WESTCORP /CA/
Form 10-K
March 14, 2005

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2004

or

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

For the transition period from to .

Commission file number 33-13646

Westcorp

(Exact name of registrant as specified in its Charter)

California (State or other jurisdiction of incorporation or organization)	**51-0308535** (I.R.S. Employer Identification No.)
23 Pasteur, Irvine, California (Address of principal executive offices)	**92618-3816** (Zip Code)

Registrant s telephone number, including area code (949) 727-1002

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $1 par value	New York Stock Exchange

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 last 90 days. Yes þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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 this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934.) Yes þ No o

The aggregate market value of the voting stock held by non-affiliates of the registrant as of June 30, 2004:

Common Stock, $1.00 Par Value $1,051,217,868

The number of shares outstanding of the issuer s class of common stock as of February 28, 2005:

Common Stock, $1.00 Par Value 51,962,940

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement for the Annual Meeting of Shareholders to be held April 26, 2005 are incorporated by reference into Part III.

WESTCORP AND SUBSIDIARIES

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Forward-Looking Statements

This Form 10-K includes and incorporates by reference forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act, as amended. Forward-looking statements relate to analyses and other information that are based on forecasts of future results and estimates of amounts not yet determinable. These statements also relate to our future prospects, developments and business strategies. These statements are subject to uncertainties and factors relating to our operations and business environment, all of which are difficult to predict and many of which are beyond our control, that could cause actual results to differ materially from those expressed in or implied by these forward-looking statements.

These forward-looking statements are identified by their use of terms and phrases such as anticipate, believe, could, estimate, expect, i may, plan, predict, project, will, and similar terms and phrases, including references to assumptions. These statements are contained in sectic entitled Business, Management s Discussion and Analysis of Financial Condition and Results of Operations, and other sections of this Form 10-K and in the documents incorporated by reference.

The following factors are among those that may cause actual results to differ materially from the forward-looking statements:

changes in general economic and business conditions;

interest rate fluctuations, including hedging activities;

our financial condition and liquidity, as well as future cash flows and earnings;

competition;

our level of operating expenses;

the effect, interpretation or application of new or existing laws, regulations and court decisions;

the exercise of discretionary authority by regulatory agencies;

a decision to change our corporate structure;

the availability of sources of funding;

the level of chargeoffs on the automobile contracts that we originate; and

significant litigation.

If one or more of these risks or uncertainties materialize, or if underlying assumptions as to these items prove incorrect, our actual results may vary materially from those expected, estimated or projected.

We do not undertake to update our forward-looking statements to reflect future events or circumstances.

INDUSTRY DATA

In this Form 10-K, we rely on and refer to information regarding the automobile lending industry from market research reports, analyst reports and other publicly available information. Although we believe that this information is reliable, we cannot guarantee the accuracy and completeness of this information, and we have not independently verified any of it.

Available Information

We provide access to all of our filings with the Securities and Exchange Commission on our Web site at http://www.westcorpinc.com free of charge on the same day that these reports are electronically filed with the Commission. The information contained in our Web site does not constitute part of this filing.

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PART I

Item 1. *Business*

General

We are a financial services holding company that provides automobile lending services through our second-tier subsidiary, WFS Financial Inc, also known as WFS, and retail and commercial banking services through our wholly owned subsidiary, Western Financial Bank, which we refer to as the Bank. The Bank currently owns 84% of the capital stock of WFS. We primarily earn income by originating assets, including automobile contracts, that generate a yield in excess of the cost of the liabilities, including deposits, that fund these assets.

We have grown substantially over the past three years. As of December 31, 2004, we had $15.5 billion in total assets, $11.6 billion in automobile contracts and $1.5 billion in total equity excluding other accumulated comprehensive loss and including minority interest, representing a three-year compounded annual growth rate of 15.6%, 12.4% and 31.4%, respectively. For the year ended December 31, 2004, we originated $6.6 billion of automobile contracts and generated $208 million of net income and earnings per diluted share of $3.96. We achieved a return on average assets of 1.38%, 0.90% and 0.69% for the years ended December 31, 2004, 2003 and 2002, respectively.

Automobile Lending Operations

We are one of the nation s largest independent automobile finance companies with 32 years of experience in the automobile finance industry. We believe that the automobile finance industry is the second largest consumer finance industry in the United States with approximately $500 billion of loan originations during 2004. We originate installment contracts, otherwise known as contracts, secured by new and pre-owned automobiles through our relationships with franchised and independent automobile dealers nationwide. We originated $6.6 billion of contracts during 2004 and owned a portfolio of $11.6 billion contracts at December 31, 2004.

For the year ended December 31, 2004, approximately 34% of our contract originations were for the purchase of new automobiles and approximately 66% of our contract originations were for the purchase of pre-owned automobiles. Approximately 80% of our contract originations were what we refer to as prime contracts, and approximately 20% of our contract originations were what we refer to as non-prime contracts. Our determination of whether a contract is categorized as prime, non-prime or other is based on a number of factors including the borrower s credit history and our expectation of credit loss, and may differ from definitions of these categories utilized by others, including competitors and regulators. All references made throughout this document regarding prime, non-prime or subprime automobile contracts are based on our determination.

We underwrite contracts through a credit approval process that is supported and controlled by a centralized, automated front-end system. This system incorporates proprietary credit scoring models and industry credit scoring models and tools, which enhance our credit analysts ability to tailor each contract s pricing and structure to maximize risk-adjusted returns. We believe that as a result of our sophisticated credit and underwriting systems, we are able to earn attractive risk-adjusted returns on our contracts. For the year ended December 31, 2004, the average net interest spread on our automobile contract originations was 7.02% and the net interest spread on our managed automobile portfolio was 6.65% while net credit losses averaged 1.99% for the same period.

We structure our business to minimize operating costs while providing high quality service to our dealers. Those aspects of our business that require a local market presence are performed on a decentralized basis in our 42 offices. All other operations are centralized. We fund our purchases of contracts, on an interim basis, with deposits raised through our banking operations, which are insured by the Federal Deposit Insurance Corporation, also known as the FDIC, and other borrowings. For long-term financing, we issue automobile contract asset-backed securities. Since 1985, we have sold or securitized over $42.0 billion of contracts in 66

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public offerings of asset-backed securities, making us the fourth largest issuer of such securities in the nation. We have employed a range of securitization structures and our most recent $1.6 billion issuance of asset-backed securities was structured as a senior/subordinated transaction with a weighted average interest rate of 3.66%.

The following table presents a summary of our contracts purchased:

	For the Year Ended December 31,		
	2004	2003	2002
	(Dollars in thousands)		
New vehicles	$2,273,423	$1,928,268	$1,548,372
Pre-owned vehicles	4,361,447	4,050,308	3,867,362
Total volume	$6,634,870	$5,978,576	$5,415,734
Prime contracts	$5,324,206	$4,942,654	$4,346,212
Non-prime contracts	1,310,664	1,035,922	1,069,522
Total volume	$6,634,870	$5,978,576	$5,415,734

Bank Operations

The primary focus of our banking operations is to generate diverse, low-cost funds to provide the liquidity needed to fund our acquisition of contracts. The Bank has the ability to raise significant amounts of liquidity by attracting both short-term and long-term deposits from the general public, commercial enterprises and institutions by offering a variety of accounts and rates. These funds are generated through the Bank s retail and commercial banking divisions. The Bank also may raise funds by obtaining advances from the Federal Home Loan Bank, or FHLB, selling securities under agreements to repurchase and utilizing other borrowings. The Bank s retail banking division serves the needs of individuals and small businesses by offering a broad range of products through 20 retail branches located throughout Southern California. The Bank s commercial banking division focuses on medium-sized businesses in Southern California. At December 31, 2004, the total deposits gathered by both the retail and commercial banking divisions were $2.2 billion. Approximately 90% of these accounts were demand deposits, money market accounts and certificate of deposit accounts under $100,000 in principal, which we believe represents a stable and attractive source of funding.

The Bank also invests deposits generated by its retail and commercial banking divisions in mortgage-backed securities, also known as MBS. Our investment in MBS, together with the cash balances that we maintain, create a significant liquidity portfolio that provides us with additional funding security. Net interest income from Bank operations totaled $54.5 million, $32.9 million, and $57.6 million for the years ended December 31, 2004, 2003 and 2002, respectively. Net interest income from Bank operations represented 7%, 5% and 9% of our total net interest income on a consolidated basis for the same respective periods.

The following table sets forth our loan origination, purchase and sale activity over the past five years:

	For the Year Ended December 31,				
	2004	2003	2002	2001	2000
	(Dollars in thousands)				
Loans originated:					
Consumer loans:					
Contracts(1)	$6,634,870	$5,978,576	$5,415,734	$4,863,279	$4,219,227
Other	5,068	4,916	3,562	6,691	12,888
Total consumer loans	6,639,938	5,983,492	5,419,296	4,869,970	4,232,115
Mortgage loans:					
Existing property	41,587	7,675	21,100	9,714	17,382
Construction	24,105	17,534	2,022	12,318	14,718
Equity	61	413	828	969	1,024
Total mortgage loans	65,753	25,622	23,950	23,001	33,124
Commercial loans	342,356	407,387	354,439	291,944	266,342
Total loans originated	7,048,047	6,416,501	5,797,685	5,184,915	4,531,581
Loans purchased:					
Mortgage loans on existing property			46	229	488
Total loans purchased			46	229	488
Loans sold:					
Contracts					660,000
Mortgage loans			554	3,382	3,394
Total loans sold			554	3,382	663,394
Principal reductions(2)	6,050,782	4,721,919	3,922,542	2,572,665	1,126,520
Increase in total loans	$ 997,265	$1,694,582	$1,874,635	$2,609,097	$2,742,155

(1) Includes contracts purchased from automobile dealers as well as leases.

(2) Includes scheduled payments, prepayments and chargeoffs.

The History of Westcorp

Western Thrift & Loan Association, a California-licensed thrift and loan association, was founded in 1972. In 1973, Western Thrift Financial Corporation was formed as the holding company for Western Thrift & Loan Association. It later changed its name to Westcorp. In 1982, Westcorp acquired Evergreen Savings and Loan Association, a California-licensed savings and loan association, which became its wholly owned subsidiary. The activities of Western Thrift & Loan Association were merged into Evergreen Savings and Loan Association in 1982. Evergreen Savings and Loan Association s name was changed ultimately to Western Financial Bank and the Bank ultimately became chartered as a federal savings institution.

Western Thrift & Loan Association was involved in automobile finance activities from its incorporation until its merger with Evergreen Savings and Loan Association. Since such time, the Bank continued the automobile finance activities of Western Thrift & Loan Association. In 1988, Westcorp Financial Services, Inc. was incorporated as a wholly owned consumer finance subsidiary of the Bank to provide non-prime automobile finance services, a market not serviced by the Bank s automobile finance division.

In 1995, the Bank transferred its automobile finance division to Westcorp Financial Services, Inc., which changed its name to WFS Financial Inc. In connection with that restructuring, the Bank transferred to WFS

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all assets relating to its automobile finance division, including the contracts held on balance sheet and all interests in the excess spread payable from outstanding securitization transactions. The Bank also transferred to WFS all of the outstanding stock of WFS Financial Auto Loans, Inc., also known as WFAL, and WFS Financial Auto Loans 2, Inc., also known as WFAL2, the securitization entities of the Bank, thereby making these companies subsidiaries of WFS. In 1995, WFS sold approximately 20% of its shares in a public offering. At December 31, 2004, the Bank owned 84% of the common stock of WFS.

Proposed Conversion and Merger

On May 23, 2004, we entered into a definitive agreement pursuant to which we will acquire the outstanding 16% common stock minority interest of WFS not already owned by our wholly owned subsidiary, the Bank. The transaction is structured as a merger of WFS with and into the Bank. If the merger is consummated, the public holders of WFS shares would receive 1.11 shares of our common stock for each share of WFS common stock held by them in a tax-free exchange. Based on the $42.60 closing price of our common stock on May 21, 2004, the last business day prior to the execution of the agreement, the transaction has an indicated value of $47.29 per share of WFS common stock.

In connection with the merger, the Bank has filed an application with the California Department of Financial Institutions, also known as the DFI, to convert its federal thrift charter to a California state bank charter. Among other things, the merger is conditioned upon the conversion of the charter and the transaction is subject to, among other closing conditions, the receipt of regulatory approvals and the approval of a majority of WFS s minority shareholders, other than shares controlled by us. The DFI and the Office of Thrift Supervision, also known as the OTS, have approved the Bank s application to convert from a federal savings bank to a California state commercial bank subject to receipt of all other required regulatory approvals. The FDIC approved the application to merge WFS into the Bank as part of the acquisition of the minority interest in WFS.

The conversion is still contingent upon the approval by the Board of Governors of the Federal Reserve, also known as the Federal Reserve, of our application to become a bank holding company, which process is taking longer than originally expected. As a result, we believe that the proposed conversion will not occur until the latter half of 2005, if at all. The Federal Reserve recently has raised some questions and potential concerns with our proposal and has requested additional information from us. Assembling the information and responding to the Federal Reserve s concerns and questions will take additional time. Those concerns and questions will need to be addressed to the Federal Reserve s satisfaction before the Federal Reserve will deem our application complete.

Although we intend to continue to pursue Federal Reserve approval, there can be no assurance that such approval will ultimately be granted or that any conditions to such approval imposed on the Bank will not affect the feasibility of moving forward with the proposed conversion and the related merger of WFS into the Bank. We are currently exploring other alternatives in the event that the proposed conversion and related merger cannot go forward as planned. In that regard, WFS has begun the process of filing for state licenses.

If the conversion is completed, we will be subject to the laws, regulation and oversight of the DFI, the FDIC and the Federal Reserve.

Market and Competition

The automobile finance industry is generally segmented according to the type of vehicle sold (new versus pre-owned) and the credit characteristics of the borrower (prime, non-prime or subprime). Based upon industry data, we believe that during 2004, prime, non-prime and subprime loan originations in the United States were approximately $350 billion, $100 billion and $50 billion, respectively. The United States captive automobile finance companies, General Motors Acceptance Corporation, Ford Motor Credit Company and Chrysler Financial Corporation, account for approximately 25% of the automobile finance market. We believe that the balance of the market is highly fragmented and that no other market participant has greater than a 6% market share. Other market participants include the captive automobile finance companies of other manufacturers, banks, credit unions, independent automobile finance companies and other financial institutions.

Our dealer servicing and underwriting capabilities and systems enable us to compete effectively in the automobile finance market. Our ability to compete successfully depends largely upon our strong personal relationships with dealers and their willingness to offer us contracts that meet our underwriting criteria. These relationships are fostered by the promptness with which we process and fund contracts, as well as the flexibility and scope of the programs we offer. We purchase the full spectrum of prime and non-prime contracts secured by both new and pre-owned vehicles.

The competition for contracts available within the prime and non-prime credit quality contract spectrum is more intense when the rate of automobile sales declines. Although we have experienced consistent growth for many years, we can give no assurance that we will continue to do so. Several of our competitors have greater financial resources than we have and may have a lower cost of funds. Many of our competitors also have longstanding relationships with automobile dealers and may offer dealers or their customers other forms of financing or services not provided by us. The finance company that provides floor planning for the dealer s inventory is ordinarily one of the dealer s primary sources of financing for automobile sales. We do not currently provide financing on dealers inventories. We must also compete with dealer interest rate subsidy programs offered by the captive automobile finance companies. However, these programs are not generally offered on pre-owned vehicles and are limited to certain models or loan terms that may not be attractive to many automobile purchasers.

Competition in the retail banking business comes primarily from commercial banks, credit unions, savings and loan associations, mutual funds and corporate and government securities markets. Many of the nation s largest savings and loan associations and other depository institutions have locations in Southern California. We compete for deposits primarily on the basis of interest rates paid and the quality of service provided to our customers.

Competition in the commercial banking business comes primarily from other commercial banks that maintain a presence in Southern California. We have differentiated ourselves by providing high quality service, local relationship management, prompt credit decisions and competitive rates on both loans and depository products.

Our Business Strategy

Our business objective is to maximize long-term profitability by efficiently purchasing and servicing prime and non-prime contracts that generate strong and consistent risk-adjusted returns. We achieve this objective by employing our business strategy, which includes the following key elements:

- produce consistent growth through our strong dealer relationships;
- price contracts to maximize risk-adjusted returns by using advanced technology and experienced underwriters;
- create operating efficiencies through technology and best practices;
- generate low cost liquidity through our funding sources, including positive operating cash flows; and
- record high quality earnings and maintain a conservative, well-capitalized balance sheet.

Produce Consistent Growth Through Our Strong Dealer Relationships

Over the past five years, we have experienced a compounded annual growth rate in contract purchases of 15%. We believe we provide a high degree of personalized service to our dealer base by marketing, underwriting and purchasing contracts on a local level. Our focus is to provide each dealer superior service by providing a single source of contact to meet the dealer s prime and non-prime financing needs. We believe that the level of our service surpasses that of our competitors. We provide personalized, efficient, and consistently excellent service by making our business development representatives available when a dealer is open, making

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prompt credit decisions, negotiating credit decisions within available programs by providing structural alternatives, and funding promptly.

	At or For the Year Ended December 31,				
	2004	2003	2002	2001	2000
	(Dollars in thousands)				
Total automobile contract originations	$ 6,634,870	$ 5,978,576	$5,415,734	$4,863,279	$4,219,227
Percentage growth	11.0%	10.4%	11.4%	15.3%	26.3%
Total automobile contract portfolio managed	$11,560,890	$10,596,665	$9,389,974	$8,152,882	$6,818,182
Percentage growth	9.1%	12.9%	15.2%	19.6%	27.3%

Growth of originations is primarily through increased dealer penetration. We intend to increase contract purchases from our current dealer base as well as develop new dealer relationships. Although our presence is well-established throughout the country, we believe that we still have opportunities to build market share, especially in those states that we entered since 1994. In addition, we have improved our dealer education and delivery systems in order to increase the ratio of contracts purchased to the number of applications received from a dealer, thereby improving the efficiency of our dealer relationships. We are also seeking to increase contract purchases through new dealer programs targeting high volume, multiple location dealers. These programs focus on creating relationships with dealers to achieve higher contract originations and improving efficiencies. On a limited basis, we also originate loans directly from consumers and purchase loans from other automobile finance companies. Additionally, we continue to explore other distribution channels, including the Internet. In December 2001, we acquired an interest in DealerTrack Holdings, Inc., also known as DealerTrack, an Internet business-to-business portal that brings together finance companies and dealers. DealerTrack has signed up over 100 finance companies and approximately 24,000 dealers. As of December 31, 2004, we owned approximately 6.3% of DealerTrack. Currently, over 80% of our applications are processed through DealerTrack.

We currently have a 2% market share of the United States auto finance industry. However, we are the largest originator of pre-owned automobile contracts in California, by a two to one margin to our nearest competitor, with a 9% market share. Our leading market share in California enables us to earn a higher risk-adjusted margin in this market. We are seeking to expand our market share in other states to achieve similar returns.

Price Contracts to Maximize Risk-Adjusted Returns by Using Advanced Technology and Experienced Underwriters

Quality underwriting and servicing are essential to effectively assess and price for risk and to maximize risk-adjusted returns. We rely on a combination of credit scoring models, system-controlled underwriting policies and the judgment of our trained credit analysts to make risk-based credit and pricing decisions. We use credit scoring to differentiate applicants and to rank order credit risk in terms of expected default probability. Based upon this statistical assessment of credit risk, the underwriter is able to appropriately tailor contract pricing and structure.

To achieve the return anticipated at origination, we have developed a disciplined behavioral servicing process for the early identification and cure of delinquent contracts and for loss mitigation. In addition, we provide incentives to our associates based on credit performance and profitability measurements on both an individual and company level.

The following table shows the risk-adjusted margins on automobile contracts originated over the past five years:

	For the Year Ended December 31,				
	2004	2003	2002	2001	2000
Weighted average coupon(1)	9.88%	10.03%	11.35%	12.74%	13.95%
Interest on borrowings(1)	3.17	2.70	3.74	5.37	6.74
Net interest margins	6.71	7.33	7.61	7.37	7.21
Credit losses(2)	1.99	2.60	2.77	2.27	1.91
Risk-adjusted margins	4.72%	4.73%	4.84%	5.10%	5.30%

(1) Represents the rate on contracts originated during the periods indicated.

(2) Represents the rate on managed contracts during the periods indicated.

Create Operating Efficiencies Through Technology and Best Practices

We evaluate all aspects of our operations in order to streamline processes and employ best practices throughout the organization. Our key technology systems implemented through this process include:

automated front-end loan origination system that calculates borrower ratios, maintains lending parameters and approval limits, accepts electronic applications and directs applications to the appropriate credit analyst, all of which have reduced the cost of receiving, underwriting and funding contracts;

custom designed proprietary scoring models that rank order the risk of loss occurring on a particular contract;

behavioral delinquency management system, which improves our ability to queue accounts according to the level of risk, monitor collector performance and track delinquent automobile accounts;

centralized and upgraded borrower services department, which includes remittance processing, interactive voice response technology and direct debit services;

centralized imaging system that provides for the electronic retention and retrieval of account records; and

data warehouse that provides analytical tools necessary to evaluate performance of our portfolio by multiple dimensions.

As a result of these efforts, over the last five years we have reduced our operating costs as a percent of managed contracts to 2.2% for 2004 from 3.1% in 2000. We will continue to evaluate new technology and best practices to further improve our operating efficiencies.

Generate Low Cost Liquidity Through Our Funding Sources, Including Positive Operating Cash Flows

Cash flows from our automobile operations provide a significant source of liquidity for us. In addition, we are able to raise additional liquidity through the asset-backed securities market. Over the last year we held an average of approximately $654 million of unencumbered automobile contracts on our balance sheet, which provides another source of liquidity. The Bank provides liquidity through its retail and commercial banking divisions in the form of deposits. At December 31, 2004, the Bank also had a $2.6 billion mortgage-backed securities portfolio that it can use to obtain advances from the FHLB and securities repurchase agreements. These sources of funds provide us with additional funding security.

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Record High Quality Earnings and Maintain a Conservative, Well-Capitalized Balance Sheet

Presenting high quality earnings and maintaining a conservative, well-capitalized balance sheet have been our focus since our founding in 1972. We believe this strategy ensures success over the long term, rather than providing extraordinary short-term results. Components of this strategy include accounting for our automobile securitizations as secured financings rather than sales, maintaining appropriate allowances for credit losses and holding a strong capital position.

Since March 2000, we have structured our automobile contract securitizations as secured financings. By accounting for these securitizations as secured financings, the contracts and asset-backed notes issued remain on our balance sheet with the earnings of the contracts in the trust and the related financing costs reflected over the life of the underlying pool of contracts as net interest income on our Consolidated Statements of Income. Additionally, no retained interest in securitized assets, also known as RISA, is recorded on the balance sheet and no corresponding non-cash gain on sale is recorded on the income statement. The RISA must be written off over the life of a securitization. This asset is subject to impairment if assumptions made about the performance of a securitization are not realized. At December 31, 2002, the RISA created from asset-backed securities issued prior to April 2000 had been fully amortized.

Our allowance for credit losses was $315 million at December 31, 2004 compared with $302 million at December 31, 2003. The increase in the allowance for credit losses was the result of a higher level of automobile contracts held on balance sheet. The allowance for credit losses as a percentage of owned loans outstanding was 2.6% at December 31, 2004 compared with 2.7% at December 31, 2003. Based on the analysis we performed related to the allowance for credit losses as described in Note 1 Summary of Significant Accounting Policies in our Consolidated Financial Statements, we believe that our allowance for credit losses is currently adequate to cover probable losses in our loan portfolio that can be reasonably estimated.

Total shareholders equity, excluding accumulated other comprehensive loss and including minority interest, was $1.5 billion or 9.9% of total assets at December 31, 2004. This compares with total shareholders equity of $1.3 billion or 9.0% of total assets at December 31, 2003.

Operations

Automobile Lending

Locations

We currently originate contracts nationwide through our 42 offices. Each regional business center manager is accountable for the performance of contracts originated in that office throughout the life of the contracts, including acquisition, underwriting, funding and collection. We have two national service centers located in California and Texas with functions including data verification, records management, remittance processing, customer service call centers, automated dialers and asset recovery. We also maintain four regional bankruptcy and remarketing centers. Our corporate offices are located in Irvine, California.

Business Development

Our business development representatives are responsible for improving our relationship with existing dealers and enrolling and educating new dealers to increase the number of contracts originated. Business development managers within each regional business center provide direct management oversight to each business development representative. In addition, the director of sales and marketing provides oversight management to ensure that all business development managers and representatives are following overall corporate guidelines.

Business development representatives target selected dealers within their territory based upon volume, potential for business, financing needs of the dealers, and competitors that are doing business with such dealers. Before we decide to do business with a new dealer, we perform a review process of the dealer and its business. If we then determine to proceed, we enter into a non-exclusive dealership agreement with the dealer. This agreement contains certain representations regarding the contracts the dealer will sell to us. Due to the

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non-exclusive nature of our relationship with dealers, the dealers retain discretion to determine whether to sell contracts to us or another financial institution. The business development representative is responsible for educating the dealers finance managers about the types of contracts that meet our underwriting standards. We believe this educational process helps to minimize the number of applications we receive that are outside of our underwriting guidelines, thereby increasing our efficiency and lowering our overall cost to originate contracts.

After the dealer relationship is established, the business development representative continues to actively monitor the relationship with the objective of maximizing the overall profitability of each dealer relationship within his or her territory. This includes monitoring the number of approved applications received from each dealer that are converted into contracts, verifying that the contracts meet our underwriting standards, monitoring the risk-based pricing of contracts acquired and reviewing the actual performance of the contracts purchased. To the extent that a dealer does not meet minimum conversion ratios, lending volume standards or overall profitability targets, the dealer may be precluded from sending us applications in the future. Our dealer base increased during the year from approximately 8,000 to 8,200, primarily as a result of us expanding our nationwide presence. Our increase in volume is the result of this increase in our dealer base, in addition to funding more contracts from our existing dealers.

Underwriting and Purchasing of Contracts

The underwriting process begins when an application is sent to us via the Internet or fax. Internet applications are automatically loaded into our front-end underwriting computer system. Applicant information from faxed applications is manually entered into our front-end system. Once an application is in the front-end system, the system automatically obtains the applicant s credit bureau information and calculates our proprietary credit score.

We use credit scoring to differentiate credit applicants and to rank order credit risk in terms of expected default probabilities. This enables us to tailor contract pricing and structure according to our statistical assessment of credit risk. For example, a consumer with a lower score would indicate a higher probability of default; therefore, we would structure and price the transaction to compensate for this higher default risk. Multiple scorecards are used to accommodate the full spectrum of contracts we purchase. In addition to a credit score, the system highlights certain aspects of the credit application that have historically impacted the credit worthiness of the borrower.

Our credit analysts are responsible for properly structuring and pricing deals to meet our risk-based criteria. They review the applicant s information and the structure and price of an application and determine whether to approve, decline or make a counteroffer to the dealer. Each credit analyst s lending levels and approval authorities are established based on the individual analyst s credit experience and portfolio performance, credit manager audit results and quality control review results. Higher levels of approvals are required for higher credit risk and are controlled by system driven parameters and limits. System driven controls include limits on minimum contract buy rates, contract terms, contract advances, payment to income ratios, debt to income ratios, collateral values and low side overrides.

Once a credit decision has been made, the computer system automatically sends a response to the dealer through the Internet or via fax specifying approval, denial or conditional approval. Conditional approval is based upon modification to the structure, such as an increase in the down payment, reduction of the term, or the addition of a co-signer. As part of the approval process, the credit analyst may require that some of the information be verified, such as the applicant s income, employment, residence or credit history. The system increases efficiency by automatically denying approval in certain circumstances without additional underwriting being performed. These automated notices are controlled by parameters set by us, consistent with our credit policy.

If the dealer accepts the terms of the approval, the dealer is required to deliver the necessary documentation for each contract to us. Our funding group audits such documents for completeness and consistency with the application and provides final approval and funding of the contract. A direct deposit is made or a check is prepared and promptly sent to the dealer for payment. The dealer s proceeds may include

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dealer participation for consideration of the acquisition of the contract. The completed contract file is then forwarded to our records center for imaging.

Under the direction of the Credit and Pricing Committee, the Chief Credit Officer oversees credit risk management, sets underwriting policy, monitors contract pricing, tracks compliance to underwriting policies and re-underwrites select contracts. If re-underwriting statistics are unacceptable, a portion of quarterly incentives are forfeited by the office that originated the contracts. Our internal quality control group reviews contracts on a statistical sampling basis to ensure adherence to established lending guidelines and proper documentation requirements. Credit managers within each regional business center provide direct management oversight to each credit analyst. In addition, the Chief Credit Officer provides oversight management to ensure that all credit managers and analysts are following overall corporate guidelines.

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The following table sets forth information for contracts originated, contracts managed and the number of dealers in the states in which we operate our business:

	Contracts Originated For the Year Ended December 31,			At December 31, 2004	
State	**2004**	**2003**	**2002**	**Managed Portfolio**	**Number of Dealers(1)**
	(Dollars in thousands)				
California	$2,569,659	$2,228,877	$2,091,347	$ 4,298,323	2,973
Washington	393,675	373,111	310,189	649,237	517
Arizona	337,670	299,918	283,528	605,388	473
Texas	244,456	204,065	171,761	427,999	760
Oregon	219,666	206,875	214,683	373,529	476
Virginia	215,054	162,148	123,403	339,472	449
New York	174,508	117,377	63,519	255,041	360
Nevada	172,531	142,957	131,094	269,562	155
Illinois	167,334	147,635	104,576	274,709	508
Ohio	162,936	161,846	171,109	350,790	741
Florida	162,866	132,238	147,931	304,737	693
Colorado	161,998	248,667	200,153	356,970	316
North Carolina	142,731	148,786	144,859	293,720	524
Idaho	142,336	129,838	102,475	233,440	192
Georgia	134,693	98,224	77,294	224,316	424
Michigan	122,840	109,323	82,542	214,502	378
Maryland	118,727	100,620	62,145	189,374	251
Missouri	88,989	77,273	70,070	154,782	324
Tennessee	84,568	90,156	86,228	177,107	309
South Carolina	76,478	88,511	145,892	204,316	300
Utah	75,011	74,993	84,897	139,617	291
New Jersey	70,799	60,255	42,210	119,819	210
Massachusetts	69,999	69,343	39,086	117,625	185
Wisconsin	59,387	52,304	44,318	98,792	220
Pennsylvania	56,202	47,813	50,699	104,689	327
Minnesota	50,056	46,398	29,708	78,686	131
New Mexico	47,519	34,010	23,930	70,959	91
Connecticut	45,291	35,183	22,928	72,337	109
Alabama	38,027	43,343	36,570	82,461	183
Kentucky	37,242	23,112	41,754	70,836	187
Indiana	30,191	46,530	37,904	76,809	227
Delaware	29,195	32,750	26,697	62,396	74
New Hampshire	27,382	32,619	24,275	52,049	91
Kansas	26,386	26,398	19,448	48,139	123
Iowa	21,899	20,712	20,552	37,948	97
Mississippi	10,402	10,245	18,051	29,142	93
Rhode Island	7,126	5,170	4,385	11,204	33
Wyoming	6,848	8,105	12,507	14,884	37
Nebraska	6,839	8,165	9,824	14,471	57
Montana	5,684	3,590		7,085	6
Maine	5,172	3,782	492	7,138	18
Oklahoma	4,538	12,874	27,390	23,186	79
South Dakota	3,553	4,971	3,843	7,101	13
West Virginia	3,223	7,111	9,447	13,104	82
Vermont	3,184	355	21	3,071	10
Hawaii				28	12
Total	$6,634,870	$5,978,576	$5,415,734	$11,560,890	14,109

(1) Represents number of dealers from which contracts were originated that remain outstanding in our servicing portfolio at December 31, 2004.

