

WESTCORP /CA/
Form 10-Q
November 08, 2005

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

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2005

OR

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

51-0308535

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

23 Pasteur, Irvine, California 92618-3816

(Address of principal executive offices)

(949) 727-1002

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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 No

Indicated by check mark whether the registrant is shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes No

As of October 31, 2005, the registrant had 52,274,898 outstanding shares of common stock, \$1.00 par value. The shares of common stock represent the only class of common stock of the registrant.

The total number of sequentially numbered pages is 36.

**WESTCORP AND SUBSIDIARIES
FORM 10-Q
September 30, 2005
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Forward-Looking Statements

This Form 10-Q 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, also known as the Exchange Act. 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, as well as the proposed merger with Wachovia Corporation. These statements are subject to uncertainties and, among other things, 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, intend, may, plan, predict, project, will, and similar terms and phrases, including reference to assumptions. These statements are contained in the section entitled Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of this Form 10-Q 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.

Additional factors that could cause actual results to differ are discussed under the heading Business Risks and in other sections of our Form 10-K for the fiscal year ended December 31, 2004 on file with the Securities and Exchange Commission, also known as the Commission, and in our other current and periodic reports filed from time to time with the Commission. All forward-looking statements in this document are made as of the date hereof, based on information available to us as of the date hereof, and we assume no obligation to update any forward-looking statement.

INDUSTRY DATA

In this Form 10-Q, 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. FINANCIAL INFORMATION
Item 1. Financial Statements
WESTCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

| | (Unaudited) September 30, 2005 | December 31, 2004 |
|--|---|------------------------------------|
| | (Dollars in thousands) | |
| ASSETS | | |
| Cash | \$ 93,222 | \$ 89,333 |
| Interest bearing deposits with other financial institutions | 32,158 | 4,177 |
| Other short-term investments | 285,000 | 125,000 |
| Cash and due from banks | 410,380 | 218,510 |
| Restricted cash | 550,183 | 417,833 |
| Investment securities available for sale | 164,984 | 119,811 |
| Mortgage-backed securities available for sale | 2,635,947 | 2,649,758 |
| Loans receivable | 13,222,321 | 12,135,748 |
| Allowance for credit losses | (320,001) | (315,402) |
| Loans receivable, net | 12,902,320 | 11,820,346 |
| Interest receivable | 85,436 | 79,825 |
| Premises and equipment, net | 73,391 | 76,526 |
| Other assets | 176,487 | 162,731 |
| TOTAL ASSETS | \$ 16,999,128 | \$ 15,545,340 |
| LIABILITIES | | |
| Deposits | \$ 2,317,405 | \$ 2,183,499 |
| Notes payable on automobile secured financing | 11,327,812 | 10,242,900 |
| Federal Home Loan Bank advances | 1,122,434 | 1,139,521 |
| Subordinated debentures | 296,074 | 295,321 |
| Other liabilities | 207,662 | 178,939 |
| TOTAL LIABILITIES | 15,271,387 | 14,040,180 |
| Minority interest | 196,824 | 165,484 |
| SHAREHOLDERS EQUITY | | |
| Common stock (par value \$1.00 per share; authorized 65,000,000 shares; issued and outstanding 52,251,061 shares at September 30, 2005 and 51,895,258 shares at December 31, 2004) | 52,251 | 51,895 |
| Paid-in capital | 725,590 | 717,098 |
| Retained earnings | 776,602 | 606,987 |
| Accumulated other comprehensive loss, net of tax | (23,526) | (36,304) |
| TOTAL SHAREHOLDERS EQUITY | 1,530,917 | 1,339,676 |

| | | |
|---|---------------|---------------|
| TOTAL LIABILITIES AND SHAREHOLDERS EQUITY | \$ 16,999,128 | \$ 15,545,340 |
|---|---------------|---------------|

See accompanying notes to consolidated financial statements.

