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FIRSTFED FINANCIAL CORP
Form 10-K
March 11, 2003

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

ANNUAL REPORT PURSUANT TO SECTION 13 OR
15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2002

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 (I. R. S. Employer Identification No.)
incorporation or organization)

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 June 28, 2002 was \$456,096,000, based on the closing sales price of the Registrant's common stock on the New York Stock Exchange on such date of \$29.00 per share. For purposes of the preceding sentence only, all directors, executive officers and beneficial owners of ten percent or more of the common stock, as well as the Company's Employee Stock Ownership Plan ("ESOP"), are assumed to be affiliates.

The number of shares of Registrant's \$0.01 par value common stock outstanding as of February 7, 2003: 16,910,212

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for Annual Meeting of Stockholders to be held April 23, 2003 ("Proxy Statement"), (Parts II, III & IV).

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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]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes [X] No[]

Disclosure Regarding Forward-looking Statements

This Annual Report on Form 10-K for the year ended December 31, 2002 includes certain statements that may be deemed to be "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, (the "Securities Act") and Section 21E of the Securities and Exchange Act of 1934, as amended (the "Exchange Act"). All statements, other than statements of historical facts, included in this Annual Report that address activities, events or developments that the Company expects, believes or anticipates will or may occur in the future, including, but not limited to, such matters as future product development, business development, competition, future revenues, business strategies, expansion and growth of the Company's operations and assets and other such matters are forward-looking statements. These kinds of statements are signified by words such as "believes," "anticipates," "expects," "intends," "may", "could," and other similar expressions. However, these words are not the exclusive means of identifying such statements. These statements are based on certain assumptions and analyses made by the Company in light of its experience and perception of historical trends, current conditions, expected future developments and other factors it believes are appropriate in the circumstances. Such statements are subject to a number of assumptions, risks and uncertainties, including the risk factors discussed below, general economic and business conditions, the business opportunities (or lack thereof) that may be presented to and pursued by the Company, changes in law or regulations and other factors, many of which are beyond the Company's control. Specific factors that could cause results to differ materially from historical results or those anticipated are: (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; (2) fluctuations between consumer interest rates and the cost of funds; (3) federal and state regulation of lending, deposit and other operations, and (4) competition for financial products and services within the Bank's market areas. Investors are cautioned that any such statements are not guarantees of future performance and that actual results or developments may differ materially from those projected in the forward-looking statements.

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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.

The Company's periodic and current reports are available free of charge on

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its website at www.firstfedca.com as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC.

At December 31, 2002, the Company had assets totaling \$4.3 billion, compared to \$4.7 billion at December 31, 2001 and \$4.4 billion at December 31, 2000. The Company recorded net earnings of \$55.2 million for 2002, compared to net earnings of \$50.3 million for 2001 and \$38.5 million for 2000.

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

As of February 15, 2003, the Bank operated 29 retail savings branches, all located in Southern California. 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 call center, which conducts transactions with deposit and loan 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 two loan offices. Additionally, the Bank has an income property lending group with two offices and a commercial banking division with two offices.

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 2002 Report ("Forecast"), "California and Los Angeles, like the rest of the nation, entered into a recession during 2002. The forces that are slowing the recovery here in Southern California are much the same as the forces that are slowing the national recovery." According to the Forecast, real estate housing prices are expected to increase during 2003 but at a slower pace than 2002. The growth in home values in Los Angeles County are expected to decrease from a high of 15.2% during the third quarter of 2002 to only 2.9% during the fourth quarter of 2003.

Consistent with the favorable real estate climate in the greater Los Angeles area, the Bank's non-performing assets remained unchanged at 0.17% of total assets at the end of 2002, the same as at the end of 2001, and compared favorably to 0.19% at the end of 2000.

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 loan losses as a result of these evaluations. No provision for loan losses was necessary during 2002, 2001 or 2000.

The ratio of allowances for loan losses (general valuation allowances and valuation allowances for impaired loans) to gross loans receivable was 1.96% at the end of 2002 compared to 1.83% at the end of 2001 and 1.95% at the end of

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2000. The increase in the ratio in 2002 from 2001 was due to a reduction in gross loans receivable. The decrease in the ratio in 2001 from 2000 was due to growth in gross loans receivable. 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. The Federal Reserve Board ("FRB") decreased interest rates once during 2002 and eleven times during 2001. The FRB increased interest rates three times during 2000. Through February 2003, 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 decreases more slowly). The reverse is true during periods of increasing interest rates. The Bank's loan portfolio typically shrinks in a decreasing interest rate environment due to payoffs of adjustable rate loans. Furthermore, borrowers normally prefer fixed rate loans when rates are low, which hinders the Bank's ability to originate new loans for its portfolio.

Changes in interest rates impact the Bank's loan portfolio yield 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 implement 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 2.92% in 2002 from 2.71% in 2001 because the cost of its deposits and borrowings decreased more quickly than the rates earned on its loan portfolio. The increase to 2.71% in 2001 from 2.37% in 2000 was also due to the cost of its deposits and borrowings decreasing more quickly than the rates earned on its loan portfolio. 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

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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 and industrial properties and construction of all property types, which may contain friable asbestos or lead paint hazards). The Bank also requires environmental insurance on all commercial properties (retail, office, industrial) and on multi-family properties that may be near any commercial influence. 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, consumer loans and commercial business loans.

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 representatives 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, and clients from its retail banking branches.

Loan originations and purchases were \$1.3 billion in 2002, \$1.5 billion in 2001, and \$1.1 billion in 2000. Loan origination volume decreased during 2002 due to borrower demand for fixed rate loans at very low interest rates. 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 \$89 thousand during 2002, \$132.6 million during 2001 and \$14.1 million during 2000.

Loans sold totaled \$134.2 million in 2002, \$61.2 million in 2001 and \$9.5 million in 2000. For the year ended December 31, 2002, \$103.7 million in loans were originated for sale compared to \$64.2 million for 2001 and \$10.9 million in 2000. Loans originated for sale totaled 8%, 5% and 1% of loan originations

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during 2002, 2001 and 2000, 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 2002 compared to 2001. The Bank originates 30-year and 15-year fixed rate loans only for resale to the secondary markets.

Loans held-for-sale at December 31, 2002, 2001 and 2000 were \$2.3 million, \$5.2 million and \$2.2 million, respectively, constituting 0.06%, 0.13% and 0.06%, 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, in prior years, has structured 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 have been converted into mortgage-backed securities since 1995. 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, 2002, 2001 and 2000. Positive fair value adjustments for mortgage-backed securities totaling \$1.6 million and \$1.9 million, net of tax, were recorded in stockholders' equity at December 31, 2002 and 2001, respectively. A negative fair value adjustment for mortgage-backed securities totaling \$1.9 million, net of taxes, was recorded in stockholders' equity at December 31, 2000.

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The Bank serviced \$197.3 million in loans for other investors as of December 31, 2002. \$108.6 million of these loans were sold under recourse arrangements. The Bank has an additional \$8.1 million in loans that were formed into mortgage-backed securities with recourse features, but were still owned by the Bank as of December 31, 2002. Due to regulatory requirements, the Bank maintains capital for loans sold with recourse as if those loans had not been sold. The Bank has not entered into any new recourse arrangements since 1989. 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 \$108.6 million at the end of 2002 from \$137.2 million at the end of 2001 and \$159.8 million at the end of 2000 was due to loan amortization and payoffs.

Interest Rates, Terms and Fees. The Bank originates 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 ("COFI"), the one year U.S. Treasury Security rate, the 12-month average U.S. Treasury Security rate, LIBOR, starting at the end of 2002, a Three Month Certificate of Deposit Index ("CODI"). (See "Asset-Liability Management" in "Quantitative and Qualitative Disclosures About Market Risk.") 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

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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 also originates adjustable rate loans with initial fixed interest rates for periods ranging from 3 to 10 years ("hybrid" loans). By policy, the Bank will either match the fixed rate period of these hybrid 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 \$419.7 million in 2002, \$1.0 billion in 2001 and \$75.9 million in 2000. Originations of adjustable rate loans with initial fixed interest rates declined during 2002 because the rate differential between these loans and traditional fixed rate loans was not sufficient to attract borrowers. 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 97% 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, 2002, 2001 and 2000, loans with co-insurance totaled \$106.6 million, \$140.4 million and \$212.6 million, respectively. Loans originated with an initial loan-to-value greater than 80% with no private mortgage insurance totaled \$159.7 million at December 31, 2002, \$354.5 million at December 31, 2001 and \$268.2 million at December 31, 2000.

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, 2002, 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 6%, 4% and 7% of loan originations during 2002, 2001 and 2000, respectively.

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The following table shows the contractual remaining maturities of the Bank's loans at December 31, 2002:

Loan Maturity Analysis
Maturity Period

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	Total Balance	1 Year or Less	> 1 Year to 5 Years	> 5-10 Years	> 10-20 Years
(In thousands)					
Interest rate sensitive loans:					
AMLs.....	\$ 3,700,219	\$ 87,759	\$ 770,733	\$ 612,819	\$ 1,232,555
Fixed rate loans.....	94,320	5,985	44,989	26,238	11,744
Commercial business loans....	20,304	4,739	15,565	--	--
Construction loans.....	6,927	3,470	3,457	--	--
Consumer and other loans.....	36,880	36,331	187	362	--
Total.....	\$ 3,858,650	\$ 138,284	\$ 834,931	\$ 639,419	\$ 1,244,300

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 December 31, for the end of each of the periods indicated:

	2002	% of Total	2001	% of Total	2000	% of Total	1999
(Dollars in thousands)							
Non-accrual loans:							
Single family.....	\$ 5,705	85%	\$ 6,062	93%	\$ 5,603	89%	\$ 9,626
Multi-family.....	1,017	15	422	6	662	11	3,995
Commercial.....	--	--	--	--	--	--	225
Consumer.....	--	--	16	1	--	--	--
Total non-accrual loans.....	\$ 6,722	100%	\$ 6,500	100%	\$ 6,265	100%	\$ 13,846

The allowance for delinquent interest, based on loans past due more than 90 days or in foreclosure, totaled \$372 thousand, \$504 thousand, \$511 thousand, \$720 thousand and \$1.9 million at December 31, 2002, 2001, 2000, 1999 and 1998, 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, 2002, the Bank had modified loans totaling \$3.9 million, net of loan loss allowances of \$496 thousand. This compares with modified loans totaling \$7.4 million, net of loan loss allowances of \$1.9 million as of December 31, 2001 and \$9.6 million, net of loan loss allowances of \$1.9 million as of December 31, 2000. No modified loans were 90 days or more delinquent as of December 31, 2002, 2001 or 2000.

Statement of Financial Accounting Standards No. 114, "Accounting by

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Creditors for Impairment of a Loan" ("SFAS No. 114"), requires the measurement of impaired loans. SFAS No. 114 does not apply to large groups of homogeneous loans that are collectively reviewed for impairment.

The Bank considers a loan to be impaired when management believes that the Bank will be unable to collect all amounts due under the contractual terms of the loan agreement. In accordance with SFAS 114, the Bank evaluates the collectibility of commercial business loans greater than or equal to \$500,000, single-family loans greater than or equal to \$750,000, and income property loans greater than or equal to \$1,500,000 for impairment purposes using its normal loan review procedures. When a loan is determined to be impaired, the Bank measures impairment based on either (1) the present value of expected future cash flows, discounted at the loan's effective interest rate; (2) the loan's observable market price, or (3) the fair value of the collateral. Estimated impairment losses are included in the Bank's impairment allowances.

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Valuation allowances for impaired loans totaled \$496 thousand, \$1.9 million and \$1.8 million as of December 31, 2002, 2001 and 2000, respectively. The following is a summary of impaired loans, net of valuation allowances for impairment, for the periods indicated:

	Year Ended December 31,		
	2002	2001	2000
	(In thousands)		
Non-accrual loans.....	\$ --	\$ 978	\$ --
Modified loans.....	1,567	6,416	8,770
	\$ 1,567	\$ 7,394	\$ 8,770

All impaired non-accrual loans as of December 31, 2001 were single family loans.

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. As of December 31, 2002, December 31, 2001, and December 31, 2000, impaired loans totaling \$1.6 million, \$3.9 million, and \$5.1 million, respectively, had no valuation allowances established. All impaired loans were measured using the fair value method as of December 31, 2002, December 31, 2001 and December 31, 2000, with values totaling \$1.6 million, \$7.4 million and \$8.8 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

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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 (in thousands):

Balance at December 31, 1997.....	\$	9,775
Provision for loan losses.....		640
Net charge-offs.....		(2,781)

Balance at December 31, 1998.....		7,634
Net charge-offs.....		(5,038)

Balance at December 31, 1999.....		2,596
Net charge-offs.....		(804)

Balance at December 31, 2000.....		1,792
Transfer from general valuation allowance.....		58

Balance at December 31, 2001.....		1,850
Transfer from general valuation allowance.....		(1,354)

Balance at December 31, 2002.....	\$	496
		=====

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 2002, 2001 and 2000 was \$5.0 million, \$7.4 million and \$8.8 million, respectively. The amount of interest income recognized from impaired loans during 2002, 2001 and 2000 was \$322 thousand, \$597 thousand and \$706 thousand, respectively, under the cash basis method of accounting. Interest income that was recognized under the accrual basis method of accounting for 2002, 2001 and 2000 totaled \$316 thousand, \$587 thousand and \$712 thousand, respectively.

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Internal Asset Review System

In accordance with the regulations of the OTS, the Bank maintains a system for the on-going risk grading of 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.

Assets are classified according to a nine-tiered risk grading 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 an asset, consideration is given to information on repayment prospects, including the value of and cash flow provided by collateral and secondary support provided by the borrowers and guarantors. Other factors considered in the assignment of a risk grade include other cash flow sources, the stability of income sources, the type, value, condition, and liquidity of collateral pledged, the obligor's credit history and access to alternative financing 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

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the Loan Workout Committee (a committee of Bank officers responsible for resolving problem asset situations), homogeneous assets and non-homogeneous assets.

Assets 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 delinquent high balance residential and income property loans, commercial business loans and loans 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. In accordance with SFAS No. 114, the Bank identifies and evaluates non-homogeneous assets for impairment on an individual basis 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. For further discussion of impaired loans, see "Business - Non-accrual, Past Due and Restructured Loans".

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 and are collectively, rather than individually, evaluated for risk grading purposes through the identification of risk characteristics common to specific types of assets.

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").

Loan Loss Allowance

The Bank maintains a general valuation allowance for loan losses due to the inherent risks in the loan portfolio that have yet to be specifically identified. As discussed above, the Bank's asset classification system serves as a foundation for determining the appropriate level of the general valuation allowance. 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 general valuation allowance by applying reserve factors to the balance of assets on which the Bank has loss exposure ("exposure base"). These reserve factors represent the expected likelihood of default multiplied by the expected rate of loss. The expected rate of loss is derived from the Bank's historical loss experience and adjusted for current and anticipated conditions and trends.

The Bank reviews the general valuation allowance for adequacy at least quarterly and evaluates the performance trends in the loan portfolio to establish adequate reserve factors. The Bank's Asset Classification Committee, comprised of senior Bank officers, reviews the general valuation allowance analysis and methodology on a quarterly basis. The Board of Directors reviews and approves the GVA policy annually.

