	-	12,688	49,159	33,252	1.73	

(16) Fair Value of Financial Instruments

The following table presents fair value information for financial instruments for which a market exists.

	2001		2000	
	Carrying Value	Fair Value	Carrying Value	Fair Value

(Dollars In Thousands)

Mortgage-backed Securities ...	$284,079	$284,079	$374,405	$374,405
US Government Securities	28,468	28,468	38,064	38,064
Collateralized Mortgage Obligations	81,976	81,976	98,473	98,473
Loans Held-for-Sale	5,246	5,246	2,246	2,246

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(16) Fair Value of Financial Instruments (continued)

The following table presents fair value information for financial instruments shown in the Company's Consolidated Statements of Financial Condition for which there is no readily available market. The fair values for these financial instruments were calculated by discounting expected cash flows. Because these financial instruments have not been evaluated for possible sale and because management does not intend to sell these financial instruments, the Company does not know whether the fair values shown below represent values at which the respective financial instruments could be sold.

	2001		2000	
	Historical Cost	Calculated Fair Value Amount	Historical Cost	Calculated Fair Value Amount
(Dollars In Thousands)				
Adjustable Loans:				
Single Family	$2,091,298	$2,119,245	$2,148,016	$2,191,467
Multi-Family	1,513,077	1,540,775	1,299,356	1,327,018
Commercial	335,245	347,592	206,032	213,293
Fixed Rate Loans:				
Single Family	26,859	27,579	8,068	8,106
Multi-Family	17,716	18,520	13,924	14,175
Commercial	26,138	27,653	12,004	12,480
Consumer Loans............	20,797	21,206	7,522	7,599
Commercial Business Loans.	18,882	18,992	12,600	12,626
Construction Loans........	38,060	38,571	-	-
Non-Performing Loans	6,443	6,443	6,142	6,142
Fixed-Term Certificate Accounts	1,332,275	1,347,368		
1,230,826........1,229,886				
Non-Term Deposit Accounts	1,214,372	1,214,372	758,162	758,162
Borrowings	1,808,040	1,847,196	1,873,110	1,885,252

GAAP specifies that fair values should be calculated based on the value of one unit. The estimates do not necessarily reflect the price the Company might receive if it were to sell the entire holding of a particular financial instrument at one time.

Fair value estimates are based on the following methods and assumptions, some of which are subjective in nature. Changes in assumptions could significantly affect the estimates.

Cash and Cash Equivalents

The carrying amounts reported in the Consolidated Statements of Financial Condition for this item approximate fair value.

Investment Securities and Mortgage-Backed Securities

Fair values are based on bid prices published in financial newspapers or bid quotations received from national securities dealers.

(16) Fair Value of Financial Instruments (continued)

Loans Receivable

The portfolio is segregated into those loans with adjustable rates of interest and those with fixed rates of interest. Fair values are based on discounting future cash flows by the current rate offered for such loans with similar remaining maturities and credit risk. The amounts so determined for each loan category are reduced by the Bank's allowance for loans losses which thereby takes into consideration changes in credit risk. As of December 31, 2001, the Bank had outstanding commitments to fund $105,045,000 in real estate mortgage loans, $15,523,000 in construction loans and $3,483,000 in non-mortgage loans. All loan commitments were substantially at fair value.

Non-performing Loans

The carrying amounts reported in the Consolidated Statements of Financial Condition for this item approximate fair value.

Deposits

The fair value of deposits with no stated term, such as regular passbook accounts, money market accounts and checking accounts, is defined by SFAS No. 107 as the carrying amounts reported in the Consolidated Statements of Financial Condition. The fair value of deposits with a stated maturity, such as certificates of deposit, is based on discounting future cash flows by the current rate offered for such deposits with similar remaining maturities.

Borrowings

For short-term borrowings, fair value approximates carrying value. The fair value of long term borrowings is based on their interest rate characteristics. For variable rate borrowings, fair value is based on carrying values. For fixed rate borrowings, fair value is based on discounting future contractual cash flows by the current interest rate paid on such borrowings with similar remaining maturities.

Independent Auditors' Report

The Board of Directors
FirstFed Financial Corp.:

We have audited the accompanying consolidated statements of financial condition of FirstFed Financial Corp. and subsidiary (Company) as of December 31, 2001 and

2000 and the related consolidated statements of operations and comprehensive earnings, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of FirstFed Financial Corp. and subsidiary as of December 31, 2001 and 2000 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Los Angeles, California
January 25, 2002

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ITEM 9--CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10--DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information regarding directors and executive officers appearing on pages 4 through 7 of the Proxy Statement for the Annual Meeting of Stockholders dated April 24, 2002 is incorporated herein by reference.

ITEM 11--EXECUTIVE COMPENSATION

Information regarding executive compensation appearing on pages 8 through 10, 12 through 14, and 16 of the Proxy Statement for the Annual Meeting of Stockholders dated April 24, 2002 is incorporated herein by reference.