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WESTCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

| | For the Three Months Ended | | For the Nine Months Ended | |
|--|---|----------------|----------------------------------|----------------|
| | September 30, | | September 30, | |
| | 2005 | 2004 | 2005 | 2004 |
| | (Dollars in thousands, except per share amounts) | | | |
| Interest income: | | | | |
| Loans, including fees | \$ 327,638 | \$ 291,796 | \$ 937,182 | \$ 863,989 |
| Mortgage-backed securities | 27,368 | 25,828 | 82,020 | 72,666 |
| Investment securities | 1,798 | 1,173 | 4,146 | 3,354 |
| Other | 8,418 | 2,441 | 18,628 | 5,871 |
| TOTAL INTEREST INCOME | 365,222 | 321,238 | 1,041,976 | 945,880 |
| Interest expense: | | | | |
| Deposits | 21,110 | 15,101 | 59,099 | 42,291 |
| Notes payable on automobile secured financing | 101,587 | 89,869 | 282,114 | 272,678 |
| Other | 16,262 | 10,030 | 43,323 | 33,102 |
| TOTAL INTEREST EXPENSE | 138,959 | 115,000 | 384,536 | 348,071 |
| NET INTEREST INCOME | 226,263 | 206,238 | 657,440 | 597,809 |
| Provision for credit losses | 40,188 | 60,337 | 126,865 | 174,171 |
| NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES | 186,075 | 145,901 | 530,575 | 423,638 |
| Noninterest income: | | | | |
| Automobile lending | 15,498 | 26,830 | 45,538 | 77,646 |
| Insurance income | 3,020 | 2,264 | 7,215 | 548 |
| Mortgage banking | 82 | 64 | 259 | 5,778 |
| Other | 1,246 | 869 | 5,701 | 2,300 |
| TOTAL NONINTEREST INCOME | 19,846 | 30,027 | 58,713 | 86,272 |
| Noninterest expenses: | | | | |
| Salaries and associate benefits | 41,522 | 43,541 | 128,459 | 130,995 |
| Credit and collections | 8,773 | 8,056 | 25,361 | 24,359 |
| Data processing | 5,172 | 4,053 | 14,660 | 12,313 |
| Occupancy | 4,182 | 3,983 | 12,019 | 11,710 |
| Other | 18,361 | 15,313 | 44,193 | 40,604 |
| TOTAL NONINTEREST EXPENSES | 78,010 | 74,946 | 224,692 | 219,981 |
| INCOME BEFORE INCOME TAX | 127,911 | 100,982 | 364,596 | 289,929 |
| Income tax | 51,138 | 40,188 | 143,876 | 115,227 |
| INCOME BEFORE MINORITY INTEREST | 76,773 | 60,794 | 220,720 | 174,702 |

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| | | | | |
|---|------------|------------|------------|------------|
| Minority interest in earnings of subsidiaries | 10,252 | 6,122 | 28,199 | 22,251 |
| NET INCOME | \$ 66,521 | \$ 54,672 | \$ 192,521 | \$ 152,451 |
| Earnings per common share: | | | | |
| Basic | \$ 1.27 | \$ 1.05 | \$ 3.70 | \$ 2.94 |
| Diluted | \$ 1.26 | \$ 1.04 | \$ 3.65 | \$ 2.90 |
| Weighted average number of common shares outstanding: | | | | |
| Basic | 52,207,935 | 51,859,531 | 52,083,134 | 51,806,929 |
| Diluted | 52,886,618 | 52,510,834 | 52,746,532 | 52,528,983 |
| Dividends declared | \$ 0.15 | \$ 0.14 | \$ 0.45 | \$ 0.42 |

See accompanying notes to consolidated financial statements.