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Servicing of Contracts

We service all of the contracts we purchase, both those held by us and those sold in automobile securitizations. The servicing process includes collecting and processing payments, responding to borrower inquiries, maintaining the security interest in the vehicle, maintaining physical damage insurance coverage and repossessing and selling collateral when necessary. We utilize a decision support system that incorporates behavioral scoring models and we purchase credit bureau information on all borrowers, which is updated each quarter. We believe these processes are the most efficient and effective collection methods.

We use monthly billing statements to serve as a reminder to borrowers as well as an early warning mechanism in the event a borrower has failed to notify us of an address change. Payments received in the mail or through our offices are processed by our centralized remittance processing center. To expedite the collection process, we accept payments from borrowers through automated payment programs including Internet banking, direct debits and third party payment processing services. Our customer service center uses interactive voice response technology to answer routine account questions and route calls to the appropriate service counselor.

Our fully integrated servicing, decision and collections system automatically forwards accounts to our automated dialer or regional collection centers based on the assessed risk of default or loss. Account assessment poses several courses of action, including delaying collection activity based on the likelihood of self curing, directing an account to the automated dialer for a predetermined number of days before forwarding it to a regional collections office, or directly forwarding to a loan service counselor in the regional office for accelerated collection efforts as early as when the contract is seven days past due. This process balances the efficiency of centralized collection efforts with the effectiveness of decentralized personal collection efforts. Our systems track delinquencies and chargeoffs, monitor the performance of our collection associates and assist in delinquency forecasting. To assist in the collection process, we can access original documents through our imaging system, which stores all the documents related to each contract. We limit deferments to a maximum of three over the life of the contract and rarely rewrite contracts.

If an account is delinquent and satisfactory payment arrangements are not made, the automobile is generally repossessed within 60 to 90 days of the date of delinquency, subject to compliance with applicable law. We use independent contractors to perform repossessions. The automobile remains in our custody for 10 days, or longer if required by applicable law, to provide the obligor the opportunity to redeem the automobile. If after the redemption period the delinquency is not cured, we write down the vehicle to fair value and reclassify the contract as a repossessed asset. After the redemption period expires, we prepare the automobile for sale. We sell substantially all repossessed automobiles through wholesale automobile auctions, subject to applicable law. We do not provide the financing on repossessions sold. We use regional remarketing departments to sell our repossessed vehicles. Once the vehicles are sold, we charge off any remaining deficiency balances. At December 31, 2004, repossessed automobiles outstanding managed by us were $8.0 million or 0.07% of the total managed contract portfolio, compared with $10.3 million or 0.10% of the total managed contract portfolio at December 31, 2003.

It is our policy to charge off an account when it becomes contractually delinquent by 120 days, except for accounts that are in Chapter 13 bankruptcy, even if we have not yet repossessed the vehicle. At the time that a contract is charged off, all accrued interest is reversed. After chargeoff, we collect deficiency balances through our centralized asset recovery center. These efforts include contacting the borrower directly, seeking a deficiency judgment through a small claims court or instituting other judicial action where necessary. In some cases, particularly where recovery is believed to be less likely, the account may be assigned to a collection agency for final resolution. For those accounts that are in Chapter 13 bankruptcy and contractually past due 120 days, we reverse all accrued interest and recognize income on a cash basis.

Retail Banking

Our retail banking operations are conducted through 20 branch offices located throughout Southern California. The total deposits gathered by the retail banking division were $1.4 billion at December 31, 2004 compared to $1.3 billion at December 31, 2003. Due to our limited number of branch offices, we have

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historically focused on certificate of deposit accounts as the primary product offered by the retail banking division. More recently, we have focused on raising low cost demand deposits and money market accounts in order to lower our overall cost of deposits.

Demand deposits and money market accounts obtained through our retail banking operations totaled $799 million at December 31, 2004 compared with $608 million at December 31, 2003. At December 31, 2004, demand deposits and money market accounts represented 57% of our total retail banking deposits compared with 48% at December 31, 2003. In addition, demand deposits, money market accounts and certificate of deposit accounts of $100,000 or less in principal represented approximately 90% of our total deposit accounts.

Commercial Banking

We focus our commercial banking operations in Southern California, operating through our Irvine headquarters. We target commercial clients with sales between $10 million and $100 million. We offer our commercial clients a full array of deposit and loan products that are priced competitively and designed specifically for them. The commercial banking division s strategy is to generate deposits in excess of the loans it funds to provide another source of liquidity for us. Deposit products include money market, business checking and certificate of deposit accounts delivered either through direct contact or cash management services. Loan products include term loans, lines of credit, asset-based loans, construction loans and real estate loans. We also offer consumer deposit and money market accounts as well as consumer loans and lines of credit to the company owners, management and their associates. Loan products are generally priced on a floating rate basis, based on the prime rate or the London Interbank Offered Rate, also known as LIBOR. Fixed rate loans are generally limited to a one-year term or less.

Credit quality is managed by having each loan reviewed for approval by the Commercial Bank President, Chairman of the Board, Board members or other executive officers. In addition, account officers are assigned to specific accounts to maintain close contact with the customer. Such contact allows for greater opportunity to cross sell products, as well as to observe and continually evaluate customers for potential credit problems.

At December 31, 2004, the commercial banking division had $734 million in deposits compared with $638 million at December 31, 2003. Commercial loans outstanding totaled $166 million and $124 million at December 31, 2004 and 2003, respectively.

The following table presents information regarding total loans and deposits of our commercial banking operations:

	For the Year Ended December 31,		
	2004	**2003**	**2002**
		(Dollars in thousands)	
Average balance loans	$322,969	$377,848	$427,035
Average balance deposits	951,109	734,147	487,102
Interest income	17,217	19,957	28,516
Interest expense	6,992	5,478	6,615
Average interest rate earned on loans	5.33%	5.28%	6.68%
Average interest rate paid on deposits(1)	0.74%	0.75%	1.36%

(1) Excludes effect of hedging activities.

Mortgage Portfolios

We have from time to time originated mortgage products that were held on our balance sheet rather than selling such products into the secondary markets. Other than mortgage loans originated on a limited basis through the commercial banking division, we do not expect to add mortgage loans to our balance sheet.

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Transactions with Related Parties

We believe that the transactions with or between our subsidiaries described below are on terms no less favorable to us than could be obtained from unaffiliated parties. These transactions were approved by our Board of Directors and the Boards of Directors of the Bank, WFS and other subsidiaries, including their respective independent directors. For accounting purposes, each of the transactions described below eliminates upon consolidation.

Intercompany Borrowings

WFS has various borrowing arrangements with the Bank, including long-term, unsecured debt and lines of credit designed to provide financing for WFS and its subsidiaries. These borrowings are the only source of liquidity WFS currently utilizes outside of the asset-backed securities market. These borrowing arrangements, on an unconsolidated basis, provide the Bank with what it believes to be a market rate of return.

WFS borrowed $150 million from the Bank under the terms of a $150 million note, as amended. This note s original maturity was August 1, 2007, although WFS paid off this note in the third quarter of 2004. Interest payments on the $150 million note were due quarterly in arrears, calculated at the rate of 8.875% per annum. Pursuant to the terms of this note, WFS could not incur any other indebtedness that was senior to the obligations evidenced by this note except for (i) indebtedness collateralized or secured under the $1.8 billion line of credit discussed below and (ii) indebtedness for similar types of warehouse lines of credit. WFS made principal payments on this note totaling $101 million and $7.2 million during the years ended December 31, 2004 and 2003, respectively. There was no amount outstanding on this note at December 31, 2004 compared with $101 million at December 31, 2003. Interest expense on this note totaled $5.0 million, $9.1 million and $12.4 million for the years ended December 31, 2004, 2003 and 2002, respectively.

Additionally, WFS borrowed $300 million from the Bank under the terms of a $300 million note in May 2002. This note matures on May 15, 2012. Interest payments on the $300 million note are due semi-annually, in arrears, calculated at the rate of 10.25% per annum. Pursuant to the terms of this note, WFS may not incur any other indebtedness that is senior to the obligations evidenced by this note except for (i) indebtedness under the $150 million note, (ii) indebtedness collateralized or secured under the $1.8 billion line of credit and (iii) indebtedness for similar types of warehouse lines of credit. There was $300 million outstanding on this note at December 31, 2004 and 2003. Interest expense on this note totaled $30.8 million, $30.8 million and $20.3 million for the years ended December 31, 2004, 2003 and 2002, respectively.

WFS has a line of credit extended by the Bank permitting it to draw up to $1.8 billion as needed to be used in its operations. WFS does not pay a commitment fee for this line of credit. The line of credit terminates on December 31, 2009. There was $161 million outstanding at December 31, 2004 and no amount outstanding at December 31, 2003. The average amount outstanding on the line was $20.5 million for 2004 and $14.7 million for 2003. The $1.8 billion line of credit carries an interest rate based on the one-month LIBOR plus an interest spread of 125 basis points when unsecured and 90 basis points when secured. The Bank has the right under this line of credit to refuse to permit additional amounts to be drawn if, in the Bank s discretion, the amount sought to be drawn will not be used to finance the purchase of contracts or other working capital requirements.

Various subsidiaries of WFS have entered into lines of credit with the Bank. These lines permit these subsidiaries to draw up to a total of $320 million to fund activities related to securitizations. The $320 million in lines of credit terminate on January 1, 2010, although the terms may be extended by these subsidiaries for additional periods of up to 60 months. At December 31, 2004, the amount outstanding on these lines of credit totaled $52.7 million compared with $21.8 million at December 31, 2003. These lines of credit carry an interest rate based on the one-month LIBOR on the last day of the prior month plus an interest spread of 335 basis points when unsecured and 275 basis points when secured.

Interest on the amounts outstanding under the lines of credit is paid monthly, in arrears, and is calculated on the daily average amount outstanding that month. Interest expense for these lines of credit totaled $1.8 million, $1.0 million and $3.0 million for the years ended December 31, 2004, 2003 and 2002,

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respectively. For the years ended December 31, 2004, 2003 and 2002, the weighted average interest rates for the lines of credit were 3.38%, 2.28% and 2.74%, respectively. At December 31, 2004, 2003 and 2002, the weighted average interest rates for the lines of credit were 3.65%, 2.28% and 2.55%, respectively.

Short-Term Investment

WFS invests its excess cash at the Bank under an investment agreement. The Bank pays WFS an interest rate on this excess cash equal to the one-month LIBOR. The weighted average interest rate was 1.37%, 1.23% and 1.77% for the years ended December 31, 2004, 2003 and 2002, respectively. WFS held no amount and $764 million excess cash with the Bank under the investment agreement at December 31, 2004 and 2003, respectively. The average investment during 2004 was $529 million compared with $660 million during 2003. Interest income earned by WFS under this agreement totaled $7.5 million, $8.2 million and $10.2 million for the years ended December 31, 2004, 2003 and 2002, respectively. The interest rate was 2.29% at December 31, 2004 compared with 1.17% at December 31, 2003.

Reinvestment Contracts

Pursuant to a series of agreements to which WFS, the Bank and WFAL2, among others, are parties, WFS has access to the cash flows of certain outstanding securitizations, including the cash held in the spread accounts for these securitizations. WFS is permitted to use that cash as it determines, including to originate contracts.

In certain securitizations, the Bank and WFAL2 have entered into a reinvestment contract that is deemed to be an eligible investment under the relevant securitization agreements. The securitization agreements require that all cash flows of the relevant trust and the associated spread accounts be invested in the applicable reinvestment contract. A limited portion of the invested funds may be used by WFAL2 and the balance may be used by the Bank. The Bank makes its portion available to WFS pursuant to the terms of the WFS Reinvestment Contract. Under the WFS Reinvestment Contract, WFS receives access to all of the cash available to the Bank under each trust reinvestment contract and is obligated to repay to the Bank an amount equal to the cash so used when needed by the Bank to meet its obligations under the individual trust reinvestment contracts. With the portion of the cash available to it under the individual trust reinvestment contracts, WFAL2 purchases contracts from WFS pursuant to the terms of a sale and servicing agreement.

In accordance with these agreements, the Bank and WFAL2 pledge property owned by each of them for the benefit of the trustee of each trust and the surety. WFS paid the Bank a fee equal to 55 basis points of the amount of collateral pledged by the Bank as consideration for the pledge of collateral and for WFS access to cash under the WFS Reinvestment Contract in 2004. Prior to January 1, 2004, this fee was 12.5 basis points. WFS paid the Bank $4.2 million, $1.2 million and $1.2 million for the years ended December 31, 2004, 2003 and 2002, respectively, for this purpose. As WFAL2 directly utilizes the cash made available to it to purchase contracts for its own account from WFS, no additional consideration from WFS is required to support WFAL2 s pledge of its property under the agreement with Financial Security Assurance Inc., also known as FSA. While WFS is under no obligation to repurchase contracts from WFAL2, to the extent WFAL2 needs to sell any such contracts to fund its repayment obligations under the trust reinvestment contracts, it is anticipated that WFS would prefer to purchase those contracts than for WFAL2 to sell those contracts to a third party. The WFS Reinvestment Contract, by its terms, is to remain in effect so long as any of the trust reinvestment contracts are an eligible investment for the related securitization. There was $465 million and $789 million outstanding on the trust reinvestment contracts at December 31, 2004 and 2003, respectively.

Whole Loan Sales

We purchased $1.5 billion and $1.7 billion of contracts from WFS in whole loan sales for the years ended December 31, 2004 and 2003, respectively. We purchased no contracts from WFS for the year ended December 31, 2002. In these transactions, WFS received cash for the amount of the principal outstanding on the contracts plus a premium of $48.5 million and $49.7 million for the years ended December 31, 2004 and 2003, respectively. These premiums were recorded by WFS as a cash gain on sale, net of the write-off of

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outstanding dealer participation balances and the effect of hedging activities. These contracts were subsequently securitized by us and continue to be managed by WFS under the terms of the transactions. These whole loan sale transactions are eliminated upon consolidation for accounting purposes.

Tax Sharing Agreement

We and our subsidiaries are parties to an amended tax sharing agreement pursuant to which a consolidated federal tax return is filed for all of the parties to the agreement. Under this agreement, the tax due by the group is allocated to each member based upon the relative percentage of each member s taxable income to that of all members. Each member pays us its estimated share of tax liability when otherwise due, but in no event may the amount paid exceed the amount of tax that would have been due if a member were to file a separate return. A similar process is used with respect to state income taxes for those states that permit the filing of a consolidated or combined return. Tax liabilities to states that require the filing of separate tax returns for each company are paid by each company. The term of the amended tax sharing agreement commenced on the first day of the consolidated return year beginning January 1, 2002 and continues in effect until the parties to the tax sharing agreement agree in writing to terminate it. See Note 22 Income Taxes in our Consolidated Financial Statements.

Management Agreements

We have entered into certain management agreements with WFS and the Bank pursuant to which we pay an allocated portion of certain costs and expenses incurred by WFS and the Bank with respect to services or facilities of WFS and the Bank used by us or our subsidiaries, including our principal office facilities, our field offices, and overhead and associate benefits pertaining to Bank and WFS associates who also provide services to us or our subsidiaries. Additionally, as part of these management agreements, WFS and the Bank have agreed to reimburse us for similar costs incurred. The management agreements may be terminated by any party upon five days prior written notice without cause, or immediately in the event of the other party s breach of any covenant, obligation, or duty contained in the applicable management agreement or for violation of law, ordinance, statute, rule or regulation governing either party to the applicable management agreement.

On January 1, 2004, WFS and the Bank entered into a services agreement with Western Financial Associate Solutions, also known as WFAS, a subsidiary of the Bank, pursuant to which they transferred their human resources function and the majority of their employees to WFAS, and WFAS provides employees to perform certain business functions and provides human resource functions for their remaining employees. This service agreement may be terminated by any party upon 30 days prior written notice without cause, or immediately in the event of the other party s breach of any covenant, obligation, or duty contained in the applicable management agreement or for violation of law, ordinance, statute, rule or regulation governing either party to the applicable management agreement.

Supervision and Regulation

General

The following discussion describes federal and state laws and regulations that have a material effect on our business. These laws and regulations generally are intended to protect consumers, depositors, federal deposit insurance funds and the banking system as a whole, rather than stockholders and creditors. To the extent that this section refers to statutory or regulatory provisions, it is qualified in its entirety by reference to these provisions. The federal banking regulatory agencies have substantial enforcement powers over the depository institutions that they regulate. Civil and criminal penalties may be imposed on such institutions and persons associated with those institutions for violations of laws or regulation. Further, these statutes and regulations are subject to change by Congress and federal or state regulators. A change in the laws, regulations or regulatory policies applicable to us could have a material effect on our business.

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Bank Operations

The Bank and its subsidiaries are subject to examination and comprehensive regulation and reporting requirements by the OTS, the Bank s primary federal regulator, as well as by the FDIC. The OTS is required to conduct a full scope, on-site examination of the Bank every twelve months, with the examination costs assessed against the Bank. In addition, the Bank is subject to regulation by the Board of Governors of the Federal Reserve System, which governs reserves required to be maintained against deposits and other matters. The Bank also is a member of the FHLB of San Francisco, one of twelve regional banks for federally insured savings and loan associations and banks comprising the FHLB System. The FHLB System is under the supervision of the Federal Housing Finance Board. In addition, various other laws and regulations, such as the Gramm-Leach-Bliley Financial Modernization Act, Federal Home Loan Bank Act, Community Reinvestment Act, Sarbanes-Oxley Act of 2002, and USA Patriot Act, directly or indirectly affect our business.

Since WFS is owned by the Bank, a federal savings association, it is subject to regulation and examination primarily by the OTS as well as by the FDIC. Our service corporation subsidiaries also are subject to regulation by the OTS and other applicable federal and state agencies. WFS and certain of our other subsidiaries are further regulated by various departments or commissions of the states in which they do business. This includes our insurance subsidiaries, which are subject to regulation by applicable state insurance regulatory agencies.

Automobile Lending Operations

We purchase automobile installment contracts in 45 states and are subject to both state and federal regulation of our automobile lending operations. We must comply with each state s consumer finance, automobile finance, licensing and titling laws and regulations to the extent those laws and regulations are not pre-empted by OTS regulations or federal law.

The contracts we originate and service are subject to numerous federal and state consumer protection laws, including the Federal Truth-in-Lending Act, the Federal Trade Commission Act, the Fair Credit Billing Act, the Fair Credit Reporting Act, the Equal Credit Opportunity Act, the Fair and Accurate Credit Transactions Act, the California Rees-Levering Act, other retail installment sales laws and similar state laws. Most state consumer protection laws also govern the process by which we may repossess and sell an automobile pledged as security on a defaulted contract. We must follow those laws carefully in order to maximize the amount of money we can recover on a defaulted contract.

Affiliate Transaction Restrictions

The Home Owners Loan Act, also known as HOLA, and regulations of the OTS that incorporate Sections 23A and 23B of the Federal Reserve Act and Regulation W promulgated thereunder, limit the type of activities and investments in which the Bank or its subsidiaries may participate if the investment or activity involves an affiliate of the Bank. In addition, transactions between the Bank or its subsidiaries and an affiliate must be on terms that are at least as favorable to the Bank or its subsidiaries as are the terms of the transactions with unaffiliated companies. Sections 23A and 23B and Regulation W limit the risks to a bank from transactions between the bank and its affiliates and limit the ability of a bank to transfer to its affiliates the benefits arising from the bank s access to insured deposits, the payment system and the discount window and other benefits of the Federal Reserve System. The statute and rule impose quantitative and qualitative limits on the ability of a bank to extend credit to, or engage in certain other transactions with, an affiliate (and a nonaffiliate if an affiliate benefits from the transaction). The OTS enforces Sections 23A and 23B and Regulation W to the extent applicable to the Bank. This permits the OTS to, as necessary, limit transactions between us, the Bank, our subsidiaries or affiliates and the subsidiaries or affiliates of the Bank, and limit any of Westcorp s activities that might create a serious risk that our liabilities and the liabilities of our affiliates may be imposed on the Bank.

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Investment Restrictions

HOLA regulations limit certain of the Bank activities and the activities of our operating subsidiaries to a percentage of the Bank s total consolidated assets, excluding for these purposes, assets held by our service corporations. The Bank is precluded from holding consumer loans, including automobile contracts, on its consolidated balance sheet, in an aggregate principal balance in excess of 30% of its total consolidated assets. The limitation is increased to 35% of consolidated assets if all of the consumer loans in excess of the 30% limit are obtained by the Bank and its operating subsidiaries directly from consumers. Our securitization activities are structured to enable the Bank to remove securitized automobile contracts from the HOLA consumer loan limitation calculation. As a result, securitized automobile contracts are not included in the calculation of the percentage of the Bank s consolidated assets subject to either the 30% or 35% limitation on consumer loans. The Bank is precluded from holding commercial loans, including loans to our service corporations, on its consolidated balance sheet, in an aggregate principal balance in excess of 10% of its total consolidated assets. Commercial loans secured by real estate and small business loans with $2.0 million or less in outstanding principal are not included in the calculation of the percentage of commercial loans. The Bank is precluded from investing more than 2% of its consolidated assets in service corporations, although it may invest an additional 1% in service corporations devoted to community service activities as specified in the regulations. Retained earnings or losses from the operations of our service corporations are not included in the calculation of its investment in service corporations.

Capital Requirements

As a federally chartered savings bank, the Bank is subject to certain minimum capital requirements imposed by the Financial Institutions Reform, Recovery and Enforcement Act, also known as FIRREA, and the Federal Deposit Insurance Corporation Improvement Act, also known as FDICIA. FDICIA separates all financial institutions into one of five capital categories: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized. To be considered well capitalized, an institution must have a ratio of total risk-based capital to risk-weighted assets of 10.0% or greater, a Tier 1 risk-based capital ratio to risk-weighted assets of 6.0% or greater, a leverage ratio of 5.0% or greater and not be subject to any OTS order. To be adequately capitalized, an institution must have a total risk-based capital ratio of not less than 8.0%, a Tier 1 risk-based capital ratio of not less than 4.0% and a leverage ratio of not less than 4.0%. Any institution that is neither well-capitalized nor adequately capitalized will be considered undercapitalized. In addition, HOLA and the OTS regulations require savings associations to maintain tangible capital in an amount not less than 1.5% of adjusted total assets and core capital in an amount not less than 3% of adjusted total assets.

HOLA mandates that the OTS promulgate capital regulations that include capital standards no less stringent than the capital standards applicable to national banks. The OTS in its regulations has defined total risk-based capital as core capital plus supplementary capital less direct equity investments not permissible to national banks (subject to a phase-in schedule) and reciprocal holdings that other depository institutions may count in their regulatory capital. Supplementary capital is limited to 100% of core capital. Supplementary capital is comprised of permanent capital instruments not included in core capital, general valuation loan and lease loss allowance, and maturing capital instruments such as subordinated debentures. The amount of general valuation loan and lease allowance that may be included in supplementary capital is limited to 1.25% of risk-weighted assets. At December 31, 2004, there was one debenture issuance remaining with an outstanding balance, excluding discounts and issuance costs, of $300 million and an interest rate of 9.625% due in 2012. Pursuant to the approval from the OTS to treat those debentures as supplementary capital, the total amount of debentures issued by the Bank that may be included as supplementary capital may not exceed the total amount of the Bank s core capital. Presently, $296 million is included as supplementary capital. The 9.625% debentures will not begin to be phased out as supplementary capital until May 15, 2007.

The Bank currently meets all capital requirements to which it is subject and satisfies the requirements of a well capitalized institution. See Management s Discussion and Analysis of Financial Condition and Results of Operations Capital Resources and Liquidity Capital Requirements for an analysis of the Bank s actual capital and required capital. Because the Bank is well capitalized, it may accept brokered

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deposits without restriction. See Management s Discussion and Analysis of Financial Condition and Results of Operations Capital Resources and Liquidity Principal Sources of Cash Deposits. Federal regulators must take prompt corrective action to resolve the problems of insured depository institutions that fall below certain capital ratios.

Safety and Soundness Standards

The federal banking agencies have adopted guidelines establishing safety and soundness standards for all insured depository institutions. Those guidelines relate to internal controls, information systems, internal audit systems, loan underwriting and documentation, compensation and interest rate exposure. In general, the standards are designed to assist the federal banking agencies in identifying and addressing problems at insured depository institutions before capital becomes impaired. If an institution fails to meet these standards, the appropriate federal banking agency may require the institution to submit a compliance plan and institute enforcement proceedings if an acceptable compliance plan is not submitted.

Distributions

The OTS has adopted regulations for determining if capital distributions of a savings association are permitted. Capital distributions are permissible unless the Bank would be undercapitalized, the proposed distribution raises safety and soundness concerns, or violates a prohibition in any statute, regulation or agreement between the Bank and the OTS. The Bank also is subject to certain limitations on the payment of dividends by the terms of the indentures for its debentures. Those limitations are more severe than the OTS capital distribution regulations. Under the most restrictive of those limitations arising in connection with the Bank s sale of debentures, the greatest capital distribution that the Bank could currently make is $358 million. See Note 18 Dividends in our Consolidated Financial Statements for a more detailed description of limits on dividends the Bank is allowed to pay.

Insurance of Accounts

The FDIC administers the Savings Association Insurance Fund, also known as SAIF. Deposits with us are insured through the SAIF to the maximum amount permitted by law, which is currently $100,000. The FDIC may terminate the deposit insurance of any insured depository institution, including the Bank, if it determines after a hearing that the institution has either 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, order or any condition imposed by an agreement with the FDIC.

Subprime Lending Programs

The OTS, along with other federal banking regulatory agencies, has adopted guidance pertaining to subprime lending programs. Pursuant to the guidance, lending programs that provide credit to borrowers whose credit histories reflect specified negative characteristics, such as recent bankruptcies or payment delinquencies, are deemed to be subprime lending programs. Many of the loans that we originate possess one or more of the factors identified in the guidance as indicative of a subprime loan. Pursuant to the guidance, examiners may require that an institution with a subprime lending program hold additional capital that ranges from one and one-half to three times the normal capital required for similar loans made to borrowers who are not subprime borrowers. Because many of the loans we originate possess one or more of the factors identified in the guidance as indicative of a subprime loan, the Bank maintains its capital levels higher than those otherwise required by the OTS. The maintenance of higher capital levels by the Bank may slow our growth, require us to raise additional capital or sell assets, all of which would negatively impact our earnings. We cannot predict whether the Bank will be required by the OTS to hold additional capital with respect to those automobile contracts we hold as to which the borrowers are deemed by the OTS to be subprime borrowers.

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Community Reinvestment Act

The Bank is subject to certain requirements and reporting obligations involving activities in connection with the Community Reinvestment Act, also known as the CRA. The CRA generally requires the federal banking agencies to evaluate the record of a financial institution in meeting the credit needs of its local communities, including low-and moderate-income neighborhoods. The CRA further requires the agencies to take into account a financial institution s record of meeting its community credit needs when evaluating applications for, among other things, domestic branches, consummating mergers or acquisitions, or holding company formations. In measuring a bank s compliance with its CRA obligations, the regulators utilize a performance-based evaluation system which bases CRA ratings on the bank s actual lending, service and investment performance, rather than on the extent to which the institution conducts needs assessments, documents community outreach activities or complies with other procedural requirements. In connection with its assessment of CRA performance, the FDIC assigns a rating of outstanding, satisfactory, needs to improve or substantial noncompliance. The Bank s most recent rating was satisfactory.

Other Consumer Protection Laws and Regulations

Examination and enforcement have become intense, and banks have been advised to monitor carefully compliance with various consumer protection laws and their implementing regulations. In addition to the other laws and regulations discussed herein, the Bank is subject to certain consumer and public interest laws and regulations that are designed to protect customers in transactions with banks and certain other financial services companies. While the list set forth below is not exhaustive, these laws and regulations include the Truth in Lending Act, the Truth in Savings Act, the Electronic Funds Transfer Act, the Expedited Funds Availability Act, the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Fair Debt Collection Practices Act and the Right to Financial Privacy Act, as well as various state consumer protection laws. These laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions must deal with customers when taking deposits, making loans, collecting loans and providing other services. We also are subject to the federal Servicemembers Civil Relief Act and similar state laws affecting enforcement of loans to those in military service. The Bank must comply with the applicable provisions of these laws and regulations as part of its ongoing customer relations. Failure to comply with these laws and regulations can subject the Bank to various penalties, including but not limited to enforcement actions, injunctions, fines or criminal penalties, punitive damages to consumers and the loss of certain contractual rights. The installment sales contracts purchased by WFS are typically subject to stringent state laws. Violations of these state laws by the sellers could subject WFS, as the holder of the contracts, to severe remedies, including, in some instances, the loss of the right to collect interest or principal.

Taxation

Federal Income Taxes

We file a calendar year consolidated federal income tax return with our subsidiaries. All entities included in the consolidated financial statements are included in the consolidated tax return.

The Bank is a savings and loan association for federal income tax purposes. Prior to 1996, savings and loan associations satisfying certain conditions were permitted under the Internal Revenue Code to establish reserves for bad debts and to make annual additions to these reserves, which qualified as deductions from income. However, in 1996 new legislation was enacted which eliminated the reserve method of accounting for bad debts for tax purposes for savings and loan associations and required the reserve balance to be recaptured. During 2003, the remaining $1.7 million of reserves were recaptured.

We will be subject to the alternative minimum tax if that tax is larger than the regular federal tax otherwise payable. Generally, alternative minimum taxable income is a taxpayer s regular taxable income, increased by the taxpayer s tax preference items for the year and adjusted by computing certain deductions in a special manner which negates the acceleration of such deductions under the regular federal tax. This amount is then reduced by an exemption amount and is subject to tax at a 20% rate. In the past, we have not generally paid alternative minimum tax and do not expect that we will in the current year.

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California Franchise Tax and Other State Provisions

At the end of 2004, we had a tax presence in approximately 39 states. However, we expect that approximately 50% of the activity of the group and the resulting income will be taxed as California source income, with the remaining amounts apportioned or allocated outside California.