The following is an analysis of the activity in the Bank's general loan

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valuation allowances for the periods indicated:

	Year Ended December		
	2002	2001	2000
	(In thousands)		
Beginning general loan valuation allowances.....	\$ 72,919	\$ 70,809	\$ 69,954
Provision for loan losses.....	--	--	--
General loan valuation allowances obtained in acquisition.....	--	2,050	--
Charge-offs, net of recoveries:			
Single family.....	(372)	(322)	(767)
Multi-family.....	189	286	1,692
Commercial.....	--	--	(105)
Non-real estate.....	1,133	154	35
Total net recoveries (charge-offs).....	950	118	855
Transfers from (to) impaired valuation allowance..	1,354	(58)	--
Ending general loan valuation allowances.....	\$ 75,223	\$ 72,919	\$ 70,809

Combining activity in the general valuation allowances and the valuation in allowances for impaired loans, the Bank recorded total net recoveries of \$950 thousand, \$118 thousand and \$51 thousand during 2002, 2001 and 2000, respectively. Total net charge-offs of \$2.7 million and \$2.9 million were recorded during 1999 and 1998, respectively, which represented 0.09% and 0.10% 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 1.89% of total loans with loss exposure at December 31, 2002, 1.70% at December 31, 2001, 1.81% at December 31, 2000, 2.15% at December 31, 1999 and 2.26% at December 31, 1998.

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

	Year Ended December 31,						
	2002	% of Total	2001	% of Total	2000	% of Total	1999
	(Dollars in thousands)						
Real estate loans:							
Single family.....	\$ 24,952	33%	\$ 30,040	41%	\$ 37,695	53%	\$ 24,985
Multi-family.....	27,037	36	23,955	33	22,529	32	38,332
Commercial.....	9,938	13	7,860	11	5,797	8	6,129
Construction.....	2,281	3	3,687	5	--	--	--
Total real estate loans.....	64,208	85	65,542	90	66,021	93	69,446
Non-real estate loans:							
Commercial.....	4,977	7	5,120	7	3,214	5	65

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Consumer.....	5,978	8	1,918	3	1,073	1	87
Other.....	60	--	339	--	501	1	356

Total non-real estate loans.....	11,015	15	7,377	10	4,788	7	508

Total.....	\$ 75,223	100%	\$ 72,919	100%	\$ 70,809	100%	\$ 69,954
=====							

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The exposure base of single-family loans declined by \$463.8 million and the proportion of higher risk loans was reduced, resulting in a \$5.1 million reduction in the general valuation allowance. The increase in the multi-family and commercial real estate loan exposure base of \$84.4 million and \$56.3 million, respectively, resulted in an increase in the general valuation allowance of \$3.1 million and \$2.1 million, respectively. The exposure base of the construction loan portfolio declined by \$41.3 million, generating a reduction of \$1.4 million to the general valuation allowance. The increase in the commercial loan exposure base of \$2.1 million, sustained by enhanced experience with managing commercial loans, resulted in a decrease of \$143 thousand in the general valuation allowance. The consumer loan exposure base increased by \$56.2 million, which resulted in an addition of \$4.1 million to the general valuation allowance. The remainder of the change in the general valuation allowance for loans was attributable to changes in miscellaneous loans.

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 \$216.0 million and \$117.9 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. The 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.

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 Bank's repurchase liability for loans sold with recourse represents the total losses that are estimated to occur over the remaining life of the portfolio of loans sold with recourse, discounted to present value. During 2002, the Bank revised its current estimate of the required repurchase liability for loans sold with recourse from \$12.8 million to \$6.9 million. This reduced liability amount reflects the fact that the total portfolio of loans sold with recourse has been experiencing significant payoffs,

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and has had better credit experience than was previously estimated. The remaining repurchase liability of \$6.9 million represents approximately 6.35% of the total portfolio of loans sold with recourse at December 31, 2002. The activity in the repurchase liability for loans sold with recourse for 2002, 2001, 2000, 1999 and 1998 is presented below (in thousands):

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
Liability adjustment recorded as gain on sale of loans.....	(5,924)
Net recoveries.....	--

Balance at December 31, 2002.....	\$ 6,900
	=====

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 non-performing loans and loans receivable.

Potential Problem Loans. The Bank also had \$2.1 million, \$6.2 million and \$6.7 million in potential problem real estate loans as of December 31, 2002, December 31, 2001 and December 31, 2000, 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.

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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 90 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 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:

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	Year Ended December 31,		
	2002	2001	2000
	(In thousands)		
Beginning balance.....	\$ 1,485	\$ 2,157	\$ 2,202
Additions.....	1,881	5,136	5,050
Sales and other.....	(3,047)	(5,808)	(5,095)
Ending balance.....	\$ 319	\$ 1,485	\$ 2,157

Other Interest-Earning Assets. The Bank owned no contractually delinquent interest-earning assets other than loans as of December 31, 2002.

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 less than 5% of total revenues.

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

	At or for the Year Ended De		
	2002	2001	2000
	(Dollars in thousand)		
U.S. treasury securities.....	\$ 200	\$ 300	\$ 300
U.S. agency securities.....	--	28,199	38,185
Collateralized mortgage obligations ("CMO's").....	101,802	80,013	98,562
	102,002	108,512	137,047
Unrealized gain (loss) on securities available- for-sale.....	1,053	1,932	(510)
	\$ 103,055	\$ 110,444	\$ 136,537
Weighted average yield on interest-earning investments end of period.....	4.77%	6.07%	5.99%

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 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 (telemarketing deposits), and 3) national brokerage firms.

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Deposits acquired through telemarketing efforts are typically placed with the Bank by professional money managers and represented 3%, 4% and 2% of total deposits at December 31, 2002, 2001 and 2000, 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 6%, 14% and 18% of total deposits at December 31, 2002, 2001 and 2000, 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 Federal Deposit Insurance Corporation ("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 \$2.3 billion at December 31, 2002, \$2.1 billion at December 31, 2001 and \$1.7 billion at December 31, 2000. Retail deposits comprised 91% of total deposits at December 31, 2002, 82% of total deposits at December 31, 2001 and 80% of total deposits at December 31, 2000. Management attributes the increase in retail deposits during 2002 to increased deposits from stock market investors wanting more security for their investments. During 2001, the Bank acquired four retail offices with deposits totaling \$174.8 million as part of the purchase of two small financial institutions. As of December 31, 2002, deposits at these acquired branches totaled \$163.7 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 57% as of December 31, 2000 and 52% as of December 31, 2001 to 36% as of December 31, 2002.

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			
	2002		2001	
	Average Balance	Average Rate	Average Balance	Average Rate
	(Dollars in thousands)			
Passbook accounts.....	\$ 106,591	1.47%	\$ 94,067	1.53%
Money market deposit accounts	909,866	2.50	613,745	3.84
Interest-bearing checking accounts.....	164,930	0.66	141,282	0.97
Non interest-bearing checking accounts.....	234,936	--	189,185	--
Fixed term certificate accounts.....	1,101,043	3.20	1,279,465	4.64
	\$ 2,517,366	2.42%	\$ 2,317,744	4.08%
	=====		=====	

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The following table shows the maturity distribution of jumbo certificates of deposit (\$100,000 and greater) as of December 31, 2002 (in thousands):

Maturing in:	
1 month or less.....	\$ 33,256
Over 1 month to 3 months.....	75,627
Over 3 months to 6 months.....	397
Over 6 months to 12 months.....	56,643
Over 12 months.....	43,579

Total.....	\$ 209,502
	=====

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.

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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:

	At December 31,			
	2002		2001	
	Amount	%	Amount	%
	(Dollars in thousands)			
Variable rate non-term accounts:				
Money market deposit accounts (weighted average rate of 2.13%, 2.76% and 4.79%).	\$ 1,079,278	43%	\$ 741,978	29%
Interest-bearing checking accounts (weighted average rate of 0.43%, 0.72% and 1.22%).....	174,802	7	162,309	7
Passbook accounts (weighted average rate of 1.34%, 1.59% and 2.00%).....	111,844	4	104,488	4
Non-interest bearing checking accounts.....	239,695	9	205,597	8
	1,605,619	63	1,214,372	48
Fixed-rate term certificate accounts:				
Under six-month term (weighted average rate of 1.54%, 2.57% and 5.26%).....	37,630	1	54,626	2
Six-month term (weighted average rate of 1.95%, 3.29% and 6.41%).....	104,600	4	246,161	10
Nine-month term (weighted average rate of 2.76%, 3.98% and 6.74%).....	101,980	4	170,190	7
One year to 18-month term (weighted average rate of 2.63%, 4.45% and 6.11%)	331,308	14	469,113	18
Two year or 30-month term (weighted average rate of 3.55%, 5.38% and 5.83%)	41,460	2	45,993	2
Over 30-month term (weighted average rate of 4.49%, 5.31% and 5.49%).....	94,927	4	39,938	1

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Negotiable certificates of \$100,000 and greater, 30 day to one year terms (weighted average rate of 2.32%, 3.84% and 6.19%).....	209,502	8	306,254	12
	-----	-----	-----	-----
	921,407	37	1,332,275	52
	-----	-----	-----	-----
Total deposits (weighted average rate of 1.98%, 3.02% and 4.90%).....	\$ 2,527,026	100%	\$ 2,546,647	100%
	=====	=====	=====	=====

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 \$1.2 billion at December 31, 2002 at a weighted average rate of 3.90%. This compares with advances of \$1.6 billion at December 31, 2001 and \$1.6 billion at December 31, 2000 with weighted average rates of 5.01% and 6.42%, respectively. The Bank has credit availability with the FHLBSF, which allows it to borrow up to 50% of its assets or approximately \$2.1 billion at December 31, 2002.

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 entering into 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 \$155.3 million at December 31, 2002 at a weighted average rate of 1.61% and were secured by mortgage-backed securities with principal balances totaling \$150.3 million. Borrowings under reverse repurchase agreements totaled \$211.0 million at December 31, 2001 and \$294.1 million at December 31, 2000 at weighted average rates of 2.66% and 6.65%, respectively. The decrease in borrowings under agreements to repurchase over the last three years is due to paydowns of the underlying mortgage-backed securities.

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Borrowings from all sources totaled \$1.3 billion, \$1.8 billion and \$1.9 billion at weighted average rates of 3.63%, 4.74% and 6.46% at December 31, 2002, 2001, and 2000, 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 2002 or 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 and securities sold under agreements to repurchase. The following schedule summarizes short term borrowings for the last three years at December 31:

	End of Period			Maximum Month-End Outstanding Balance During the Period	
	Outstanding	Rate		(Dollars in thousands)	
2002					
Short-term FHLB advances.....	\$ 427,000	2.25%	\$	885,000	\$
Securities sold under agreements to repurchase.....	155,273	1.61		208,367	
2001					
Short-term FHLB Advances.....	\$ 985,000	4.86%	\$	987,000	\$
Securities sold under agreements to repurchase.....	211,040	2.66		294,110	
2000					
Short-term FHLB Advances.....	\$ 957,000	6.58%	\$	1,250,000	\$
Securities sold under agreements to repurchase.....	294,110	6.65		355,995	

Other Sources of Funds

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.

Revenues and operating results of these subsidiaries accounted for less than 1% of consolidated revenues in 2002 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. No gains or losses on real estate

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development activities were recorded during 2001 or 2000. A gain of \$142 thousand was recognized during 2002 on the sale of assets from a 100% owned real estate partnership. 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. There was no income from the sale of investment properties during 2002.

Seaside continues to hold one condominium unit, which is rented to the Bank for use by its employees. At December 31, 2002, Seaside's investment in the remaining unit totaled \$28 thousand. There were no loans outstanding against the property at December 31, 2002. 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 \$56 thousand, \$86 thousand and \$65 thousand in 2002, 2001 and 2000, respectively.

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. Invest 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 2002, 2001 and 2000, Oceanside received commission income of \$456 thousand, \$231 thousand and \$290 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. Commission rebates totaling \$64 thousand were paid during 2002. The decrease in premiums during 2002 and 2001 resulted from rebates of previously earned commissions when interim lender-placed policies were replaced by permanent policies obtained by borrowers.

Employees

As of December 31, 2002, the Bank had a total of 497 full time equivalent employees, including 119 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 Savings Association Insurance Fund ("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.

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

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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 \$78.7 million in FHLBSF stock at December 31, 2002.

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, 2002, the Bank's advances from the FHLBSF amounted to \$1.2 billion, or 30% of the Company's total funding sources (deposits and borrowings).

The FHLBs 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, 2002, dividends paid by the FHLBSF to the Bank totaled approximately \$4.8 million.

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Financial Services Modernization Legislation. On November 12, 1999, the Gramm-Leach-Bliley Act of 1999 (the "Act") was signed into law. The Act made significant changes to the operations of financial services companies. It repealed key provisions of the "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 have continued authority over certain activities of FHCs and other regulated financial institutions. However, the Federal Reserve Board is the principal regulator for FHCs. These changes do not directly affect the Company, although they may 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. Compliance with the rules was mandatory starting on July 1, 2001.

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These rules affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors. Because the Company does not sell customer information or give 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 narrow joint marketing arrangements), the rules have not had 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.

The Act also significantly amends the Federal Home Loan Bank System, by modifying membership requirements in regional 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 of 1933, 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 or the holding company that create a serious risk that the liabilities of the holding company 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.

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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.

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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 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 assigned to 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 writing by the FDIC. The FDIC may also suspend deposit insurance temporarily during the hearing process if the institution has no tangible capital. 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 \$708 thousand in 2002, \$653 thousand in 2001 and \$568 thousand in 2000.

Liquidity. In July 2001, the OTS revised its liquidity regulations to require 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 unused 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, 2002, liquidity-qualifying balances were 27.1% 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

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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. 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.

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Restrictions on Dividends and Other Capital Distributions. Current OTS regulations require that savings institutions 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 an statute, regulation or agreement between the savings institution and the OTS (or FDIC) or a condition imposed by an OTS approval. The regulations also require a 30-day advance notice to be filed for proposed capital distributions that would result in the savings institution being less than well-capitalized or that involve the reduction or retirement of the savings institution's stock. During 2002, the Bank paid a total of \$20.0 million in capital distributions to the Company. No capital distributions were made to the Company during 2001.

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, 2002.

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

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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 and internal audit systems, information 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 2003.

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 2002 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, 2002, with 92% of its portfolio assets comprised of "qualified thrift investments."

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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.

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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, 2002 was 0% of the first \$5.5 million of such accounts, 3% of the next \$35.6 million of such accounts and 10% (subject to adjustment by the Federal Reserve Board between 8% and 14%) of the balance of such accounts. The Bank is in compliance with these requirements as of December 31, 2002.

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 bad debts for federal income tax purposes 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, 2002 and 2001 do not include a tax liability of \$5,356,000 related to the adjusted base year bad debt reserve. The bad debt 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 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, 2002, the Bank's earnings and profits (as computed for federal income tax purposes) were approximately \$392.6 million.