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WESTCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited)

| | 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, 2004 | 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 included in net income, net of tax (3) | | | | | (1,446) | (1,446) |
| Reclassification adjustment for losses on cash flow hedges included in 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 |
| Net income | | | | 192,521 | | 192,521 |
| Unrealized losses on securities available for sale, net of tax (1) | | | | | (15,837) | (15,837) |
| | | | | | 12,490 | 12,490 |

| | | | | | | |
|---|------------|-----------|------------|------------|-------------|--------------|
| Unrealized gains on cash flow hedges, net of tax (2) | | | | | | |
| Reclassification adjustment for losses on cash flow hedges included in income, net of tax (4) | | | | | 16,125 | 16,125 |
| Comprehensive income | | | | | | 205,299 |
| Issuance of subsidiary common stock | | | (771) | | | (771) |
| Stock options expensed (5) | | | 3,340 | | | 3,340 |
| Stock options exercised | 355,803 | 356 | 5,923 | | | 6,279 |
| Cash dividends | | | | (22,906) | | (22,906) |
| Balance at September 30, 2005 | 52,251,061 | \$ 52,251 | \$ 725,590 | \$ 776,602 | \$ (23,526) | \$ 1,530,917 |

(1) The pre-tax amount of unrealized losses on securities available for sale was \$26.4 million for the nine months ended September 30, 2005 compared with \$16.1 million for the year ended December 31, 2004.

(2) The pre-tax amount of unrealized gains on cash flow hedges was \$20.8 million for the nine months ended September 30,

2005 compared with unrealized losses of \$2.6 million for the year ended December 31, 2004.

- (3) There was no pre-tax amount of unrealized gains or losses on securities available for sale reclassified into earnings for the nine months ended September 30, 2005 compared with unrealized gains of \$2.4 million for the year ended December 31, 2004.
- (4) The pre-tax amount of losses on cash flow hedges reclassified into earnings was \$26.9 million for the nine months ended September 30, 2005 compared with \$71.9 million for the year ended December 31, 2004.
- (5) Amount represents pre-tax 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
(Unaudited)

| | For the Nine Months Ended | |
|---|----------------------------------|--------------------|
| | September 30, | |
| | 2005 | 2004 |
| | (Dollars in thousands) | |
| OPERATING ACTIVITIES: | | |
| Net income | \$ 192,521 | \$ 152,451 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for credit losses | 126,865 | 174,171 |
| Amortization of loan premiums, fees and costs | 91,822 | 94,185 |
| Amortization of losses on cash flow hedges | 24,776 | 32,186 |
| Amortization of premium on mortgage-backed securities | 17,216 | 32,012 |
| Depreciation | 9,490 | 8,935 |
| Amortization, other | 848 | 4,586 |
| Gain on sales, net | (1,930) | (6,605) |
| Other | 1,362 | 502 |
| (Increase) decrease in other assets | (28,752) | 2,332 |
| Increase in other liabilities | 29,084 | 31,558 |
| Other, net | 28,199 | 22,251 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 491,501 | 548,564 |
| INVESTING ACTIVITIES: | | |
| Increase in restricted cash | (132,350) | (147,131) |
| Loans receivable: | | |
| Origination of loans | (6,494,021) | (5,437,458) |
| Loan payments and payoffs | 5,192,955 | 4,381,867 |
| Investment and mortgage-backed securities available for sale: | | |
| Purchases | (864,621) | (1,040,714) |
| Proceeds from sale | 76,757 | 133,549 |
| Payments received | 714,774 | 911,140 |
| Purchase of premises and equipment | (4,539) | (9,332) |
| Proceeds from sales of premises and equipment | 38 | 4,509 |
| NET CASH USED IN INVESTING ACTIVITIES | (1,511,007) | (1,203,570) |
| FINANCING ACTIVITIES: | | |
| Increase in deposits | 154,872 | 142,884 |
| Notes payable on automobile secured financing: | | |
| Proceeds from issuance | 5,722,966 | 4,498,305 |
| Payments on notes | (4,631,413) | (4,308,510) |
| Decrease in securities sold under agreements to repurchase | | (218,741) |
| (Decrease) increase in FHLB advances | (17,087) | 542,014 |
| Payments on subordinated debentures | | (104,683) |
| Decrease in borrowings | (360) | (351) |