The California franchise tax applicable to financial corporations such as the Bank is higher than the rate of tax applicable to non-financial corporations because it includes an amount in lieu of local personal property and business license taxes paid by non-financial corporations, but not generally paid by financial institutions such as the Bank. For taxable years ending on or after December 31, 1995, the tax rate for a financial corporation is equal to the tax rate on a regular corporation plus 2%. For income years beginning after January 1, 1997, the California regular corporate tax rate is 8.84% and the financial corporation tax rate is 10.84%.

We compute our taxable income for California purposes on a unitary basis, or as if we were one business unit, and file one combined California franchise tax return, excluding Westhrift Life Insurance Company, also known as Westhrift. The California Franchise Tax Board has completed an examination of tax years 1998 through 2001.

Subsidiaries

The following subsidiaries are included in our Consolidated Financial Statements.

WFS Receivables Corporation 2

WFS Receivables Corporation 2, also known as WFSRC2, is a wholly owned, Nevada based, limited purpose corporation. WFSRC2 was organized for the purpose of purchasing contracts from WFS and securitizing them in the asset-backed securities market. Securitizations originated by WFSRC2 are guaranteed under a financial guaranty insurance policy issued by FSA. Securitization transactions in which contracts are sold through WFSRC2 are treated as secured financings for accounting purposes. At December 31, 2004, WFSRC2 had $1.2 billion in notes payable on automobile secured financing outstanding.

WFS Receivables Corporation 4

WFS Receivables Corporation 4, also known as WFSRC4, is a wholly owned, Nevada based, limited purpose corporation. WFSRC4 was organized for the purpose of purchasing contracts from WFS and securitizing them in the asset-backed securities market. Securitizations originated by WFSRC4 include senior notes which are credit enhanced through the issuance of subordinated notes. Securitization transactions in which contracts are sold through WFSRC4 are treated as secured financings for accounting purposes. At December 31, 2004, WFSRC4 had $986 million in notes payable on automobile secured financing outstanding.

Westran Services Corp.

Westran Services Corp., also known as Westran, is a wholly owned, California based subsidiary, which provides travel-related services for us and our subsidiaries. Westran does not provide a significant source of revenues or expenses.

Western Consumer Products

Western Consumer Products, also known as WCP, is a wholly owned, California based subsidiary, which markets non-lending related products such as automobile warranties, maintenance agreements and vehicle security systems.

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Western Financial Bank

The Bank is a wholly owned, federally chartered and federally insured savings bank. The Bank provides diversified financial services through its community banking operations, which include a retail banking division and a commercial banking division. Substantially all of our operations are conducted through the Bank and its subsidiary, WFS. The Bank s subsidiaries are WFS, which in turn owns all of the stock of WFAL2, WFS Funding, Inc., also known as WFSFI, WFS Receivables Corporation, also known as WFSRC, WFS Receivables Corporation 3, also known as WFSRC3 and WFS Web Investments, also known as WFSWEB. Other subsidiaries of the Bank include WFAS, Western Auto Investments, Inc., also known as WAI, Westfin Insurance Agency, also known as WFIA, Western Reconveyance Company, Inc., also known as RECON, Western Consumer Services, Inc., also known as WCS, and The Hammond Company, The Mortgage Bankers, also known as THCMB. WFAL, WFS Investments, Inc., also known as WFSII, Westhrift and WestFin Securities Corporation, also known as WestFin, were subsidiaries of the Bank or WFS but have been dissolved as of December 31, 2004. Each of these entities are described in further detail below.

WFS Financial Inc

WFS is an 84% owned operating subsidiary of the Bank that is in the business of financing contracts purchased from automobile dealers. The remaining interest is traded on the Nasdaq National Market® under the ticker symbol WFSI. Each of its offices is licensed to the extent required by law to conduct business in each respective state. The contracts that WFS originates are generally securitized by its subsidiaries, WFSFI, WFSRC, WFSRC3 and formerly by WFAL or are sold to WFSRC2 or WFSRC4 for securitization by those entities. See General Automobile Lending Operations. During 2004, WFS originated $6.6 billion of contracts.

WFS Financial Auto Loans, Inc.

WFAL was a wholly owned, Nevada based, limited purpose service corporation subsidiary of WFS. WFAL was organized primarily for the purpose of purchasing contracts from WFS and securitizing them in the asset-backed securities market. All sales to securitization trusts directly from WFAL were treated as sales for accounting purposes. WFAL has not purchased any automobile contracts since March 2000. In January 2003, we regained control over the assets of the outstanding securitization trusts accounted for as sales for accounting purposes and consolidated all remaining contracts and related notes payable on automobile secured financing outstanding under these trusts. At December 31, 2004, WFAL had been dissolved.

WFS Financial Auto Loans 2, Inc.

WFAL2 is a wholly owned, Nevada based, limited purpose operating subsidiary of WFS. WFAL2 purchases contracts that are then used as collateral for its reinvestment contract activities. See Transactions with Related Parties Reinvestment Contracts.

WFS Funding, Inc.

WFSFI is a wholly owned, Nevada based, limited purpose service corporation subsidiary of WFS. WFSFI was incorporated for the purpose of providing conduit financings.

WFS Investments, Inc.

WFSII was a wholly owned, California based, limited purpose operating subsidiary of WFS. WFSII was incorporated for the purpose of purchasing limited ownership interests in owner trusts in connection with securitization transactions. WFSII was limited by its Articles of Incorporation from engaging in any business activities not incidental or necessary to its stated purpose. At December 31, 2004, WFSII had been dissolved.

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WFS Receivables Corporation

WFSRC is a wholly owned, Nevada based, limited purpose service corporation subsidiary of WFS. WFSRC was incorporated for the purpose of purchasing contracts from WFS and securitizing them in the asset-backed securities market. Securitizations originated by WFSRC are guaranteed under a financial guaranty insurance policy issued by FSA. Securitization transactions in which contracts are sold through WFSRC are treated as secured financings for accounting purposes. At December 31, 2004, WFSRC had $1.8 billion in notes payable on automobile secured financing outstanding.

WFS Receivables Corporation 3

WFSRC3 is a wholly owned, Nevada based, limited purpose service corporation subsidiary of WFS. WFSRC3 was organized for the purpose of purchasing contracts from WFS and securitizing them in the asset-backed securities market. Securitizations originated by WFSRC3 include senior notes that are credit enhanced through the issuance of subordinated notes. Securitization transactions in which contracts are sold through WFSRC3 are treated as secured financings for accounting purposes. At December 31, 2004, WFSRC3 had $6.3 billion in notes payable on automobile secured financing outstanding.

WFS Web Investments

WFSWEB is a wholly owned, California based, limited purpose service corporation subsidiary of WFS. WFSWEB was incorporated for the purpose of investing in an Internet service company called DealerTrack. Our investment in DealerTrack provides us with the opportunity to be involved with a company that provides a business-to-business Internet portal specifically designed for the indirect automobile lending market.

Western Financial Associate Solutions

WFAS is a wholly owned, California based, operating subsidiary of the Bank. WFAS provides employees and human resource functions to our subsidiaries.

Western Auto Investments, Inc.

WAI is a wholly owned, Nevada based, limited purpose operating subsidiary of the Bank. WAI was incorporated for the purpose of purchasing limited ownership interests in contract securitization transactions. WAI is limited by its articles of incorporation from engaging in any business activities not incidental or necessary to its stated purpose. WAI does not provide a significant source of revenues or expenses.

Westfin Insurance Agency

WFIA was a wholly owned, California based, insurance agency and service corporation subsidiary of the Bank. WFIA acts as an agent for independent insurers in providing property and casualty insurance and collateral protection insurance on contracts made by WFS. WFIA is also an insurance agency, which sells fixed annuities to the general public. WFIA s revenues consist primarily of commissions received on policies sold to customers.

Westhrift Life Insurance Company

Westhrift was a wholly owned, Arizona based, operating subsidiary of the Bank. Westhrift had a Certificate of Authority from the California Insurance Commissioner authorizing it to conduct insurance business in California. At December 31, 2004, Westhrift had been dissolved.

WestFin Securities Corporation

WestFin was a wholly owned service corporation subsidiary of the Bank. WestFin was a National Association of Securities Dealers licensed securities broker-dealer of the Bank. At December 31, 2004, Westfin had been dissolved.

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Western Reconveyance Company, Inc.

RECON is a wholly owned, California based, service corporation subsidiary of the Bank. RECON acts primarily as the trustee under trust deed loans made by the Bank. RECON does not provide a significant source of revenues or expenses.

Western Consumer Services, Inc.

WCS is a wholly owned, California based, service corporation subsidiary of the Bank. WCS historically conducted real estate development activities through two California limited liability companies, also known as LLCs. The purpose of the LLCs was to acquire, develop and ultimately sell single family residences. WCS has also held properties that were prohibited to be held by the Bank due to regulatory guidelines. The Bank is required to hold dollar for dollar risk-based capital for its investment in WCS. WCS does not currently hold any real estate investments or conduct any real estate development activities.

The Hammond Company, The Mortgage Bankers

THCMB is a wholly owned, California based, operating subsidiary of the Bank. THCMB was acquired in 1995 for the purposes of providing retail mortgage banking services. In 1996, THCMB activities were moved into the Bank. THCMB does not currently conduct any business.

Associates

At December 31, 2004, we had 2,239 full-time and 116 part-time associates. None of our associates are represented by a collective bargaining unit or union. We believe we have good relations with our associates.

Item 2. ***Properties***

At December 31, 2004, we owned six properties in California and one property in Texas and leased 60 properties at various locations in various states.

Our executive offices are located at 23 Pasteur, Irvine, California. The remaining owned and leased properties are used as retail branch offices, automobile lending regional business centers and other operational centers. At December 31, 2004, the net book value of property and leasehold improvements was approximately $49.0 million. We lease space at one location from a company controlled by the Chairman of the Board of our company and our majority shareholder.

Item 3. ***Legal Proceedings***

We or our subsidiaries are involved as a party to certain legal proceedings incidental to our business, including *Lee, et al v. WFS Financial Inc*, United States District Court, Middle District of Tennessee at Nashville, No. 3-02-0570 filed June 17, 2002 (raising claims under the Equal Credit Opportunity Act) and *Thompson, et al v. WFS Financial Inc*, California Superior Court, County of Alameda Civil Action No. RG03088926, Court of Appeal No. A104967 (raising claims under California s Unfair Competition Law and related claims). We reached a settlement in the *Lee, et al v. WFS Financial Inc* and *Thompson, et al v. WFS Financial Inc* cases. The United States District Court, Middle District of Tennessee at Nashville, granted final approval of these settlements and entered judgment on November 15, 2004, and the settlement became effective on December 20, 2004 after the expiration of the time for appeal. The pending appeal in the *Thompson, et al v. WFS Financial Inc* case was dismissed on December 15, 2004, pursuant to the terms of the settlement.

Beginning on May 24, 2004 and continuing thereafter, a total of four separate purported class action lawsuits relating to the announcement by us and WFS that we were commencing an exchange offer for WFS outstanding public shares were filed in the Orange County, California Superior Court against us, WFS, our individual board members, and individual board members of WFS. On June 24, 2004, the actions were consolidated under the caption *In re WFS Financial Shareholder Litigation*, Case No. 04CC00559, also known as the Action. On July 16, 2004, the court granted a motion by plaintiff Alaska Hotel & Restaurant

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Employees Pension Trust Fund, in Case No. 04CC00573, to amend the consolidation order to designate it the lead plaintiff in the litigation. The lead plaintiff filed a consolidated amended complaint on August 9, 2004, and then filed the present corrected consolidated amended complaint on September 15, 2004. All of the shareholder-related actions allege, among other things, that the defendants breached their respective fiduciary duties and seek to enjoin or rescind the transaction and obtain an unspecified sum in damages and costs, including attorneys fees and expenses. The parties have tentatively agreed to a full and final resolution of the Action and, on January 19, 2005, the parties entered into a Memorandum of Understanding, also known as the MOU, concerning the terms of the tentative settlement. The parties are in the process of preparing a formal settlement agreement based on the terms of the MOU and will present it to the Court for approval. Pursuant to the terms of the MOU, the parties have agreed, among other things, that additional disclosures will be made in our Registration Statement on Form S-4 (as filed with the SEC on July 16, 2004), the claims asserted in the Action will be fully released, and the Action will be dismissed with prejudice. Further, pursuant to the MOU, WFS has agreed to pay plaintiffs attorneys fees and expenses in the amount of $675,000, or in such lesser amount as the Court may order.

We do not believe that the outcome of any of these proceedings will have a material effect upon our financial condition, results of operations and cash flows.

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***

Price Range by Quarter

Our common stock has been publicly traded since 1986 and is currently traded on the New York Stock Exchange, also known as the NYSE, identified by the symbol, WES. The following table illustrates the high and low prices by quarter in 2004 and 2003, as reported by the NYSE, which prices are believed to represent actual transactions:

	2004		2003	
	High	Low	High	Low
First Quarter	$44.72	$35.07	$23.25	$18.30
Second Quarter	46.80	41.42	29.80	18.60
Third Quarter	46.10	39.51	36.86	27.30
Fourth Quarter	46.35	37.25	39.25	34.13

We had 3,139 shareholders of our common stock at February 28, 2005. The number of shareholders was determined by the number of record holders, including the number of individual participants, in security position listings.

Dividends

We paid cash dividends of $0.55, $0.51 and $0.47 per share for the years ended December 31, 2004, 2003 and 2002, respectively. On March 3, 2005, we declared a quarterly cash dividend of $0.15 per share for shareholders of record as of May 3, 2005. This dividend is payable on May 17, 2005. There are no restrictions on the payment of dividends by Westcorp.

The Bank is restricted by regulation and by the indenture relating to the subordinated debentures as to the amount of funds that can be transferred to us in the form of dividends or other capital distributions. See Note 18 Dividends in our Consolidated Financial Statements. Under the most restrictive of these terms, on December 31, 2004, the Bank s restricted shareholder s equity totaled $635 million with a maximum dividend of $358 million. The Bank must notify the OTS of its intent to declare cash dividends 30 days before declaration and may not pay a dividend or make a loan to us for any purpose to the extent we engage in any activities not permitted for a bank holding company.

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Item 6. ***Selected Financial Data***

The following table presents summary audited financial data for the years ended December 31, 2004, 2003, 2002, 2001 and 2000. Since this table is only a summary and does not provide all of the information contained in our financial statements, including the related notes, you should read our Consolidated Financial Statements contained elsewhere herein. Certain amounts from the prior years Consolidated Financial Statements have been reclassified to conform to the current year presentation.

	At or For the Year Ended December 31,				
	2004	2003	2002	2001	2000
	(Dollars in thousands, except per share amounts)				
Consolidated Statements of Operations:					
Interest income	$ 1,270,885	$ 1,245,017	$ 1,142,940	$ 962,627	$ 583,821
Interest expense	463,127	530,742	530,269	491,313	313,360
Net interest income	807,758	714,275	612,671	471,314	270,461
Provision for credit losses	235,248	294,006	306,233	196,977	82,133
Net interest income after provision for credit losses	572,510	420,269	306,438	274,337	188,328
Noninterest income	116,122	110,157	90,653	78,899	177,884
Noninterest expense	295,607	282,482	251,953	245,502	221,485
Income before income tax	393,025	247,944	145,138	107,734	144,727
Income tax	155,797	98,275	52,267	41,675	58,132
Income before minority interest	237,228	149,669	92,871	66,059	86,595
Minority interest in earnings of subsidiaries	29,266	26,064	13,153	10,369	11,852
Net income	$ 207,962	$ 123,605	$ 79,718	$ 55,690	$ 74,743
Weighted average number of shares and common share equivalents diluted	52,568,834	43,397,211	38,922,611	34,485,127	29,525,677
Earnings per common share diluted	$ 3.96	$ 2.85	$ 2.05	$ 1.61	$ 2.53
Dividends declared per common share	0.56	0.52	0.48	0.44	0.30
Dividend payout ratio	14.1%	18.2%	23.4%	27.3%	11.9%
Consolidated Statements of Financial Condition:					
Assets:					
Cash and due from banks	$ 218,510	$ 382,082	$ 84,215	$ 104,327	$ 128,763
Loans:					
Consumer(1)	11,756,178	10,777,829	9,063,755	7,092,959	4,309,317
Mortgage(2)	213,764	236,223	282,930	373,455	507,431
Commercial	165,806	124,431	97,216	85,312	107,586
Mortgage-backed securities	2,649,758	2,701,797	2,649,657	2,092,225	2,230,448
Investments and time deposits	537,644	363,148	128,529	74,957	35,101
Other assets	319,082	332,012	445,689	427,380	653,270
Less: Allowance for credit losses	315,402	301,602	269,352	178,218	104,006

Total assets	$15,545,340	$14,615,920	$12,482,639	$10,072,397	$ 7,867,910
Liabilities:					
Deposits	$ 2,183,499	$ 1,972,856	$ 1,974,984	$ 2,329,326	$ 2,478,487
Notes payable on automobile secured financing	10,242,900	10,254,641	8,494,678	5,886,227	3,473,377
FHLB advances and other borrowings	1,148,098	560,179	618,766	723,675	616,193
Subordinated debt	295,321	394,854	400,561	147,714	189,962
Amounts held on behalf of trustee			177,642	280,496	494,858
Other liabilities	170,362	179,471	101,145	85,994	71,221
Total liabilities	14,040,180	13,362,001	11,767,776	9,453,432	7,324,098
Minority interest in equity of subsidiaries	165,484	131,434	101,666	78,261	56,644
Shareholders equity	1,339,676	1,122,485	613,197	540,704	487,168
Total liabilities and shareholders equity	$15,545,340	$14,615,920	$12,482,639	$10,072,397	$ 7,867,910

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	At or For the Year Ended December 31,				
	2004	2003	2002	2001	2000
	(Dollars in thousands, except per share amounts)				
Other Selected Financial Data:					
Average managed automobile contracts	$11,113,411	$10,051,754	$8,845,635	$7,576,681	$6,076,814
Average shareholders equity(3)	$ 1,277,781	$ 858,927	$ 654,109	$ 570,298	$ 450,323
Return on average shareholders equity(3)	16.28%	14.39%	12.19%	9.77%	16.60%
Total equity to assets(4)	9.92%	9.04%	6.54%	6.75%	7.10%
Book value per share(3)	$ 26.51	$ 23.00	$ 18.23	$ 16.80	$ 15.72
Originations:					
Consumer loans(1)	$ 6,639,938	$ 5,983,492	$5,419,296	$4,869,970	$4,232,115
Mortgage loans(2)	65,753	25,622	23,950	23,001	33,124
Commercial loans	342,356	407,387	354,439	291,944	266,342
Total loan originations	$ 7,048,047	$ 6,416,501	$5,797,685	$5,184,915	$4,531,581
Interest rate spread	5.05%	4.95%	5.14%	4.85%	4.37%

(1) Net of unearned discounts.

(2) Net of undisbursed loan proceeds.

(3) Excludes accumulated other comprehensive loss.

(4) Excludes accumulated other comprehensive loss and includes minority interest.

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Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

The following discussion and analysis should be read in conjunction with our Consolidated Financial Statements and notes thereto and other information included or incorporated by reference herein.

Overview

Our primary sources of revenue are net interest income and noninterest income. Net interest income is the difference between the income earned on interest earning assets and the interest paid on interest bearing liabilities. We generate interest income from our loan portfolio, which consists of consumer, mortgage and commercial loans, and from investments in mortgage-backed securities and other short-term investments. We fund our loan portfolio and investments with deposits, advances from the FHLB, securities sold under agreements to repurchase, securitizations, other borrowings and equity.

Noninterest income is primarily made up of revenues generated from the sale and servicing of contracts and real estate loans. The primary components of noninterest income include late charges and other collection related fee income on managed contracts, sale of real estate loans, contractual servicing income on contracts in securitization transactions treated as sales for accounting purposes and retained interest income or expense. Since March 2000, we have structured our securitizations as secured financings and no longer record non-cash gain on sale at the time of each securitization or subsequent contractual servicing and retained interest income, the valuation of which is based upon subjective assumptions. Rather, the earnings of the contracts in the trust and the related financing costs are reflected over the life of the underlying pool of contracts as net interest income.

The following are highlights for 2004:

- We produced record earnings of $208 million in net income, a 68% increase over 2003.
- Earnings per share increased to a record $3.96 per share.
- Net interest income rose 13% to $808 million while risk-adjusted spreads were nearly identical to 2003 at 5.05%.
- Credit losses declined in 2004 to 1.99% of contracts.
- Operating expenses represent 32% of total revenues, our most efficient year ever.
- We originated $6.6 billion in automobile contracts through our relationships with 8,200 dealers throughout the country.
- Our portfolio of automobile contracts of $11.6 billion consists of more than 80% prime credit quality contracts.
- Delinquencies at year end were 2.24% of total outstanding contracts, which is 0.66% lower than a year earlier.
- We maintained a successful securitization program by continuing to offer senior/subordinated securities on a regular basis.
- We managed $10.3 billion of automobile-backed securities outstanding under our securitization program.

Business Risks

Our operating results and financial condition could be adversely affected by any of the following business risks. In addition to the risks described below, we may encounter risks that are not currently known to us or that we currently deem immaterial, which may also impair our business operations.

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Risks Related to the Merger

Anticipated benefits of the merger may not be realized.

WFS board of directors and our board of directors each believe that conversion of the Bank from a federal savings bank to a California state commercial bank and the merger of WFS with and into the Bank will yield certain benefits. These anticipated benefits are based on certain assumptions and, if the merger is consummated, the combined company may not realize the anticipated benefits of the merger to the extent or in the timeframe anticipated.

Our operating results may suffer as a result of purchase accounting treatment.

We will account for the merger, if consummated, using the purchase method of accounting under generally accepted accounting principles in the United States, also known as GAAP. Under the purchase method of accounting, we will record the market value of our common stock issued in connection with the merger and the amount of direct transaction costs as the cost of acquiring the minority interest of WFS. We will allocate that cost to the individual assets acquired and liabilities assumed. As a result, purchase accounting treatment of the merger could adversely impact our income, which could have an adverse effect on the market value of our common stock following completion of the merger.

If the conversion and merger are not completed, WFS and our stock prices and future business and operations could be harmed.

If the current market prices of WFS and our common stock reflect an assumption that the merger will be completed, the price of our respective securities may decline if the merger is not completed. In addition, WFS and our costs related to the merger, including legal, accounting and other fees, must be paid and expensed even if the merger is not completed.

The completion of the merger is subject to the satisfaction of conditions.

WFS obligation and our obligation to complete the merger are subject to the satisfaction or waiver, where permissible, of certain conditions set forth in the merger agreement. Some of these conditions cannot be waived, including obtaining the requisite approval of the WFS minority shareholders, and converting the Bank from a federal savings bank to a California state commercial bank. If the conditions of the merger are not satisfied or waived (to the extent any such conditions may be waived), the merger will not be completed. Among the conditions that cannot be waived is that we must be approved by the Federal Reserve to become a bank holding company. The Federal Reserve has not yet approved our application to become a bank holding company, and may impose conditions to such approval that are not acceptable to us.

In addition, pursuant to the terms of the merger agreement, because the merger was not consummated on or prior to February 28, 2005, any party to the merger agreement has the right to unilaterally terminate the agreement.

If the conversion and merger are not consummated, we may need to make significant changes in our operations or corporate structure.

If the conversion and merger are not consummated, the regulatory requirements imposed by HOLA, particularly the limitations on the percentage of the Bank s assets that may be invested in consumer loans and the guidance issued by the OTS as to the amount of capital that must be held with respect to loans which the OTS deems to be subprime, may cause significant changes in our operations or corporate structure. We may determine to separate our automobile finance business from our banking business, substantially reduce our automobile finance operations or cease operations as a regulated banking entity. It is uncertain whether one or more of these changes in our operations or corporate structure would be more or less profitable than the pending conversion and merger.

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Regulatory Requirements May Restrict Our Ability to Do Business

The Bank and its subsidiaries are subject to inspection and regulation by the OTS pursuant to HOLA. The OTS is the primary federal banking agency responsible for its supervision and regulation. The OTS has the power to enforce HOLA and its regulations by a variety of actions ranging from a memorandum of understanding to cease and desist proceedings under the Federal Deposit Insurance Act. The OTS can take such action based solely upon its determination that we have violated one or more of the laws or regulations to which we are subject or that any aspect of our business is being conducted in an unsafe or unsound manner. As such, the OTS has broad powers to, among other things, require us to change our business practices, hold additional capital and change management. Such action could have a material adverse impact on our business and may impact the price of securities we issue, including our common stock, and access to the capital markets.

HOLA limits the amount of our consumer loans, commercial loans and investment in service corporations. See Business Supervision and Regulation - Investment Restrictions. Our securitization activities are structured to enable the Bank to remove securitized automobile contracts from the HOLA consumer loan limitation calculation. Changes in the OTS s interpretation of HOLA as it affects our securitization activities could cause us to change the manner in which we securitize automobile contracts or to limit our acquisition of such contracts, thereby negatively impacting the price of our common stock. Furthermore, if we are unable to continue to securitize the automobile contracts we purchase, this regulatory limitation may force us to limit our acquisition of new automobile contracts, thereby adversely affecting our ability to remain a preferred source of financing for the dealers from whom we purchase automobile contracts, or cause us to fail the regulatory limitations. Any such limitations may also have a material adverse effect on our financial position, liquidity and results of operations. In addition, other regulatory actions taken by the OTS could have a negative impact on the price of our common stock.

OTS Guidance Regarding Subprime Lending May Affect the Bank s Capital Requirements

The OTS, along with other federal banking regulatory agencies, has adopted guidance pertaining to subprime lending programs. Pursuant to the guidance, lending programs which provide credit to borrowers whose credit histories reflect specified negative characteristics, such as recent bankruptcies or payment delinquencies, are deemed to be subprime lending programs for regulatory purposes. Many of the contracts that we originate possess one or more of the factors identified in the guidance as indicative of a subprime loan for this purpose. Pursuant to the guidance, examiners may require that an institution with a lending program deemed to be subprime hold additional capital that ranges from one and one-half to three times the normal capital required for similar loans made to borrowers who are not deemed to be subprime borrowers.

Because many of the automobile contracts we originate possess one or more of the factors identified in the guidance as indicative of a subprime loan, the Bank maintains its capital levels higher than would otherwise be required by regulations. Maintenance of higher capital levels by the Bank may slow our growth, require us to raise additional capital or sell assets, all of which could negatively impact our earnings. We cannot predict to what extent the Bank may be required to hold additional capital with respect to those automobile contracts we hold as to which the borrowers are deemed by the OTS to be subprime borrowers.

Other Regulatory and Legislation Requirements May Affect Our Ability to Do Business

Our operations are subject to regulation, supervision and licensing under various federal, state and local statutes, ordinances and regulations. In most states in which we operate, a consumer credit regulatory agency regulates and enforces laws relating to consumer lenders and sales finance agencies such as WFS. These rules and regulations generally provide for licensing of sales finance agencies, limitations on the amount, duration and charges, including interest rates, for various categories of loans, requirements as to the form and content of finance contracts and other documentation, and restrictions on collection practices and creditors rights. So long as WFS is an operating subsidiary of the Bank, licensing and certain other of these requirements are not applicable to WFS due to federal preemption.

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We are also subject to extensive federal regulation, including the Truth in Lending Act, the Equal Credit Opportunity Act and the Fair Credit Reporting Act. These laws require us to provide certain disclosures to prospective borrowers and protect against discriminatory lending practices and unfair credit practices. The principal disclosures required under the Truth in Lending Act include the terms of repayment, the total finance charge and the annual percentage rate charged on each loan. The Equal Credit Opportunity Act prohibits creditors from discriminating against loan applicants on the basis of race, color, sex, age or marital status. Pursuant to Regulation B promulgated under the Equal Credit Opportunity Act, creditors are required to make certain disclosures regarding consumer rights and advise consumers whose credit applications are not approved of the reasons for the rejection. In addition, the credit scoring system we use must comply with the requirements for such a system as set forth in the Equal Credit Opportunity Act and Regulation B. The Fair Credit Reporting Act requires us to provide certain information to consumers whose credit applications are not approved on the basis of a report obtained from a consumer reporting agency. Additionally, we are subject to the Gramm-Leach-Bliley Act, which requires us to maintain privacy with respect to certain consumer data in our possession and to periodically communicate with consumers on privacy matters. We are also subject to the Servicemembers Civil Relief Act, and similar state laws, which requires us to reduce the interest rate charged on each loan to customers who have subsequently joined the military.

The dealers that originate automobile contracts we purchase also must comply with both state and federal credit and trade practice statutes and regulations. Failure of the dealers to comply with these statutes and regulations could result in consumers having rights of rescission and other remedies that could have an adverse effect on us.

We believe that we maintain all material licenses and permits required for our current operations and are in substantial compliance with all applicable local, state and federal regulations. There can be no assurance, however, that we will be able to maintain all requisite licenses and permits, and the failure to satisfy those and other regulatory requirements could have a material adverse effect on our operations. Other legislative and regulatory initiatives that could affect us, the Bank and the banking industry in general are pending, and additional initiatives may be proposed or introduced, before the U.S. Congress, the California legislature and other governmental bodies in the future. Such proposals, if enacted, may further alter the structure, regulation and competitive relationship among financial institutions, and may subject us and the Bank to increased regulation, disclosure and reporting requirements. In addition, the various banking regulatory agencies often adopt new rules and regulations to implement and enforce existing legislation. It cannot be predicted whether, or in what form, any such legislation or regulations may be enacted or the extent to which our business would be affected, but a change in the laws, regulations or regulatory policies applicable to us could have a material effect on our business.

We are subject to routine periodic examinations by the OTS on a variety of financial and regulatory matters. The Bank s most recent annual safety and soundness examination by the OTS was completed in September 2004.

Adverse Economic Conditions May Impact Our Profitability

Delinquencies, defaults, repossessions and credit losses generally increase during periods of economic slowdown, recession or higher unemployment. These periods also may be accompanied by decreased consumer demand for automobiles and declining values of automobiles securing outstanding contracts, which weakens collateral coverage and increases the amount of loss in the event of default. Significant increases in the inventory of pre-owned automobiles during periods of economic recession also may depress the prices at which repossessed automobiles may be sold or delay the timing of these sales. Because a portion of our borrowers are considered non-prime borrowers, the actual rates of delinquencies, defaults, repossessions and credit losses on these contracts are higher than those experienced in the general automobile finance industry for borrowers considered to be prime borrowers and could be more dramatically affected by a general economic downturn. In addition, during an economic slowdown or recession, our servicing costs may increase without a corresponding increase in our servicing fee income. While we seek to manage the higher risk inherent in non-prime contracts through the underwriting criteria and collection methods we employ, we cannot assure you that these criteria or methods will afford adequate protection against these risks. Any

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sustained period of increased delinquencies, defaults, repossessions, credit losses or servicing costs could adversely affect our financial position, liquidity and results of operations and our ability to enter into future securitizations.