Prior to December 31, 2002, the Bank made additions to its state tax bad debt reserves in amounts necessary to "fill up" to its tax reserve balance calculated using the experience method. On September 11, 2002, the Governor of the State of California approved legislation conforming state tax to federal tax law with regard to the method of accounting for bad debts used by banks. This legislation, which was effective immediately, also provided that one-half of a bank's reserve for bad debts as of December 31, 2002 would never be subject to state taxes. Any tax benefit resulting from this legislation will be recorded upon agreement by the Bank and the Franchise Tax Board (the "FTB") on the Bank's reserve balance.

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At December 31, 2002, the Bank had \$47.0 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 \$33.5 million at December 31, 2002.

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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 utilizing a methodology that 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 2002, 2001 or 2000.

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 2002, 2001 and 2000 was 10.84%.

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 the FTB. Interest accruals of \$876,000 and \$300,000 were recorded during 2002 and 2001, respectively for interest on amended returns. Interest accruals totaling \$350,000 were reversed during 2000. The balance of accrued interest payable for amended returns was \$700,000 and \$300,000 as of December 31, 2002 and December 31, 2001, respectively. There was no balance of accrued interest payable for amended returns as of December 31, 2000.

Recent and Proposed Legislation and Regulation. In January 2001, the four federal banking agencies jointly issued expanded examination and supervision guidance relating to subprime lending activities. In the guidance, "subprime" lending generally refers to programs that target borrowers with weakened credit histories or lower repayment capacity. The guidance principally applies to institutions with subprime lending programs with an aggregate credit exposure equal to or greater than 25 percent of an institution's Tier 1 capital. Such institutions would be subject to more stringent risk management standards and, in many cases, additional capital requirements. Based on current lending programs, management of the Bank does not expect there to be any material impact on the conduct of its business as a result of the guidance.

In December 2001, the Federal Reserve Board published final regulations implementing the Home Ownership and Equity Protection Act ("HOEPA"). Compliance with the regulations was mandatory as of October 1, 2002. HOEPA imposes additional disclosure requirements and limitations on certain mortgage loans with rates or fees above specified levels. The regulations lower the rate levels that trigger the application of HOEPA and include additional fees in the calculation of the fee amount that triggers HOEPA. Currently, the loans the Bank makes are below the rate and fee levels that trigger HOEPA.

Effective July 1, 2002, the OTS issued a number of changes to its capital regulations. Under these new rules, a one-to-four family residential first mortgage loan may qualify for a 50 percent risk weight if it meets certain criteria, including a loan-to-value ("LTV") ratio below 90 percent. Currently these loans must have an LTV ratio of 80 percent or less to qualify for the 50

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percent risk weighting. The OTS has also eliminated the requirement that a thrift institution must deduct from total capital that portion of a land loan or a nonresidential construction loan in excess of an 80 percent LTV ratio and has eliminated the interest rate risk component of the risk-based capital regulations. These changes, while positive, do not have a material effect on the Bank's operations.

On November 29, 2001 the banking agencies issued a final rule that changed regulatory capital standards to address the treatment of recourse obligations, residual interests and direct credit substitutes that expose banking organizations to credit risk. The final rule treats recourse obligations and direct credit substitutes more consistently than the agencies' prior risk-based capital standards and adds new standards for the treatment of residual interests, including a concentration limit for credit-enhancing interest-only "carve-out" investment instruments. In addition, the agencies allow the use of credit ratings and certain alternative approaches to match the risk-based capital requirement more closely to a banking organization's relative risk of loss for certain positions in asset securitizations. The final rule was effective on January 1, 2002. There has been no significant impact on the Bank as a result of this rule.

On October 26, 2001, President Bush signed into law the USA PATRIOT Act ("Patriot Act"). The Patriot Act includes numerous provisions designed to fight international money laundering and to block terrorist access to the U.S. financial system. Implementation of regulations to implement the Act have been postponed by the Department of the Treasury, which has required additional time to study certain industries for implementation of anti-money laundering regulations. However, it is not anticipated that adoption of the regulations as presently proposed will have a significant adverse impact on the Bank's operations.

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On July 30, 2002, President Bush signed into law the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley"), which implemented legislative reforms intended to address corporate and accounting fraud. Sarbanes-Oxley contains reforms of various business practices and numerous aspects of corporate governance. Although a number of these requirements have been implemented, a large number of proposed and final rules are expected to be issued in 2003 and beyond. The following is a summary of certain key provisions of Sarbanes-Oxley.

In addition to the establishment of a new accounting oversight board that will enforce auditing, quality control and independence standards and will be funded by fees from all publicly traded companies, Sarbanes-Oxley places restrictions on the scope of services that may be provided by accounting firms to their public company audit clients. Any non-audit services being provided to a public company audit client will require pre-approval by the company's audit committee. In addition, Sarbanes-Oxley makes certain changes to the requirements for partner rotation after a period of time. Sarbanes-Oxley requires chief executive officers and chief financial officers, or their equivalent, to certify to the accuracy of periodic reports filed with the SEC, subject to civil and criminal penalties if they knowingly or willingly violate this certification requirement. In addition, counsel will be required to report evidence of a material violation of the securities laws or a breach of fiduciary duty to its chief executive officer or its chief legal officer, and, if such officer does not appropriately respond, to report such evidence to the audit committee or other similar committee of the board of directors or the board itself.

Under this new law, longer prison terms will apply to corporate executives who violate federal securities laws; the period during which certain types of suits can be brought against a company or its officers is extended; and bonuses issued to top executives prior to restatement of a company's financial

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statements are now subject to disgorgement if such restatement was due to corporate misconduct. Executives are also prohibited from insider trading during retirement plan "blackout" periods, and loans to company executives (other than loans by financial institutions permitted by federal rules or regulations) are restricted. In addition, the legislation accelerates the time frame for disclosures by public companies, as they must immediately disclose any material changes in their financial condition or operations. Directors and executive officers reporting most changes in ownership in a company's securities must now report within two business days of the change.

Sarbanes-Oxley also increases responsibilities and codifies certain requirements relating to audit committees of public companies and how they interact with the company's "registered public accounting firm." Audit committee members must be independent and are barred from accepting consulting, advisory or other compensatory fees from the issuer. In addition, companies will be required to disclose whether at least one member of the committee is a "financial expert" (as such term will be defined by the SEC) and if not, why not. A company's registered public accounting firm will be prohibited from performing statutorily mandated audit services for a company if the company's chief executive officer, chief financial officer, controller, chief accounting officer or any person serving in equivalent positions had been employed by such firm and participated in the audit of such company during the one-year period preceding the audit initiation date. Sarbanes-Oxley also prohibits any officer or director of a company or any other person acting under their direction from taking any action to fraudulently influence, coerce, manipulate or mislead any independent public or certified accountant engaged in the audit of the company's financial statements for the purpose of rendering the financials statements materially misleading.

Sarbanes-Oxley also requires the SEC to prescribe rules requiring inclusion of any internal control report and assessment by management in the annual report to stockholders. The law requires the company's registered public accounting firm that issues the audit report to attest to and report on management's assessment of the company's internal controls.

Although the Company anticipates that it will incur additional expense in complying with the provisions of Sarbanes-Oxley and the resulting regulations, management does not expect that such compliance will have a material impact on the Company's financial condition or results of operations.

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ITEM 2 -- PROPERTIES

At December 31, 2002, the Bank owned the building and the land for eight of its branch offices, owned the building but leased the land for two 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.

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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 7, 2003, 16,910,212 shares of Company common stock, representing approximately 792 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 capital distribution to the Company. No such distribution may be made if the Bank's net worth falls below regulatory requirements. (See "Business - Summary of Material Legislation and Regulations" for other regulatory capital distributions.) The Board of Directors of the Bank declared and paid to the Company \$20.0 million during 2002 and \$10.0 million during 2000. No capital distributions to the Company were made during 2001. The distributions made during 2002 were for the purpose of repurchasing 353,000 shares of Company common stock. The distributions made during 2000 were for the purpose of repurchasing 821,500 shares of Company common stock.

(d) Securities authorized for issuance under equity compensation plans. Information appearing on page 12 of the Proxy Statement is incorporated herein by reference.

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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

	2002	2001		2000
	-----	-----		-----
	(Dollars in thousands, except per			
For the Year Ended December 31:				
Interest income.....	\$ 263,878	\$ 333,932	\$	\$ 314,320
Interest expense.....	128,419	201,754		206,505
Net interest income.....	135,459	132,178		107,815
Provision for loan losses.....	--	--		--
Other income.....	18,074	8,919		7,747
Non-interest expense.....	58,212	53,174		48,265
Earnings before income taxes.....	95,321	87,923		67,297
Income taxes.....	40,149	37,621		28,832
Earnings before extraordinary items.....	55,172	50,302		38,465
Extraordinary item loss on early extinguishment of debt, net of taxes.....	--	--		--
Net earnings.....	55,172	50,302		38,465
Basic earnings per share:				
EPS before extraordinary item.....	3.22	2.92		2.23

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Extraordinary item.....	--	--	--
EPS after extraordinary item.....	3.22	2.92	2.23
Dilutive earnings per share:			
EPS before extraordinary item.....	3.15	2.85	2.20
Extraordinary item.....	--	--	--
EPS after extraordinary item.....	3.15	2.85	2.20
End of Year:			
Loans receivable, net (1).....	3,769,235	4,004,889	3,629,284
Mortgage-backed securities.....	200,585	284,079	374,405
Investment securities.....	103,055	110,444	136,537
Total assets.....	4,253,729	4,726,289	4,365,242
Deposits.....	2,527,026	2,546,647	2,165,047
Borrowings.....	1,322,273	1,808,040	1,873,110
Liabilities.....	3,882,088	4,400,611	4,097,800
Stockholders' equity.....	371,641	325,678	267,442
Book value per share(2).....	21.95	18.88	15.52
Tangible book value per share.....	21.40	18.14	14.98
Selected Ratios:			
Return on average assets.....	1.24%	1.10%	0.93%
Return on average equity.....	15.82%	16.93%	15.85%
Ratio of non-performing assets to total assets.....	0.17%	0.17%	0.19%
Other Data:			
Number of Bank full service branches.....	29	29	25

(1) Includes loans held for sale.

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

Also see summarized results of operations on a quarterly basis for 2002, 2001 and 2000 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 and the direction and level of general market interest rates.

Net earnings of \$55.2 million or \$3.15 per diluted share were recorded in 2002, compared to net earnings of \$50.3 million or \$2.85 per diluted share in 2001 and net earnings of \$38.5 million or \$2.20 per diluted share in 2000.

The increase in net earnings from 2001 to 2002 was primarily due to an increase in net interest income as a result of improved interest rate spreads and income before tax of \$5.9 million resulting from a revised estimate of the Bank's repurchase liability for loans sold with recourse. 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 rate spreads.

No loan loss provision was recorded in 2002, 2001 or 2000. The Southern California real estate market has improved over the last few years. As a result, the Bank recorded net loan loss recoveries of \$950 thousand in 2002, \$118 thousand in 2001 and \$51 thousand in 2000.

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Certain key financial ratios for the Company are presented below:

	Year Ended December 31,		
	Return on Average Assets	Return on Average Equity	Average Equity to Average Assets
2002.....	1.24%	15.82%	7.83%
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

Non-performing assets (primarily loans 90 days past due or in foreclosure plus foreclosed real estate) decreased to \$7.0 million or 0.17% of total assets as of December 31, 2002 from \$7.9 million or 0.17% of total assets as of December 31, 2001 and \$8.3 million or 0.19% of total assets at December 31, 2000. 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 353,000 and 821,500 during 2002 and 2000, respectively. No shares were purchased during 2001. As of February 7, 2003, 1,348,677 shares remain eligible for repurchase under the Company's authorized repurchase program.

At December 31, 2002 the Bank's regulatory risk-based capital ratio was 14.53% and it's tangible and core capital ratios were 8.05%. The Bank met the regulatory capital standards necessary to be deemed "well-capitalized" at December 31, 2002.

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 \$438 thousand during 2002, \$418 thousand during 2001 and \$538 thousand during 2000. The increase in premiums from 2001 to 2002 was the result of growth in deposits. The decrease in premiums from 2001 to 2000 was the result of a drop in the deposit insurance assessment rate.

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

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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 2002. A downward turn in the current economic climate or real estate market 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. 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.

See "Asset-Liability Management" in "Quantitative and Qualitative Disclosures About Market Risk" 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 increasing the Bank's capital.

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 the financial condition and results of operations are based upon the 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 requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the date of the financial statements. Actual results may differ from these estimates under different assumptions or conditions.

Accounting for the allowances for loan losses involves significant judgments and assumptions by management which have a material impact on the carrying value of net loans receivable. Management considers the accounting for loan valuation allowances to be a critical accounting policy. The judgments 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.

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 \$229.2 million in 2002, \$179.2 million in 2001 and \$148.2 million in 2000. The increase over the last three years was due to accumulated earnings.

The Company's net interest income is impacted by a 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" in "Quantitative and Qualitative Disclosures About Market Risk" 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:

	At or for the Year Ended	
	2002	2001
	(Dollars in thousands)	
Average loans and mortgage-backed securities (1).....	\$ 4,091,852	\$ 4,181,554
Average investment securities.....	172,996	200,807
Average interest-earning assets.....	4,264,848	4,382,361
Average deposits.....	2,517,366	2,317,744
Average borrowings.....	1,518,283	1,885,426
Average interest-bearing liabilities.....	4,035,649	4,203,170
Excess of interest-earning assets over interest-bearing liabilities. \$	229,199	179,191
Yields earned on average interest-earning assets.....	6.08%	7.5
Rates paid on average interest-bearing liabilities.....	3.16	4.7
Interest rate spread.....	2.92	2.7
Effective net spread.....	3.09	2.9
Total interest income.....	\$ 259,303	\$ 328,67
Total interest expense.....	127,526	201,42
Total other income (2).....	131,777	127,25
Net interest income.....	\$ 135,459	\$ 132,178

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- (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 21 basis points in 2002 compared to 2001 because the yield on earning assets declined by only 142 basis points while the cost of funds fell by 163 basis points due to the low interest rate environment throughout the year. 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 COFI-based adjustable rate loan portfolio. 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 rate cuts by the Federal Reserve Bank.

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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, 2002			Year Ended	
	Versus			December	
	December 31, 2001			31, 2001	
	Change Due To			Change	
	Volume	Rate	Total	Volume	Rate
(In thousands)					
Interest Income:					
Loans and mortgage-backed securities.....\$	(6,685)	\$ (58,564)	\$ (65,249)	\$ 29,831	\$
Investments.....	(1,309)	(2,818)	(4,127)	1,379	
Total interest income.....	(7,994)	(61,382)	(69,376)	31,210	(
Interest Expense:					
Deposits.....	7,562	(41,232)	(33,670)	8,229	(
Borrowings.....	(18,628)	(21,596)	(40,224)	11,690	(
Total interest expense.....	(11,066)	(62,828)	(73,894)	19,919	(
Change in net interest income.....	3,072	1,446	4,518	11,291	
Change in other items (1).....			(1,237)		
Total change in net interest income including other items.....			\$ 3,281		

(1) Includes dividends on FHLB stock and other miscellaneous items.