ITEM 12--SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information regarding security ownership of certain beneficial owners and management appearing on pages 2 and 3 of the Proxy Statement for the Annual Meeting of Stockholders dated April 24, 2002 is incorporated herein by reference.

ITEM 13--CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

(a) Certain Relationships: None.

(b) Information regarding certain related transactions appearing on page 11 of the Proxy Statement for the Annual Meeting of Stockholders dated April 24, 2002 is incorporated herein by reference.

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PART IV

ITEM 14--EXHIBITS, CONSOLIDATED FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8K

FIRSTFED FINANCIAL CORP. AND SUBSIDIARY

EXHIBIT
NUMBER

(3.1) Restated Certificate of Incorporation filed as Exhibit 3.1 to Form 10-K for the fiscal year ended December 31, 1999 and incorporated by reference.
(3.2) By-laws filed as Exhibit (1)(a) to Form 8-A dated September 4,1987 and incorporated by reference.
(4.1) Amended and Restated Rights Agreement dated as of September 25, 1998, filed as Exhibit 4.1 to Form 8-A/A, dated September 25, 1998 and incorporated by reference.
(10.1) Deferred Compensation Plan filed as Exhibit 10.3 to Form 10-K for the fiscal year ended December 31, 1983 and incorporated by reference.
(10.2) Bonus Plan filed as Exhibit 10(iii)(A)(2) to Form 10 dated November 2, 1993 and incorporated by reference.
(10.3) Supplemental Executive Retirement Plan dated January 16, 1986 filed as Exhibit 10.5 to Form 10-K for the fiscal year ended December 31, 1992 and incorporated by reference.
(10.4) Change of Control Agreement effective September 26, 1996 filed as Exhibit 10.4 to Form 10-Q for the Quarter ended September 30, 1996 and Amendment filed as Exhibit 10.3 10.4 for change of control to Form 10-Q for the Quarter ended September 30, 2000 and incorporated by reference.
(10.5) 1997 Non-employee Directors Stock Incentive Plan filed as Exhibit 1 to Form S-8 dated August 12, 1997 and Amendment filed as Exhibit 10.5 to Form 10-Q for the Quarter ended September 30, 2000, and incorporated by reference.
(21) Registrant's sole subsidiary is First Federal Bank of California, a federal savings bank.
(23) Independent Auditors' consent.
(24) Power of Attorney (included at page 77).

This 2001 Annual Report on Form 10-K and the Proxy Statement for the Annual Meeting of Stockholders dated April 24, 2002 have already been furnished to each stockholder of record who is entitled to receive copies thereof. Copies of these items will be furnished without charge upon request in writing by any stockholder of record on March 4, 2002 and any beneficial owner of Company stock on such date who has not previously received such material and who so represents in good faith and in writing to:

Corporate Secretary
FirstFed Financial Corp.
401 Wilshire Boulevard
Santa Monica, California 90401

Other exhibits will be supplied to any such stockholder at a charge equal to the Company's cost of copying, postage, and handling.

(b) Reports on Form 8-K

The Company filed reports on Form 8-K during the quarter ended December 31, 2001 on the following dates: October 26, 2001, November 21, 2001, November 30, 2001, and December 19, 2001. The November 30, 2001 8-K announced the completion of the acquisition of Del Amo Savings Bank and Frontier State Bank. The remaining reports are related to the release of the Company's third quarter earnings and the disclosure of certain other financial data.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FIRSTFED FINANCIAL CORP.,
a Delaware corporation

By: /s/ Babette E. Heimbuch .
Babette E. Heimbuch
President and
Chief Executive Officer

Date: February 27, 2002

POWER OF ATTORNEY

Each person whose signature appears below hereby authorizes Babette E. Heimbuch and Douglas J. Goddard, and each of them or either of them, as attorney-in-fact to sign on his or her behalf as an individual and in every capacity stated below, and to file all amendments to the Registrant's Form 10-K, and the Registrant hereby confers like authority to sign and file in its behalf.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on the 27th day of February, 2002.

SIGNATURE	TITLE
/s/ Babette E. Heimbuch Babette E. Heimbuch	Chief Executive Officer (Principal Executive Officer)
/s/ Douglas J. Goddard Douglas J. Goddard	Executive Vice President and Chief Financial Officer (Principal Financial Officer)
/s/ Brenda J. Battey Brenda J. Battey	Senior Vice President and Controller (Principal Accounting Officer)
/s/ Christopher M. Harding Christopher M. Harding	Director
/s/ James L. Hesburgh James L. Hesburgh	Director
/s/ William S. Mortensen William S. Mortensen	Chairman of the Board
/s/ William G. Ouchi William G. Ouchi	Director
/s/ William P. Rutledge William P. Rutledge	Director
/s/ Charles F. Smith Charles F. Smith	Director
/s/ Steven L. Soboroff Steven L. Soboroff	Director
/s/ John R. Woodhull John R. Woodhull	Director