Interest Rate Fluctuations May Impact Our Profitability

Our profitability may be directly affected by the level of and fluctuations in interest rates, which affects the gross interest rate spread we earn on our contracts. As interest rates change, our gross interest rate spread on new originations may increase or decrease depending upon the interest rate environment. In addition, the rates charged on the contracts originated or purchased from dealers are limited by statutory maximums, restricting our opportunity to pass on increased interest costs. We believe that our profitability and liquidity could be adversely affected during any period of changing interest rates, possibly to a material degree. We monitor the interest rate environment and employ our hedging strategies designed to mitigate the impact of changes in interest rates. We cannot assure you that our hedging strategies will mitigate the impact of changes in interest rates.

Wholesale Auction Values May Impact Our Profitability

We sell repossessed automobiles at wholesale auction markets located throughout the United States. Auction proceeds from the sale of repossessed vehicles and other recoveries usually do not cover the outstanding balance of the contracts, and the resulting deficiencies are charged off. Decreased auction proceeds resulting from the depressed prices at which pre-owned automobiles may be sold during periods of economic slowdown or recession will result in higher credit losses for us. Furthermore, depressed wholesale prices for pre-owned automobiles may result from significant liquidations of rental or fleet inventories and from increased volume of trade-ins due to promotional financing programs offered by new vehicle manufacturers. There can be no assurance that our recovery rates will stabilize or improve in the future.

The Ownership of Our Common Stock Is Concentrated, Which May Result in Conflicts of Interest and Actions That Are Not in the Best Interests of Our Other Stockholders

Ernest S. Rady is our founder, Chairman of the Board of Directors and Chief Executive Officer. Mr. Rady is also the Chairman of the Board of Directors and Chief Executive Officer of the Bank and the Chairman of the Board of Directors of WFS. Mr. Rady is the beneficial owner of approximately 53% of our outstanding shares of common stock and is able to exercise significant control over our company. The Westcorp common stock ownership of Mr. Rady enables him to elect all of our directors and effectively control the vote on all matters submitted to a vote of our shareholders, including mergers, sales of all or substantially all of our assets, going private transactions, conversions and other corporate restructurings or reorganizations. Because of the significant block of our common stock controlled by Mr. Rady, decisions may be made that, while in the best interest of Mr. Rady, may not be in the best interest of other stockholders.

We May Not Be Able to Generate Sufficient Operating Cash Flows to Run Our Automobile Finance Operations

Our automobile finance operations require substantial operating cash flows. Operating cash requirements include premiums paid to dealers for acquisition of automobile contracts, expenses incurred in connection with the securitization of automobile contracts, capital expenditures for new technologies and ongoing operating costs. Our primary source of operating cash is the excess cash flows received from securitizations and contracts held on the balance sheet. The timing and amount of excess cash flows from contracts varies based on a number of factors, including:

- the rates and amounts of loan delinquencies, defaults and net credit losses;
- how quickly and at what price repossessed vehicles can be resold;
- the ages of the contracts in the portfolio;
- levels of voluntary prepayments; and

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the terms of our securitizations, which include performance based triggers requiring higher levels of credit enhancements to the extent credit losses or delinquencies exceed certain thresholds. We have exceeded performance thresholds in the past and may do so again in the future.

Any adverse change in these factors could reduce or eliminate excess cash flows to us. Although we currently have positive operating cash flows, we cannot assure you that we will continue to generate positive cash flows in the future, which could have a material adverse effect on our financial position, liquidity and results of operations.

Changes in Our Securitization Program Could Adversely Affect Our Liquidity and Earnings

Our business depends on our ability to aggregate and sell automobile contracts in the form of asset-backed securities. These sales generate cash proceeds that allow us to repay amounts borrowed and to purchase additional automobile contracts. Changes in our asset-backed securities program could materially adversely affect our earnings or ability to purchase and resell automobile contracts on a timely basis. Such changes could include, among other things, a:

delay in the completion of a planned securitization;

negative market perception of us; and

failure of the automobile contracts we intend to sell to conform to insurance company and rating agency requirements.

If we are unable to effectively securitize our automobile contracts, we may have to reduce or even curtail our automobile contract purchasing activities, which would have a material adverse effect on our financial position, liquidity and results of operations.

We Expect Our Operating Results to Continue to Fluctuate, Which May Adversely Impact Our Business

Our results of operations have fluctuated in the past and are expected to fluctuate in the future. Factors that could affect our quarterly earnings include:

variations in the volume of automobile contracts originated, which historically tend to be lower in the first and fourth quarters of the year;

interest rate spreads;

the effectiveness of our hedging strategies;

credit losses, which historically tend to be higher in the first and fourth quarters of the year; and

operating costs.

Critical Accounting Estimates

Management s Discussion and Analysis of Financial Condition and Results of Operations, also known as MD&A, is based on our consolidated financial statements and accompanying notes that have been prepared in accordance with GAAP. Our significant accounting policies are described in Note 1 Summary of Significant Accounting Policies in our Consolidated Financial Statements and are essential in understanding our MD&A. The preparation of financial statements in accordance with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, income, and expenses in our Consolidated Financial Statements and accompanying notes. Actual results could differ from those estimates. We have identified accounting for the allowance for credit losses as the most critical accounting estimate to understanding and evaluating our reported financial results of operations. This estimate is critical because it requires us to make difficult, subjective and complex judgments about matters that are inherently uncertain and because it is possible that materially different amounts would be reported under different conditions or using different assumptions. Additionally, the accounting for derivative financial instruments and accrued taxes requires the use of assumptions and accounting estimates that are also inherently subjective.

Allowance for Credit Losses

The allowance for credit losses is our estimate of probable losses in our loan portfolio as of the balance sheet date. Our determination of the amount of the allowance for credit losses was based on a review of various quantitative and qualitative analyses. Our process for determining the allowance for credit losses is discussed in detail in Note 1 Summary of Significant Accounting Policies in our Consolidated Financial Statements.

Key analyses considered in the process of establishing our allowance for credit losses include chargeoff trends by loan program, migration analysis of delinquent and current accounts by risk category, analysis of historical cumulative losses, econometric forecasts, the evaluation of the size of any particular asset group, the concentration of any credit tier, the percentage of delinquency, chargeoffs over various time periods and at various statistical midpoints and high points, the severity of depreciated values of repossessions, trends in the number of days repossessions are held in inventory, trends in the number of loan modifications, trends in delinquency roll rates, trends in deficiency balance collections both internally and from collection agencies, trends in custom scores and the effectiveness of our custom scores, and trends in the economy generally or in specific geographic locations. The process of determining the level of the allowance for credit losses based upon the foregoing analyses requires a high degree of judgment. It is possible that others, given the same information, may reach different conclusions and such differences could be material. To the extent that the analyses considered in determining the allowance for credit losses are not indicative of future performance or other assumptions used by us do not prove to be accurate, loss experience could differ significantly from our estimate, resulting in either higher or lower future provision for credit losses.

Derivative Financial Instruments

We use derivatives in connection with our interest rate risk management activities. We record all derivative instruments at fair value. Fair value information for our derivative financial instruments is reported using quoted market prices for which it is practicable to estimate that value. In cases where quoted market prices are not readily available, fair values are based on estimates using present value or other valuation techniques.

Some of our derivatives qualify for hedge accounting. To qualify for hedge accounting, we must demonstrate, on an ongoing basis, that our derivatives are highly effective in protecting us against interest rate risk. We employ regression analysis and discounted cash flow analysis to determine the effectiveness of our hedging activity.

The techniques used in estimating fair values and hedge effectiveness are significantly affected by the assumptions used, including the discount rates and estimates of future cash flows. It is possible that others, given the same information, may reach different conclusions and such differences could be material.

Accrued Taxes

We estimate tax expenses based on the amount we expect to owe various tax jurisdictions. We currently file tax returns in approximately 39 states. Our estimate of tax expense is reported in our Consolidated Statements of Income. Accrued taxes represent the net estimated amount due or to be received from taxing jurisdictions either currently or in the future and are reported as a component of other assets on our Consolidated Statements of Financial Condition. In estimating accrued taxes, we assess the relative merits and risks of the appropriate tax treatment of transactions taking into account statutory, judicial and regulatory guidance in the context of our tax position.

Changes to our estimate of accrued taxes occur periodically due to changes in the tax rates, implementation of new tax planning strategies, resolution with taxing authorities of issues with previously taken tax positions, and newly enacted statutory, judicial and regulatory guidance. These changes, when they occur, affect accrued taxes and could be material. See Note 22 Income Taxes in our Consolidated Financial Statements for additional detail on our income taxes.

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Off Balance Sheet Arrangements

Prior to April 1, 2000, our securitization transactions were structured as sales for accounting purposes. Under this structure, the notes issued by our unconsolidated securitization trusts were not recorded as a liability on our Consolidated Statements of Financial Condition. Effective January 1, 2003, we regained control over assets of the securitization trusts for all of our outstanding securitization transactions treated as sales for accounting purposes. We recorded $525 million of automobile contracts and the related notes payable on automobile secured financing on our Consolidated Statements of Financial Condition and have eliminated all remaining off balance sheet amounts related to these transactions. At December 31, 2004, we had no off balance sheet arrangements.

Results of Operations

Net Interest Income

Net interest income is affected by our interest rate spread, which is the difference between the rate earned on our interest earning assets and the rate paid on our interest bearing liabilities, and the relative amounts of our interest earning assets and interest bearing liabilities. Net interest income totaled $808 million, $714 million and $612 million for the years ended December 31, 2004, 2003 and 2002, respectively. The increase in net interest income for the past three years is primarily the result of us holding a greater percentage of contracts on balance sheet.

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The following table presents information relative to the average balances and interest rates on an owned basis for the periods indicated:

	For the Year Ended December 31,								
	2004			2003			2002		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
	(Dollars in thousands)								
Interest earning assets:									
Total investments:									
Mortgage-backed securities	$ 2,592,864	$ 98,430	3.80%	$ 2,528,870	$ 83,663	3.31%	$ 2,196,539	$ 113,154	5.15%
Other short-term investments	648,926	9,319	1.44	377,762	4,464	1.18	320,388	5,556	1.73
Investment securities	121,805	4,150	3.41	80,626	3,057	3.79	47,983	2,815	5.87
Interest earning deposits with others	5,637	51	0.90	7,869	65	0.83	7,106	98	1.38
Total investments	3,369,232	111,950	3.32%	2,995,127	91,249	3.05%	2,572,016	121,623	4.73%
Total loans:(1)									
Consumer loans	11,303,131	1,141,994	10.10%	10,225,488	1,134,294	11.09%	8,181,117	993,417	12.14%
Mortgage loans	197,888	9,959	5.03	249,905	13,577	5.43	321,742	22,501	6.99
Commercial loans	109,997	6,462	5.78	110,296	5,409	4.90	90,642	5,035	5.55
Construction loans	9,900	520	5.17	10,177	488	4.80	7,951	364	4.57
Total loans	11,620,916	1,158,935	9.97%	10,595,866	1,153,768	10.89%	8,601,452	1,021,317	11.87%
Total interest earning assets	14,990,148	1,270,885	8.48%	13,590,993	1,245,017	9.16%	11,173,468	1,142,940	10.23%
Noninterest earning assets:									
Amounts due from trusts							121,627		
Retained interest in securitized assets							15,888		
Premises and equipment, net	79,662			80,711			80,277		
Other assets	293,728			308,927			392,358		
Less: Allowance for credit losses	307,611			288,058			211,591		
Total	$ 15,055,927			$ 13,692,573			$ 11,572,027		
Interest bearing liabilities:									
Deposits	$ 2,052,754	58,055	2.83%	$ 1,982,205	64,634	3.26%	$ 2,196,262	80,015	3.64%
Securities sold under agreements to purchase	8,170	94	1.13	220,989	4,544	2.06	222,154	5,543	2.50
FHLB advances and other borrowings	635,337	9,499	1.47	430,372	5,527	1.26	234,779	4,634	1.97

Notes payable on automobile secured financing	10,453,952	360,625	3.45	9,592,483	416,577	4.34	7,426,265	406,851	5.48
Subordinated debentures	348,001	34,854	10.02	396,211	39,460	9.96	331,990	33,226	10.01
Total interest bearing liabilities	13,498,214	463,127	3.43%	12,622,260	530,742	4.21%	10,411,450	530,269	5.09%
Noninterest bearing liabilities:									
Amounts held on behalf of trustee							240,667		
Other liabilities	332,173			303,199			333,149		
Shareholders equity	1,225,540			767,114			586,761		
Total	$ 15,055,927			$ 13,692,573			$ 11,572,027		
Net interest income and interest rate spread		$ 807,758	5.05%		$ 714,275	4.95%		$ 612,671	5.14%
Net yield on average interest earning assets			5.39%			5.26%			5.48%

(1) For the purpose of these computations, nonaccruing loans are included in the average loan amounts outstanding.

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The total interest rate spread increased 10 basis points for 2004 compared with 2003 due to a decrease of 68 basis points in the yield on interest earning assets while the costs of funds decreased 78 basis points. The decrease in the yield on interest earning assets in 2004 was primarily due to a lower interest rate environment. The decrease in the cost of funds in 2004 was primarily due a lower interest rate environment, an improvement of credit spreads on our automobile secured financings and a shift to a higher concentration of low-cost core deposits.

The total interest rate spread decreased 19 basis points for 2003 compared with 2002 due to a decrease of 107 basis points in the yield on interest earning assets while the costs of funds decreased 88 basis points. The decrease in the yield on interest earning assets in 2003 was primarily due to our shift to originating a higher percentage of prime credit quality contracts and an overall lower interest rate environment. The decrease in the cost of funds in 2003 was primarily due to a declining interest rate environment moderated by the increase in the amount of subordinated debentures held by us during 2003 compared to 2002.

The following table sets forth the changes in net interest income attributable to changes in volume (change in average portfolio volume multiplied by prior period average rate) and changes in rates (change in weighted average interest rate multiplied by prior period average portfolio balance):

	2004 Compared to 2003(1)			2003 Compared to 2002(1)		
	Volume	Rate	Total	Volume	Rate	Total
	(Dollars in thousands)					
Increase (decrease) in interest income:						
Mortgage-backed securities	$ 2,156	$ 12,611	$ 14,767	$ 15,274	$ (44,765)	$ (29,491)
Other short-term investments	3,715	1,140	4,855	877	(1,969)	(1,092)
Investment securities	1,426	(333)	1,093	1,472	(1,230)	242
Interest earning deposits with others	(20)	6	(14)	10	(43)	(33)
Total loans:						
Consumer loans	113,783	(106,083)	7,700	232,283	(91,406)	140,877
Mortgage loans	(2,672)	(946)	(3,618)	(4,463)	(4,461)	(8,924)
Commercial loans	(14)	1,067	1,053	1,008	(634)	374
Construction loans	(11)	43	32	105	19	124
Total interest income	$118,363	$ (92,495)	25,868	$246,566	$(144,489)	102,077
Increase (decrease) in interest expense:						
Deposits	$ 2,224	$ (8,803)	(6,579)	$ (7,426)	$ (7,955)	(15,381)
Securities sold under agreements to repurchase	(3,030)	(1,420)	(4,450)	(29)	(970)	(999)
FHLB advances and other borrowings	2,942	1,030	3,972	2,950	(2,057)	893
Notes payable on automobile secured financings	34,962	(90,914)	(55,952)	104,511	(94,785)	9,726
Subordinated debentures	(4,842)	236	(4,606)	6,401	(167)	6,234
Total interest expense	$ 32,256	$ (99,871)	(67,615)	$106,407	$(105,934)	473
Increase in net interest income			$ 93,483			$101,604

(1) In the analysis of interest changes due to volume and rate, the changes due to the volume/rate variance (the combined effect of change in weighted average interest rate and change in average portfolio balance) were allocated proportionately based on the absolute value of the volume and rate variances. If there was no balance in the previous year, the total change was allocated to volume.

Provision for Credit Losses

We maintain an allowance for credit losses to cover probable losses that can be reasonably estimated for the loans held on the balance sheet. The allowance for credit losses is increased by charging the provision for credit losses and decreased by actual losses on such loans. The level of allowance is based principally on the outstanding balance of loans held on balance sheet and historical loss trends. We believe that the allowance for credit losses is currently adequate to absorb probable losses in our owned loan portfolio that can be reasonably estimated.

The provision for credit losses was $235 million, $294 million and $306 million for the years ended December 31, 2004, 2003 and 2002, respectively. Net chargeoffs were $221 million, $262 million and $215 million for the same respective periods. The decrease in provision for credit losses from 2003 to 2004 was primarily a result of an improving economy as well as our continued emphasis on risk-focused underwriting. The reduction in the provision for credit losses from 2002 to 2003 was the result of holding a greater percentage of prime credit quality contracts, which require a lower percentage of allowance for credit losses.

Noninterest Income

Automobile Lending Income

Since the first quarter of 2000, we have not completed a securitization that has been accounted for as an off balance sheet arrangement. For transactions treated as off balance sheet arrangements prior to April 2000, we recorded a non-cash gain equal to the present value of the estimated future cash flows from the portfolio of contracts sold less the write-off of dealer participation balances and the effect of hedging activities. For these securitizations, net interest earned on the contracts sold was recognized over the life of the transactions as contractual servicing income and retained interest income or expense. Effective January 1, 2003, we regained control over assets of the securitization trusts for all of our outstanding securitization transactions treated as sales for accounting purposes. We no longer recognize retained interest income or expense or contractual servicing income for these securitization transactions on our Consolidated Statements of Income. Rather, we recognize interest income on automobile contracts held in these trusts and record interest expense on notes payable on automobile secured financings.

The components of automobile lending income were as follows:

	For the Year Ended December 31,		
	2004	2003	2002
	(Dollars in thousands)		
Fee income	$103,689	$90,511	$ 81,087
Contractual servicing income			10,735
Retained interest expense, net of RISA amortization			(29,490)
Total automobile lending income	$103,689	$90,511	$ 62,332

Fee income consists primarily of documentation fees, late charges and deferment fees on our managed portfolio, including contracts securitized in transactions accounted for as sales and secured financings, as well as contracts not securitized. The increase in fee income is due to the growth in our average managed portfolio to $11.1 billion in 2004 from $10.1 billion in 2003 and $8.8 billion in 2002.

There was no contractual servicing income for the years ended December 31, 2004 or 2003 due to our transition to treating our securitizations as secured financings rather than as sales as well as our regaining control over the assets of the trusts for all our outstanding securitization transactions previously treated as sales for accounting purposes. For securitization transactions previously treated as sales for accounting purposes, we earned contractual servicing income in 2002 on the outstanding balance of contracts serviced.

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There was no retained interest expense for the years ended December 31, 2004 or 2003 as a result of our reconsolidating all remaining off balance sheet trusts on January 1, 2003. For accounting purposes, this expense is recognized only on contracts sold through securitizations treated as sales. Retained interest expense is dependent upon the average excess spread on the contracts sold, credit losses, the size of the sold portfolio and the amount of amortization of the RISA. The retained interest expense recognized in 2002 was the result of higher chargeoffs on our sold portfolio as well as revised estimates of future chargeoffs due to continued slowing in the economy. Net chargeoffs on the sold portfolio were $30.4 million for the year ended December 31, 2002. The outstanding sold portfolio had a weighted average gross interest rate spread of 6.71% for the year ended December 31, 2002. The average balance of the sold portfolio was $840 million for the year ended December 31, 2002.

The following table sets forth our contract sales and securitizations and related gain on sales:

	For the Year Ended December 31,				
	2004	**2003**	**2002**	**2001**	**2000**
			(Dollars in thousands)		
Contract sales and secured financings:					
Secured financings(1)	$5,865,000	$5,889,375	$6,925,000	$4,220,000	$3,930,000
Sales to securitization trusts					660,000
Total sales and secured financings	$5,865,000	$5,889,375	$6,925,000	$4,220,000	$4,590,000
Gain on sale of contracts(2)					$ 7,719
Hedge gain on sale of contracts(3)					5,300
Gain on sale of contracts as a percent of total revenues					1.72%

(1) Information for 2002 and 2001 includes $775 million and $650 million, respectively, of contracts securitized in privately placed conduit facilities.

(2) Net of the write-off of outstanding dealer participation balances and the effect of hedging activities.

(3) Included in gain on sale of contracts.

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The following table lists each of our public securitizations:

Issue Number	Close Date	Original Balance	Remaining Balance at December 31, 2004(1)	Remaining Balance at December 31, 2004 as a Percent of Original Balance	Original Weighted Average APR	Original Weighted Average Securitization Rate	Gross Interest Rate Spread(2)
			(Dollars in thousands)				
1985-A	December, 1985	$ 110,000	Paid in full		18.50%	8.38%	10.12%
1986-A	November, 1986	191,930	Paid in full		14.20	6.63	7.57
1987-A	March, 1987	125,000	Paid in full		12.42	6.75	5.67
1987-B	July, 1987	110,000	Paid in full		12.68	7.80	4.88
1988-A	February, 1988	155,000	Paid in full		13.67	7.75	5.92
1988-B	May, 1988	100,000	Paid in full		14.01	8.50	5.51
1988-C	July, 1988	100,000	Paid in full		15.41	8.50	6.91
1988-D	October, 1988	105,000	Paid in full		14.95	8.85	6.10
1989-A	March, 1989	75,000	Paid in full		15.88	10.45	5.43
1989-B	June, 1989	100,000	Paid in full		15.96	9.15	6.81
1990-A	August, 1990	150,000	Paid in full		16.05	8.35	7.70
1990-1	November, 1990	150,000	Paid in full		15.56	8.50	7.06
1991-1	April, 1991	200,000	Paid in full		16.06	7.70	8.36
1991-2	May, 1991	200,000	Paid in full		15.75	7.30	8.45
1991-3	August, 1991	175,000	Paid in full		15.69	6.75	8.94
1991-4	December, 1991	150,000	Paid in full		15.53	5.63	9.90
1992-1	March, 1992	150,000	Paid in full		14.49	5.85	8.64
1992-2	June, 1992	165,000	Paid in full		14.94	5.50	9.44
1992-3	September, 1992	135,000	Paid in full		14.45	4.70	9.75
1993-1	March, 1993	250,000	Paid in full		13.90	4.45	9.45
1993-2	June, 1993	175,000	Paid in full		13.77	4.70	9.07
1993-3	September, 1993	187,500	Paid in full		13.97	4.25	9.72
1993-4	December, 1993	165,000	Paid in full		12.90	4.60	8.30
1994-1	March, 1994	200,000	Paid in full		13.67	5.10	8.57
1994-2	May, 1994	230,000	Paid in full		14.04	6.38	7.66
1994-3	August, 1994	200,000	Paid in full		14.59	6.65	7.94
1994-4	October, 1994	212,000	Paid in full		15.58	7.10	8.48
1995-1	January, 1995	190,000	Paid in full		15.71	8.05	7.66
1995-2	March, 1995	190,000	Paid in full		16.36	7.10	9.26
1995-3	June, 1995	300,000	Paid in full		15.05	6.05	9.00
1995-4	September, 1995	375,000	Paid in full		15.04	6.20	8.84
1995-5	December, 1995	425,000	Paid in full		15.35	5.88	9.47
1996-A	March, 1996	485,000	Paid in full		15.46	6.13	9.33
1996-B	June, 1996	525,000	Paid in full		15.74	6.75	8.99
1996-C	September, 1996	535,000	Paid in full		15.83	6.60	9.23
1996-D	December, 1996	545,000	Paid in full		15.43	6.17	9.26
1997-A	March, 1997	500,000	Paid in full		15.33	6.60	8.73
1997-B	June, 1997	590,000	Paid in full		15.36	6.37	8.99
1997-C	September, 1997	600,000	Paid in full		15.43	6.17	9.26
1997-D	December, 1997	500,000	Paid in full		15.19	6.34	8.85
1998-A	March, 1998	525,000	Paid in full		14.72	6.01	8.71
1998-B	June, 1998	660,000	Paid in full		14.68	6.06	8.62
1998-C	November, 1998	700,000	Paid in full		14.42	5.81	8.61
1999-A	January, 1999	1,000,000	Paid in full		14.42	5.70	8.72
1999-B	July, 1999	1,000,000	Paid in full		14.62	6.36	8.26
1999-C	November, 1999	500,000	Paid in full		14.77	7.01	7.76
2000-A	March, 2000	1,200,000	Paid in full		14.66	7.28	7.38
2000-B	May, 2000	1,000,000	Paid in full		14.84	7.78	7.06
2000-C	August, 2000	1,390,000	Paid in full		15.04	7.32	7.72
2000-D	November, 2000	1,000,000	Paid in full		15.20	6.94	8.26
2001-A	January, 2001	1,000,000	$ 109,157	10.92%	14.87	5.77	9.10
2001-B	May, 2001	1,370,000	160,387	11.71	14.41	4.23	10.18
2001-C	August, 2001	1,200,000	194,240	16.19	13.90	4.50	9.40

2002-1	March, 2002	1,800,000	421,883	23.44	13.50	4.26	9.24
2002-2	May, 2002	1,750,000	497,790	28.45	12.51	3.89	8.62
2002-3	August, 2002	1,250,000	410,108	32.81	12.30	3.06	9.24
2002-4	November, 2002	1,350,000	537,558	39.82	12.18	2.66	9.52
2003-1	February, 2003	1,343,250	562,748	41.89	11.79	2.42	9.37
2003-2	May, 2003	1,492,500	715,232	47.92	11.57	2.13	9.44
2003-3	August, 2003	1,650,000	993,743	60.23	10.59	2.66	7.93
2003-4	November, 2003	1,403,625	857,934	61.12	10.89	2.70	8.19
2004-1	February, 2004	1,477,500	987,663	66.85	10.89	2.35	8.54
2004-2	May, 2004	1,477,500	1,140,607	77.20	10.98	3.02	7.96
2004-3	August, 2004	1,552,000	1,362,657	87.80	10.64	3.49	7.15
2004-4	October, 2004	1,358,000	1,307,371	96.27	11.19	3.10	8.09
2005-1	January, 2005	1,552,000			11.25	3.66	7.59
	Total	$42,027,805	$ 10,259,078				

(1) Represents only the note payable amounts outstanding at the date indicated.

(2) Represents the difference between the original weighted average annual percentage rate, also known as APR, and the estimated weighted average securitization rate on the closing date of the securitization.

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Other Noninterest Income

Other noninterest income consists primarily of insurance income, mortgage banking income and miscellaneous income. Other noninterest income totaled $12.4 million, $19.6 million and $28.3 million for the years ended December 31, 2004, 2003 and 2002, respectively. Noninterest income decreased for the year ended December 31, 2004 compared with the year ended December 31, 2003 due to lower gains on sale of MBS securities. Noninterest income decreased for the year ended December 31, 2003 compared with the year ended December 31, 2002 due to the sale of our seven Northern California branch offices in 2002.

Noninterest Expense

Total noninterest expense was $296 million, $282 million and $252 million for the years ended December 31, 2004, 2003 and 2002, respectively. Noninterest expense as a percentage of total revenues improved to 32% in 2004 compared to 34% in 2003 and 36% in 2002. The improvement in operating efficiencies from 2002 to 2004 was achieved primarily by updating proprietary credit scorecards, implementing an integrated desktop servicing application, upgrading hardware to support the loan origination system, and enhancing our behavioral scoring collection system.

Income Taxes

We file federal and certain state tax returns with our subsidiaries. We file other state tax returns as a separate entity. Tax liabilities from the consolidated returns are allocated in accordance with a tax sharing agreement based on the relative income or loss of each entity on a stand-alone basis. Our effective tax rate was approximately 40% in 2004 compared with 40% in 2003 and 36% in 2002. The relatively lower effective tax rate for the year ended December 31, 2002 was a result of a one-time benefit of legislation enacted by the State of California that eliminated the use of the reserve method of accounting for bad debts for large banks and financial corporations for taxable income purposes for tax years after January 1, 2002. In the first year of this change, 50% of the ending reserve amount deducted from taxable income in prior periods was included in California taxable income. The remaining 50% of the reserve was not required to be recaptured into income, but rather represented a permanent difference between GAAP and California tax accounting. The deferred tax liability related to this permanent difference was eliminated from our balance sheet and the state income tax provision for 2002 was reduced accordingly. See Business Taxation.

Financial Condition

Overview

We originated $6.6 billion and $6.0 billion of contracts for the year ended December 31, 2004 and 2003, respectively. As a result of higher contract originations, our portfolio of managed contracts reached $11.6 billion at December 31, 2004, up from $10.6 billion at December 31, 2003.

Total demand deposits and money market accounts at our retail banking division were $799 million at December 31, 2004 compared with $608 million at December 31, 2003. Total demand deposit and money market accounts represented 57% of total retail banking deposits at December 31, 2004 compared with 48% at December 31, 2003. The commercial banking division had deposits of $593 million at December 31, 2004 compared with $424 million at December 31, 2003.

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Investment and Other Securities

Our investment and other securities portfolio consists of short-term securities, including repurchase agreements and overnight investments in federal funds. These short-term securities are maintained primarily for liquidity purposes. Additionally, we own FHLB stock as required by our affiliation with the FHLB System and carry it at cost. The FHLB stock is included in investment securities available for sale on our Consolidated Statements of Financial Condition. We also hold owner trust certificates and obligations of states and political subdivisions, which are classified as available for sale. The owner trust certificates are recorded at cost, which approximates fair value. The obligations of states and political subdivisions are reported at fair value with unrealized gains and losses reflected as a separate component of shareholders equity on our Consolidated Statements of Financial Condition as accumulated other comprehensive income (loss), net of applicable taxes.

The following table summarizes our investment securities at the dates indicated:

	December 31,				
	2004	2003	2002	2001	2000
	(Dollars in thousands)				
Interest bearing deposits with other financial institutions	$ 4,092	$ 41,009	$ 59,004	$ 720	$ 720
Other short-term investments	125,000	291,000		35,000	66,500
Investment securities:					
Obligations of states and political subdivisions			1,046	1,549	1,533
U.S. government agencies and corporations	49,774	50,493			
Owner trust certificates			3,348	4,668	6,517
FHLB stock	60,612	58,803	46,341	64,446	24,367
Other	9,425	8,453	6,031	4,294	2,684
	$248,903	$449,758	$115,770	$110,677	$102,321

The following table sets forth the stated maturities of our investment securities at December 31, 2004:

	Up to One Year	One Year to Five Years	Five Years to Ten Years	Ten Years or More	No Stated Maturity
	(Dollars in thousands)				
Interest bearing deposits with other financial institutions	$ 4,092				
Other short-term investments	125,000				
Investment securities:					
U.S. government agencies and corporations		$49,774			
FHLB stock					$60,612
Other		791	$2,031	$3,596	3,007
	$129,092	$50,565	$2,031	$3,596	$63,619
Weighted average interest rate(1)	2.52%	2.21%	4.70%	3.07%	4.67%

(1) Calculated based on amortized cost.