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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-						
	Year Ended December 31,						
	2002		2001		2000		
	During Period	End of Period	During Period	End of Period	During Period	End of Period	During Period
Weighted average yield on loans and mortgage-backed securities.....	6.18%	5.98%	7.61%	6.57%	7.85%	8.15%	7.37%
Weighted average yield on investment portfolio (1).....	3.65	4.41	5.16	3.52	6.11	5.63	5.41
Weighted average yield on all interest-earning assets.....	6.08	5.94	7.50	6.40	7.77	8.04	7.26
Weighted average rate paid on deposits...	2.42	1.98	4.08	3.02	4.70	4.90	4.22
Weighted average rate paid on borrowings and FHLB advances..	4.39	3.63	5.67	4.74	6.29	6.46	5.59
Weighted average rate paid on all interest-bearing liabilities.....	3.16	2.54	4.79	3.73	5.40	5.62	4.76
Interest rate spread (2).....	2.92	3.40	2.71	2.67	2.37	2.42	2.50
Effective net spread (3).....	3.09		2.90		2.57		2.69

- (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

Loss Provision

The Company did not record a loan loss provision during 2002, 2001 or 2000. No provision was recorded during the last three years because, based on analysis performed by management, existing allowances were sufficient to cover the credit risks inherent in the loan portfolio. Non-performing assets decreased to \$7.0 million in 2002 from \$7.9 million in 2001 and \$8.3 million in 2000 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

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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 \$950 thousand during 2002, \$118 thousand during 2001 and \$51 thousand during 2000. The recoveries resulted from cash payments by borrowers on loans that had been previously charged-off.

Non-interest Income

Loan servicing and other fees were \$4.3 million in 2002 compared to \$3.3 million in 2001 and \$2.8 million in 2000. Fees earned during 2002, 2001 and 2000 include adjustments of \$311 thousand, \$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. The increase in fees during 2002 is due to an increase in loan prepayments fees.

Retail fees were \$4.6 million in 2002 compared to \$3.8 million in 2001 and \$3.1 million in 2000. The increase in retail fees is due to an increase in fee generating deposit accounts.

Gain on sale of loans was \$7.8 million in 2002, \$656 thousand in 2001 and \$64 thousand in 2000. Included in gain on sale of loans for 2002 is a \$5.9 million adjustment to the Bank's repurchase liability for loans sold with recourse. The Company's repurchase liability for loans sold with recourse represents the total losses that are estimated to occur over the remaining life of the portfolio of loans sold with recourse, discounted to present value. During 2002, the Bank revised its current estimate of the required repurchase liability for loans sold with recourse from \$12.8 million to \$6.9 million. This reduced liability amount reflects the fact that the total portfolio of loans sold with recourse has been experiencing significant pay-offs, and has had better credit experience than was previously estimated. 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 \$339 thousand in 2002, \$304 thousand in 2001 and \$594 thousand in 2000. 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 1.31% for 2002 and 1.17% for both 2001 and 2000. The higher ratio during 2002 is the result of increased compensation and legal costs and a decrease in average total assets.

Salary and benefit costs increased 10% in 2002 compared to 2001 primarily due to higher incentives and the additional personnel hired in the commercial banking group. Salary and benefit costs increased 12% in 2001 compared to 2000 primarily due to higher incentives, bonuses and profit sharing costs.

Occupancy expense increased 3% in both 2002 and 2001 due to additional occupancy costs associated with the four retail savings branches acquired in November 2001 and an increase in repair and maintenance costs.

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Other operating expenses increased 17% in 2002 compared to 2001 due to increased amortization of core deposit intangible costs, data processing expenses and legal expenses. Other operating expenses increased 10% in 2001 compared to 2000 due to deconversion costs associated with the institutions acquired during 2001 and legal expenses.

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

	Non-Interest Expense Year Ended December 31,			
	2002	2001	2000	1999
	(Dollars in thousands)			
Salaries and Employee Benefits:				
Salaries.....\$	20,984	\$ 18,119	\$ 17,354	\$ 16,811
Incentive compensation.....	3,122	2,472	1,987	1,987
Payroll taxes.....	1,827	1,652	1,486	1,486
Employee benefit insurance.....	1,386	1,203	1,320	1,320
Bonus compensation.....	1,500	1,500	920	920
Profit sharing.....	2,024	2,020	1,778	1,778
SERP.....	1,161	970	906	906
401(k).....	310	356	354	354
Other salaries and benefits.....	313	1,390	339	339
	32,627	29,682	26,444	26,444
Occupancy:				
Rent.....	4,673	4,439	4,539	4,539
Equipment.....	1,836	1,971	2,318	2,318
Maintenance costs.....	879	914	571	571
Other occupancy.....	1,169	978	603	603
	8,557	8,302	8,031	8,031
Other Operating Expense:				
Insurance.....	690	582	541	541
Amortization of core deposit intangible...	1,962	1,564	1,965	1,965
Data processing.....	2,838	2,490	2,488	2,488
Contributions.....	363	450	518	518
Professional services.....	195	207	301	301
Legal expenses.....	2,888	1,393	632	632
OTS assessments.....	708	653	568	568
Federal deposit insurance premiums.....	438	418	538	538
Other operating costs.....	5,568	5,633	4,822	4,822
	15,650	13,390	12,373	12,373
Advertising.....	1,378	1,800	1,417	1,417
Total.....\$	58,212	\$ 53,174	\$ 48,265	\$ 48,265
Non-interest expense as % of average assets.....	1.31%	1.17%	1.17%	1.17%

BALANCE SHEET ANALYSIS

Consolidated assets at the end of 2002 were \$4.3 billion, representing an 10% decrease from \$4.7 billion at the end of 2001 and a 3% decrease from \$4.4 billion at the end of 2000. The reduction in assets during 2002 is attributable to of principal repayments on loans exceeding loans originated. Loan originations totaled \$1.3 billion in 2002, \$1.5 billion in 2001 and \$1.1 billion in 2000. Loan purchases totaled \$89,000 during 2002, \$132.6 million during 2001 and \$139.5 million during 2000. Principal repayments on loans totaled \$1.5 billion during 2002, \$1.3 billion during 2001 and \$560.5 million during 2000.

Loan Portfolio

At the end of 2002, over 58% 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 hybrid 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 \$372.6 million in 2002, \$1.0 billion in 2001 and \$75.9 million in 2000.

In 2002, 2001 and 2000, the Bank placed \$1.4 million, \$5.0 million and \$3.9 million, respectively, in mortgages with other lenders under fee arrangements. These loans are not included in the Bank's loan originations. In 2002, loans made on the security of single family properties (one-to-four units) comprised 57% of the dollar amount of new loan originations. Loans made on the security of multi-family properties (five or more units) comprised 34% of new originations. Loans made on the security of commercial real estate properties comprised 7% of new loan originations. Business loans originated by the commercial lending units totaled 2% of new loan originations. Adjustable rate mortgages comprised 59% of new loan activity during 2002 compared with 18% during 2001 and 90% during 2000.

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

	Loan Originations and Purchased by Type Year Ended December 31,			
	2002	2001	2000	1999
	(In thousands)			
Single family (one-to-four units).....\$	728,309	\$ 912,974	\$ 658,808	\$ 779,698
Multi-family.....	441,407	407,458	333,466	118,622
Commercial real estate.....	84,050	150,735	70,807	37,744
Commercial business loans.....	17,572	16,172	11,759	7,768
Other.....	17,434	14,996	6,170	301

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Total.....\$ 1,288,772 \$ 1,502,335 \$ 1,081,010 \$ 944,133
=====

Loans originated upon the sale of real estate owned totaled \$375 thousand during 2002. No loans were originated upon the sale of real estate owned during 2001 or 2000.

The Bank's loan products may 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.

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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 with an initial loan-to-value greater than 80% with no private mortgage insurance totaled \$159.7 million at December 31, 2002 compared to \$354.5 million at December 31, 2001 and \$268.2 million at December 31, 2000. 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. The loan portfolio also includes loans secured by multi-family and commercial and industrial properties. At December 31, 2002, 45% of the loan portfolio consisted of first liens on single family properties while first liens on multi-family properties were 43% of the portfolio, and first liens on commercial properties represented 11% of the portfolio. Commercial business loans, construction loans and consumer loans comprised the remaining 1% of the loan portfolio at December 31, 2002.

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:

	Year Ended December 31,			
	2002	2001	2000	1999
	(In thousands)			
REAL ESTATE LOANS First trust deed residential loans:				
One-to-four units.....\$	1,723,690	\$ 2,121,899	\$ 2,158,940	\$ 1,813,000
Five or more units.....	1,646,430	1,525,749	1,308,440	1,123,000
Residential loans.....	3,370,120	3,647,648	3,467,380	2,937,000
OTHER REAL ESTATE LOANS				
Commercial and industrial.....	419,273	358,159	217,619	183,000
Construction.....	6,927	38,060	--	--
Land.....	203	1,481	--	--
Second trust deeds.....	5,965	9,472	8,543	13,000
Real estate loans.....	3,802,488	4,054,820	3,693,542	3,133,000

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NON-REAL ESTATE LOANS:				
Manufactured housing.....	--	--	391	
Deposit accounts.....	1,185	1,267	576	
Commercial business loans.....	19,582	18,882	12,600	8
Consumer loans.....	35,395	19,546	6,555	
	-----	-----	-----	-----
Loans receivable.....	3,858,650	4,094,515	3,713,664	3,143
LESS:				
General valuation allowance.....	75,223	72,919	70,809	69
Impaired loan valuation allowance.....	496	1,850	1,792	2
Unearned loan fees.....	13,696	14,857	11,779	10
	-----	-----	-----	-----
Net loans receivable (1).....	3,769,235	4,004,889	3,629,284	3,060
FHLMC AND FNMA MORTGAGE-BACKED SECURITIES (at fair value):				
Secured by single family dwellings.....	192,395	272,419	360,210	412
Secured by multi-family dwellings.....	8,190	11,660	14,195	16
	-----	-----	-----	-----
Mortgage-backed securities.....	200,585	284,079	374,405	428
	-----	-----	-----	-----
TOTAL	\$ 3,969,820	\$ 4,288,968	\$ 4,003,689	\$ 3,489
	=====	=====	=====	=====

(1) Includes loans held-for-sale.

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Loans Sold with Recourse

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 \$108.6 million as of December 31, 2002, \$137.2 million as of December 31, 2001 and \$159.8 million as of December 31, 2000. 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.

ASSET QUALITY

Asset Quality Ratios

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

	Year Ended December 31,		
	2002	2001	2000
	-----	-----	-----
Non-performing loans to loans gross receivable			
(1).....	0.17%	0.16%	0.17%
Non-performing assets to total assets (2).....	0.17%	0.17%	0.19%
Loan loss allowances to non-performing loans (3)	1,126%	1,151%	1,160%
General loss allowances to gross loans			
receivable (4).....	1.96%	1.83%	1.95%

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- (1) Non-performing loans are net of valuation allowances related to those loans. Loans receivable 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 any valuation allowances for non-performing loans, impaired loans and the general valuation allowance. Non-performing loans are before deducting valuation allowances related to those loans.
- (4) The Bank's general valuation allowances plus the allowance for impaired loans as a percentage of loans receivable before deducting unrealized loan fees, general valuation allowances and valuation allowances for impaired loans.

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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,					
	2002		2001		2000	
	\$	%	\$	%	\$	%
	(Dollars in thousands)					
Real estate owned:						
Single family.....	\$ 519	7.37%	\$ 1,671	21.08%	\$ 2,507	30.21%
Multi-family.....	--	--	164	2.06	--	--
Less: general valuation allowance..	(200)	(2.84)	(350)	(4.41)	(350)	(4.22)
Total real estate owned	319	4.53	1,485	18.73	2,157	25.99
Non-performing loans:						
Single family.....	5,705	81.03	6,062	76.46	5,603	67.51
Multi-family.....	1,017	14.44	422	5.32	662	7.98
Commercial and industrial.....	--	--	--	--	--	--
Other.....	--	--	16	.21	--	--
Less: valuation allowance.....	--	--	(57)	(.72)	(123)	(1.48)
Total non-performing loans.....	6,722	95.47	6,443	81.27	6,142	74.01
Total.....	\$ 7,041	100.00	\$ 7,928	100.00	\$ 8,299	100.00
Ratio of non-performing assets to total						

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assets.....	0.17%	0.17%	0.19%
	=====	=====	=====

The decrease in non-performing loans over 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 declining personal income. Multi-family and commercial non-performing loans are attributable primarily to factors such as declines in occupancy rates, increased operating costs and decreased real estate values. The Bank actively monitors the status of all non-performing loans.

Impaired loans totaled \$1.6 million, \$7.4 million and \$8.8 million, net of related allowances of \$496 thousand, \$1.9 million and \$1.8 million as of December 31, 2002, 2001 and 2000, 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, 2002, the Bank had modified loans totaling \$3.9 million, net of loan loss allowances of \$496 thousand. This compares with \$7.4 million and \$9.6 million, net of allowances, as of December 31, 2001 and December 31, 2000 respectively. Modified loans included as impaired loans totaled \$1.6 million, \$6.4 million and \$8.8 million, net of valuation allowances, as of December 31, 2002, 2001 and 2000, respectively. No modified loans were 90 days or more delinquent as of December 31, 2002, 2001 or 2000.

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 unused 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, 2002, liquidity-qualifying balances were 27.1% of the Bank's liquidity base.

External Sources of Funds

External sources of funds include savings deposits, loan sales, advances from the FHLB and reverse repurchase agreements ("reverse repos"). For purposes of funding asset growth, the source or sources of funds with the lowest total

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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 FHLB.

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 \$161.3 million at December 31, 2002. This compares to \$356.8 million at December 31, 2001 and \$381.2 million at December 31, 2000. Utilization of brokered deposits decreased during 2002 due to high levels of loan payoffs and growth in retail branch deposits.

Deposits at retail savings offices were \$2.3 billion at December 31, 2002, \$2.1 billion as of December 31, 2001 and \$1.7 billion at December 2000. Management attributes the increase in retail deposits over the last two years to increased deposits from stock market investors wanting more security for their investments due to variability in the stock market. During 2001, the Bank acquired four retail offices with deposits totaling \$174.8 million as part of the purchase of two small banks. As of December 31, 2002, deposits at these acquired branches totaled \$163.7 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 decreased by 36% to \$64.6 million at the end of 2002. This compares with \$100.7 million at the end of 2001 and \$49.1 million at the end of 2000. 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. During 2002, the balance of telemarketing deposits decreased as a result of cash flows from loan payoffs and growth in retail deposits.

Reverse repurchase agreements are short term borrowings secured by mortgage-backed securities. These borrowings decreased to \$155.3 million at the end of 2002 from \$211.0 million at the end of 2001 and \$294.1 million at the end of 2000. Borrowings under reverse repurchase agreements have decreased over the last three years due to prepayments of the underlying mortgage collateral. The Bank has not securitized any mortgage loans for use in collateralized borrowings for several years.

FHLB advances were \$1.2 billion at the end of 2002 compared to \$1.6 billion at the end of both 2001 and 2000. Due to high levels of loan payoffs and the growth in retail branch deposits, borrowings from the FHLB decreased during 2002.

Loan sales were \$134.2 million in 2002. This compares to \$61.2 million during 2001 and \$9.5 million during 2000. Loan sales increased during 2002 and 2001 due to the increased demand by clients for 30-year and 15-year fixed rate mortgages which are originated by the Bank only 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 \$1.5 billion in 2002 compared to \$1.3 billion in 2001 and \$560.5 million in 2000. 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 2002 compared to 2001 was due to the low level of interest rates available on 30-year and 15-year fixed rate loans available to customers.

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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 utilize brokered deposits at their discretion. Additionally, if they achieve a sufficient ranking on their regulatory examination, they may be assessed lower deposit insurance premiums.

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, 2002	
	Amount	%
	-----	-----
	(Dollars in thousands)	
Core capital requirement.....	\$212,143	5.00%
Bank's core capital.....	341,680	8.05
	-----	-----
Excess core capital.....	\$129,537	3.05%
	=====	=====
Tier 1 risk-based capital requirement.....	\$154,607	6.00%
Bank's tier 1 risk-based capital.....	341,680	13.26
	-----	-----
Excess tier 1 risk-based capital.....	\$187,073	7.26%
	=====	=====
Risk-based capital requirement.....	\$257,678	10.00%
Bank's risk-based capital.....	374,421	14.53
	-----	-----
Excess risk-based capital.....	\$116,743	4.53%
	=====	=====

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ITEM 7A -- QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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.

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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 FHLB Eleventh District Cost of Funds. These mortgages constitute over 58% of the loan portfolio at the end of 2002. 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 for any specified repricing term. Generally, a positive GAP benefits a company during periods of increasing interest rates. The reverse is true during periods of decreasing interest rates. The indices used by the Bank lag changes in interest rates by up to three months (COFI has a three month lag while all other indices have two). However, the Bank's short-term savings and borrowing costs adjust immediately causing net interest income to initially decrease during periods of rising interest rates and increase during periods of declining interest rates.

The following chart shows the interest sensitivity of the Company's assets and liabilities by repricing period at December 31, 2002 and the consolidated GAP position as a percentage of total assets at that time:

INTEREST-SENSITIVITY GAP				
	Total Balance	Balances Repricing Within 1 Year	Balances Repricing Within 1-3 Years	
(Dollars in thousand)				
Interest-earning assets:				
FHLB interest-earning deposits.....	\$ 9,925	\$ 9,925	\$ --	\$
Investment securities.....	103,055	18,639	40,389	
Mortgage-backed securities.....	200,585	200,310	181	
Loans receivable.....	3,858,650	3,014,346	589,612	
	-----	-----	-----	
Total interest-earning assets.....	\$ 4,172,215	\$ 3,243,220	\$ 630,182	\$
	=====	=====	=====	
Interest-bearing liabilities:				
Demand accounts.....	\$ 1,605,619	\$ 1,605,619	\$ --	\$
Fixed rate term certificates.....	921,407	794,671	116,202	
FHLB advances.....	1,167,000	427,000	445,000	
Reverse repurchase agreements.....	155,273	155,273	--	
	-----	-----	-----	
Total interest-bearing liabilities.....	\$ 3,849,299	\$ 2,982,563	\$ 561,202	\$
	=====	=====	=====	
Interest-sensitivity GAP.....	\$ 322,916	\$ 260,657	\$ 68,980	\$
	=====	=====	=====	

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Interest-sensitivity GAP as a percentage of total assets.....		6.13%	1.62%
		=====	=====
Cumulative interest-sensitivity GAP.....	\$	260,657	\$ 329,637
		=====	=====
Cumulative interest-sensitivity GAP as a percentage of total assets.....		6.13%	7.74%
		=====	=====

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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, 2002, the Company's one-year GAP ratio was a positive \$260.7 million or 6.13% of total assets. This compares with a negative GAP ratio of 6.1% of total assets at December 31, 2001 and a positive GAP ratio of 11.8% of total assets at December 31, 2000. The change to a positive GAP at December 31, 2002 from a negative GAP at December 31, 2001 is due to the fact that the Bank extended the maturities of its FHLB advances in order to match the fixed rate period of its hybrid loans.

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, 2002 and December 31, 2001:

Change in Interest Rates (In Basis Points)	Percentage Change in Net Portfolio Value(1)	
	2002	2001
+300.....	(7)%	(16)%
+200.....	(3)%	(11)%
+100.....	(.49)%	(6)%
--100.....	--%	6%
--200.....	--%(2)	--%(2)
--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 for both December 31, 2002 and December 31, 2001 levels would result in negative interest rates in many cases. Therefore, modeling the impact of such declines as of December 31, 2002 and December 31, 2001 is not meaningful or practical

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The following table shows the fair value and contract terms of the Bank's

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interest-earning assets and interest-bearing liabilities as of December 31, 2002 categorized by type and expected maturity for each of the next five years and thereafter:

	Expected Maturity Date as of December 31					
	2003	2004	2005	2006	2007	Thereafter
	(Dollars in thousands)					
Interest-earning assets:						
Loans receivable:						
Adjustable rate loans:						
Single family.....	\$ 543,633	\$ 433,890	\$ 280,022	\$ 156,308	\$ 89,317	\$
Average interest rate.....	5.89%	5.78%	5.64%	5.57%	5.53%	
Multi-family.....	337,266	320,688	272,430	241,432	127,350	
Average interest rate.....	5.85%	5.86%	5.85%	6.15%	5.74%	
Commercial and industrial.....	88,641	86,442	68,310	55,363	27,916	
Average interest rate.....	6.94%	6.92%	6.87%	7.05%	6.64%	
Fixed rate loans:						
Single family.....	8,976	6,485	4,318	1,784	690	
Average interest rate.....	7.49%	6.74%	6.35%	6.31%	6.30%	
Multi-family.....	9,623	7,920	6,646	6,328	1,499	
Average interest rate.....	7.79%	7.64%	7.54%	7.33%	7.74%	
Commercial and industrial.....	11,020	11,064	6,115	4,298	2,571	
Average interest rate.....	7.90%	7.79%	7.55%	7.89%	7.76%	
Commercial business loans.....	4,739	5,033	5,344	5,188	--	
Average interest rate.....	6.02%	6.02%	6.02%	6.02%	--	
Construction loans...	3,470	3,457	--	--	--	
Average interest rate.....	8.75%	8.75%	--	--	--	
Consumer loans.....	36,331	40	44	49	54	
Average interest rate.....	5.50%	10.10%	10.10%	10.10%	10.10%	
Other loans.....	18,869	21,393	16,309	8,613	3,936	
Average interest rate.....	4.84%	4.96%	4.96%	4.96%	4.96%	
Mortgage-backed securities:						
Adjustable:						
Average interest rate.....	67,594	43,761	29,473	19,809	13,282	
Fixed:	176	112	69	42	25	
Average interest rate.....	8.00%	8.00%	8.00%	8.00%	8.00%	
Investment securities, overnight investments and interest-bearing deposits:	28,564	19,790	20,599	23,184	20,843	
Average interest						

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rate.....	3.57%	5.00%	5.04%	5.06%	5.07%	---
	-----	-----	-----	-----	-----	-----
Total interest-earning assets.....	\$ 1,158,902	\$ 960,075	\$ 709,679	\$ 522,398	\$ 287,483	\$ ---
	=====	=====	=====	=====	=====	=====
Interest-bearing liabilities:						
Deposits:						
Checking accounts....	\$ 414,497	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---
Average interest rate.....	0.24%	---	---	---	---	---
Savings accounts....	1,191,122	---	---	---	---	---
Average interest rate.....	2.05%	---	---	---	---	---
Certificate accounts.	794,671	52,397	63,805	2,623	6,022	---
Average interest rate.....	2.47%	3.67%	4.34%	4.54%	4.43%	---
Borrowings:						
FHLB advances.....	427,000	285,000	160,000	175,000	85,000	---
Average interest rate.....	2.25%	4.74%	4.24%	5.57%	4.56%	---
Reverse repurchase agreements.....	155,273	---	---	---	---	---
Average interest rate.....	1.61%	---	---	---	---	---
	-----	-----	-----	-----	-----	-----
Total interest-bearing liabilities.....	\$ 2,982,563	\$ 337,397	\$ 223,805	\$ 177,623	\$ 91,022	\$ ---
	=====	=====	=====	=====	=====	=====

(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. For fixed rate loans, the Bank's average CPR is 60% and 30% respectively. The Bank used estimated deposit runoff based on available industry information.

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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 to its stockholders.

As of February 7, 2003, there remain 1,348,677 shares eligible for repurchase under the Company's stock repurchase program. The Company repurchased 353,000 and 821,500 shares of its common stock during 2002 and 2000. No shares were repurchased during 2001.

PRICE RANGE OF COMMON STOCK

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	First Quarter		Second Quarter		Third Quarter		Fourth Quarter
	High	Low	High	Low	High	Low	High
2002	\$27.00	\$24.58	\$29.90	\$26.26	\$28.89	\$23.89	\$29.15
2001	32.06	26.25	31.00	28.00	36.30	24.00	25.95
2000	16.63	11.88	14.56	11.69	23.00	14.06	33.13
1999	18.00	15.56	20.00	15.31	17.81	15.00	18.50
1998 (1)	21.19	15.94	26.41	20.41	26.94	14.75	18.56

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

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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)

	December 31, 2002	

ASSETS		
Cash and cash equivalents.....	\$ 45,199	\$
Investment securities, available-for-sale (at fair value) (Note 2).....	103,055	
Mortgage-backed securities, available-for-sale (at fair value: \$151,775 and \$224,114 pledged) (Notes 3 and 10).....	200,585	
Loans receivable, held-for-sale (fair value of \$2,300 and \$5,250) (Note 4).....	2,293	
Loans receivable, net (Notes 4 and 9).....	3,766,942	
Accrued interest and dividends receivable.....	17,752	
Real estate, net (Note 5).....	347	
Office properties and equipment, net (Note 6).....	10,342	
Investment in Federal Home Loan Bank (FHLB) stock, at cost (Notes 7 and 9).....	78,728	
Other assets.....	28,486	

	\$ 4,253,729	\$
	=====	
LIABILITIES		
Deposits (Note 8).....	\$ 2,527,026	\$
FHLB advances (Notes 7 and 9)	1,167,000	
Securities sold under agreements to repurchase (Note 10).....	155,273	
Accrued expenses and other liabilities.....	32,789	

	3,882,088	

COMMITMENTS AND CONTINGENT LIABILITIES (Notes 1, 4, 6 and 13)		
STOCKHOLDERS' EQUITY (Notes 12 and 13)		
Common stock, par value \$.01 per share; Authorized 100,000,000 shares; issued 23,395,202, and 23,362,196 shares, outstanding 16,931,306 and 17,251,300 shares.		

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	234	
Additional paid-in capital.....	35,680	
Retained earnings - substantially restricted.....	418,885	
Unreleased shares to employee stock ownership plan	(597)	
Treasury stock, at cost, 6,463,896 and 6,110,896 shares.....	(84,762)	
Accumulated other comprehensive earnings, net of taxes.....	2,201	

	371,641	

	\$ 4,253,729	\$
	=====	

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, 2002, 2001 AND 2000
(Dollars in thousands, except per share data)

	2002	2001
	-----	-----
Interest income:		
Interest on loans.....	\$ 243,716	\$ 298,
Interest on mortgage-backed securities.....	9,154	19,
Interest and dividends on investments.....	11,008	15,
	-----	-----
Total interest income.....	263,878	333,
	-----	-----
Interest expense:		
Interest on deposits (Note 8).....	60,808	94,
Interest on borrowings (Notes 9 and 10).....	67,611	107,
	-----	-----
Total interest expense.....	128,419	201,
	-----	-----
Net interest income.....	135,459	132,
Provision for loan losses (Note 4).....	--	
	-----	-----
Net interest income after provision for loan losses.....	135,459	132,
	-----	-----
Non-interest income:		
Loan servicing and other fees.....	4,325	3,
Retail office fees.....	4,604	3,
Gain on sale of loans.....	7,806	
Real estate operations, net (Note 5).....	339	
Other operating income.....	1,000	
	-----	-----
Total other income.....	18,074	8,
	-----	-----
Non-interest expense:		
Salaries and employee benefits (Note 13).....	32,627	29,
Occupancy (Note 6).....	8,557	8,
Advertising.....	1,378	1,
Amortization of core deposit intangible.....	1,962	1,
Federal deposit insurance.....	438	
Legal.....	2,888	1,
Other operating expense.....	10,362	10,

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Total non-interest expense.....	58,212	53,
Earnings before income taxes.....	95,321	87,
Income taxes (Note 11).....	40,149	37,
Net earnings.....	\$ 55,172	\$ 50,
Other comprehensive earnings (loss):		
Unrealized earnings (loss) on mortgage-backed securities and securities available-for-sale, net of taxes	(790)	5
Comprehensive earnings.....	\$ 54,382	\$ 55,
Earnings per share: (Notes 12 and 15)		
Basic.....	\$ 3.22	\$ 2
Diluted.....	\$ 3.15	\$ 2
Weighted average shares outstanding:		
Basic.....	17,149,712	17,234,
Diluted.....	17,506,129	17,645,

See accompanying notes to consolidated financial statements

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FIRSTFED FINANCIAL CORP. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000
(Dollars in thousands, except share data)

	Common Stock	Additional Paid-In Capital	Retained Earnings (Substantially Restricted) (Note 12)	Unreleased Shares to ESOP (Notes 12 and 13)	Tr
Balance, December 31, 1999.....	\$ 233	\$ 31,561	\$ 274,946	\$ (1,759)	\$ (
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.....	--	--	--	--	(
Net earnings 2000.....	--	--	38,465	--	
Balance, December 31, 2000.....	233		313,411	(841)	(
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	--	--	--	--	

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Restricted common stock forfeited..	--	187	--	--
Net earnings 2001.....	--	--	50,302	--
	-----	-----	-----	-----
Balance, December 31, 2001.....	234	34,670	363,713	--
Exercise of employee stock options.	--	407	--	--
Net decrease in unreleased shares to the ESOP.....	--	--	--	(597)
Benefit from stock option tax adjustment.....	--	603	--	--
Unrealized loss on securities available-for-sale, net of taxes	--	--	--	--
Common stock repurchased (353,000) shares.....	--	--	--	--
Net earnings 2002.....	--	--	55,172	--
	-----	-----	-----	-----
Balance, December 31, 2002.....	\$ 234	\$ 35,680	\$ 418,885	\$ (597)
	=====	=====	=====	=====

See accompanying notes to consolidated financial statements

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FIRSTFED FINANCIAL CORP. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000
(In thousands)

	2002	2001
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings.....	\$ 55,172	\$ 50,302
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Net change in loans held-for-sale.....	2,953	(1,000)
Depreciation and amortization.....	1,652	1,652
Valuation adjustments on real estate sold.....	(265)	(265)
Amortization of fees and discounts.....	3,926	3,926
Decrease in servicing asset.....	737	737
Change in taxes payable.....	(1,976)	(1,976)
(Increase) decrease in interest and dividends receivable...	4,324	4,324
Increase (decrease) in interest payable.....	(5,895)	(5,895)
Amortization of core deposit intangible asset.....	1,962	1,962
Increase in other assets.....	(13,784)	(13,784)
Increase (decrease) in accrued expenses and other liabilities.....	(7,240)	(7,240)
	-----	-----
Total adjustments.....	(13,606)	(13,606)
	-----	-----
Net cash provided by operating activities.....	41,566	41,566
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Loans made to customers and principal collections on loans	232,998	232,998
Loans purchased under recourse arrangements.....	--	--
Loans purchased.....	(89)	(89)

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Proceeds from sales of real estate owned.....	3,500	
Proceeds from maturities and principal payments of investment securities, available-for-sale.....	87,120	4
Principal reductions on mortgage-backed securities, available-for-sale.....	83,010	9
Purchases of investment securities, available-for-sale.....	(80,855)	(1
Redemptions (purchases) of FHLB stock.....	17,585	(
Other.....	--	(
Net cash from acquisitions.....	--	1
	-----	-----
Net cash provided by (used in) investing activities.....	343,269	(8
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase (decrease) in deposits.....	(19,621)	20
Net increase (decrease) in short term borrowings.....	(675,767)	(6
Increase in long term borrowings.....	190,000	
Purchases of treasury stock.....	(8,832)	
Other.....	413	
	-----	-----
Net cash provided by (used in) financing activities	(513,807)	14
	-----	-----
Net increase (decrease) in cash and cash equivalents.....	(128,972)	9
Cash and cash equivalents at beginning of period.....	174,171	7
	-----	-----
Cash and cash equivalents at end of period.....	\$ 45,199	\$ 17
	=====	=====

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 Generally Accepted Accounting Principles 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 and wholesale borrowings and using those funds to originate loans secured by mortgages on real estate, consumer loans and business loans. All significant inter-company balances and transactions have been eliminated in consolidation. Certain items in the 2000 and 2001 consolidated financial statements have been reclassified to conform to the 2002 presentation.