Mortgage-Backed Securities

We invest in MBS to generate net interest margin, manage interest rate risk, provide another source of liquidity through repurchase agreements and meet regulatory requirements. Our MBS portfolio is classified as available for sale. Accordingly, the portfolio is reported at fair value with unrealized gains and losses reflected as a separate component of shareholders equity on our Consolidated Statements of Financial Condition as accumulated other comprehensive income (loss), net of applicable taxes. The following table summarizes our MBS portfolio by issuer:

	December 31, 2004	December 31, 2003
	(Dollars in thousands)	
Available for sale securities:		
GNMA certificates	$2,581,796	$2,638,085
FNMA participation certificates	30,175	25,273
FHLMC participation certificates	36,222	36,665
Other	1,565	1,774
	$2,649,758	$2,701,797

The portfolio had a weighted average yield, including effects of amortization of premiums and discounts, of 3.87%, 3.31% and 5.14% for the years ended December 31, 2004, 2003 and 2002, respectively. The weighted average coupon rate was 5.14%, 5.87% and 6.96% at December 31, 2004, 2003 and 2002, respectively. Our MBS portfolio had maturities of one month to thirty years at December 31, 2004, although payments are generally received monthly throughout the life of these securities.

Loan Portfolios

The following table sets forth the composition of our loan portfolio by type of loan, including loans held for sale, as of the dates indicated:

	December 31, 2004		2003		2002		2001		2000	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(Dollars in thousands)									
Consumer loans:										
Contracts	$11,790,663	97.2%	$10,833,127	97.3%	$9,147,937	96.9%	$7,192,302	95.2%	$4,390,265	89.2%
Other	4,386	0.0	6,002	0.1	7,531	0.1	8,826	0.1	13,456	0.3
	11,795,049	97.2	10,839,129	97.4	9,155,468	97.0	7,201,128	95.3	4,403,721	89.5
Less: Unearned interest	38,871	0.3	61,300	0.6	91,713	1.0	108,169	1.4	94,404	1.9
Total consumer loans	11,756,178	96.9	10,777,829	96.8	9,063,755	96.0	7,092,959	93.9	4,309,317	87.6
Mortgage loans:										
Existing properties	202,095	1.7	237,668	2.1	277,233	3.0	361,115	4.8	498,963	10.1
Construction	48,730	0.4	16,503	0.2	14,150	0.1	15,638	0.2	14,784	0.3
	250,825	2.1	254,171	2.3	291,383	3.1	376,753	5.0	513,747	10.4
	37,061	0.3	17,948	0.2	8,453	0.1	3,298	0.0	6,316	0.1

Less: Undisbursed loan proceeds										
Total mortgage loans	213,764	1.8	236,223	2.1	282,930	3.0	373,455	5.0	507,431	10.3
Commercial loans	165,806	1.3	124,431	1.1	97,216	1.0	85,312	1.1	107,586	2.1
Total loans	$12,135,748	100.0%	$11,138,483	100.0%	$9,443,901	100.0%	$7,551,726	100.0%	$4,924,334	100.0%

There were no consumer loans serviced for the benefit of others at December 31, 2004 and 2003 compared with $525 million at December 31, 2002.

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Mortgage Loan Portfolio

We have from time to time originated mortgage products that we have held on our balance sheet rather than selling through the secondary markets. Other than mortgage loans originated through the commercial banking division on a limited basis, we do not expect to add mortgage loans to our balance sheet.

Commercial Loan Portfolio

We had outstanding commercial loan commitments of $327 million at December 31, 2004 compared with $225 million at December 31, 2003. We originated $342 million and $407 million of commercial loans for the years ended December 31, 2004 and 2003, respectively. Though we continue to focus on expanding our commercial banking operation, it is not a significant source of revenue.

Asset Quality

Overview

Nonperforming assets, repossessions, loan delinquency and credit losses are considered by us as key measures of asset quality. Asset quality, in turn, affects our determination of the allowance for credit losses. We also take into consideration general economic conditions in the markets we serve, individual loan reviews, and the level of assets relative to reserves in determining the adequacy of the allowance for credit losses.

Automobile Contract Quality

We provide financing in a market where there is a risk of default by borrowers. Chargeoffs directly impact our earnings and cash flows. To minimize the amount of credit losses we incur, we monitor delinquent accounts, promptly repossess and remarket vehicles, and seek to collect on deficiency balances. See Business Operations.

We calculate delinquency based on the contractual due date. The following table sets forth information with respect to the delinquency of our portfolio of automobile contracts managed:

	December 31,					
	2004		2003		2002	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
	(Dollars in thousands)					
Automobile contracts managed	$11,560,890		$10,596,665		$9,389,974	
Period of delinquency:						
30-59 days	$ 191,001	1.65%	$ 219,937	2.08%	$ 238,204	2.54%
60 days or more	67,660	0.59	87,129	0.82	90,291	0.96
Total contracts delinquent and delinquencies as a percentage of contracts managed(1)	$ 258,661	2.24%	$ 307,066	2.90%	$ 328,495	3.50%

(1) Excludes Chapter 13 bankruptcy accounts greater than 120 days past due of $46.1 million, $45.6 million and $41.5 million at December 31, 2004, 2003 and 2002, respectively.

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The following table sets forth information with respect to repossessions in our portfolio of automobile contracts managed:

	December 31,					
	2004		2003		2002	
	Number of Contracts	Amount	Number of Contracts	Amount	Number of Contracts	Amount
	(Dollars in thousands)					
Automobile contracts managed	876,695	$11,560,890	862,122	$10,596,665	757,269	$9,389,974
Repossessed vehicles	1,049	$ 7,982	1,522	$ 10,331	2,375	$ 16,433
Repossessed assets as a percentage of number and amount of contracts outstanding	0.12%	0.07%	0.18%	0.10%	0.31%	0.18%

The following table sets forth information with respect to actual credit loss experience on our portfolio of automobile contracts managed:

	For the Year Ended December 31,		
	2004	2003	2002
	(Dollars in thousands)		
Automobile contracts managed at end of period	$11,560,890	$10,596,665	$9,389,974
Average contracts managed during period	$11,113,411	$10,051,754	$8,845,635
Gross chargeoffs	$ 312,586	$ 350,714	$ 327,161
Recoveries	91,704	89,027	82,372
Net chargeoffs	$ 220,882	$ 261,687	$ 244,789
Net chargeoffs as a percentage of average automobile contracts managed during period	1.99%	2.60%	2.77%

The decrease in delinquency and credit loss experience for 2004 compared to 2003 was a result of an improving economy and our continued emphasis on risk-focused underwriting. The decrease in delinquency and credit loss experience for 2003 compared to 2002 was primarily a result of our originating a higher percentage of prime credit quality contracts and some stabilization of wholesale pre-owned car prices.

Cumulative static pool losses are another means of analyzing contract quality. The cumulative static pool loss of a securitization is the cumulative amount of losses actually recognized, net of recoveries, as to the contracts securitized, up to and including a given month, divided by the original principal balance of the contracts in that securitization. The following table sets forth the cumulative static pool loss ratios by month for all outstanding securitized pools:

Cumulative Static Pool Loss Curves

At December 31, 2004

Period(1)	2001-A	2001-B	2001-C	2002-1	2002-2	2002-3	2002-4	2003-1	2003-2	2003-3	2003-4	2004-1	2004-2	2004-3	2004-4
1	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
2	0.03%	0.03%	0.04%	0.01%	0.00%	0.02%	0.02%	0.01%	0.00%	0.00%	0.01%	0.00%	0.00%	0.02%	0.00%
3	0.09%	0.10%	0.09%	0.06%	0.03%	0.06%	0.07%	0.04%	0.02%	0.02%	0.03%	0.02%	0.03%	0.06%	0.04%
4	0.20%	0.21%	0.20%	0.15%	0.10%	0.14%	0.16%	0.11%	0.06%	0.06%	0.08%	0.06%	0.07%	0.13%	
5	0.33%	0.33%	0.35%	0.29%	0.18%	0.27%	0.26%	0.18%	0.14%	0.13%	0.14%	0.11%	0.15%	0.21%	
6	0.50%	0.50%	0.49%	0.43%	0.32%	0.44%	0.38%	0.29%	0.25%	0.23%	0.21%	0.19%	0.24%		
7	0.70%	0.69%	0.65%	0.60%	0.49%	0.57%	0.50%	0.41%	0.36%	0.32%	0.28%	0.27%	0.33%		
8	0.84%	0.87%	0.81%	0.84%	0.66%	0.70%	0.61%	0.53%	0.48%	0.40%	0.35%	0.34%	0.41%		
9	1.04%	1.05%	0.95%	1.06%	0.82%	0.82%	0.78%	0.66%	0.59%	0.47%	0.44%	0.42%			
10	1.24%	1.22%	1.07%	1.28%	0.96%	0.96%	0.94%	0.80%	0.70%	0.55%	0.54%	0.52%			
11	1.45%	1.36%	1.20%	1.48%	1.10%	1.10%	1.08%	0.93%	0.80%	0.62%	0.61%	0.59%			
12	1.67%	1.53%	1.37%	1.67%	1.26%	1.24%	1.28%	1.06%	0.89%	0.71%	0.73%				
13	1.90%	1.67%	1.55%	1.82%	1.39%	1.38%	1.43%	1.21%	0.98%	0.80%	0.83%				
14	2.09%	1.81%	1.74%	1.99%	1.51%	1.53%	1.59%	1.31%	1.08%	0.88%	0.93%				
15	2.25%	2.00%	1.97%	2.14%	1.68%	1.70%	1.77%	1.40%	1.20%	0.97%					
16	2.41%	2.19%	2.16%	2.27%	1.83%	1.88%	1.92%	1.50%	1.31%	1.07%					
17	2.54%	2.37%	2.36%	2.45%	1.99%	2.03%	2.05%	1.60%	1.41%	1.16%					
18	2.73%	2.60%	2.59%	2.62%	2.16%	2.15%	2.16%	1.70%	1.53%						
19	2.93%	2.80%	2.78%	2.80%	2.31%	2.28%	2.25%	1.85%	1.66%						
20	3.11%	3.01%	2.95%	2.99%	2.46%	2.41%	2.37%	1.99%	1.76%						
21	3.34%	3.19%	3.14%	3.15%	2.60%	2.52%	2.49%	2.14%							
22	3.54%	3.34%	3.29%	3.31%	2.72%	2.62%	2.62%	2.27%							
23	3.72%	3.49%	3.41%	3.45%	2.86%	2.74%	2.73%	2.37%							
24	3.92%	3.62%	3.57%	3.58%	2.95%	2.83%	2.84%								
25	4.10%	3.75%	3.73%	3.69%	3.03%	2.96%	2.95%								
26	4.23%	3.87%	3.88%	3.80%	3.13%	3.08%	3.06%								
27	4.36%	4.00%	4.04%	3.92%	3.22%	3.21%									
28	4.47%	4.15%	4.20%	4.02%	3.33%	3.31%									
29	4.56%	4.28%	4.35%	4.12%	3.41%	3.41%									
30	4.67%	4.40%	4.46%	4.22%	3.50%										
31	4.81%	4.52%	4.57%	4.30%	3.58%										
32	4.92%	4.64%	4.69%	4.39%	3.66%										
33	5.04%	4.73%	4.77%	4.49%											
34	5.13%	4.83%	4.85%	4.56%											
35	5.24%	4.93%	4.92%												
36	5.31%	4.99%	5.01%												
37	5.39%	5.05%	5.09%												
38	5.45%	5.11%	5.16%												
39	5.50%	5.17%	5.22%												
40	5.56%	5.24%	5.27%												
41	5.61%	5.29%	5.32%												
42	5.66%	5.33%													
43	5.70%	5.39%													
44	5.75%	5.43%													
45	5.81%														
46	5.84%														
47	5.87%														
Prime Mix(2)	71%	71%	76%	70%	87%	85%	80%	80%	82%	84%	82%	82%	82%	81%	78%

(1) Represents the number of months since the inception of the securitization.

(2) Represents the original percentage of prime automobile contracts securitized within each pool.

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Real Estate Loan Quality

Our mortgage delinquencies over 60 days include both single family and multi-family mortgages. We had 0.85% of total mortgage loans past due over 60 days at December 31, 2004 compared with 1.25% at December 31, 2003.

Nonperforming Assets

Nonperforming loans, also known as NPLs, are defined as all nonaccrual loans. This includes mortgage loans 90 days or more past due, impaired loans where full collection of principal and interest is not reasonably assured and Chapter 13 bankruptcy accounts that were contractually past due over 120 days. For those accounts that are in Chapter 13 bankruptcy that are contractually past due over 120 days, all accrued interest is reversed and income is recognized on a cash basis. When a loan is designated as nonaccrual, all previously accrued but unpaid interest is reversed. For the years ended December 31, 2004, 2003 and 2002, interest on NPLs excluded from interest income was $1.4 million, $3.3 million and $3.5 million, respectively. The decrease between 2003 and 2004 was due to improvement in the economy.

Nonperforming assets, also known as NPAs, consist of NPLs, repossessed automobiles and real estate owned, also known as REO. Repossessed automobiles are carried at fair value. REO is carried at lower of cost or fair value. NPAs were $60.2 million at December 31, 2004 compared with $63.6 million at December 31, 2003. NPAs represented 0.4% of total assets at both December 31, 2004 and 2003. There were no impaired loans at December 31, 2004 and 2003.

Allowance For Credit Losses

Our allowance for credit losses was $315 million at December 31, 2004 compared with $302 million at December 31, 2003. We decreased our percentage of allowance for credit losses from 2.7% at December 31, 2003 to 2.6% at December 31, 2004 as we experienced lower losses in our loan portfolio due to an improving economy as well as our continued emphasis on risk-focused underwriting. Based on the analysis we performed related to the allowance for credit losses as described in Note 1 Summary of Significant Accounting Policies in our Consolidated Financial Statements, we believe that our allowance for credit losses is currently adequate to cover probable losses in our loan portfolio that can be reasonably estimated.

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The following table sets forth the activity in the allowance for credit losses:

	For the Year Ended December 31,				
	2004	2003	2002	2001	2000
	(Dollars in thousands)				
Balance at beginning of period	$ 301,602	$ 269,352	$ 178,218	$ 104,006	$ 64,217
Chargeoffs:					
Consumer loans	(312,594)	(350,718)	(280,378)	(162,878)	(55,892)
Commercial loans	(492)		(511)		
Mortgage loans	(203)	(352)	(260)	(1,024)	(1,234)
	(313,289)	(351,070)	(281,149)	(163,902)	(57,126)
Recoveries:					
Consumer loans	91,792	89,196	66,050	41,120	14,731
Commercial loans	49	78			
Mortgage loans		40		17	51
	91,841	89,314	66,050	41,137	14,782
Net chargeoffs	(221,448)	(261,756)	(215,099)	(122,765)	(42,344)
Provision for credit losses	235,248	294,006	306,233	196,977	82,133
Balance at end of period	$ 315,402	$ 301,602	$ 269,352	$ 178,218	$ 104,006
Ratio of net chargeoffs during the period to average loans owned during the period	1.9%	2.5%	2.6%	2.0%	1.3%
Ratio of allowance for credit losses to loans at the end of the period	2.6%	2.7%	2.9%	2.4%	2.1%

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The allowance for credit losses by loan category was as follows:

	December 31,							
	2004				2003			
	Loan Balance	Loans in Each Category as a % of Total Loans	Allowance	Allowance as a % of Loans	Loan Balance	Loans in Each Category as a % of Total Loans	Allowance	Allowance as a % of Loans
	(Dollars in thousands)							
Consumer loans	$11,756,178	96.9%	$310,595	2.6%	$10,777,829	96.8%	$297,058	2.8%
Single family residential	45,437	0.4	721	1.6	61,628	0.6	1,477	2.4
Multifamily residential	149,167	1.2	1,440	1.0	169,473	1.5	1,065	0.6
Construction loans	19,160	0.1	251	1.3	5,122	0.0	260	5.1
Commercial loans	165,806	1.4	2,395	1.4	124,431	1.1	1,742	1.4
	$12,135,748	100.0%	$315,402	2.6%	$11,138,483	100.0%	$301,602	2.7%

	December 31,							
	2002				2001			
	Loan Balance	Loans in Each Category as a % of Total Loans	Allowance	Allowance as a % of Loans	Loan Balance	Loans in Each Category as a % of Total Loans	Allowance	Allowance as a % of Loans
	(Dollars in thousands)							
Consumer loans	$9,063,755	96.0%	$260,634	2.9%	$7,092,959	94.0%	$167,659	2.4%
Single family residential	98,635	1.0	3,924	4.0	151,540	2.0	4,432	2.9
Multifamily residential	178,598	1.9	2,392	1.3	209,575	2.8	3,257	1.6
Construction loans	5,697	0.1	133	2.3	12,340	0.1	153	1.2
Commercial loans	97,216	1.0	2,269	2.3	85,312	1.1	2,717	3.2
	$9,443,901	100.0%	$269,352	2.9%	$7,551,726	100.0%	$178,218	2.4%

	December 31, 2000			
	Loan Balance	Loans in Each Category as a % of Total Loans	Allowance	Allowance as a % of Loans

	(Dollars in thousands)			
Consumer loans	$4,309,317	87.5%	$ 83,687	1.9%
Single family residential	230,854	4.7	9,020	3.9
Multifamily residential	268,109	5.4	7,909	2.9
Construction loans	8,468	0.2	139	1.6
Commercial loans	107,586	2.2	3,251	3.0
	$4,924,334	100.0%	$104,006	2.1%

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The following table presents summarized data relative to the allowances for credit and real estate owned losses at the dates indicated:

	At December 31,				
	2004	2003	2002	2001	2000
	(Dollars in thousands)				
Total loans(1)	$12,135,748	$11,138,483	$9,433,901	$7,551,726	$4,924,334
Allowance for credit losses	315,402	301,602	269,352	178,218	104,006
Allowance for real estate owned losses	100	100	250	250	250
Loans past due 60 days or more(2)	69,645	91,381	86,199	74,851	37,911
Nonperforming loans(3)	51,883	53,026	39,231	25,347	9,413
Nonperforming assets(4)	60,229	63,600	54,923	35,127	14,684
Allowance for credit losses as a percentage of:					
Total loans	2.6%	2.7%	2.9%	2.4%	2.1%
Loans past due 60 days or more	452.9%	330.0%	312.5%	238.1%	274.3%
Nonperforming loans	607.9%	568.8%	686.6%	703.1%	1,104.9%
Total allowance for credit losses and REO losses as a percentage of nonperforming assets	523.8%	474.4%	490.9%	508.1%	710.0%
Nonperforming loans as a percentage of total loans	0.4%	0.5%	0.4%	0.3%	0.2%
Nonperforming assets as a percentage of total assets	0.4%	0.4%	0.4%	0.3%	0.2%

(1) Loans net of unearned interest and undisbursed loan proceeds.

(2) Excludes Chapter 13 bankruptcy accounts greater than 120 days past due.

(3) All nonperforming loans are on nonaccrual.

(4) Nonperforming loans, repossessed automobiles and real estate owned, net of allowance.

Capital Resources and Liquidity

Overview

We require substantial capital resources and cash to support our business. Our ability to maintain positive cash flows from operations is the result of our consistent managed growth, favorable loss experience and efficient operations.

Principal Sources of Cash

We employ various sources to fund our operations, including collections of principal and interest from loans, deposits, securitizations, commercial paper, advances from the FHLB, repurchase agreements, subordinated debentures and other borrowings. The sources used vary depending on such factors as rates paid, maturities, and the impact on capital.

Automobile Contract Sales and Securitizations

Our primary source of funds is the ability to aggregate and securitize contracts in the form of asset-backed securities. These transactions generate cash proceeds that allow us to repay amounts borrowed and to purchase additional contracts. Contract sales and securitizations totaled

$5.9 billion for the year ended December 31, 2004 compared with $5.9 billion and $6.9 billion for the years ended December 31, 2003 and 2002, respectively. The $5.9 billion issued in 2004 and 2003 were through public securitization transactions. Of the $6.9 billion issued in 2002, $775 million was through a privately placed conduit facility and $6.2 billion was through public securitization transactions.

Collections of Principal and Interest from Loans and MBS and Release of Cash from Spread Accounts

The collection of principal and interest from contracts originated and securitized and the release of cash from spread accounts is another significant source of funds for us. Collections of principal and interest are deposited into collection accounts established in connection with each securitization or into our accounts for non-securitized contracts. Pursuant to reinvestment contracts entered into in connection with securitizations guaranteed under a financial guarantee insurance policy issued by FSA, we receive access to the amounts deposited into collection accounts and amounts held in the spread accounts for these securitizations. We use those amounts so received in our daily operations to fund the purchase of contracts or to cover the day to day costs of our operations. If delinquency or chargeoff rates in a securitization exceed established triggers, amounts required to be held in spread accounts will increase, requiring us to pledge additional collateral. We may bear additional expense due to an increase in required collateral. If the reinvestment contracts were no longer deemed an eligible investment, which determination would be made by the rating agencies or FSA, we would no longer have the ability to use this cash in the ordinary course of business and would need to obtain alternative financing, which may only be available on less attractive terms. See Business Transactions with Related Parties Reinvestment Contracts. If we were unable to obtain additional financing, we may have to curtail our contract purchasing activities, which would also have a material adverse effect on our financial position, liquidity and results of operations. Also, a significant increase in credit losses could have a material adverse impact on our collections of principal and interest from contracts.

Pursuant to the securitization agreements for our securitizations that are credit enhanced through the issuance of subordinated notes, we receive cash released by the trustee from the spread accounts on such transactions once the spread accounts reach predetermined funding levels. The amounts released from these spread accounts represent the return of the initial deposits to such accounts as well as the release of excess spread on the securitized contracts.

For real estate loans and MBS, principal and interest are deposited into our own accounts and are used in our daily operations.

Total principal and interest collections on MBS, loans owned by us, loans securitized under a financial guarantee insurance policy issued by FSA, and release of cash from spread accounts on securitizations that are credit enhanced through the issuance of subordinated notes totaled $5.1 billion, $6.8 billion and $6.4 billion for the years ended December 31, 2004, 2003 and 2002, respectively. The decrease in principal and interest collections from 2002 to 2004 is due to our shift to senior/subordinated securitizations where principal and interest collections are held at the trustee in collection and spread accounts until certain predetermined levels are reached.

Deposits

We attract both short-term and long-term deposits from the general public, commercial enterprises and institutions by offering a variety of accounts and rates. We offer regular passbook accounts, demand deposit accounts, money market accounts, certificate of deposit accounts and individual retirement accounts. Our retail banking division gathers deposits from 20 retail branch locations throughout Southern California. Our commercial banking division gathers deposits by establishing commercial relationships with businesses located throughout Southern California.

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The following table sets forth the amount of our deposits by type at the dates indicated:

	December 31,				
	2004	2003	2002	2001	2000
	(Dollars in thousands)				
No minimum term:					
Demand deposit accounts	$ 705	$ 1,145	$ 1,037	$ 1,124	$ 8,229
Passbook accounts	5,880	7,282	6,688	11,192	11,768
Money market accounts	1,257,074	963,004	730,245	858,371	810,169
Noninterest bearing deposits	268,556	210,405	165,844	100,170	67,984
Certificate accounts:					
Certificates (30 days to five years)	586,678	646,868	878,096	1,154,917	1,414,956
Individual retirement accounts	64,606	81,701	94,082	147,250	165,381
Brokered deposits		62,451	98,992	56,302	
	$2,183,499	$1,972,856	$1,974,984	$2,329,326	$2,478,487

The variety of deposits we offer has allowed us to remain competitive in obtaining funds and provided us the flexibility to respond to changes in customer demand and competitive pressures. Generally, as other financial institutions, we have become more subject to short-term fluctuations in deposit flows as customers have become more interest rate conscious. Our ability to attract and maintain deposits and control our cost of funds has been and will continue to be significantly affected by market conditions.

The following table summarizes our average certificate and money market accounts outstanding:

	For the Year Ended December 31,		
	2004	2003	2002
	(Dollars in thousands)		
Average certificate accounts outstanding	$ 577,649	$783,720	$1,154,090
Average interest rate paid on certificate accounts	2.02%	2.63%	3.58%
Average money market accounts outstanding	$1,121,461	$855,460	$ 748,814
Average interest rate paid on money market accounts	1.58%	1.33%	1.97%

Deposit accounts, subject to certain FDIC attribution rules, are insured by the FDIC up to a maximum of $100,000 per customer. Our maturities of certificate accounts greater than or equal to $100,000 were as follows:

	December 31,	
	2004	2003
	(Dollars in thousands)	
Three months or less	$ 957	$ 2,449
Over three months through six months	2,308	1,497
Over six months through one year	198,047	186,647

Over one year through three years	15,064	27,458
Over three years	2,206	1,844
	$218,582	$219,895

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Borrowings and Other Sources of Funds

Our other sources of funds include commercial paper, advances from the FHLB, sales of securities under agreements to repurchase, other borrowings and cash generated from operations. We select from among these funding alternatives based on the timing and duration of our cash needs, as well as the costs, maturities and other requirements of each funding source.

The FHLB system functions in a reserve capacity for savings institutions. As a member, we are required to own capital stock in the FHLB and are authorized to apply for advances from the FHLB on security of such stock and on certain residential mortgage loans. The Bank has been pre-approved for advances up to 25% of its assets, based on remaining availability under credit facilities established by the Bank with the FHLB, with 24 hours notice. Such borrowings may be made pursuant to several different programs offered from time to time by the FHLB. Additional funds are available subject to additional collateral and other requirements. Each credit program has its own interest rate, which may be fixed or variable, and range of maturities. The FHLB prescribes the acceptable uses to which advances pursuant to each program may be put, as well as limitations on the sizes of advances and repayment provisions.

Federal regulations have been promulgated which connect CRA performance with access to long-term advances from the FHLB to member institutions. The Bank received a satisfactory rating in its most recent CRA evaluation concluded in July 2003.

Subordinated Capital Debentures

In 1997 and 2002, the Bank issued $150 million of 8.875% and $300 million of 9.625% subordinated capital debentures due in 2007 and 2012, respectively. The outstanding balance of the $150 million issuance was redeemed on August 1, 2004. At December 31, 2004, $300 million was outstanding on the subordinated debentures due in 2012 excluding discounts and issue costs. The subordinated debentures are redeemable at our option, in whole or in part, on or after May 15, 2009, at 100% of the principal amount being redeemed plus accrued interest as of the date of redemption. In addition to providing additional liquidity, the Bank is permitted to include $296 million of these debentures in supplementary capital for purposes of determining compliance with risk-based capital requirements. The Bank s subordinated debentures are included in supplementary capital for regulatory purposes. The 9.625% debentures will not begin to be phased out as supplementary capital until May 15, 2007. See Business Supervision and Regulation Capital Requirements.

Conduit Financing

We have previously entered into secured conduit financing transactions using an automobile receivable securitization structure for short-term financing needs. For the year ended December 31, 2002, we issued $775 million of notes secured by contracts through a conduit facility established in January 2002. This facility was terminated in May 2002 in conjunction with a $1.8 billion public asset-backed securitization. We did not enter into a secured conduit financing in 2004 or 2003.

Equity Offerings

We completed common stock offerings in July 2003 and November 2003 in which we raised a total of $163 million and $207 million through the issuance of 6.1 million and 6.3 million additional common shares at a price of $28.00 and $34.39 per share, respectively. With the completion of these offerings, our total number of common shares issued and outstanding increased 31.6% to 51.7 million shares at December 31, 2003.

We completed a rights offering in March 2002 in which we raised $51.3 million through the issuance of 3.3 million additional common shares at a price of $15.75 per share. With the completion of the March 2002 offering, our total number of common shares issued and outstanding increased 9.1% to 39.1 million shares at March 31, 2002.

WFS completed a rights offering in March 2002 that raised a total of $110 million through the issuance of 6.1 million additional common shares at a price of $18.00 per share. With the completion of the March

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2002 offering, the number of WFS common shares issued and outstanding increased by 18% to 41.1 million shares. Of the 6.1 million additional common shares issued by WFS in 2002, the Bank purchased 5.2 million shares in the amount of $94.4 million.

The net amount of proceeds received from WFS and our rights offerings executed in March 2002 totaled $67.3 million. At December 31, 2004, the Bank owned 84% of WFS common stock.

Principal Uses of Cash

Acquisition of Loans and Investment Securities

Our most significant use of cash is for the acquisition of contracts, MBS and other investment securities. Loan originations totaled $7.0 billion during 2004 compared with $6.4 billion and $5.8 billion in 2003 and 2002, respectively. We purchased $1.2 billion of MBS and other investment securities during 2004 compared with $2.2 billion and $1.6 billion during 2003 and 2002, respectively.

Payments of Principal and Interest on Securitizations

Payments of principal and interest to noteholders and certificateholders related to securitizations totaled $6.2 billion in 2004 compared with $4.9 billion and $5.6 billion in 2003 and 2002, respectively. Payments of principal and interest in 2002 include $1.5 billion of payments on conduit financings.

Amounts Paid to Dealers

Consistent with industry practice, we generally pay dealer participation to the originating dealer for each contract purchased. Participation paid to dealers during 2004 totaled $154 million compared with $141 million and $129 million in 2003 and 2002, respectively. Typically, the acquisition of contracts higher up the prime credit quality spectrum requires a higher amount of participation paid to the dealers due to the increased level of competition for such contracts. The amount of participation paid to dealers increased primarily as a result of an increase in the amount of contracts purchased.

Advances to Spread Accounts

At the time a securitization transaction closes, we are required to advance monies to initially fund the spread account. On senior/subordinated securitizations, the spread account balance is invested in eligible mutual fund investments by the trustee. The advanced monies are included in restricted cash on our Consolidated Statements of Financial Condition. The amount of such initial advances included in restricted cash was $52.7 million at December 31, 2004 compared with $21.7 million at December 31, 2003.

Operating Our Business

Our largest operating expenditure is salaries and benefits. Other expenditures include occupancy, collection, repossession, telephone and data processing costs. We also use substantial amounts of cash in capital expenditures for automation and new technologies to remain competitive and to become more efficient. See Business Our Business Strategy Create Operating Efficiencies Through Technology and Best Practices.

Dividends

Historically, we have paid a quarterly dividend to the holders of our common stock. Cash payments of dividends totaled $28.5 million in 2004 compared with $21.6 million and $18.0 million in 2003 and 2002, respectively.

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Contractual Obligations

The following table lists our contractual obligations:

	At December 31, 2004					
	One Year or Less	More Than One Year through Three Years	More Than Three Years through Five Years	More Than Five Years	No Stated Maturity	Total
	(Dollars in thousands)					
Certificates of deposit	$ 632,708	$ 18,233	$ 343			$ 651,284
Notes payable on automobile secured financing(1)	235,599	2,381,263	3,024,278	$4,601,760		10,242,900
Federal Home Loan Bank advances	1,137,000			2,521		1,139,521
Subordinated debentures				295,321		295,321
Other borrowings	8,577					8,577
Loan commitments	623,034	1,218		1	$1,615	625,868
Operating leases	7,022	10,154	5,229	3,603		26,008
Total contractual obligations	$2,643,940	$2,410,868	$3,029,850	$4,903,206	$1,615	$12,989,479

(1) Includes the effects of hedging activities.

Capital Requirements

The Bank is subject to certain minimum capital requirements imposed by FIRREA and FDICIA. See Business Supervision and Regulation Capital Requirements. The Bank currently meets all of the requirements of a well capitalized financial institution.

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The following table summarizes the Bank s actual capital and required capital as of December 31, 2004 and 2003:

	Tangible Capital	Core Capital	Tier 1 Risk-Based Capital	Risk-Based Capital
	(Dollars in thousands)			
December 31, 2004				
Actual capital:				
Amount	$1,196,579	$1,196,579	$1,193,529	$1,619,317
Capital ratio	8.99%	8.99%	11.59%	15.72%
FIRREA minimum required capital:				
Amount	$ 199,654	$ 399,308	N/A	$ 824,105
Capital ratio	1.50%	3.00%	N/A	8.00%
Excess	$ 996,925	$ 797,271	N/A	$ 795,212
FDICIA well capitalized required capital:				
Amount	N/A	$ 665,513	$ 618,079	$1,030,131
Capital ratio	N/A	5.00%	6.00%	10.00%
Excess	N/A	$ 531,066	$ 575,450	$ 589,186
December 31, 2003				
Actual capital:				
Amount	$ 884,536	$ 884,536	$ 881,517	$1,357,744
Capital ratio	7.06%	7.06%	9.20%	14.17%
FIRREA minimum required capital:				
Amount	$ 187,923	$ 375,845	N/A	$ 766,665
Capital ratio	1.50%	3.00%	N/A	8.00%
Excess	$ 696,613	$ 508,691	N/A	$ 591,079
FDICIA well capitalized required capital:				
Amount	N/A	$ 626,409	$ 574,999	$ 958,332
Capital ratio	N/A	5.00%	6.00%	10.00%
Excess	N/A	$ 258,127	$ 306,518	$ 399,412

The following table reconciles the Bank s capital in accordance with GAAP to the Bank s tangible, core and risk-based capital:

	December 31,	
	2004	2003
	(Dollars in thousands)	
Bank shareholder s equity GAAP basis	$ 993,959	$ 685,045
Add: Net unrealized losses	37,529	68,203
Add: Minority interest in equity of subsidiaries	165,484	131,434
Less: Non-permissible activities	(393)	(146)
Total tangible and core capital	1,196,579	884,536
Adjustments for risk-based capital:		
Subordinated debentures(1)	295,838	355,370
General loan valuation allowance(2)	129,950	120,857
Low-level recourse deduction	(3,050)	(3,019)
Risk-based capital	$1,619,317	$1,357,744

(1) Excludes capitalized discounts and issue costs.

(2) Limited to 1.25% of risk-weighted assets.

We manage the Bank to higher internal capital targets than the standards defined by FDICIA for qualification as well capitalized because, among other reasons, many of the contracts we originate possess one or more of the factors identified by the OTS as factors indicative of subprime loans. See Business Risks OTS Guidance Regarding Subprime Lending May Affect the Bank s Capital Requirements.

Item 7A. ***Quantitative and Qualitative Disclosure About Market Risk***

Fluctuations in interest rates and early prepayment of contracts are the primary market risks facing us. Our Credit and Pricing Committee is responsible for setting credit and pricing policies and for monitoring credit quality. Our Asset/ Liability Committee is responsible for the management of interest rate and prepayment risks. Asset/liability management is the process of measuring and controlling interest rate risk through matching the maturity and repricing characteristics of interest earning assets with those of interest bearing liabilities.

The Asset/ Liability Committee closely monitors interest rate and prepayment risks and recommends policies for managing such risks. The primary measurement tool for evaluating this risk is the use of interest rate shock analysis. This analysis simulates the effects of an instantaneous and sustained change in interest rates (in increments of 100 basis points) on our assets and liabilities and measures the resulting increase or decrease to our net portfolio value, also known as NPV. NPV is the discounted value of the future cash flows (or paths of cash flows in the presence of options based on volatility assumptions and an arbitrage free Monte Carlo simulation method to achieve the current market price) of all assets minus all liabilities whose value is affected by interest rate changes plus the book value of non-interest rate sensitive assets minus the book value of non-interest rate sensitive liabilities. It should be noted that shock analysis is objective but not entirely realistic in that it assumes an instantaneous and isolated set of events. The NPV ratio is the NPV as a percentage of the discounted value of the future cash flows of all assets. At December 31, 2004, we maintained minimal interest rate risk exposure within a change in interest rates of plus or minus 100 basis points.

The following table summarizes our NPV sensitivity analysis at December 31, 2004 based on guidance from the OTS:

Changes in Interest Rates	NPV Ratio
+100 basis points	12.10%
Base case	12.15%
-100 basis points	12.02%

Another important measurement of our interest rate risk is gap analysis. Gap is defined as the difference between the amount of interest sensitive assets that reprice versus the amount of interest sensitive liabilities that also reprice within a defined period of time. We have more interest sensitive liabilities rather than assets repricing in shorter term maturity buckets and more interest sensitive assets rather than liabilities repricing in longer term maturity buckets.

The contracts originated and held by us are fixed rate and, accordingly, we have exposure to changes in interest rates. To protect against potential changes in interest rates affecting interest payments on future securitization transactions, we may enter into various hedge agreements prior to closing the transaction. We enter into Euro-dollar future contracts and forward agreements in order to hedge our future interest payments on our notes payable on automobile secured financing. The market value of these hedge agreements is designed to respond inversely to changes in interest rates. Because of this inverse relationship, we can effectively lock in a gross interest rate spread at the time of entering into the hedge transaction. Gains and losses on these agreements are recorded in accumulated other comprehensive income (loss), net of tax, on our Consolidated Statements of Financial Condition. Any ineffective portion is recognized in noninterest income during that period if the hedge is greater than 100% effective. Upon completion of the securitization transaction, the gains or losses are amortized on a level yield basis over the duration of the notes issued. These hedge instruments are settled daily, and therefore, there are no related financial instruments recorded on the Consolidated Statements of Financial Condition. Credit risk related to these hedge instruments is minimal. As a result of our approach to interest rate risk management and our hedging strategies, we do not anticipate that changes in interest rates will materially affect our results of operations or liquidity, although we can provide no assurance in this regard.

As we issued certain variable rate notes payable in connection with our securitization activities, we also entered into interest rate swap agreements in order to hedge our variable interest rate exposure on future interest payments. The fair value of the interest rate swap agreements is included in notes payable on automobile secured financing, and any change in the fair value is reported as accumulated other comprehensive income (loss), net of tax, on our Consolidated Statements of Financial Condition. Any ineffective portion is recorded in noninterest income during that period if the hedge is greater than 100% effective. Related interest income or expense is settled on a quarterly basis and recognized as an adjustment to interest expense in our Consolidated Statements of Income.

We have entered into interest rate swap agreements or other derivatives that we choose not to designate as hedges or that do not qualify for hedge accounting under SFAS No. 133. These derivatives pertain to variable rate notes issued in conjunction with the securitization of our contracts. Any change in the market value of such derivatives and any income or expense recognized on such derivatives is recorded to noninterest income.

We have entered into or committed to interest rate swaps as hedges against deposits and securities sold under agreements to repurchase to manage interest rate risk exposure. The fair value of the interest rate swap agreements is included in deposits and securities sold under agreements to repurchase, respectively, and any change in the fair value is reported as accumulated other comprehensive income (loss), net of tax, on our Consolidated Statements of Financial Condition. Related interest income or expense is settled on a quarterly basis and is recorded in accumulated other comprehensive income (loss) and reclassified into earnings in the period during which cash flows on the hedged items affect income.

The Asset/ Liability Committee monitors our hedging activities to ensure that the value of hedges, their correlation to the contracts being hedged and the amounts being hedged continue to provide effective protection against interest rate risk. The amount and timing of hedging activities are determined by our senior management based upon the monitoring activities of the Asset/ Liability Committee. As a result of our approach to interest rate risk management and our hedging strategies, we do not anticipate that changes in interest rates will materially affect our results of operations or liquidity, although we can provide no assurance in this regard. There were no material changes in market risks in the current year compared with the prior year.

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The following table provides information about our derivative financial instruments and other financial instruments used that are sensitive to changes in interest rates. For loans, securities and liabilities with contractual maturities, the table presents principal cash flows and related weighted average interest rates by contractual maturities as well as our historical experience of the impact of interest rate fluctuations on the prepayment of real estate loans, contracts and MBS. For passbook, money market and interest bearing demand deposit accounts that have no contractual maturity, the table presents principal cash flows and, as applicable, related weighted average interest rates based on our historical experience, management s judgment and statistical analysis. For interest rate swap agreements, the table presents notional amounts and, as applicable, weighted average interest rates by contractual maturity date. Notional amounts are used to calculate the contractual payments to be exchanged under the contracts.

	2005	2006	2007	2008	2009	Thereafter	Total	Fair Value
				(Dollars in thousands)				
Rate sensitive assets:								
Fixed interest rate loans	$4,135,805	$3,363,571	$2,275,711	$1,342,606	$ 576,560	$ 68,177	$11,762,430	$12,386,280
Average interest rate	9.66%	9.61%	9.39%	9.12%	8.88%	8.18%	9.49%	
Variable interest rate loans	$ 373,318						$ 373,318	$ 372,551
Average interest rate	5.42%						5.42%	
Fixed interest rate securities	$1,164,842	$ 308,093	$ 199,796	$ 133,657	$ 92,176	$ 397,408	$ 2,295,972	$ 2,295,972
Average interest rate	3.23%	4.66%	4.78%	4.89%	4.99%	5.21%	4.07%	
Variable interest rate securities	$1,020,522						$ 1,020,522	$ 1,020,522
Average interest rate	3.68%						3.68%	
Rate sensitive liabilities:								
Passbook deposits	$ 5,880						$ 5,880	$ 5,821
Average interest rate	0.10%						0.10%	
Money market and interest bearing demand deposits	$1,257,779						$ 1,257,779	$ 1,241,202
Average interest rate	2.05%						2.05%	
Certificates of deposit	$ 632,707	$ 13,462	$ 4,772	$ 330	$ 13		$ 651,284	$ 650,113
Average interest rate	2.31%	2.78%	3.47%	2.10%	2.84%		2.33%	
Notes payable under automobile secured financing fixed	$4,100,539	$2,822,875	$1,666,065	$ 627,021			$ 9,216,500	$ 9,373,462
Average interest rate	2.74%	3.03%	3.15%	3.62%			2.97%	
Notes payable on automobile secured financing variable	$1,026,400						$ 1,026,400	$ 1,026,400
Average interest rate	2.56%						2.56%	
Subordinated debentures fixed						$ 295,321	$ 295,321	$ 337,048
Average interest rate						9.68%	9.68%	

Other fixed interest rate borrowings	$ 1,137,000					$ 2,521	$ 1,139,521	$ 1,139,908
Average interest rate	2.28%					6.53%	2.29%	
Other variable interest rate borrowings	$ 8,577						$ 8,577	$ 8,582
Average interest rate	3.81%						3.81%	
Rate sensitive derivative financial instruments:								
Interest rate swap agreements	$ 846,141	$ (217,691)	$ (183,950)		$ (244,500)	$ (200,000)		$ (57,167)
Average pay rate	3.95%	2.72%	7.28%		5.94%	6.08%	4.71%	
Average receive rate	2.37%						2.37%	
Euro-dollar futures contracts	$ 680,323	$ (276,556)	$ (214,842)	$ (188,925)				

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Glossary

ALLOWANCE FOR CREDIT LOSSES: An account established to cover probable credit losses. If we believe a loan is uncollectible, we set aside in the allowance account a portion of earnings equal to the difference between unpaid principal and the market value of the loan. If the loan is charged off, we reduce the loan balance and the allowance by equal amounts.

ASSET-BACKED SECURITIES: Securities that are backed by financial assets such as automobile contracts.

AUTOMOBILE CONTRACTS: Closed-end loans secured by a first lien on a vehicle.

BOOK VALUE PER COMMON SHARE: The value of a share of common stock based on the values at which the assets are recorded on the balance sheet determined by dividing shareholders equity excluding accumulated other comprehensive income or loss by the total number of common shares outstanding.

CHARGEOFF: A loan written off as uncollectible.

CHARGEOFF RATE: Net annualized chargeoffs divided by average receivables outstanding for the period.

COMMERCIAL LOAN COMMITMENTS: Legally binding agreements to provide commercial financing at a future date.

COMMITTEE OF SPONSORING ORGANIZATIONS OF THE TREADWAY COMMISSION (COSO): A voluntary private sector organization dedicated to improving the quality of financial reporting through business ethics, effective internal controls and corporate governance.

CONDUIT FINANCING: A transaction involving the transfer of a pool of assets to a trust, wherein securities representing undivided interests in, or obligations of, the trust, are purchased by an investor that issues short-term notes. The transaction is treated as a secured financing.

CORE CAPITAL: A capital measure applicable to savings institutions. The Bank s core capital is comprised of common shareholders equity (excluding certain components of accumulated other comprehensive income or loss), minority interest in includable consolidated subsidiaries, less investments in and advances to nonincludable subsidiaries.

CORE CAPITAL RATIO: A regulatory measurement of capital adequacy. The Bank s core capital ratio is core capital to total assets adjusted for assets in certain subsidiaries that cannot be included and certain unrealized gains or losses on certain securities and cash flow hedges.

DEALER PARTICIPATION: The amount paid to a dealer for the purchase of an automobile contract in excess of the principal amount financed.

DELINQUENCY: A method of determining aging of past due accounts based on the status of payments under the loan.

DERIVATIVES: Interest rate swaps, futures, forwards, option contracts or other financial instruments used for asset and liability management purposes. These instruments derive their values or contractually determined cash flows from the price of an underlying asset or liability, reference rate, index or other security.

DEFERRED TAX ASSET: An asset attributable to deductible temporary differences and carryforwards. A deferred tax asset is measured using the applicable enacted tax rate and provisions of the enacted tax law.

DEFERRED TAX LIABILITY: A liability attributable to taxable temporary differences. A deferred tax liability is measured using the applicable enacted tax rate and provisions of the enacted law.

DIVIDEND PAYOUT RATIO: Dividends per share divided by net income per share.

EARNING PER SHARE (EPS): The most common method of expressing a company s profitability. Its purpose is to indicate how effective an enterprise has been in using the resources provided by common shareholders. EPS is usually presented in two ways: basic EPS and diluted EPS. The computation of basic EPS includes other instruments that are equivalent to common stock. Diluted EPS includes all instruments

that have the potential of causing additional shares of common stock to be issued, such as unexercised stock options.

EURO-DOLLAR FUTURES CONTRACTS: Futures contracts used as a hedge to lock in a gross spread on a future securitization transaction prior to closing the transaction.

FEDERAL FUNDS: Non-interest bearing deposits held by member banks at the Federal Reserve Bank.

FEE INCOME: Income from documentation fees, late charges, deferment fees, transaction processing fees, service charges on deposit accounts and other fees.

FHLB: The Federal Home Loan Bank, a network of twelve regional Federal Home Loan Banks chartered by Congress in 1932 to ensure financial institutions have access to money to lend to consumers for home mortgages.

FHLMC: The Federal Home Loan Mortgage Corporation, a government-chartered corporation that buys qualified mortgage loans from the financial institutions that originate them, securitizes the loans, and distributes the securities through the dealer community.

FNMA: The Federal National Mortgage Association, a congressionally chartered corporation that buys mortgages on the secondary market, pools them and sells them as mortgage-backed securities to investors on the open market.

FORWARD AGREEMENTS: Contracts to exchange payments on a specified future date, based on a market change in interest rates from trade date to contract settlement date.

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP): Accounting rules and conventions defining acceptable practices in preparing financial statements in the United States of America. The Financial Accounting Standards Board (FASB), an independent self-regulatory organization, is the primary source of accounting rules.

GNMA: The Government National Mortgage Association, a U.S. Government-owned corporation that guarantees timely payment of principal and interest on specified mortgage-backed certificates.

HEDGE: A derivative instrument designed to reduce or eliminate risk, such as interest rate risk. To be treated as a hedge under GAAP, the instrument must meet certain requirements as defined under Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended, also known as SFAS No. 133. Under SFAS No. 133, a derivative must be expected to be highly effective in reducing the hedged risk in order to utilize the special accounting allowed for hedges. In addition, the hedge must be assessed as being highly effective on an ongoing basis throughout its life. The ineffective portion of a hedge is recorded in earnings immediately.

HOLDING COMPANY: A corporation or other entity that owns a majority of stock or securities of one or more other corporations, thus obtaining control of the other corporations.

INTEREST BEARING LIABILITIES: The sum of deposits, notes, subordinated debt and other borrowings on which interest expense is incurred.

INTEREST EARNING ASSETS: The sum of loans and investments on which interest income is earned.

INTEREST RATE SPREAD: The difference between the yield on our interest earning assets and the rate paid on our interest bearing liabilities.

INTEREST RATE SWAP: A contract between two parties to exchange interest payments on a notional amount for a specified period. Typically, one party makes fixed rate payments, while the other party makes payments using a variable rate. Such a transaction is commonly used to manage the asset or liability sensitivity of a balance sheet by converting fixed rate assets or liabilities to floating rates, or vice versa.

LIBOR: London Interbank Offered Rate, which is a widely quoted market rate that is frequently the index used to determine the rate at which our subsidiaries or we borrow funds.

LIQUIDITY: A measure of how quickly we can convert assets to cash or raise additional cash by issuing debt.

MANAGED LOANS or MANAGED PORTFOLIO: Loans on the balance sheet plus contracts securitized in transactions treated as sales under GAAP, which we continue to service.

MINORITY INTEREST: Less than 50% ownership of a corporation s voting stock or not enough ownership to control company operations. When a parent owns a majority (but less than 100%) of a subsidiary s stock, the Consolidated Financial Statements must reflect the minority s interest in the subsidiary. The minority interest as shown on the Consolidated Statements of Income is equal to the minority s proportionate share of the subsidiary s net income. The minority interest as shown on the Consolidated Statements of Financial Condition is equal to the minority s proportionate share of the subsidiary s net assets.

MORTGAGE-BACKED SECURITY (MBS): A security secured by or representing an undivided interest in a pool of mortgage loans each of which mortgage loans is secured by a completed single family dwelling (one-to-four family units), which security is either guaranteed by GNMA or issued or guaranteed by FNMA or FHLMC.

MORTGAGE LOAN: Closed-end loan or revolving line of credit secured by a first or second lien on residential real estate.

NET CHARGEOFFS or NET CREDIT LOSSES: The amount of loans written off as uncollectible, net of the recovery of loans previously written off as uncollectible.

NET INTEREST INCOME: Interest income and loan fees on interest earning assets less the interest expense incurred on all interest bearing liabilities.

NET INTEREST MARGIN: The average interest rate earned on interest earning assets less the average interest rate paid on interest bearing liabilities.

NET YIELD ON AVERAGE INTEREST EARNING ASSETS: Interest income from receivables and other interest earning assets reduced by interest expense as a percentage of the average balance of such interest earning assets.

NONINTEREST EXPENSE: All expenses other than interest expense.

NONINTEREST INCOME: All income other than interest income.

NONPERFORMING ASSETS (NPAs): Nonperforming loans, repossessed automobiles and real estate owned.

NONPERFORMING LOANS or NONACCRUAL LOANS: Loans on which we no longer accrue interest because ultimate collection is unlikely.

NON-PRIME BORROWERS: Borrowers who have overcome past credit difficulties.

NOTIONAL AMOUNT: The principal amount of a financial instrument on which a derivative transaction is based. In an interest rate swap, for example, the notional amount is used to calculate the interest rate cash flows to be exchanged. No exchange of principal occurs.

OWNED LOANS: Loans held on our balance sheet.

PRIME BORROWERS: Borrowers who have strong credit histories.

PROVISION FOR CREDIT LOSSES: A charge to earnings to recognize that all loans will not be fully paid. The amount is determined based on such factors as our actual loss experience, management s expectations of probable credit losses, as well as current economic trends.

PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD (PCAOB): A private-sector, non-profit corporation, created by the Sarbanes-Oxley Act of 2002, to oversee the auditors of public companies in order to protect the interests of investors and further the public interest in the preparation of informative, fair and independent audit reports.

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REAL ESTATE LOAN: Closed-end loan or revolving line of credit secured by a first or second lien on residential real estate.

REAL ESTATE OWNED (REO): Real estate acquired in foreclosure or comparable proceedings under which possession of the collateral has been taken.

REINVESTMENT CONTRACTS: A series of agreements between WFS, the Bank and WFAL2 through which WFS has access to the cash flows of certain securitizations. Under such agreements, collections of principal and interest on the contracts in the securitization trust and funds in the spread account are invested at either the Bank or WFAL2. Funds invested at the Bank are collateralized by mortgage-backed securities and made available to WFS through the WFS Reinvestment Contract. Funds invested at WFAL2 are collateralized by automobile contracts, which WFAL2 purchases from WFS.

RETAINED INTEREST IN SECURITIZED ASSETS (RISA): An asset that represents our contractual right to receive interest and other cash flows from our securitization trusts after the investors receive their contractual return.

RETAINED INTEREST INCOME OR EXPENSE: The excess cash flows on the contracts sold through securitizations treated as sales less the amortization of the retained interest in securitized assets. The excess cash flows represent all cash received on the contracts securitized less payments to investors for principal and interest.

RETURN ON AVERAGE SHAREHOLDERS EQUITY: A measure of how effective we have been in investing our net worth. Return on equity is expressed as a ratio, calculated by dividing net income by average equity excluding accumulated other comprehensive income or loss.

RETURN ON AVERAGE TOTAL ASSETS: A measure of how effective we have been in managing our assets. Return on average total assets is expressed as a ratio, calculated by dividing net income by average total assets.

RISK-ADJUSTED MARGIN: The net interest margin less the chargeoff rate.

RISK-WEIGHTED ASSETS: An amount used in determining risk-based capital ratios applicable to savings institutions. The amount of risk-weighted assets is calculated by taking the face amount of assets on and off the balance sheet and applying a factor based on the inherent risk of such assets as defined by regulation.

SECURED FINANCING: A transaction where interests in a pool of financial assets, such as automobile contracts, are sold to investors. The contracts are transferred to a trust that issues interests that are sold to investors. The contracts and related debt remain on our balance sheet.

SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE: An agreement between a seller and a buyer, generally of government or agency securities, whereby the seller agrees to repurchase the securities at an agreed-upon price at a future date.

SECURITIZATION: A transaction involving the transfer of a pool of assets to a trust wherein securities representing undivided interests in, or obligations of, the trust are purchased by investors. The securities are repaid by the cash flows from the assets transferred to the trust. The transaction is treated as either a secured financing or a sale, depending on the terms of the transaction.

SFAS: Statement of Financial Accounting Standards.

SHAREHOLDERS EQUITY: A balance sheet amount that represents the total investment in the corporation by holders of its common stock.

SPREAD ACCOUNT: An account of a securitization trust into which excess cash flows generated by the contracts securitized are deposited. The terms of the account, which vary with each securitization, typically state a maximum balance, generally expressed as a percentage of the original or current principal balance of the notes and certificates. The initial deposit is generally funded by the company securitizing the assets and is

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expressed as a percentage of the original balance of the notes and certificates. The amount in excess of the required spread account balance is typically released to the certificate holder.

SUBORDINATED DEBENTURES: Borrowing in the form of an unsecured note, debenture, or other debt instrument, which in the event of the debtor s bankruptcy, has a claim to the assets of the debtor with a lower priority than other classes of debt.

SUBSIDIARY: An organization controlled by another organization or company.

SUPPLEMENTARY CAPITAL: Instruments that qualify as additional regulatory capital for total risk-based capital measurement. The Bank s supplementary capital includes subordinated debentures and general valuation loan and lease loss allowance limited to 1.25% of risk-weighted assets. Supplementary capital is limited to 100% of core capital.

TANGIBLE CAPITAL: A capital measure applicable to savings institutions. The Bank s tangible capital is the same as its core capital because it does not have any intangible assets that would be deducted from core capital to derive tangible capital.

TIER 1 RISK-BASED CAPITAL: A capital measure applicable to savings institutions. The Bank s tier 1 risk-based capital equals core capital less a dollar-for-dollar reduction for its residual interests in securitized assets and other recourse obligations.

TIER 1 RISK-BASED CAPITAL RATIO: A regulatory measurement of capital adequacy. The ratio of the Bank s tier 1 risk-based capital to risk-weighted assets.

TOTAL EQUITY: The sum of shareholders equity excluding other comprehensive income or loss and including minority interest.

TOTAL RISK-BASED CAPITAL: A capital measure applicable to savings institutions. The Bank s total risk-based capital equals its tier 1 risk-based capital plus supplementary capital.

TOTAL RISK-BASED CAPITAL RATIO: A regulatory measurement of capital adequacy. The ratio of total risk-based capital to risk-weighted assets.

WFS REINVESTMENT CONTRACT: An agreement between WFS and the Bank whereby the Bank allows WFS to utilize the funds invested in the reinvestment contract at the Bank. In return for the use of such funds, WFS pays the Bank a fee as consideration for the pledge of collateral by the Bank.

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Item 8. ***Financial Statements and Supplementary Data***

Our Consolidated Financial Statements begin on page F-5 of this report.

Item 9. ***Changes in and Disagreements With Accountants on Accounting and Financial Disclosure***

None.

Item 9A. ***Controls and Procedures***

Evaluation of Disclosure Controls and Procedures

As of December 31, 2004, an evaluation was carried out by our Disclosure Control Committee, with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that these disclosure controls and procedures were effective as of the end of the period covered by this report.

Management s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2004 based on the framework in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on that evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2004.

Management s assessment of the effectiveness of our internal control over financial reporting as of December 31, 2004 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report which is included elsewhere herein.

Management s Report on Internal Control over Financial Reporting and the Report of Independent Registered Public Accounting Firm thereon are set forth in Part IV, Item 15(a)(1) of the Annual Report on Form 10-K.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) during 2004 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. ***Other Information***

None.

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PART III

Certain information required by Part III is omitted from this report, as we will file a definitive proxy statement, also known as the Proxy Statement, within 120 days after the end of our fiscal year pursuant to Regulation 14A of the Securities Exchange Act of 1934 for our Annual Meeting of Shareholders to be held April 26, 2005, and the information included therein is incorporated herein by reference.

Item 10. *Directors and Executive Officers of the Registrant*

Information regarding directors appears under the caption Elect Directors in the Proxy Statement and is incorporated herein by reference. Information regarding executive officers appears under the caption Executive Officers Who Are Not Directors in the Proxy Statement and is incorporated herein by reference. Information regarding Section 16(a) Beneficial Ownership Reporting Compliance appears under that caption in the Proxy Statement and is incorporated herein by reference.

Item 11. *Executive Compensation*

Information regarding executive compensation appears under the caption Compensation of Executive Officers in the Proxy Statement and 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 appears under the caption Security Ownership of Certain Beneficial Owners and Management in the Proxy Statement and is incorporated herein by reference.

Item 13. *Certain Relationships and Related Transactions*

None.

Item 14. *Principal Accounting Fees and Services*

Information regarding principal accounting fees and services appears under the caption Audit Fees, Audit Related Fees, Tax Fees, and Other Fees in the Proxy Statement and is incorporated herein by reference.

PART IV

Item 15. ***Financial Statement Schedules, Exhibits and Reports on Form 8-K***

(a) **List of documents filed as part of this report:**

(1) **Financial Statements**

The following consolidated financial statements and report of independent registered public accounting firm for us and our subsidiaries are included in this report commencing on page F-2:

Management s Report on Internal Control over Financial Reporting

Report of Independent Registered Public Accounting Firm

Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting

Consolidated Statements of Financial Condition at December 31, 2004 and 2003

Consolidated Statements of Income for the years ended December 31, 2004, 2003 and 2002

Consolidated Statements of Changes in Shareholders Equity for the years ended December 31, 2004, 2003 and 2002

Consolidated Statements of Cash Flows for the years ended December 31, 2004, 2003 and 2002

Notes to Consolidated Financial Statements

(2) **Financial Statement Schedules**

Schedules to the consolidated financial statements are omitted because the required information is inapplicable or the information is presented in our consolidated financial statements or related notes.