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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. 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 classified as 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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FIRSTFED FINANCIAL CORP. AND SUBSIDIARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(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 of San Francisco ("FHLBSF") 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

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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 such 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. Premiums and discounts on investment securities available for sale are amortized utilizing the interest method over the contractual term of the assets.

The Bank did not hold any trading securities at December 31, 2002 or 2001.

FIRSTFED FINANCIAL CORP. AND SUBSIDIARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(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

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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.

(1) Summary of Significant Accounting Policies (continued)

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

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economic and market conditions, that the general allowance for loan losses is adequate as of December 31, 2002 and 2001. 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 participations 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. Servicing assets arising from the sale of loans are included in other assets and were \$536,000 and \$1,087,000 at December 31, 2002 and 2001, respectively. No additional servicing assets were recorded in 2002, 2001 or 2000.

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 a core deposit intangible asset. This asset is being amortized over its estimated useful life. The Company adopted SFAS No. 142 effective January 1, 2002. Under the provisions of SFAS No. 142, the Company amortizes these intangible assets over their estimated useful lives. The balance of core deposit intangible at December 31, 2002 was \$9,323,000. There was no impairment of the Company's core deposit intangible as of December 31, 2002.

The following is a projection of estimated amortization of the core deposit intangible at December 31, for the periods indicated (in thousands):

2003.....	\$	2,005
2004.....		2,005
2005.....		2,005
2006.....		2,005
2007 and thereafter.....		1,303

	\$	9,323
		=====

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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. Fair value is determined by an appraisal obtained at foreclosure. 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 arrange 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 basis 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.

Stock Option Plans

The Company applies the intrinsic-value-based method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations including FASB Interpretation No. 44, Accounting for Certain Transactions Involving Stock Compensation, an interpretation of APB Opinion No. 25, issued in March 2000, to account for its fixed-plan stock options. Under this method, compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. SFAS No. 123, Accounting for Stock-Based Compensation, established accounting and disclosure requirements

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using a fair-value-based method of accounting for stock-based employee compensation plans. As allowed by SFAS No. 123, the Company has elected to continue to apply the intrinsic-value-based method of accounting described above, and has adopted only the disclosure requirements of SFAS No. 123. The following table illustrates the effect on net income if the fair-value-based method had been applied to all outstanding and unvested awards in each period.

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FIRSTFED FINANCIAL CORP. AND SUBSIDIARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies (continued)

	Years Ended December 31,		
	2002	2001	2000
	(In thousands, except per share data)		
Net income as reported.....	\$ 55,172	\$ 50,302	\$ 38,000
Deduction total stock-based employee compensation expense determined under fair-value-based method for all rewards, net of tax.....	(976)	(978)	(1,000)
Pro forma net income.....	\$ 54,196	\$ 49,324	\$ 37,000
Earnings per share:			
Basic:			
As reported.....	\$ 3.22	\$ 2.92	\$ 2.80
Pro forma.....	\$ 3.16	\$ 2.86	\$ 2.70
Diluted:			
As reported.....	\$ 3.15	\$ 2.85	\$ 2.70
Pro forma.....	\$ 3.11	\$ 2.80	\$ 2.60

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 2002, 2001 and 2000, respectively: no dividend yield in any year; expected volatility of 34%, 38% and 37%; risk free interest rates of 5.1%, 5.1% and 6.7%; 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 \$12.68, \$9.45 and \$23.75 for 2002, 2001 and 2000, respectively. The Company has elected to recognize forfeitures in the year they occur.

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.

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 institutions 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

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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.

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.

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FIRSTFED FINANCIAL CORP. AND SUBSIDIARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies (continued)

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. Accounting standards require 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 hedged risk 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, 2002, the Company has approximately \$13,630,000 of commitments to originate loans, which will be held for sale, and approximately \$3,590,000 of loan sale commitments that qualify as derivatives under SFAS No. 133. The commitments are recorded at fair value at December 31, 2002.

Recent Accounting Pronouncements

On July 30, 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 146, Accounting for Costs Associated with Exit or Disposal Activities ("SFAS No. 146"). SFAS No. 146 will be effective for exit or disposal activities initiated after December 31, 2002, with early adoption encouraged. Management does not expect implementation of

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SFAS No. 146 to have a material impact on its consolidated financial statements.

On October 1, 2002, the FASB issued Statement No. 147, Acquisitions of Certain Financial Institutions ("SFAS No. 147"), which requires most financial services companies to subject all their goodwill to annual impairment tests instead of amortizing some of it (the so-called Statement 72 goodwill). SFAS No. 147 applies to all new and past financial-institution acquisitions, including "branch acquisitions" that qualify as acquisitions of a business, but excluding acquisitions between mutual institutions. All acquisitions within the scope of the new Statement will now be governed by the requirements in Statements 141 and 142. Statement 147 did not have a material impact on the Company's consolidated financial statements.

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FIRSTFED FINANCIAL CORP. AND SUBSIDIARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies (continued)

In November 2002, the FASB issued Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others, an interpretation of FASB Statements No. 5, 57 and 107 and a rescission of FASB Interpretation No. 34. This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees issued. The Interpretation also clarifies that a guarantor is required to recognize, at inception of a guarantee, a liability for the fair value of the obligation undertaken. The disclosure requirements are effective for financial statements of interim and annual periods ending after December 15, 2002. The initial recognition and measurement provisions of the Interpretation are applicable to guarantees issued or modified after December 31, 2002 and are not expected to have a material effect on the Company's financial statements.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of FASB Statement No. 123. This Statement amends FASB Statement No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement No. 123 to require prominent disclosures in both annual and interim financial statements.

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities, an interpretation of ARB No. 51. This Interpretation addresses the consolidation by business enterprises of variable interest entities as defined in the Interpretation. The Interpretation applies immediately to variable interests in variable interest entities created after January 31, 2003, and to variable interests in variable interest entities obtained after January 31, 2003. The Interpretation requires certain disclosures in financial statements issued after January 31, 2003 if it is reasonably possible that the Company will consolidate or disclose information about variable interest entities when the Interpretation becomes effective. The application of this Interpretation is not expected to have a material effect on the Company's financial statements as the Company has no variable interest entities.

(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

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explicitly recognizes the Bank's interest in the securities. The Bank had no agreements to resell securities at December 31, 2002 and \$123,000,000 in agreements to resell securities at December 31, 2001. These agreements are classified as cash and cash equivalents in the accompanying Consolidated Statements of Financial Condition. Securities purchased under agreements to resell averaged \$54,054,000 and \$62,860,000 during 2002 and 2001, and the maximum amounts outstanding at any month end during 2002 and 2001 were \$83,000,000 and \$123,000,000 respectively.

The Bank also had overnight deposits on hand with the Federal Home Loan Bank of San Francisco which totaled \$9,925,000 and \$18,814,000, respectively, at December 31, 2002 and December 31, 2001.

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

At December 31, 2002				
	Historical Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(In thousands)				
United States Government and Federal agency obligations.....	\$ 200	\$ 3	\$ --	\$
Collateralized Mortgage Obligations.....	101,802	1,151	(101)	10
	<u>\$ 102,002</u>	<u>\$ 1,154</u>	<u>\$ (101)</u>	<u>\$ 10</u>

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FIRSTFED FINANCIAL CORP. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(2) Investment Securities (continued)

At December 31, 2001				
	Historical Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(In thousands)				
United States Government and Federal agency obligations.....	\$ 28,499	\$ 3	\$ (34)	\$ 28,
Collateralized Mortgage Obligations.....	80,013	1,973	(10)	81,
	<u>\$ 108,512</u>	<u>\$ 1,976</u>	<u>\$ (44)</u>	<u>\$ 110,</u>

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

At December 31, 2002			
Historical Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value

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	-----		-----		-----
(In thousands)					
Maturing within 2 years.....	\$	200	\$	3	\$
		-----		-----	
	\$	200	\$	3	\$
		=====		=====	

Collateralized Mortgage Obligations as of December 31, 2002 all have expected maturities within five years. There were no sales of investment securities during 2002, 2001 or 2000. Accrued interest on investments was \$428,000 and \$1,275,000 at December 31, 2002 and 2001, respectively.

(3) Mortgage-backed Securities

Mortgage-backed securities, available-for-sale, are due through the year 2032 and are summarized below for the periods indicated:

At December 31, 2002					
	-----		-----		-----
Historical Cost		Gross Unrealized Gains		Gross Unrealized Losses	Fair Value
-----		-----		-----	-----
(In thousands)					
FNMA.....	\$	8,203	\$	114	\$
FHLMC.....		189,638		2,630	
		-----		-----	
	\$	197,841	\$	2,744	\$
		=====		=====	

At December 31, 2001					
	-----		-----		-----
Historical Cost		Gross Unrealized Gains		Gross Unrealized Losses	Fair Value
-----		-----		-----	-----
(In thousands)					
FNMA.....	\$	11,657	\$	173	\$
FHLMC.....		269,195		3,054	
		-----		-----	
	\$	280,852	\$	3,227	\$
		=====		=====	

There were no mortgage-backed securities created with loans originated by the Bank in 2002, 2001 or 2000. There were no sales of mortgage-backed securities during 2002, 2001 or 2000.

Accrued interest receivable related to mortgage-backed securities outstanding at December 31, 2002 and 2001 totaled \$1,293,000 and \$2,461,000 respectively.

(4) Loans Receivable

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The following is a summary of loans receivable for the periods indicated:

	At December 31,	
	2002	2001
	(In thousands)	
Real estate loans: First trust deed residential loans:		
One-to-four units	\$ 1,723,690	\$ 2,121,899
Five or more units	1,646,430	1,525,749
	-----	-----
Residential loans	3,370,120	3,647,648
Other real estate loans:		
Commercial and industrial	419,273	358,159
Construction	6,927	38,060
Land	203	1,481
Second trust deeds	5,965	9,472
	-----	-----
Real estate loans	3,802,488	4,054,820
Non-real estate loans:		
Deposit accounts	1,185	1,267
Commercial business loans	19,582	18,882
Consumer	35,395	19,546
	-----	-----
Loans receivable	3,858,650	4,094,515
Less:		
General loan valuation allowance	75,223	72,919
Valuation allowances for impaired loans	496	1,850
Unearned loan fees	13,696	14,857
	-----	-----
Subtotal	3,769,235	4,004,889
Less:		
Loans held-for-sale.....	2,293	5,246
	-----	-----
Loans receivable, net.....	\$ 3,766,942	\$ 3,999,643
	=====	=====

Loans serviced for others totaled \$197,250,000, \$257,629,000 and \$322,315,000 at December 31, 2002, 2001 and 2000, respectively.

The Bank had outstanding commitments to fund \$239,127,000 and \$105,045,000 in real estate loans at December 31, 2002 and December 31, 2001, respectively. Of these totals, \$225,497,000 and \$95,770,000 had variable interest rates and \$13,630,000 and \$9,275,000 had fixed interest rates. The Bank had outstanding commitments to sell real estate loans of \$3,590,000 and \$5,955,000, respectively at December 31, 2002 and December 31, 2001, respectively.

Accrued interest receivable related to loans outstanding at December 31, 2002 and 2001 totaled \$15,349,000 and \$17,664,000, respectively.

Loans delinquent greater than 90 days or in foreclosure were \$6,722,000 and \$6,500,000 at December 31, 2002 and 2001, respectively, and the related allowance for delinquent interest was \$372,000 and \$504,000, respectively.

Loans made to directors and executive officers (defined for this purpose as senior vice presidents and above) totaled \$5,041,000 and \$3,386,000 at December 31, 2002 and 2001, respectively.

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

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FIRSTFED FINANCIAL CORP. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4) Loans Receivable (continued)

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

	General Valuation Allowance	Valuation Allowance for Impaired Loans
	-----	-----
	(In thousands)	
Balance at December 31, 1998.....	\$ 67,638	\$ 7,634
Charge-offs.....	(1,362)	(5,038)
Recoveries.....	3,678	--
	-----	-----
Balance at December 31, 1999.....	69,954	2,596
Charge-offs.....	(1,443)	(804)
Recoveries.....	2,298	--
	-----	-----
Balance at December 31, 2000.....	70,809	1,792
Balance obtained from acquisition.....	2,050	--
Transfers.....	(58)	58
Charge-offs.....	(369)	--
Recoveries.....	487	--
	-----	-----
Balance at December 31, 2001.....	72,919	1,850
Transfers.....	1,354	(1,354)
Charge-offs.....	(372)	--
Recoveries.....	1,322	--
	-----	-----
Balance at December 31, 2002.....	\$ 75,223	\$ 496
	=====	=====

The Bank has loss exposure on certain loans sold with recourse. The dollar amount of loans sold with recourse totaled \$108,606,000 and \$137,204,000 at December 31, 2002 and 2001, respectively. The maximum potential recourse liability totaled \$23,325,000 and \$27,274,000 at December 31, 2002 and December 31, 2001, 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 \$6,900,000 and \$12,824,000 at December 31, 2002 and December 31, 2001, respectively.