(3) **Exhibits**

Exhibit No.	Description of Exhibit
2.1	Agreement and Plan of Merger and Reorganization, dated May 23, 2004, among Westcorp, Western Financial Bank and WFS Financial Inc(1)
3.1	Articles of Incorporation(2)
3.1.1	Certificate of Amendment of the Articles of Incorporation of Westcorp as filed May 14, 2001(3)
3.1.2	Certificate of Amendment of the Articles of Incorporation of Westcorp, dated April 26, 2004(1)
3.2	Bylaws(2)
4.2	Indenture dated May 3, 2002 issued by Western Financial Bank, formerly Western Financial Savings Bank, F.S.B., with respect to $300,000,000 in aggregate principal amount of 9.625% Subordinated Capital Debentures due 2012(4)
10.1	Amended and Restated 1991 Stock Option Plan of Westcorp(5)
10.2	Westcorp 2001 Stock Option Plan(6)
10.3	2000 Executive Deferral Plan V(4)
10.3.1	First Amendment to the Westcorp Executive Deferral Plan V, dated April 1, 2003(5)
10.4	Master Tax Sharing Agreement between Westcorp and its subsidiaries, dated January 1, 2004
10.4.1	First Amendment to the Master Tax Sharing Agreement, dated June 10, 2004

10.5	Amended and Restated Reinvestment Contract between WFS Financial Inc and Western Financial Bank, F.S.B., dated January 1, 2004

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Exhibit No.	Description of Exhibit
10.6	Westcorp Cafeteria Plan with Flexible Spending Agreement between Westcorp, Western Financial Associate Solutions, Western Financial Bank, WFS Financial Inc, WestFin Insurance Agency, Inc., WFS Receivables Corporation, and Westran Services Corp., dated January 1, 2004
10.6.1	First Amendment to the Westcorp Cafeteria Plan with Flexible Spending Agreement between Westcorp, Western Financial Associate Solutions, Western Financial Bank, WFS Financial Inc, WestFin Insurance Agency, Inc., WFS Receivables Corporation, and Westran Services Corp., dated December 1, 2004
10.7	Fourth Amended and Restated Master Collateral Assignment Agreement, dated as of September 1, 2004
10.8	Form of WFS Financial Inc Dealer Agreement(5)
10.9	Form of WFS Financial Inc Loan Application(5)
10.10	Amended and Restated Westcorp Employee Stock Ownership and Salary Savings Plan, dated January 1, 2001(8)
10.10.1	Amendment No. 1, effective as of January 1, 2001, to Amended and Restated Westcorp Employee Stock Ownership and Salary Savings Plan(4)
10.10.2	Amendment No. 2, effective as of January 1, 2001, to Amended and Restated Westcorp Employee Stock Ownership and Salary Savings Plan(4)
10.10.3	Amendment No. 3, effective as of January 1, 2001, to Amended and Restated Westcorp Employee Stock Ownership and Salary Savings Plan(5)
10.10.4	Amendment No. 4, effective as of January 1, 2001, to Amended and Restated Westcorp Employee Stock Ownership and Salary Savings Plan(5)
10.10.5	Amendment No. 5, effective as of January 1, 2001, to Amended and Restated Westcorp Employee Stock Ownership and Salary Savings Plan(5)
10.10.6	Amendment No. 6, dated as of November 1, 2003, to Amended and Restated Westcorp Employee Stock Ownership and Salary Savings Plan(3)
10.10.7	Amendment No. 7, dated as of December 1, 2003, to Amended and Restated Westcorp Employee Stock Ownership and Salary Savings Plan(3)
10.10.8	Amendment No. 8, dated as of December 30, 2004, to Amended and Restated Westcorp Employee Stock Ownership and Salary Savings Plan
10.11	Amended and Restated WFS 1996 Incentive Stock Option Plan(7)
10.12	Master Allocation Agreement between Westcorp and its subsidiaries, dated January 1, 2004
10.12.1	First Amendment to the Master Allocation Agreement between Westcorp and its subsidiaries, dated December 1, 2004
10.13	Employment Agreements(8)(9)
10.14	Intellectual Property Licensing Agreement between Westcorp and its subsidiaries and affiliates, dated as of January 1, 2004
10.15	Master Travel Services Agreement between Westran Services Corp., Westcorp, Western Financial Bank, WFS Financial Inc, Westfin Insurance Agency, Inc., WFS Receivables Corporation, and Western Financial Associate Solutions, dated January 1, 2004
10.15.1	First Amendment to the Master Travel Services Agreement, dated December 1, 2004
10.16	Westcorp ESOP and Salary Savings Plan between Westcorp, Western Financial Associate Solutions, Western Financial Bank, WFS Financial Inc, WestFin Insurance Agency, Inc., WFS Receivables Corporation, and Westran Services Corp., dated January 1, 2004

Exhibit No.	Description of Exhibit
10.16.1	First Amendment to the Westcorp ESOP and Salary Savings Plan between Westcorp, Western Financial Associate Solutions, Western Financial Bank, WFS Financial Inc., WestFin Insurance Agency, Inc., WFS Receivables Corporation, and Westran Services Corp., dated December 1, 2004
10.17	Interest Rate Swap Guarantee Agreement between Western Financial Bank, Westcorp, and WFS Receivables Corporation 2, dated May 10, 2001(5)
10.17.1	First Amendment to the Interest Rate Swap Guarantee Agreement, dated March 3, 2003(5)
10.17.2	Second Amendment to the Interest Rate Swap Guarantee Agreement, dated August 5, 2003
10.17.3	Third Amendment to the Interest Rate Swap Guarantee Agreement, dated July 1, 2004
10.18	Westcorp Executive Deferral Plan V Participation Agreement between Westcorp, Western Financial Associate Solutions, Western Financial Bank, WFS Financial Inc, WestFin Insurance Agency, Inc., WFS Receivables Corporation, and Westran Services Corp., dated January 1, 2004
10.18.1	First Amendment to the Westcorp Executive Deferral Plan V Participation Agreement between Westcorp, Western Financial Associate Solutions, Western Financial Bank, WFS Financial Inc, WestFin Insurance Agency, Inc., WFS Receivables Corporation, and Westran Services Corp., dated December 1, 2004
21.1	Subsidiaries of Westcorp
23.1	Consent of Independent Auditors, Ernst & Young LLP
31.1	CEO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	CFO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(1) Exhibit previously filed with Westcorp Registration Statement on Form S-4 (File No. 333-117424), filed July 16, 2004, incorporated herein by reference under Exhibit Number indicated

(2) Exhibit previously filed with Westcorp Registration Statement on Form S-4 (File No. 333-34286) filed April 11, 1990, incorporated herein by reference under Exhibit Numbers indicated

(3) Exhibit previously filed with Annual Report on Form 10-K of Westcorp for the year ended December 31, 2003 as filed on or about March 12, 2004 incorporated herein by reference

(4) Exhibit previously filed with Annual Report on Form 10-K of Westcorp for the year ended December 31, 2001 as filed on or about March 26, 2002

(5) Exhibit previously filed with Westcorp Registration Statements on Form S-3 (File No. 333-110244) filed November 5, 2003 and subsequently amended on November 10, 2003 incorporated by reference under Exhibit Number indicated

(6) Exhibit previously filed with Annual Report on Form 10-K of Westcorp for the year ended December 31, 2002 as filed on or about March 26, 2003

(7) Exhibit previously filed as Exhibit 4.1 to the WFS Financial Inc Registration Statement on Form S-8 (File No. 333-40121), filed November 13, 1997 and incorporated herein by reference

(8) Employment Agreement dated February 27, 1998 between WFS Financial Inc, Westcorp and Lee A. Whatcott (will be provided to the SEC upon request)

(9) Employment Agreement, dated November 15, 1998 between the WFS Financial Inc, Westcorp and Mark Olson (will be provided to the SEC upon request)

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(b) **Reports on Form 8-K**

On October 28, 2004, we filed a current report on Form 8-K dated October 26, 2004, reporting information under Items 2, 7 and 9.

On October 28, 2004, we filed a current report on Form 8-K dated October 27, 2004, reporting information under Items 7 and 9.

On October 29, 2004, we filed a current report on Form 8-K dated October 28, 2004, reporting information under Items 7 and 9.

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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.

WESTCORP

Dated: March 11, 2005

BY: /s/ ERNEST S. RADY

Ernest S. Rady
Chairman of the Board and
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following on behalf of the registrant in the capacities and on the dates indicated.

Signature	Title	Date
/s/ ERNEST S. RADY Ernest S. Rady	Chairman of the Board and Chief Executive Officer	March 11, 2005
/s/ THOMAS A. WOLFE Thomas A. Wolfe	President and Director	March 11, 2005
/s/ JUDITH M. BARDWICK Judith M. Bardwick	Director	March 11, 2005
/s/ ROBERT T. BARNUM Robert T. Barnum	Director	March 11, 2005
/s/ JAMES R. DOWLAN James R. Dowlan	Director	March 11, 2005
/s/ DUANE A. NELLES Duane A. Nelles	Director	March 11, 2005
/s/ HARRY RADY Harry Rady	Director	March 11, 2005
/s/ CHARLES E. SCRIBNER Charles E. Scribner	Director	March 11, 2005
/s/ MARK K. OLSON	Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	March 11, 2005

Mark K. Olson

WESTCORP AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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MANAGEMENT S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Shareholders and Board of Directors

Westcorp

Management of Westcorp is responsible for establishing and maintaining adequate internal control over financial reporting. Westcorp s internal control over financial reporting is a process designed under the supervision of the principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Westcorp s financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States.

As of December 31, 2004, management conducted an assessment of the effectiveness of Westcorp s internal control over financial reporting based on the framework established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management has determined that Westcorp s internal control over financial reporting as of December 31, 2004 was effective.

Westcorp s internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States, and that receipts and expenditures are being made only in accordance with authorizations of Westcorp s management and directors; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of Westcorp s assets that could have a material effect on Westcorp s financial statements.

Management s assessment of the effectiveness of Westcorp s internal control over financial reporting as of December 31, 2004 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report which is included herein, which expresses unqualified opinions on management s assessment and on the effectiveness of Westcorp s internal control over financial reporting as of December 31, 2004.

/s/ ERNEST S. RADY

Ernest S. Rady
Chairman of the Board and
Chief Executive Officer

/s/ THOMAS A. WOLFE

Thomas A. Wolfe
President and Director

/s/ MARK K. OLSON

Mark K. Olson
Vice President and Chief
Financial Officer (Principal
Financial and Accounting Officer)

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders

Westcorp

We have audited the accompanying consolidated balance sheets of Westcorp and subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of income, shareholders equity, and cash flows for each of the three years in the period ended December 31, 2004. These financial statements are the responsibility of the Westcorp s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Westcorp and subsidiaries at December 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Westcorp and subsidiaries internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 8, 2005 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Los Angeles, California
March 8, 2005

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Board of Directors and Shareholders

Westcorp

We have audited management s assessment, included in the accompanying Management s Report on Internal Control over Financial Reporting, that Westcorp maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Westcorp s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of Westcorp s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management s assessment that Westcorp and subsidiaries maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Westcorp and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Westcorp and subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of income, shareholders equity, and cash flows for each of the three years in the period ended December 31, 2004, and our report dated March 8, 2005 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Los Angeles, California
March 8, 2005

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WESTCORP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	December 31,	
	2004	2003
	(Dollars in thousands)	
ASSETS		
Cash	$ 89,418	$ 50,073
Interest bearing deposits with other financial institutions	4,092	41,009
Other short-term investments	125,000	291,000
Cash and due from banks	218,510	382,082
Restricted cash	417,833	245,399
Investment securities available for sale	119,811	117,749
Mortgage-backed securities available for sale	2,649,758	2,701,797
Loans receivable	12,135,748	11,138,483
Allowance for credit losses	(315,402)	(301,602)
Loans receivable, net	11,820,346	10,836,881
Interest receivable	79,825	80,957
Premises and equipment, net	76,526	81,814
Other assets	162,731	169,241
TOTAL ASSETS	$15,545,340	$14,615,920
LIABILITIES		
Deposits	$ 2,183,499	$ 1,972,856
Notes payable on automobile secured financing	10,242,900	10,254,641
Securities sold under agreements to repurchase		222,489
Federal Home Loan Bank advances	1,139,521	328,644
Subordinated debentures	295,321	394,854
Other liabilities	178,939	188,517
TOTAL LIABILITIES	14,040,180	13,362,001
Minority interest	165,484	131,434
SHAREHOLDERS EQUITY		
Common stock (par value $1.00 per share; authorized 65,000,000 shares; issued and outstanding 51,895,258 shares in 2004 and 51,698,398 shares in 2003)	51,895	51,698
Paid-in capital	717,098	710,001
Retained earnings	606,987	427,527
Accumulated other comprehensive loss, net of tax	(36,304)	(66,741)
TOTAL SHAREHOLDERS EQUITY	1,339,676	1,122,485
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$15,545,340	$14,615,920

See accompanying notes to consolidated financial statements.

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WESTCORP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	For the Year Ended December 31,		
	2004	2003	2002
	(Dollars in thousands, except per share amounts)		
Interest income:			
Loans, including fees	$ 1,158,935	$ 1,153,768	$ 1,021,317
Mortgage-backed securities	98,430	83,663	113,154
Investment securities	4,150	3,057	2,815
Other	9,370	4,529	5,654
TOTAL INTEREST INCOME	1,270,885	1,245,017	1,142,940
Interest expense:			
Deposits	58,055	64,634	80,015
Notes payable on automobile secured financing	360,625	416,577	406,851
Other	44,447	49,531	43,403
TOTAL INTEREST EXPENSE	463,127	530,742	530,269
NET INTEREST INCOME	807,758	714,275	612,671
Provision for credit losses	235,248	294,006	306,233
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	572,510	420,269	306,438
Noninterest income:			
Automobile lending	103,689	90,511	62,332
Insurance income	8,052	8,680	10,561
Mortgage banking	769	1,335	1,421
Other	3,612	9,631	16,339
TOTAL NONINTEREST INCOME	116,122	110,157	90,653
Noninterest expense:			
Salaries and associate benefits	176,024	163,436	137,462
Credit and collections	33,245	35,977	36,429
Data processing	17,623	17,751	18,711
Occupancy	15,650	15,678	15,063
Other	53,065	49,640	44,288
TOTAL NONINTEREST EXPENSE	295,607	282,482	251,953
INCOME BEFORE INCOME TAX	393,025	247,944	145,138
Income tax	155,797	98,275	52,267
INCOME BEFORE MINORITY INTEREST	237,228	149,669	92,871
Minority interest in earnings of subsidiaries	29,266	26,064	13,153
NET INCOME	$ 207,962	$ 123,605	$ 79,718
Earnings per common share:			
Basic	$ 4.01	$ 2.88	$ 2.07

Diluted	$ 3.96	$ 2.85	$ 2.05
Weighted average number of common shares outstanding:			
Basic	51,826,412	42,867,262	38,588,710
Diluted	52,568,834	43,397,211	38,922,611
Dividends declared	$ 0.56	$ 0.52	$ 0.48

See accompanying notes to consolidated financial statements.

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WESTCORP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

	Shares	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Tax	Total
	(Dollars in thousands, except share amounts)					
Balance at January 1, 2002	35,802,491	$35,802	$301,955	$263,853	$ (60,906)	$ 540,704
Net income				79,718		79,718
Unrealized gains on securities available for sale and retained interest in securitized assets, net of tax(1)					28,605	28,605
Unrealized losses on cash flow hedges, net of tax(2)					(135,422)	(135,422)
Reclassification adjustment for gains on securities available for sale included in net income, net of tax(3)					(3)	(3)
Reclassification adjustment for losses on cash flow hedges included in net income, net of tax(4)					66,176	66,176
Comprehensive income						39,074
Issuance of common stock	3,397,983	3,398	49,468			52,866
Issuance of subsidiary common stock			(1,405)			(1,405)
Cash dividends				(18,042)		(18,042)
Balance at December 31, 2002	39,200,474	39,200	350,018	325,529	(101,550)	613,197
Net income				123,605		123,605
Unrealized losses on securities available for sale, net of tax(1)					(7,315)	(7,315)
Unrealized losses on cash flow hedges, net of tax(2)					(21,285)	(21,285)
Reclassification adjustment for gains on securities available for sale included in net income, net of tax(3)					(5,058)	(5,058)
Reclassification adjustment for losses on cash flow hedges included in net income, net of tax(4)					68,467	68,467
Comprehensive income						158,414
Issuance of common stock	12,371,500	12,372	356,863			369,235
Issuance of subsidiary common stock			702			702
Stock options expensed(5)			669			669
Stock options exercised	126,424	126	1,749			1,875
Cash dividends				(21,607)		(21,607)
Balance at December 31, 2003	51,698,398	51,698	710,001	427,527	(66,741)	1,122,485
Net income				207,962		207,962
Unrealized losses on securities available for sale, net of tax(1)					(9,677)	(9,677)
Unrealized losses on cash flow hedges, net of tax(2)					(1,570)	(1,570)
Reclassification adjustment for gains on securities available for sale					(1,446)	(1,446)

included in net income, net of tax(3)						
Reclassification adjustment for losses on cash flow hedges included in net income, net of tax(4)					43,130	43,130
Comprehensive income						238,399
Issuance of subsidiary common stock			(47)			(47)
Stock options expensed(5)			2,665			2,665
Stock options exercised	196,860	197	4,479			4,676
Cash dividends				(28,502)		(28,502)
Balance at December 31, 2004	51,895,258	$51,895	$717,098	$606,987	$ (36,304)	$1,339,676

(1) The pre-tax amount of unrealized losses on securities available for sale and retained interest in securitized assets was $16.1 million for the year ended December 31, 2004, compared with unrealized losses of $12.2 million and unrealized gains of $48.5 million for the years ended December 31, 2003 and 2002, respectively.
(2) The pre-tax amount of unrealized losses on cash flow hedges was $2.6 million for the year ended December 31, 2004 compared with $35.5 million and $230 million for the years ended December 31, 2003 and 2002, respectively.
(3) The pre-tax amount of gains on securities available for sale reclassified into earnings was $2.4 million for the year ended December 31, 2004 compared with $8.4 million and $5.0 thousand for the years ended December 31, 2003 and 2002.
(4) The pre-tax amount of losses on cash flow hedges reclassified into earnings was $71.9 million for the year ended December 31, 2004 compared with $114 million and $112 million for the year ended December 31, 2003 and 2002, respectively.
(5) Amount represents expense related to stock options granted.

See accompanying notes to consolidated financial statements.

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WESTCORP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Year Ended December 31,		
	2004	2003	2002
		(Dollars in thousands)	
OPERATING ACTIVITIES:			
Net income	$ 207,962	$ 123,605	$ 79,718
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for credit losses	235,248	294,006	306,233
Depreciation	12,879	13,771	14,654
Amortization of losses on cash flow hedges	37,830	54,523	54,509
Amortization of premium on mortgage-backed securities	38,751	70,177	38,319
Amortization of participation paid to dealers	127,205	110,120	92,151
Amortization of retained interest in securitized assets			36,461
Amortization, other	4,884	1,927	2,073
Gain on sales, net	(6,917)	(12,396)	(9,380)
Other	511	(6,119)	(2,652)
Loans held for sale:			
Proceeds from sales of mortgage loans			554
(Increase) decrease in other assets	(9,078)	1,220	(45,195)
(Decrease) increase in other liabilities	(9,111)	72,961	15,148
Other, net	31,284	27,019	9,215
NET CASH PROVIDED BY OPERATING ACTIVITIES	671,448	750,814	591,808
INVESTING ACTIVITIES:			
Loans receivable:			
Origination of loans	(7,048,047)	(6,416,501)	(5,797,684)
Participation paid to dealers	(154,156)	(141,079)	(129,272)
Loan payments and payoffs	5,855,964	5,015,241	3,725,870
Investment securities available for sale:			
Purchases	(81,952)	(139,912)	(59,449)
Proceeds from sale	81,254	82,288	75,629
Proceeds from maturities	459	427	1,646
Mortgage-backed securities:			
Purchases	(1,209,978)	(2,165,051)	(1,624,936)
Proceeds from sale	52,295	157,828	
Payments received	1,155,441	1,872,193	1,077,868
Decrease in amounts due from trusts			34,658
Purchase of premises and equipment	(11,398)	(22,577)	(18,920)
Proceeds from sales of premises and equipment	4,510	7,940	8,348
NET CASH USED IN INVESTING ACTIVITIES	(1,355,608)	(1,749,203)	(2,706,242)
FINANCING ACTIVITIES:			
Increase (decrease) in deposits	225,799	24,011	(417,706)
(Decrease) increase in securities sold under agreements to repurchase	(218,741)	(53,103)	117,954
Proceeds from notes payable on automobile secured financing	5,853,702	5,877,506	6,912,058
Payments on notes payable on automobile secured financing	(5,829,495)	(4,677,911)	(4,336,602)
(Decrease) increase in borrowings	(469)	3,155	(19,178)
Increase in amounts held on behalf of trustee			(102,854)
Increase (decrease) in FHLB Advances	810,877	(7,631)	(207,141)

Proceeds from issuance of subordinated debentures			292,472
Payments on subordinated debentures	(104,683)	(7,315)	(41,134)
Increase in restricted cash	(172,434)	(173,636)	(71,763)
Cash dividends	(28,502)	(21,607)	(18,042)
Payments on cash flow hedges	(18,733)	(38,428)	(83,080)
Proceeds from issuance of common stock	3,229	371,110	52,866
Proceeds from issuance of subsidiary common stock	38	105	16,472
NET CASH PROVIDED BY FINANCING ACTIVITIES	520,588	1,296,256	2,094,322
(DECREASE) INCREASE IN CASH AND DUE FROM BANKS	(163,572)	297,867	(20,112)
Cash and due from banks at beginning of year	382,082	84,215	104,327
CASH AND DUE FROM BANKS AT END OF YEAR	$ 218,510	$ 382,082	$ 84,215
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid for:			
Interest	$ 473,622	$ 524,146	$ 513,944
Income taxes	171,822	108,403	83,267
SUPPLEMENTAL DISCLOSURES OF NONCASH TRANSACTIONS:			
Acquisition of real estate acquired through foreclosure	321	412	1,107

See accompanying notes to consolidated financial statements.

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WESTCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements include our accounts and the accounts of our wholly owned subsidiary, Western Financial Bank, also known as the Bank, and its majority owned subsidiary, WFS Financial Inc, also known as WFS. All significant intercompany accounts and transactions have been eliminated in consolidation. Certain prior year amounts have been reclassified to conform with the current year s presentation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Nature of Operations

We are a financial services company that specializes primarily in automobile lending, which is funded by our community banking operations and our asset-backed securitization transactions. We have only one reportable segment.

Cash and Due From Banks

Cash and due from banks include cash, interest bearing deposits with other financial institutions and other short-term investments, which have no material restrictions as to withdrawal or usage.

Restricted Cash

Restricted cash represents amounts that are held by the trustee until such cash is released under the terms of the securitization agreements.

Investment Securities and Mortgage-Backed Securities Available for Sale

Investment securities and mortgage-backed securities, also known as MBS, are classified as available for sale and carried at fair value. Any change in the fair value is reported as accumulated other comprehensive income (loss), net of tax, on our Consolidated Statements of Financial Condition. Any decline in the fair value of the investments which is deemed to be other than temporary is charged against current earnings. The method used in determining the cost of investments sold is specific identification. We amortize premiums and discounts using the effective interest method.

Loans Receivable

Our loan portfolio consists primarily of automobile contracts purchased from automobile dealers on a nonrecourse basis and contracts financed directly with the consumer. If pre-computed finance charges are added to a contract, they are added to the contract balance and carried as an offset against the contract balance as unearned discounts. Amounts paid to dealers are capitalized as dealer participation and amortized over the life of the contract. Additionally, our loan portfolio consists of commercial loans, construction loans, real estate loans and other consumer loans.

Allowance for Credit Losses

The allowance for credit losses is maintained at a level that we believe is adequate to absorb probable losses in our loan portfolio that can be reasonably estimated. Our determination of the amount of the

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allowance for credit losses is based on a review of various quantitative and qualitative analyses. Quantitative analyses include the review of chargeoff trends by loan program, migration analysis of delinquent and current accounts by risk category, analysis of historical cumulative losses, and econometric forecasts. Other quantitative analyses include the evaluation of the size of any particular asset group, the concentration of any credit tier and the percentage of delinquency. Qualitative analyses include trends in chargeoffs over various time periods and at various statistical midpoints and high points, the severity of depreciated values of repossessions or foreclosures, trends in the number of days repossessions are held in inventory, trends in the number of loan modifications, trends in delinquency roll rates, trends in deficiency balance collections both internally and from collection agencies, trends in custom scores and the effectiveness of our custom scores and trends in the economy generally or in specific geographic locations.

The analysis of the adequacy of the allowance for credit losses is not only dependent upon effective quantitative and qualitative analyses, but also effective loan review and asset classification. We classify our assets in accordance with regulatory guidance into five categories based on delinquency and whether the account is in bankruptcy or repossession status. Some accounts may be split into more than one asset classification due to fair value or net realizable value calculations. Based upon our asset classifications, we establish specific and general valuation allowances.

The specific valuation allowance is determined as the difference between the wholesale book value and contract balance for contracts where the borrower has filed bankruptcy or the vehicle has been repossessed by us and is subject to a redemption period. The general valuation allowance is determined by applying various factors to the loan balances in each asset classification.

Actual losses on contracts are charged to the allowance at various times during the servicing process. When a vehicle is repossessed and the redemption period has expired, the excess of the contract balance over the estimated wholesale value of the vehicle is charged off against the allowance. At the time the vehicle is sold, any difference between the sales price and the estimated wholesale value of the vehicle is recorded to the allowance as either an additional chargeoff or a recovery. All accounts that are 120 days delinquent are charged off against the allowance, except accounts that are in Chapter 13 bankruptcy status. For accounts in Chapter 13 bankruptcy status, the difference between the contact value and the related Chapter 13 plan of reorganization is charged against the allowance. Accounts in Chapter 13 bankruptcy status that are no longer in compliance with their Chapter 13 plans of reorganization and are 120 days delinquent are charged off against the allowance.

The allowance for credit losses is increased by charging the provision for credit losses and decreased by actual losses on the loans or based on credit trends or economic conditions.

Nonaccrual Contracts

Nonaccrual loans are loans on which accrual of interest has been suspended. Interest is suspended on all real estate loans when, in our judgement, the interest will not be collectible in the normal course of business or when loans are 90 days or more past due or full collection of principal is not assured. When a loan is placed on nonaccrual, interest accrued is reversed against interest income. The accrual of interest income is suspended on all loans, except consumer loans. On these loans, interest continues to accrue until the loans are charged off, which occurs automatically after the loans are past due 120 days, except for accounts that are in Chapter 13 bankruptcy. At the time that a loan is charged off, all accrued interest is reversed. For those accounts that are in Chapter 13 bankruptcy and are contractually past due greater than 120 days, all accrued interest is reversed and income is recognized on a cash basis. As of December 31, 2004 and 2003, the amounts of accrued interest reversed were not material.

Premises and Equipment

Premises and equipment are recorded at cost less accumulated depreciation and amortization and are depreciated over their estimated useful lives principally using the straight-line method for financial reporting and accelerated methods for tax purposes. Leasehold improvements are amortized over the lives of the respective leases or the service lives of the improvements, whichever is shorter. Useful lives for premises and equipment are 5 to 39 years for buildings and improvements, 5 to 7 years for furniture and equipment, 3 to 5 years for computers and software, and 5 to 15 years for all other premises and equipment.

Repossessed Assets

All accounts for which collateral has been repossessed and the redemption period has expired are reclassified from loans receivable to repossessed assets at fair value with any adjustment recorded against the allowance for credit losses. Repossessed assets are included in other assets on the Consolidated Statements of Financial Condition and are not material.

Real Estate Owned

Real estate acquired through foreclosure is recorded at the lower of cost or fair value less estimated costs to sell. These values are periodically reviewed and write-downs are recorded, if appropriate. Costs of holding this real estate and related gains and losses on disposition are credited or charged to real estate operations as incurred.

Real estate owned is carried net of an allowance for losses which is maintained at a level we believe to be adequate to absorb any probable losses in the portfolio that can be reasonably estimated. Our determination of the adequacy of the allowance is based on an evaluation of past credit loss experience, current economic conditions, selling costs and other relevant factors.

Nonperforming Assets

Nonperforming assets consist of nonperforming loans (defined as all nonaccrual loans), repossessed assets, and real estate owned. Nonperforming assets were included in other assets on the Consolidated Statements of Financial Condition and are not material.

Securitization Transactions

Automobile contract asset-backed securitization transactions are treated as either sales or secured financings for accounting purposes depending upon the securitization structure. Statement of Financial Accounting Standards No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, also known as SFAS No. 140, defines the criteria used to evaluate securitization structures in determining the proper accounting treatment. These criteria pertain to whether or not the transferor has surrendered control over the transferred assets. If a securitization transaction meets all the criteria defined in SFAS No. 140, the transaction is required to be treated as a sale. If any one of the criteria is not met, the transaction is required to be treated as a secured financing.

For securitization transactions treated as secured financings, the contracts are retained on the balance sheet with the securities issued to finance the contracts recorded as notes payable on automobile secured financing. We record interest income on the securitized contracts and interest expense on the notes issued through the securitization transactions.

The excess cash flows generated by securitized contracts are deposited into spread accounts in the name of the trustee under the terms of the securitization transactions. In addition, we advance additional monies to initially fund these spread accounts. As servicer of these contracts, we hold and remit funds collected from the borrowers on behalf of the trustee pursuant to reinvestment contracts that we have entered into for most securitizations.

Interest Income and Fee Income

Interest income is earned in accordance with the terms of the loan. For pre-computed contracts, interest is earned monthly, and for simple interest loans, interest is earned daily. Interest income on most loans is earned using the effective yield method. Interest income earned but not collected is reported as interest receivable on the Consolidated Statements of Financial Condition. Other loans use different methods that approximate the effective interest method.

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We defer certain loan origination fees, commitment fees, premiums paid to dealers and loan origination costs. The net amount is amortized as an adjustment to the related loans yield over their contractual life. Commitment fees based on a percentage of a customer s unused line of credit are recognized over the commitment period. Fees for other services are recorded as income when earned.

Mortgage Banking Income

Mortgage banking income consists primarily of gain on sale of mortgage loans and other mortgage servicing related fee income.

Insurance Commissions

Commissions on insurance policies sold are recognized as income over the life of the policies.

Insurance Premiums

Premiums for life and accident/health insurance policies are recognized as income over the term of the insurance contract.

Interest Expense

Interest expense is recognized when incurred. Our level yield calculation for notes payable on automobile secured financing includes the interest on the notes, underwriting discounts, hedge gains or losses and payments under interest rate swap agreements.

Income Taxes

We file a consolidated federal tax return, and combined or consolidated returns in states where such filing method is allowed. In other states, subsidiaries file separate state tax returns.

Fair Values of Financial Instruments

Fair value information about financial instruments is reported using quoted market prices for which it is practicable to estimate that value. In cases where quoted market prices are not readily available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rates and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and in many cases, could not be realized in immediate settlement of the instruments. Fair values for certain financial instruments and all non-financial instruments are not required to be disclosed. Accordingly, the aggregate fair value amounts presented do not necessarily represent the underlying value of our financial position.

We use the following methods and assumptions in estimating our fair value disclosures for financial instruments:

Cash and due from banks: The carrying amounts reported on the Consolidated Statements of Financial Condition approximate those assets fair values.

Restricted cash: The carrying amounts reported on the Consolidated Statements of Financial Condition approximate those assets fair values.

Investment securities and MBS: Fair values for investment securities and MBS are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

Loans receivable: The fair values for loans are estimated using discounted cash flow analysis, based on interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

Interest rate swap agreements: The fair value is estimated by obtaining market quotes from brokers or internally valuing when market quotes are not readily available.

Loan commitments (including fixed and variable): The fair values of loan commitments are based on quoted market prices of similar loans sold in the secondary market.

Deposits: The fair values disclosed for demand deposit accounts, passbook accounts and certain types of money market accounts are, by definition, equal to the amount payable on demand at the reporting date, i.e., their carrying amounts. Fair values for fixed rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates of deposit to a schedule of aggregated expected monthly maturities on time deposits.

Securities sold under agreements to repurchase, notes payable on automobile secured financing, Federal Home Loan Bank advances and subordinated debentures: The fair value is estimated by using discounted cash flow analyses based on our current incremental borrowing rates for similar types of borrowing arrangements.

Short-term borrowings: The carrying amounts reported on the Consolidated Statements of Financial Condition approximate their fair values.

Derivative Financial Instruments

All derivatives are recorded on the balance sheet at fair value. Changes in the fair value of derivatives designated as hedges are either offset against the change in fair value of the hedged assets, liabilities or firm commitments directly through income or recognized through accumulated other comprehensive income (loss) on the balance sheet until the hedged items are recognized in earnings, depending on the nature of the hedges. The ineffective portion of a derivative s change in fair value for a cash flow hedge is recognized in accumulated other comprehensive income (loss) on the balance sheet if the hedge is less than 100% effective or in earnings if the hedge is greater than 100% effective. We employ regression analysis and discounted cash flow analysis to test the effectiveness of our hedges on a quarterly basis. All of our derivative instruments that are designated as hedges are treated as cash flow hedges.