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

	At December 31,	
	-----	-----
	2002	2001
	-----	-----
	(In thousands)	
Non-accrual loans.....	\$ --	\$ 978

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Modified loans.....	1,567	6,416
	-----	-----
	\$ 1,567	\$ 7,394
	=====	=====

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FIRSTFED FINANCIAL CORP. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(4) Loans Receivable (continued)

The Bank considers a loan to be impaired when management believes that the Bank will be unable to collect all amounts due under the contractual terms of the loan agreement. In accordance with SFAS 114, the Bank evaluates the collectibility of commercial business loans greater than or equal to \$500,000, single-family loans greater than or equal to \$750,000, and income property loans greater than or equal to \$1,500,000 for impairment purposes using its normal loan review procedures. When a loan is determined to be impaired, the Bank measures impairment based on either (1) the present value of expected future cash flows, discounted at the loan's effective interest rate; (2) the loan's observable market price, or (3) the fair value of the collateral. Estimated impairment losses are included in the Bank's impairment allowances.

As of December 31, 2002, the Bank's total recorded investment in impaired loans identified in accordance with SFAS 114 was \$1,567,000 (after deducting \$496,000 of impairment allowances attributable to such loans). As of December 31, 2001, the total recorded investment in impaired loans was \$7,394,000 (net of \$1,850,000 of impairment allowances).

As of December 31, 2002 and December 31, 2001, impaired loans totaling \$1,567,000 and \$3,929,000, respectively, had no valuation allowances established.

The Average recorded investment in impaired loans during the years ended December 31, 2002 and 2001 was \$2,588,000 and \$7,429,000, respectively. Interest income recognized for these same periods was \$322,000 and \$597,000, respectively, under the cash basis method of accounting; and was \$316,000 and \$587,000, respectively, under the accrual basis of accounting. There were no commitments to lend additional funds to borrowers whose loan terms had been modified for any of these periods.

(5) Real Estate

The following is a summary of real estate for the periods indicated:

		At December
		----- 2002 -----
		(In thousand)
Real estate acquired by (or deed in lieu of) foreclosure ("REO")	\$	519 \$
Valuation allowance.....		(200)

		319
Real estate held-for-investment.....		28

Real estate, net.....	\$	347 \$

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

Balance at December 31, 1998.....	\$ 500
Recovery of 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
Reversal of valuation allowance.....	(150)
Charge-offs.....	--

Balance at December 31, 2002.....	\$ 200
	=====

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FIRSTFED FINANCIAL CORP. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(5) Real Estate (continued)

The following table summarizes real estate operations, net:

	For the Years Ended Dec	
	2002	2001

	(In thousands)	
Net income (loss) from operations:		
Gain on sales of REO.....	\$ 765	\$ 1,501
Other REO operations.....	(426)	(1,197)
	-----	-----
Real estate operations, net	\$ 339	\$ 304
	=====	=====

The Bank acquired \$1,881,000, \$5,135,000 and \$5,050,000 of real estate in settlement of loans during 2002, 2001 and 2000, respectively.

(6) Office Properties, Equipment and Lease Commitments

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

	At December 31,	
	2002	2001

	(In thousands)	

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Land.....	\$	3,861	\$	3,361
Office buildings.....		5,348		5,615
Furniture, fixtures and equipment.....		16,815		15,101
Leasehold improvements.....		10,478		10,386
Other.....		541		56
		-----		-----
		37,043		34,519
Less accumulated depreciation and amortization.....		26,701		23,697
		-----		-----
	\$	10,342	\$	10,822
		=====		=====

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, 2002 under all non-cancelable leases are as follows (in thousands):

2003.....	\$	4,324
2004.....		3,868
2005.....		3,629
2006.....		3,369
2007.....		3,157
Thereafter.....		21,887

	\$	40,234
		=====

Rent payments under these leases were \$4,665,000, \$4,309,000 and \$4,278,000 for 2002, 2001 and 2000, respectively. Certain leases require the Bank to pay property taxes and insurance. Additionally, certain leases have rent escalation clauses based on specified indices.

FIRSTFED FINANCIAL CORP. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(7) Federal Home Loan Bank Stock

The Bank's investment in FHLB stock at December 31, 2002 and 2001 was \$78,728,000 and \$91,713,000, 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 FHLB. The Bank was in compliance with this requirement at December 31, 2002. The Bank's investment in FHLB stock was pledged as collateral for advances from the FHLB at December 31, 2002 and 2001. 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 \$1,054,000 and \$1,173,000 at December 31, 2002 and December 31, 2001, respectively.

(8) Deposits

Deposit account balances are summarized as follows:

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		At December 31,			
		2002		2001	
		Amount	%	Amount	
(Dollars in thousands)					
Variable rate non-term accounts:					
Money market deposit accounts (weighted average rate of 2.13% and 2.76%).....	\$	1,079,278	43%	\$ 741,978	2
Interest-bearing checking accounts (weighted average rate of 0.43% and 0.72%).....		174,802	7	162,309	
Passbook accounts (weighted average rate of 1.34% and 1.59%).....		111,844	4	104,488	
Non-interest bearing checking accounts.....		239,695	9	205,597	
		1,605,619	63	1,214,372	4
Fixed-rate term certificate accounts:					
Under six-month term (weighted average rate of 1.54% and 2.57%).....		37,630	1	54,626	
Six-month term (weighted average rate of 1.95% and 3.29%).....		104,600	4	246,161	1
Nine-month term (weighted average rate of 2.76% and 3.98%).....		101,980	4	170,190	
One year to 18-month term (weighted average rate of 2.63% and 4.45%).....		331,308	14	469,113	1
Two year or 30-month term (weighted average rate of 3.55% and 5.38%).....		41,460	2	45,993	
Over 30-month term (weighted average rate of 4.49% and 5.31%).....		94,927	4	39,938	
Negotiable certificates of \$100,000 and greater, 30 day to one year terms (weighted average rate of 2.32% and 3.84%).....		209,502	8	306,254	1
		921,407	37	1,332,275	5
Total deposits (weighted average rate of 1.98% and 3.02%).....	\$	2,527,026	100%	\$ 2,546,647	10

FIRSTFED FINANCIAL CORP. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(8) Deposits (continued)

Certificates of deposit, placed through four major national brokerage firms, totaled \$161,273,000 and \$356,819,000 at December 31, 2002 and 2001, respectively.

Cash payments for interest on deposits (including interest credited) totaled \$65,830,000, \$96,482,000 and \$97,624,000 during 2002, 2001 and 2000, respectively. Accrued interest on deposits at December 31, 2002 and 2001 totaled \$3,899,000 and \$8,921,000, respectively, and is included in accrued expenses and other liabilities in the accompanying Consolidated Statements of Financial Condition.

Certificates of deposit of \$100,000 or more amounted to \$209,502,000 and

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\$306,254,000 at December 31, 2002 and December 31, 2001, respectively.

The following table indicates the maturities and weighted average interest rates of the Bank's deposits at December 31, 2002:

	Non-Term Accounts	2003	2004	2005	2006	There- after	T
	-----	-----	-----	-----	-----	-----	-----
	(Dollars in thousands)						
Deposits at December 31, 2002.....	\$1,605,619	\$794,671	\$52,397	\$63,805	\$2,623	\$7,911	\$2,5
	=====	=====	=====	=====	=====	=====	=====
Weighted average interest rates.....	1.57%	2.47%	3.67%	4.34%	4.54%	4.28%	

Interest expense on deposits is summarized as follows:

	For the Years E	
	2002	20
	-----	-----
	(In thous	
Passbook accounts.....	\$ 1,559	\$
Money market deposits and interest-bearing checking accounts.....	24,024	2
Certificate accounts.....	35,225	6
	-----	-----
	\$ 60,808	\$ 9
	=====	=====

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FIRSTFED FINANCIAL CORP. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(9) Federal Home Loan Bank Advances

Federal Home Loan Bank (FHLB) advances consist of the following at December 31, for the years indicated:

	2002	2001
	-----	-----
	(In thousand	
Advances from the FHLB of San Francisco with a weighted average interest rate of 3.90% and 5.01%, respectively, secured by FHLB stock and certain real estate loans with unpaid principal balances of approximately \$3.0 billion at December 31, 2002, advances mature through 2010.....	\$1,167,000	\$1,167,000
	-----	-----
	\$1,167,000	\$1,167,000

At December 31, 2002 and 2001, accrued interest payable on FHLB advances totaled \$125,000 and \$219,000, 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 advances and

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lines of credit which allow borrowings up to 50% of the Bank's assets, as computed for regulatory purposes, or approximately \$2,126,865,000 at December 31, 2002, with terms up to 30 years.

The following is a summary of FHLB advance maturities at December 31, 2002 (in thousands):

2003.....	\$ 427,000
2004.....	285,000
2005.....	160,000
2006.....	175,000
2007.....	85,000
2008.....	10,000
2009.....	5,000
2010.....	20,000

	\$ 1,167,000
	=====

Cash payments for interest on borrowings (including reverse repurchase agreements see Note 10) totaled \$67,579,000, \$118,194,000 and \$77,621,000 during 2002, 2001 and 2000, respectively.

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

	For the Years Ended Dece	
	2002	2001
	(In thousands)	
FHLB Advances.....	\$ 63,253	\$ 94,506
Reverse Repurchase Agreements.....	3,453	12,346
Other.....	905	334
	-----	-----
	\$ 67,611	\$ 107,186
	=====	=====

Other interest expense in 2002, 2001 and 2000 includes the additional accruals and reversals of accrued interest due to the IRS and FTB. See Note 11.

FIRSTFED FINANCIAL CORP. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(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, 2002, \$155,273,000 in reverse repurchase agreements were collateralized by mortgages totaling \$5,557,000 and mortgage-backed securities with principal balances totaling \$150,331,000 and fair values totaling \$152,398,000. At December 31, 2001, \$211,040,000 in reverse repurchase

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agreements were collateralized by mortgage-backed securities with principal balances totaling \$221,618,000 and fair values totaling \$224,114,000.

The weighted average interest rates for borrowings under reverse repurchase agreements were 1.61% and 2.66%, respectively, at December 31, 2002 and December 31, 2001.

Securities sold under agreements to repurchase averaged \$169,335,000 and \$255,747,000 during 2002 and 2001, respectively, and the maximum amounts outstanding at any month-end during 2002 and 2001 were \$208,367,000 and \$294,110,000 respectively.

The following is a summary of maturities at December 31, 2002 (in thousands):

Up to 30 days.....	\$	18,257
30 to 90 days.....		60,000
Over 90 to 182 days.....		77,016

	\$	155,273
		=====

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 \$673,000 and \$1,452,000 at December 31, 2002 and 2001, respectively.

(11) Income Taxes

Income taxes (benefit) consist of the following:

	2002	2001	
	-----	-----	
	(In thousands)		
Current:			
Federal.....	\$ 32,615	\$ 30,305	\$
State.....	10,866	9,889	
	-----	-----	
	43,481	40,194	
	-----	-----	
Deferred:			
Federal.....	(2,920)	(2,492)	
State.....	(412)	(81)	
	-----	-----	
	(3,332)	(2,573)	
	-----	-----	
Total:			
Federal.....	29,695	27,813	
State.....	10,454	9,808	
	-----	-----	
	\$ 40,149	\$ 37,621	
	=====	=====	

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(11) Income Taxes (continued)

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

	At December 31,		
	2002	2001	2000
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	7.1	7.2	7.1
Core deposit intangibles.....	--	--	0.0
Other, net.....	--	0.6	0.0
Effective rate.....	42.1%	42.8%	42.1%

Cash payments for income taxes totaled \$44,257,000, \$43,100,000 and \$28,300,000 during 2002, 2001 and 2000, respectively. The Company received cash refunds totaling \$667,000 during 2000. No refunds were received during 2001 or 2002.

Current income taxes receivable were \$6,706,000 and \$4,377,000 at December 31, 2002 and December 31, 2001, respectively. 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:

	At December 31,	
	2002	2000
(In thousands)		
Components of the deferred tax asset:		
Bad debts.....	\$ (35,307)	\$ (34,000)
Pension expense.....	(4,421)	(3,000)
State taxes.....	(4,093)	(3,000)
Other.....	(3,129)	(2,000)
Total deferred tax asset.....	(46,950)	(44,000)
Components of the deferred tax liability:		
Loan fees.....	10,304	11,000
Loan sales.....	217	0
FHLB stock dividends.....	21,085	20,000
Tax effect of unrealized gain on securities available-for-sale.....	1,597	2,000
Other.....	312	0
Total deferred tax liability.....	33,515	35,000
Net deferred tax asset.....	\$ (13,435)	\$ (9,000)

The Company provides for recognition and measurement of deductible temporary differences to the extent that it is more likely than not that the

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deferred tax asset will be realized. The Company did not have a valuation allowance for the deferred tax asset at December 31, 2002 or 2001, 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.

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FIRSTFED FINANCIAL CORP. AND SUBSIDIARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(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 FTB. Interest accruals of \$876,000 and \$300,000 were recorded during 2002 and 2001, respectively for interest on amended returns. Interest accruals totaling \$350,000 were reversed during 2000. The balance of accrued interest payable for amended returns was \$700,000 and \$300,000 as of December 31, 2002 and December 31, 2001, respectively. 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 bad debts for federal income tax purposes 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, 2002 and 2001 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. During 2002, legislation was passed which requires the Bank to use the specific charge-off method of accounting for bad debts for state tax purposes.

(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, 2002, 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, 2002			For the Year Ended December 31, 2001		
	Earnings (Numerator)	Weighted Average Shares Outstanding (Denominator)	Per Share Amount	Earnings (Numerator)	Weighted Average Shares Outstanding (Denominator)	Per Share Amount
	-----	-----	-----	-----	-----	-----
(Dollars in thousands, except per share amounts)						
Basic EPS:						
Net earnings.....	\$ 55,172	17,149,712	\$ 3.22	\$ 50,302	17,234,591	\$ 2.92
Diluted EPS:						
Net earnings.....	\$ 55,172	17,149,712	\$ 3.22	50,302	17,234,591	2.92
Options-common stock equivalents	--	356,417	--	--	411,056	--
	-----	-----	-----	-----	-----	-----

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Net earnings.....	\$ 55,172	17,506,129	\$ 3.15	\$ 50,302	17,645,647	\$ 2.85
	=====	=====	=====	=====	=====	=====

The number of anti-dilutive shares excluded from the weighted average shares outstanding within the diluted EPS calculation was 118,100, 104,900, and zero during 2002, 2001 and 2000, respectively.

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FIRSTFED FINANCIAL CORP. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(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 asset 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, 2002.

As of December 31, 2002, 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, 2002 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:

	December 31, 2002		
	Tangible Capital	Core Capital	Tier 1 Risk-based Capital
	(Dollars in thousands)		
Actual capital:			
Amount.....	\$ 341,680	\$ 341,680	\$ 341,680
Ratio.....	8.05%	8.05%	13.26%
FIRREA minimum required capital:			
Amount.....	\$ 63,643	\$ 169,715	\$ --
Ratio.....	1.50%	4.00%	--%
FIRREA well capitalized required capital:			
Amount.....	\$ --	\$ 212,143	\$ 154,607
Ratio.....	--%	5.00%	6.00%

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December 31, 2001

	Tangible Capital		Core Capital		Tier 1 Risk-based Capital
	(Dollars in thousands)				
Actual capital:					
Amount.....\$	302,448	\$	302,448	\$	302,448
Ratio.....	6.42%		6.42%		11.24%
FIRREA minimum required capital:					
Amount.....\$	70,617	\$	188,522	\$	--
Ratio.....	1.50%		4.00%		--%
FIRREA well capitalized required capital:					
Amount.....\$	--	\$	235,391	\$	161,388
Ratio.....	--%		5.00%		6.00%

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FIRSTFED FINANCIAL CORP. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(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. At December 31, 2002, the outstanding loan to the ESOP totaled \$553,000. There was no balance outstanding at December 31, 2001. 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 2002 and 2001 were 2.93% and 4.79%, 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. 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

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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 \$310,000, \$356,000 and \$354,000 for 2002, 2001 and 2000, 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 \$1,161,000, \$970,000 and \$906,000 in 2002, 2001 and 2000, respectively. The SERP is unfunded.

The discount rates used in determining the actuarial value of benefit obligations were 6.50% and 7.00%, respectively, as of December 31, 2002 and 2001. The rate of increase in future compensation levels used in determining the pension cost for the SERP was 4.0% as of December 31, 2002 and 2001. The plan had no assets at December 31, 2002 or 2001.

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FIRSTFED FINANCIAL CORP. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(13) Employee Benefit Plans (continued)

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:

	At Decem	

	2002	

	(In thou	
Change in Benefit Obligation		
Projected benefit obligation, beginning of the year.....	\$ 7,885	\$
Service cost.....	380	
Interest cost.....	581	
Benefits paid.....	(287)	
Actuarial loss.....	602	

Projected benefit obligation, end of the year.....	\$ 9,161	\$
	=====	
Change in Plan Assets		
Funded status.....	\$ (9,161)	\$
Unrecognized transition obligation.....	--	
Unrecognized prior service cost.....	284	
Unrecognized (gain)/loss.....	1,956	

Net amount recognized.....	\$ (6,921)	\$
	=====	
Components of Net Periodic Benefit Cost		
Service cost.....	\$ 380	\$
Interest cost.....	581	

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Amortization of unrecognized transition obligation.....	65
Amortization of unrecognized prior service cost.....	135

Pension cost.....	\$ 1,161
	=====

The projected benefit obligation, accumulated benefit obligation, and fair value of assets were \$9,161,000, \$7,255,000, and \$0 respectively, at December 31, 2002 and \$7,885,000, \$6,131,000, and \$0, respectively, at December 31, 2001.

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, 2002, the ESOP held 5.20% of outstanding stock of the Company. Profit sharing expense for the years ended December 31, 2002, 2001 and 2000 was \$2,024,000, \$2,020,000 and \$1,778,000, 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, 2002, 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.

FIRSTFED FINANCIAL CORP. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(13) Employee Benefit Plans (continued)

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

	At Decem	
Options Outstanding	2002	2
	-----	-----
(Weighted average option prices)		(In sh
Beginning of year (\$15.51, \$12.84 and \$12.54)	819,915	796

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Granted (\$26.75, \$31.44 and \$13.13).....	134,900	127
Exercised (\$10.98, \$12.22 and \$7.04).....	(33,006)	(62)
Canceled (\$20.53, \$18.12 and \$13.77).....	(64,127)	(41)
	-----	-----
End of Year (\$17.08, \$15.51 and \$12.84).....	857,682	819
	=====	=====
Shares exercisable at December 31, (\$13.41, \$11.53 and \$11.22)..	407,401	309
	=====	=====

Additional information with respect to stock options outstanding at December 31, 2002 follows:

	Price Ranges	
	-----	-----
	(\$5.63 - \$14.23)	(\$14.24 - \$22.84)
Options outstanding:		
Number of outstanding shares.....	400,606	230,376
Weighted-average contractual life	4.71	5.61
Weighted-average exercise price	\$10.62	\$16.65
Options exercisable:		
Number of exercisable shares.....	257,506	117,895
Weighted-average exercise price	\$9.60	\$16.83

Restricted Stock Plan

The Company's 1991 Restricted Stock Plan (the "Restricted Stock Plan") expired November 20, 2000 pursuant to its terms. Under the Restricted Stock Plan, the Company issued shares of restricted stock 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 for 2001.

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FIRSTFED FINANCIAL CORP. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(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

	At December 31	
	-----	-----
	2002	2001
	-----	-----
	(In thousands)	
Assets:		
Cash.....	\$ 17,947	\$
Fixed assets.....	259	

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Investment in subsidiary.....	353,739	31
	-----	-----
	\$ 371,945	\$ 32
	=====	=====
Liabilities and Stockholders' Equity:		
Other liabilities.....	304	
Stockholders' equity.....	371,641	32
	-----	-----
	\$ 371,945	\$ 32
	=====	=====

	Years Ended December 31		
	2002	2001	
	-----	-----	
	(In thousands)		
CONDENSED STATEMENTS OF OPERATIONS AND COMPREHENSIVE EARNINGS			
Dividends received from Bank.....	\$ 20,000	\$ --	\$
Equity in undistributed net earnings of subsidiary	35,254	52,007	
Other expense, net.....	(82)	(1,705)	
	-----	-----	
Net earnings.....	55,172	50,302	
	=====	=====	
Other comprehensive earnings (loss), net of taxes.....	(790)	5,149	
	-----	-----	
Comprehensive earnings.....	\$ 54,382	\$ 55,451	\$
	=====	=====	

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FIRSTFED FINANCIAL CORP. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(14) Parent Company Financial Information (continued)

	Years Ended December 31		
	2002	2001	
	-----	-----	
	(In thousands)		
CONDENSED STATEMENTS OF CASH FLOWS			
Net Cash Flows from Operating Activities:			
Net earnings.....	\$ 55,172	\$ 50,302	\$
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Equity in undistributed net net earnings of subsidiary.....	(35,254)	(52,007)	
Depreciation expense.....	160	184	
Other.....	1,035	1,581	
	-----	-----	
Net cash provided by operating activities.....	21,113	60	
	-----	-----	
Cash Flows from Investing Activities:			
Increase in fixed assets.....	--	(112)	
	-----	-----	
Net cash provided by (used in) investing activities.....	--	(112)	
	-----	-----	
Cash Flows from Financing Activities:			

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Purchase of treasury stock.....	(8,832)	--
(Increase) decrease in unreleased shares.....	(597)	841
Other.....	--	1,943
	-----	-----
Net cash provided by (used in) financing activities.....	(9,429)	2,784
	-----	-----
Net increase in cash.....	11,684	2,732
Cash at beginning of period.....	6,263	3,531
	-----	-----
Cash at end of period.....	\$ 17,947	\$ 6,263
	=====	=====

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FIRSTFED FINANCIAL CORP. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(15) Quarterly Results of Operations: (unaudited)

Summarized below are the Company's results of operations on a quarterly basis for 2002, 2001 and 2000:

	Interest Income	Interest Expense	Provision for Loan Losses	Other Income	Non- Interest Expense	Net Earnings
	-----	-----	-----	-----	-----	-----
(In thousands, except per share data)						
First quarter						
2002.....	\$ 70,776	\$ 36,788	\$ --	\$ 2,699	\$ 15,311	\$ 12,366
2001.....	88,017	55,865	--	2,007	12,533	12,372
2000.....	71,102	45,122	--	1,725	12,245	8,833
Second quarter						
2002.....	\$ 65,923	\$ 32,943	\$ --	\$ 2,494	\$ 14,233	\$ 12,287
2001.....	87,443	53,881	--	1,641	13,195	12,599
2000.....	76,455	50,288	--	2,418	12,570	9,355
Third quarter						
2002.....	\$ 64,741	\$ 31,312	\$ --	\$ 8,711	\$ 14,107	\$ 16,222
2001.....	81,837	49,397	--	3,019	13,738	12,422
2000.....	81,980	55,290	--	1,950	12,276	9,499
Fourth quarter						
2002.....	\$ 62,438	\$ 27,376	\$ --	\$ 4,170	\$ 14,561	\$ 14,293
2001.....	76,635	42,611	--	2,252	13,708	12,914
2000.....	84,783	55,805	--	1,654	11,174	10,778
Total year						
2002.....	\$ 263,878	\$ 128,419	\$ --	\$ 18,074	\$ 58,212	\$ 55,177
2001.....	333,932	201,754	--	8,919	53,174	50,300
2000.....	314,320	206,505	--	7,747	48,265	38,466

(16) Fair Value of Financial Instruments

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

At December 31,		

2002		
-----	-----	-----
Carrying Value	Fair Value	Carrying Value

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	(In thousands)					
Mortgage-backed securities	\$	200,585	\$	200,585	\$	284,
U.S. Government securities		203		203		28,
Collateralized mortgage obligations		102,852		102,852		81,
Loans held-for-sale		2,293		2,300		5,

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FIRSTFED FINANCIAL CORP. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(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.

	At December 31,					
	2002					
	Historical Cost	Calculated Fair Value Amount	Historic Cost			
	(In thousands)					
ASSETS						
Adjustable loans:						
Single family	\$	1,636,398	\$	1,665,635	\$	2,091,
Multi-family		1,611,318		1,659,295		1,513,
Commercial		383,383		401,772		335,
Fixed rate loans:						
Single family		22,685		23,290		26,
Multi-family		33,995		35,969		17,
Commercial		37,640		39,916		26,
Consumer loans.....		36,880		36,891		20,
Commercial business loans.....		20,304		20,595		18,
Construction loans.....		6,927		7,150		38,
Non-performing loans		6,722		6,722		6,
LIABILITIES						
Fixed-term certificate accounts		921,407		934,359		1,332,
Non-term deposit accounts		1,605,619		1,605,619		1,214,
Borrowings		1,322,273		1,369,329		1,808,

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.

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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.

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FIRSTFED FINANCIAL CORP. AND SUBSIDIARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(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. At December 31, 2002, the Bank had outstanding commitments to fund \$239,127,000 in real estate mortgage loans, \$3,037,000 in construction loans and \$87,000 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.

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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, 2002 and 2001 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, 2002. 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, 2002 and 2001 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Los Angeles, California
January 29, 2003

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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' to be held April 23, 2003 (the "Proxy Statement") is incorporated herein by reference.

ITEM 11 -- EXECUTIVE COMPENSATION

Information regarding executive compensation appearing on pages 8 through 15 of the Proxy Statement 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 incorporated herein by reference. Information regarding securities authorized for issuance under equity compensation plans appearing on page 12 of the Proxy Statement is incorporated herein by reference.

ITEM 13 -- CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information regarding certain relationships and related transactions appearing on pages 10 through 11 of the Proxy Statement is incorporated herein by reference.

ITEM 14 -- CONTROLS AND PROCEDURES

- (a) Under the supervision and with the participation of the Company's management, including its principal executive officer and principal accounting officer, the Company conducted an evaluation of its disclosure controls and procedures, as such term is defined under Rule 13a-14(c) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), within 90 days of the filing date of this report. Based on their evaluation, the Company's principal executive officer and principal accounting officer concluded that the Company's disclosure controls and procedures are effective.
- (b) There have been no significant changes (including corrective actions with regard to significant deficiencies or material weaknesses) in our internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation referenced in paragraph (a) above.

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PART IV

ITEM 15 -- EXHIBITS, CONSOLIDATED FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8K

FIRSTFED FINANCIAL CORP. AND SUBSIDIARY

EXHIBIT
NUMBER

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- (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) 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.
- (10.3) 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.
- (10.4) 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 78).
- (99.1) Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Babette E. Heimbuch.
- (99.2) Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Douglas J. Goddard.

This 2002 Annual Report on Form 10-K and the Proxy Statement 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 7, 2003 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, 2002 on the following dates: October 25, 2002, November 15, 2002, November 19, 2002, and December 18, 2002. The November 15, 2002 8-K announced the expansion of the Company's stock repurchase program. The remaining reports are related to the release of the Company's third quarter earnings and the disclosure of certain other financial data.

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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

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Dated this 26th day of February 2003

By: /s/ Babette E. Heimbuch

Babette E. Heimbuch
Chief Executive Officer

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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 by the following persons on behalf of the Registrant and in the capacities indicated on the 26th day of February 2003.

SIGNATURE

TITLE

/s/ Babette E. Heimbuch

Chairman of the Board and
Chief Executive Officer (Principal Executive Officer)

Babette E. Heimbuch

/s/ James P. Giralдин

Director, President and Chief Operating Officer

James P. Giralдин

/s/ Douglas J. Goddard

Executive Vice President and Chief Financial Officer

Douglas J. Goddard

(Principal Financial Officer)

/s/ Brenda J. Battey

Senior Vice President and Controller

Brenda J. Battey

(Principal Accounting Officer)

/s/ Christopher M. Harding

Director

Christopher M. Harding

/s/ James L. Hesburgh

Director

James L. Hesburgh

/s/ William G. Ouchi

Director

William G. Ouchi

/s/ William P. Rutledge

Director

William P. Rutledge

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/s/ Charles F. Smith Director

Charles F. Smith

/s/ Steven L. Soboroff Director

Steven L. Soboroff

/s/ John R. Woodhull Director

John R. Woodhull

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CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Babette Heimbuch, certify that:

- (1) I have reviewed this annual report on Form 10-K of FirstFed Financial Corp.;
- (2) Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
- (4) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - (i) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - (ii) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - (iii) Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
- (5) The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons fulfilling the equivalent function):
 - (i) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in

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internal controls; and

(ii) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

(6) The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated this 26th day of February 2003

By: /s/ Babette E. Heimbuch

Babette E. Heimbuch
Chief Executive Officer

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CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Douglas Goddard, certify that:

- (1) I have reviewed this annual report on Form 10-K of FirstFed Financial Corp.;
- (2) Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
- (4) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - (i) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - (ii) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - (iii) Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
- (5) The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit

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committee of the registrant's board of directors (or persons fulfilling the equivalent function):

(i) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(ii) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

(6) The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated this 26th day of February 2003.

By: /s/ Douglas Goddard

Douglas Goddard
Chief Financial Officer

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EXHIBIT 99.1

Exhibit 99.1

CEO CERTIFICATION

The undersigned, as Chief Executive Officer hereby certifies, to the best of her knowledge and belief, that:

- (1) the Form 10-K of FirstFed Financial Corp. (the "Company") for the annual period ended December 31, 2003 (the "Report ") accompanying this certification fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for such period.

This certification is made solely for purposes of complying with the provisions of Section 906 of the Sarbanes-Oxley Act of 2003, 18 U.S.C. Section 1350.

FIRSTFED FINANCIAL CORP.
Registrant

Date: February 26, 2003

By: /s/ Babette E. Heimbuch

Babette E. Heimbuch
Chief Executive Officer

EXHIBIT 99.2

Exhibit 99.2

CFO CERTIFICATION

The undersigned, as Chief Financial Officer hereby certifies, to the best of his knowledge and belief, that:

- (1) the Form 10-K of FirstFed Financial Corp. (the "Company") for the annual period ended December 31, 2003 (the "Report ") accompanying this certification fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for such period.

This certification is made solely for purposes of complying with the provisions of Section 906 of the Sarbanes-Oxley Act of 2003, 18 U.S.C. Section 1350.

FIRSTFED FINANCIAL CORP.
Registrant

Date: February 26, 2003

By: /s/ Douglas J. Goddard

Douglas J. Goddard
Chief Financial Officer and
Executive Vice President