The contracts originated and held by us are fixed rate and, accordingly, we have exposure to changes in interest rates. To protect against potential changes in interest rates affecting interest payments on future securitization transactions, we enter into various hedge agreements. We enter into Euro-dollar futures contracts and forward agreements in order to hedge our future interest payments on our notes payable on automobile secured financing. The market value of these hedge agreements respond inversely to changes in interest rates. Because of this inverse relationship, we can effectively lock in a gross interest rate spread at the time of entering into the hedge transaction. Gains and losses on these agreements are recorded in accumulated other comprehensive income (loss), net of tax. Any ineffective portion is recognized in noninterest income during that period if the hedge is greater than 100% effective. Upon completion of the securitization transaction, the gains or losses are amortized on a level yield basis over the duration of the notes issued. These hedge instruments are settled daily, and therefore, there are no related financial instruments recorded on the Consolidated Statements of Financial Condition. Credit risk related to these hedge instruments is minimal.

As we issued certain variable rate notes payable, we also entered into interest rate swap agreements in order to hedge our variable interest rate exposure on future interest payments. The fair value of the interest rate swap agreements is included in notes payable on automobile secured financing, and any change in the fair value is reported as accumulated other comprehensive income (loss), net of tax, on our Consolidated Statements of Financial Condition. Any ineffective portion is recorded in noninterest income during that period if the hedge is greater than 100% effective. Related interest income or expense is settled on a quarterly basis and recognized as an adjustment to interest expense in our Consolidated Statements of Income.

We also entered into interest rate swap agreements to protect against potential changes in interest rates affecting interest payments on future deposits gathered by us and future securities sold under agreements to repurchase. The fair value of the interest rate swap agreements is included in deposits and securities sold under agreements to repurchase, respectively, and any change in the fair value is reported as accumulated other comprehensive income (loss), net of tax, on our Consolidated Statements of Financial Condition. Related interest income or expense is settled on a quarterly basis and is recorded in accumulated other comprehensive

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income (loss) and reclassified into earnings in the period during which cash flows on the hedged items affect income.

We also enter into interest rate swap agreements or other derivatives that we choose not to designate as hedges or that do not qualify for hedge accounting. These derivatives pertain to variable rate notes issued in conjunction with the securitization of our contracts. Any change in the market value of such derivatives and any income or expense recognized on such derivatives is recorded to noninterest income.

Stock-Based Compensation

We use the fair value method to account for stock-based employee compensation. See Note 21 Stock Options for further disclosure.

Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment, also known as SFAS No. 123(R). SFAS No. 123(R) requires all share-based payments to employees to be recognized in the financial statements based on their fair values. SFAS No. 123(R) is effective for public companies at the beginning of the first interim or annual period beginning after June 15, 2005. We adopted the prospective application method of transition to the fair value based method as provided for in Statement of Financial Accounting Standards No. 148, Accounting for Stock-Based Compensation Transition and Disclosure an amendment of FASB Statement No. 123 on January 1, 2003 and currently account for our stock-based payments issued since that date based on their fair values. The adoption of SFAS No. 123(R) will not have a material effect on our earnings or financial position.

Note 2 Investment Securities Available for Sale

Investment securities available for sale consisted of the following:

	December 31, 2004		
	Amortized Cost	**Gross Unrealized (Loss) Gain**	**Fair Value**
		(Dollars in thousands)	
U.S. government agencies and corporations	$ 50,119	$ (345)	$ 49,774
FHLB securities	60,612		60,612
Other	9,419	6	9,425
	$ 120,150	$ (339)	$ 119,811

	December 31, 2003		
	Amortized Cost	**Gross Unrealized Gain**	**Fair Value**
		(Dollars in thousands)	
U.S. government agencies and corporations	$ 50,241	$ 252	$ 50,493
FHLB securities	58,803		58,803
Other	8,446	7	8,453
	$ 117,490	$ 259	$ 117,749

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At December 31, 2004, the stated maturities of our investment securities available for sale were as follows:

	One Year to Five Years		Five Years to Ten Years		Ten Years to Twenty-five Years		No Stated Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Other	$ 791	$ 791	$2,031	$2,031	$3,596	$3,596	$ 3,001	$ 3,007
U.S. government agencies and corporations	50,119	49,774						
FHLB securities							60,612	60,612
	$50,910	$50,565	$2,031	$2,031	$3,596	$3,596	$63,613	$63,619

Note 3 Mortgage-Backed Securities Available for Sale

MBS available for sale consisted of the following:

	December 31, 2004			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
GNMA certificates	$2,575,317	$15,232	$8,753	$2,581,796
FNMA participation certificates	30,195	123	143	30,175
FHLMC participation certificates	36,261	154	193	36,222
Other	1,565			1,565
	$2,643,338	$15,509	$9,089	$2,649,758

	December 31, 2003			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
GNMA certificates	$2,613,962	$28,607	$4,484	$2,638,085
FNMA participation certificates	24,967	306		25,273
FHLMC participation certificates	36,734	9	78	36,665
Other	1,774			1,774
	$2,677,437	$28,922	$4,562	$2,701,797

Proceeds from the sale of MBS available for sale for the years ended December 31, 2004, 2003 and 2002 were as follows:

	For the Year Ended December 31,		
	2004	2003	2002
	(Dollars in thousands)		
Proceeds from sales of MBS available for sale	$52,295	$157,828	
Gross realized gains	2,410	8,423	
Gross realized losses			

Our MBS available for sale portfolio had maturities of one month to thirty years at December 31, 2004 and 2003, although payments are generally received monthly throughout the life of these securities.

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Note 4 Net Loans Receivable

Net loans receivable consisted of the following:

	December 31, 2004	December 31, 2003
	(Dollars in thousands)	
Consumer:		
Automobile contracts	$11,599,528	$10,657,864
Other	4,386	6,002
Unearned discounts	(38,871)	(61,300)
	11,565,043	10,602,566
Real estate:		
Mortgage	202,095	237,668
Construction	48,730	16,503
	250,825	254,171
Undisbursed loan proceeds	(37,061)	(17,948)
	213,764	236,223
Commercial	165,806	124,431
	11,944,613	10,963,220
Dealer participation, net of deferred contract fees	191,135	175,263
	12,135,748	11,138,483
Allowance for credit losses	(315,402)	(301,602)
	$11,820,346	$10,836,881

Loans owned and managed by us excluding dealer participation totaled $11.9 billion and $11.0 billion as of December 31, 2004 and 2003, respectively. There were no impaired loans at December 31, 2004 and 2003. Nonperforming loans, or loans on which we have discontinued the accrual of interest income, included in net loans receivable were $51.9 million and $53.0 million at December 31, 2004 and 2003, respectively. Repossessed assets and real estate owned were $8.3 million and $10.6 million at December 31, 2004 and 2003, respectively, and are included in other assets on our Consolidated Statement of Financial Condition.

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Note 5 Allowance for Credit Losses

Changes in the allowance for credit losses were as follows:

	For the Year Ended December 31,		
	2004	2003	2002
	(Dollars in thousands)		
Balance at beginning of year	$ 301,602	$ 269,352	$ 178,218
Chargeoffs:			
Consumer loans	(312,594)	(350,718)	(280,378)
Commercial loans	(492)		(511)
Mortgage loans	(203)	(352)	(260)
	(313,289)	(351,070)	(281,149)
Recoveries:			
Consumer loans	91,792	89,196	66,050
Commercial loans	49	78	
Mortgage loans		40	
	91,841	89,314	66,050
Net chargeoffs	(221,448)	(261,756)	(215,099)
Provision for credit losses	235,248	294,006	306,233
Balance at end of year	$ 315,402	$ 301,602	$ 269,352
Ratio of net chargeoffs during the period to average loans owned during the period	1.9%	2.5%	2.6%
Ratio of allowance for credit losses to loans at the end of the period	2.6%	2.7%	2.9%

Note 6 Premises and Equipment

Premises and equipment consisted of the following:

	December 31,	
	2004	2003
	(Dollars in thousands)	
Land	$ 14,510	$ 16,985
Buildings and improvements	49,308	52,522
Computers and software	56,516	57,626
Furniture and equipment	20,577	21,110
Other	12,383	12,478
	153,294	160,721
Less: Accumulated depreciation	(76,768)	(78,907)

	$ 76,526	$ 81,814

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Note 7 Accrued Interest Receivable

Accrued interest receivable consisted of the following:

	December 31,	
	2004	2003
	(Dollars in thousands)	
Interest on loans receivable	$68,168	$67,663
Interest on securities	11,657	13,294
	$79,825	$80,957

Note 8 Deposits

Deposits consisted of the following:

	Weighted Average Rate at December 31, 2004(1)	Weighted Average Rate for the Year Ended December 31, 2004 Excluding the Effects of Hedging	Effects of Hedging for the Year Ended December 31, 2004	Weighted Average Rate for the Year Ended December 31, 2004 Including the Effects of Hedging
	(Dollars in thousands)			
Demand deposit accounts	0.1%	0.1%		0.1%
Passbook accounts	0.1	0.1		0.1
Money market deposit accounts	1.8	1.4	0.2%	1.6
Brokered certificate accounts		1.7		1.7
Certificate accounts	2.5	1.8	4.4	6.2

(1) Contractual rate.

	December 31,	
	2004	2003
	(Dollars in thousands)	
Noninterest bearing deposits	$ 268,556	$ 210,405
Demand deposit accounts	705	1,145
Passbook accounts	5,880	7,282
Money market deposit accounts	1,257,074	963,004
Brokered certificate accounts		62,451
Certificate accounts	651,284	728,569
	$2,183,499	$1,972,856

The aggregate amount of certificate accounts in denominations greater than or equal to $100,000 was $219 million and $220 million at December 31, 2004 and 2003, respectively. Deposit amounts in excess of $100,000 are not federally insured.

Scheduled maturities of certificate accounts at December 31, 2004 were as follows:

	Amount	Weighted Average Rate
	(Dollars in thousands)	
Six months or less	$208,091	2.01%
More than six months through one year	424,617	2.69
More than one year through three years	18,233	2.96
More than three years through ten years	343	2.13
	$651,284	

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Interest expense on deposits consisted of the following:

	For the Year Ended December 31,		
	2004	2003	2002
	(Dollars in thousands)		
Demand deposit accounts	$ 27	$ 48	$ 117
Passbook accounts	7	16	39
Money market deposit accounts	17,730	11,359	14,772
Certificate accounts	39,493	51,154	63,867
Brokered certificate accounts	798	2,057	1,220
	$58,055	$64,634	$80,015

Accrued interest payable on deposits at December 31, 2004 and 2003 was $4.3 million and $5.7 million, respectively, including accrued interest payable on related interest rate swap agreements, and is included in other liabilities in the Consolidated Statements of Financial Condition.

Certificate accounts by maturity categories at December 31, 2004 were as follows:

2005	$632,707
2006	13,462
2007	4,772
2008	330
2009	13
	$651,284

Note 9 Notes Payable on Automobile Secured Financing

We issued $5.9 billion of notes secured by automobile contracts through public transactions for both the years ended December 31, 2004 and 2003.

Interest payments on these transactions based on the respective note s interest rate are due either monthly or quarterly, in arrears. Interest expense on all notes payable on automobile secured financing, including interest payments under interest rate swap agreements, totaled $361 million for the year ended December 31, 2004 compared with $417 million and $407 million for the years ended December 31, 2003 and 2002, respectively.

The stated maturities of our notes payable on automobile secured financing and their weighted average interest rates, including the effect of interest rate swap agreements on variable rate notes payable, were as follows:

	December 31, 2004	
	Amount	Weighed Average Interest Rate
	(Dollars in thousands)	

2005	$ 235,599	2.03%
2006	1,890	4.20
2007	2,379,373	2.24
2008	1,712,941	2.75
2009	1,311,337	4.01
Thereafter	4,601,760	3.32
	$10,242,900	3.03%

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Note 10 Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase are summarized as follows:

	December 31, 2003
	(Dollars in thousands)
Balance at end of period	$222,489
Estimated fair value at end of period	222,489
Average amount outstanding during the period	220,989
Maximum amount outstanding at any given month-end during the period	273,094
Weighted average interest rate during the period	2.0%
Weighted average interest rate at end of period	1.1%

MBS sold under agreements to repurchase were delivered to dealers who arranged the transactions. The dealers may have sold, loaned, or otherwise disposed of such securities to other parties in the normal course of their operations and have agreed to resell to us substantially identical securities at the maturity of the agreements. At December 31, 2004, we had no agreements outstanding. At December 31, 2003, we had $118 million and $99.4 million outstanding with our counterparties, Salomon Smith Barney and Nomura Securities Co., Ltd., respectively. The agreements at December 31, 2003 matured within 30 days. Average amounts are computed based upon daily ending balances.

Note 11 Federal Home Loan Bank Advances

Advances from the Federal Home Loan Bank are collateralized with eligible real estate loans and MBS. The FHLB advances were collateralized with mortgage loans totaling $106 million and $147 million at December 31, 2004 and 2003, respectively, and MBS totaling $1.9 billion and $1.1 billion at December 31, 2004 and 2003, respectively.

Information as to interest rates and maturities on advances from the FHLB is as follows:

	December 31,	
	2004	2003
	(Dollars in thousands)	
Range of interest rates	2.0% 7.1%	0.9% 7.1%
Weighted average interest rate	2.3%	1.0%
Year due:		
2004		$ 326,000
2005	$1,137,000	
Thereafter	2,521	2,644
	$1,139,521	$ 328,644

We had available credit with the FHLB of approximately $703 million and $779 million at December 31, 2004 and 2003, respectively.

Note 12 Other Borrowings

We have an unsecured line of credit with a bank which has a maximum availability of $15.0 million and $30.0 million at December 31, 2004 and 2003, respectively. There was no amount outstanding at both December 31, 2004 and 2003. The line of credit has an interest rate tied to either the Prime Rate or the London Interbank Offered Rate, also known as LIBOR, based on our choice. The weighted average interest rate was 4.40%, 3.12%, and 4.5% at December 31, 2004, 2003 and 2002, respectively. There was no interest expense for the year ended December 31, 2004 compared with no interest expense and $0.1 million for the years ended December 31, 2003 and 2002, respectively.

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Note 13 Subordinated Debentures

Subordinated debentures consisted of the following:

	December 31,	
	2004	2003
	(Dollars in thousands)	
Subordinated debentures	$300,000	$400,820
Discount and issuance costs	(4,679)	(5,966)
Net subordinated debentures	$295,321	$394,854

The subordinated debentures are unsecured and consist of a $150 million 8.875% issuance and a $300 million 9.625% issuance. The outstanding balance of the $150 million issuance was redeemed on August 1, 2004. The outstanding balance of the $300 million issuance is due in 2012 and is redeemable on or after May 15, 2009 at our option, in whole or in part at 100% of the principal amount being redeemed plus accrued interest as of the date of redemption. In addition, these debentures may be redeemed in part prior to May 15, 2005, provided at least 65% of the debentures remain outstanding, the redemption is with the proceeds of and within 90 days of an equity issuance by the Bank and the redemption price is not less than 109.625%. For regulatory purposes, the subordinated debentures are included as part of the Bank s supplementary capital, subject to certain limitations.

Note 14 Commitments and Contingencies

Future minimum payments under noncancelable operating leases on premises and equipment with terms of one year or more were as follows:

	December 31, 2004
	(Dollars in thousands)
2005	$ 7,022
2006	5,741
2007	4,413
2008	3,129
2009	2,100
Thereafter	3,603
	$26,008

In certain cases, these agreements include various renewal options and contingent rental agreements. Rental expense for premises and equipment totaled $7.8 million, $7.4 million and $7.1 million for the years ended December 31, 2004, 2003 and 2002, respectively.

Commitments to fund consumer loans, mortgage loans, letters of credit and unused lines of credit were as follows:

	December 31,	
	2004	2003

	(Dollars in thousands)	
Fixed rate loans	$443,504	$383,772
Variable rate loans	182,364	126,140
	$625,868	$509,912
Mortgage loans sold with recourse	$ 24,651	$ 31,448

At December 31, 2004, we had commitments to fund fixed rate loans at rates ranging from 5.12% to 10.09% with loan terms ranging from one month to 46 years.

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We have pledged certain assets relative to amounts held on behalf of trustee, including amounts related to securitization transactions treated as secured financings, as follows:

	December 31,	
	2004	2003
	(Dollars in thousands)	
FNMA participation certificates	$ 15,754	$ 19,744
GNMA certificates	619,560	1,058,908
Automobile contracts	272,850	375,230
Multifamily first mortgages	13,662	18,680
	$921,826	$1,472,562

We issued certain MBS that include recourse provisions. Subject to certain limitations, we are required, for the life of the loans, to repurchase the buyer s interest in individual loans on which foreclosure proceedings have been completed. Securities with recourse issued by us had a total outstanding balance of $24.7 million and $31.4 million at December 31, 2004 and 2003, respectively. The maximum remaining exposure under these recourse provisions was $24.7 million and $31.4 million at December 31, 2004 and 2003, respectively. We have pledged approximately $5.0 million of MBS as collateral under these recourse provisions at both December 31, 2004 and 2003, respectively.

We have provided for probable losses that can be reasonably estimated which may occur as a result of our recourse obligations. The amount reserved for probable losses on recourse obligations totaled $1.0 million at both December 31, 2004 and 2003. The amount of reserves held was determined based upon historical experience of losses on repurchased loans.

We or our subsidiaries are involved as a party to certain legal proceedings incidental to our business, including *Lee, et al v. WFS Financial Inc*, United States District Court, Middle District of Tennessee at Nashville, No. 3-02-0570 filed June 17, 2002 (raising claims under the Equal Credit Opportunity Act) and *Thompson, et al v. WFS Financial Inc*, California Superior Court, County of Alameda Civil Action No. RG03088926, Court of Appeal No. A104967 (raising claims under California s Unfair Competition Law and related claims). WFS has reached a settlement in the *Lee, et al v. WFS Financial Inc* and *Thompson, et al v. WFS Financial Inc* cases. The United States District Court, Middle District of Tennessee at Nashville, granted final approval of these settlements and entered judgment on November 15, 2004, and the settlement became effective on December 20, 2004 after the expiration of the time for appeal. The pending appeal in the *Thompson, et al v. WFS Financial Inc* case was dismissed on December 15, 2004, pursuant to the terms of the settlement.

Beginning on May 24, 2004 and continuing thereafter, a total of four separate purported class action lawsuits relating to the announcement by us and WFS that we were commencing an exchange offer for the outstanding public shares of WFS were filed in the Orange County, California Superior Court against us, WFS, our individual board members, and individual board members of WFS. On June 24, 2004, the actions were consolidated under the caption *In re WFS Financial Shareholder Litigation*, Case No. 04CC00559, also known as the Action. On July 16, 2004, the court granted a motion by plaintiff Alaska Hotel & Restaurant Employees Pension Trust Fund, in Case No. 04CC00573, to amend the consolidation order to designate it the lead plaintiff in the litigation. The lead plaintiff filed a consolidated amended complaint on August 9, 2004, and then filed the present corrected consolidated amended complaint on September 15, 2004. All of the shareholder-related actions allege, among other things, that the defendants breached their respective fiduciary duties and seek to enjoin or rescind the transaction and obtain an unspecified sum in damages and costs, including attorneys fees and expenses. The parties have tentatively agreed to a full and final resolution of the Action and, on January 19, 2005, the parties entered into a Memorandum of Understanding, also known as MOU, concerning the terms of the tentative settlement. The parties are in the process of preparing a formal settlement agreement based on the terms of the MOU and will present it to the Court for approval. Pursuant to the terms of the MOU, the parties have agreed, among other things, that additional disclosures will be made in Westcorp s Registration Statement on Form S-4 (as filed with the SEC on July 16, 2004), the claims

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asserted in the Action will be fully released, and the Action will be dismissed with prejudice. Further, pursuant to the MOU, WFS has agreed to pay plaintiffs attorneys fees and expenses in the amount of $675,000, or in such lesser amount as the Court may order.

We do not believe that the outcome of any of these proceedings will have a material effect upon our financial condition, results of operations and cash flows.

Note 15 Accumulated Other Comprehensive Loss, Net of Tax

The following table summarizes the components of accumulated other comprehensive loss, net of tax:

	December 31,	
	2004	2003
	(Dollars in thousands)	
Unrealized gain on marketable securities	$ 3,648	$ 14,771
Unrealized loss on interest rate swaps: (1)		
Deposits	(29,203)	(38,297)
Automobile secured financing	(353)	(19,539)
Securities sold under agreements to repurchase		(2,248)
	(29,556)	(60,084)
Realized loss on settled cash flow hedges: (1)		
Deposits	(8,369)	(9,539)
Automobile secured financing	(2,027)	(11,889)
	(10,396)	(21,428)
Total accumulated other comprehensive loss	$(36,304)	$(66,741)

(1) All cash flow hedges are structured to hedge future interest payments on deposits or borrowings.

Note 16 Comprehensive income

The following table presents the components of comprehensive income, net of related tax, for the periods indicated:

	For the Year Ended December 31,		
	2004	2003	2002
	(Dollars in thousands)		
Net income	$207,962	$123,605	$ 79,718
Unrealized (losses) gains on securities available for sale, net of tax	(9,677)	(7,315)	28,605
Unrealized losses on cash flow hedges, net of tax	(1,570)	(21,285)	(135,422)
Reclassification adjustment for gains on securities available for sale included in net income, net of tax	(1,446)	(5,058)	(3)
Reclassification adjustment for losses on cash flow hedges included in net income, net of tax	43,130	68,467	66,176
Comprehensive income	$238,399	$158,414	$ 39,074

Note 17 Equity Offerings

We completed common stock offerings in July 2003 and November 2003 in which we raised a total of $163 million and $207 million through the issuance of 6.1 million and 6.3 million additional common shares at a price of $28.00 and $34.39 per share, respectively. With the completion of these offerings, our total number of common shares issued and outstanding increased 31.6% to 51.7 million shares at December 31, 2003.

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Note 18 Dividends

We paid cash dividends of $0.55, $0.51 and $0.47 per share for the years ended December 31, 2004, 2003 and 2002, respectively. There are no restrictions on the payment of dividends by Westcorp.

Our wholly owned subsidiary, the Bank, is restricted by regulation and by the indenture relating to its subordinated debenture as to the amount of funds which can be transferred to us in the form of dividends. Under the most restrictive of these terms, on December 31, 2004, the Bank s restricted shareholder s equity was $635 million with a maximum dividend of $358 million.

The Bank must notify the Office of Thrift Supervision, also known as the OTS, of its intent to declare cash dividends thirty days before declaration and may not make a loan to us for any purpose to the extent we engage in any activities not permitted for a bank holding company.

Note 19 Automobile Lending Income

Automobile lending income consisted of the following components:

	For the Year Ended December 31,		
	2004	2003	2002
	(Dollars in thousands)		
Fee income	$103,689	$90,511	$ 81,087
Contractual servicing income			10,735
Retained interest expense, net of RISA amortization			(29,490)
Total automobile lending income	$103,689	$90,511	$ 62,332

Fee income consists primarily of documentation fees, late charges and deferment fees.

Note 20 Employee Benefit Plans

We have various employee benefit plans, which vary on the types of associates covered and the benefits received. These plans include the Westcorp Employee Stock Ownership and Salary Savings Plan, the Executive Deferral Plan, and the Long Term Incentive Plan.

The Westcorp Employee Stock Ownership Plan, also known as the ESOP, covers essentially all associates who have completed six months of service, excluding contract or temporary employees. Contributions to the ESOP are discretionary and determined by the Board of Directors within limits set forth under the Employee Retirement Income Security Act of 1974. These contributions are allocated to the associate s account based upon years of service and annual compensation. All shares purchased by the ESOP are allocated to associates who participate in the ESOP. The Salary Savings Plan, also known as the 401(k) Plan, covers essentially all associates who have completed three months of service, excluding contract or temporary employees. Contributions to the 401(k) Plan are guaranteed and based on a fixed percent of the associate s payroll deferral for the calendar year. As of December 31, 2004, the ESOP and 401(k) plan held a total of 1,741,296 shares of our common stock. All shares are considered outstanding for purposes of calculating our earnings per share.

The following table shows our cash contributions and compensation expense related to our ESOP and 401(k) Plan:

	For the Year Ended December 31,		
	2004	2003	2002

	(Dollars in thousands)		
Cash contribution	$7,291	$5,803	$2,753
Compensation expense	8,611	9,789	1,376

The Executive Deferral Plan, also known as the EDP, covers a select group of our management or highly compensated associates as determined by our Board of Directors. The EDP is designed to allow participants to

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defer a portion of their compensation on a pre-tax basis and earn tax-deferred interest on these deferrals. The EDP also provides for us to match portions of the amounts contributed by our associates at the discretion of our Board of Directors. For the year ended December 31, 2004, expense related to the EDP for us and our subsidiaries totaled $2.2 million compared with $2.1 million and $0.7 million for the years ended December 31, 2003 and 2002, respectively.

The Long Term Incentive Plan, also known as the LTIP, covers certain key executive officers in which such officers will be entitled to receive a fixed incentive amount provided that our tangible net book value per common share as of December 31, 2004 equals or exceeds $28.08, as adjusted at our sole discretion, and the executive officer remains continuously employed by us or our subsidiaries through April 30, 2005. We expensed $1.0 million, $0.9 million and $0.8 million for the years ended December 31, 2004, 2003 and 2002, respectively, related to the LTIP.

Note 21 Stock Options

In May 2001, we adopted the 2001 Westcorp Stock Option Plan, also known as the 2001 Plan, an incentive stock option plan for certain associates and directors. The 2001 Plan replaced the 1991 Stock Option Plan, also known as the 1991 Plan, that expired on April 15, 2001. Those who received options prior to the approval of the 2001 Plan are still subject to the 1991 Plan and may continue to exercise the remaining shares that are outstanding and exercisable, however, any and all shares reserved for the 1991 Plan are no longer available for future grants. As such, no further grants will be made under the expired 1991 Plan.

Under the 2001 Plan, we reserved a total of 3,000,000 shares of common stock for future issuance. As of December 31, 2004, a total of 1,693,544 shares were available for future grants. The options may be exercised within five to seven years after the date of the grant, depending upon the grant date. Additionally, the weighted average life of the options outstanding at December 31, 2004 was 3.31 years and the exercise prices ranged from $12.63 to $42.19 per share.

Options outstanding and exercisable at December 31, 2004 were as follows:

	Options Outstanding			Options Exercisable	
Exercise Prices	Number Outstanding	Weighted Average Remaining Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 12.00 13.00	168,103	1.00	$ 12.63	168,103	$ 12.63
13.00 14.00	152,125	2.14	13.25	152,125	13.25
15.00 16.00	1,000	2.86	15.25	1,000	15.25
17.00 18.00	212,446	3.14	17.32	139,883	17.32
18.00 19.00	685,708	3.56	18.57	238,299	18.52
19.00 20.00	5,000	4.60	19.85	2,500	19.85
20.00 21.00	3,000	4.85	20.41	1,500	20.41
42.00 43.00	519,500	4.13	42.19		
	1,746,882	3.31	$ 24.41	703,410	$ 15.74

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Stock option activity is summarized as follows:

	Shares	Weighted Average Exercise Price
Outstanding at January 1, 2002	1,076,814	$14.67
Granted	414,500	18.33
Exercised	(143,251)	13.29
Forfeited	(180,625)	16.06
Outstanding at December 31, 2002	1,167,438	15.91
Granted	444,000	18.78
Exercised	(126,424)	14.84
Forfeited	(24,478)	17.19
Outstanding at December 31, 2003	1,460,536	16.86
Granted	540,900	42.19
Exercised	(196,860)	16.40
Forfeited	(57,694)	27.10
Outstanding at December 31, 2004	1,746,882	$24.41

Option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Our stock options have characteristics significantly different from traded options, and changes in the subjective input assumptions can materially affect the fair value estimate. We utilize the Binomial option valuation model for all stock options expensed as we feel it provides a better measure of value for companies that pay dividends than other valuation models. In our opinion, no option valuation model necessarily provides a reliable single measure of the fair value of our employee stock options. Nonetheless, the fair value of options granted in 2004, 2003, and 2002 was estimated with the following assumptions:

	December 31,		
	2004	2003	2002
Risk-free interest rate	2.3%	2.2%	3.4%
Expected dividend	0.49	0.45	
Volatility factor	0.47	0.46	0.31
Expected option life	3 years	3 years	7 years

The weighted average fair value of options granted during the year ended December 31, 2004 was $13.26 compared to $5.48 for the options granted during the year ended December 31, 2003.

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Pro forma net income and diluted earnings per share for the respective periods were as follows:

	For the Year Ended December 31,		
	2004	2003	2002
	(Dollars in thousands, except per share amounts)		
Net income, as reported	$207,962	$123,605	$79,718
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	1,609	404	
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	2,143	1,225	858
Pro forma net income	$207,428	$122,784	$78,860
Earnings per share			
Basic as reported	$ 4.01	$ 2.88	$ 2.07
Basic pro forma	$ 4.00	$ 2.86	$ 2.04
Earnings per share			
Diluted as reported	$ 3.96	$ 2.85	$ 2.05
Diluted pro forma	$ 3.95	$ 2.83	$ 2.03

Note 22 Income Taxes

Income tax expense consisted of the following:

	For the Year Ended December 31,		
	2004	2003	2002
	(Dollars in thousands)		
Current:			
Federal	$136,755	$ 94,149	$ 72,144
State	30,447	16,587	14,127
	167,202	110,736	86,271
Deferred:			
Federal	(10,032)	(13,300)	(24,816)
State	(1,373)	839	(9,188)
	(11,405)	(12,461)	(34,004)
	$155,797	$ 98,275	$ 52,267

A reconciliation of total tax provisions and the amounts computed by applying the statutory federal income tax rate of 35% to income before tax is as follows:

	For the Year Ended December 31,		
	2004	2003	2002
	(Dollars in thousands)		
Tax at statutory rate	$137,559	$86,780	$50,601
State tax (net of federal tax benefit)(1)	18,897	11,327	3,211
Other	(659)	168	(1,545)
	$155,797	$98,275	$52,267

(1) State tax for 2002 includes the result of a one-time benefit of legislation enacted by the State of California which eliminated the use of the reserve method of accounting for bad debts for large banks and financial corporations for taxable income purposes for tax years after January 1, 2002.

Deferred taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Amounts previously reported as current and deferred income tax expense have been reclassified. Such changes to the components of the expense occur because all tax alternatives available to us are not known for a number of months subsequent to year end.

Significant components of our deferred tax assets and liabilities were as follows:

	December 31,	
	2004	2003
	(Dollars in thousands)	
Deferred tax assets:		
Reserves for credit losses	$115,814	$108,416
State tax deferred benefit	8,972	5,291
Deferred compensation accrual	8,982	7,158
Tax basis difference marketable securities and derivatives	27,021	57,861
Other, net	16,373	14,262
Total deferred tax assets	177,162	192,988
Deferred tax liabilities:		
Loan fee income deferred for tax purposes	(159)	(281)
FHLB dividends	(8,812)	(7,947)
Accelerated depreciation for tax purposes	(13,419)	(12,012)
Loan costs	(321)	(317)
Deferred taxes on unrealized gains		