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| | | |
|---|-------------------|-------------------|
| Proceeds from issuance of common stock | 6,279 | 2,846 |
| Proceeds from issuance of subsidiary common stock | 350 | 37 |
| Cash dividends | (22,906) | (21,239) |
| Payments on cash flow hedges, net | (1,325) | (11,390) |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 1,211,376 | 521,172 |
| INCREASE (DECREASE) IN CASH AND DUE FROM BANKS | 191,870 | (133,834) |
| Cash and due from banks at beginning of year | 218,510 | 382,082 |
| CASH AND DUE FROM BANKS AT END OF PERIOD | \$ 410,380 | \$ 248,248 |

See accompanying notes to consolidated financial statements.

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WESTCORP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 Basis of Presentation

The accompanying unaudited 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. The unaudited consolidated financial statements included herein have been prepared in accordance with generally accepted accounting principles, also known as GAAP, for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements.

In the opinion of management, all adjustments (including normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine months ended September 30, 2005 are not necessarily indicative of the results that may be expected for the year ending December 31, 2005. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and footnotes thereto for the year ended December 31, 2004 included in our Form 10-K.

Note 2 Mortgage-Backed Securities Available for Sale

Mortgage-backed securities available for sale consisted of the following:

| | September 30, 2005 | | | |
|----------------------------------|---------------------------|-------------------------------|-------------------|---------------------|
| | Amortized | Gross | Gross | Fair |
| | Cost | Unrealized | Unrealized | Value |
| | | Gain | Loss | |
| | | (Dollars in thousands) | | |
| GNMA certificates | \$ 2,598,797 | \$ 5,563 | \$ 24,904 | \$ 2,579,456 |
| FNMA participation certificates | 25,637 | 65 | 271 | 25,431 |
| FHLMC participation certificates | 30,229 | 1 | 594 | 29,636 |
| Other | 1,424 | | | 1,424 |
| | \$ 2,656,087 | \$ 5,629 | \$ 25,769 | \$ 2,635,947 |

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| | December 31, 2004 | | | |
|----------------------------------|--------------------------|-------------------------------|-------------------|---------------------|
| | Amortized | Gross | Gross | Fair |
| | Cost | Unrealized | Unrealized | Value |
| | | Gain | Loss | |
| | | (Dollars in thousands) | | |
| GNMA certificates | \$ 2,575,081 | \$ 15,232 | \$ 8,753 | \$ 2,581,560 |
| FNMA participation certificates | 30,195 | 123 | 143 | 30,175 |
| FHLMC participation certificates | 36,497 | 154 | 193 | 36,458 |
| Other | 1,565 | | | 1,565 |
| | \$ 2,643,338 | \$ 15,509 | \$ 9,089 | \$ 2,649,758 |

Our portfolio of mortgage-backed securities available for sale was comprised of 63% fixed rate certificates and 37% variable rate certificates at September 30, 2005, compared with 62% fixed rate certificates and 38% variable rate certificates at December 31, 2004.

Note 3 Net Loans Receivable

Our automobile contract portfolio consists of automobile contracts, also known as 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.

Net loans receivable consisted of the following:

| | September | December 31, |
|---|-------------------------------|---------------------|
| | 30, | 2004 |
| | 2005 | 2004 |
| | (Dollars in thousands) | |
| Consumer: | | |
| Automobile contracts | \$ 12,748,745 | \$ 11,599,528 |
| Other consumer | 6,201 | 4,386 |
| Unearned discounts | (30,292) | (38,871) |
| | 12,724,654 | 11,565,043 |
| Real estate: | | |
| Mortgage | 154,266 | 202,095 |
| Construction | 60,740 | 48,730 |
| | 215,006 | 250,825 |
| Undisbursed loan proceeds | (35,843) | (37,061) |
| | 179,163 | 213,764 |
| Commercial | 126,758 | 165,806 |
| | 13,030,575 | 11,944,613 |
| Dealer participation | 215,713 | 191,336 |
| Deferred contract fees, net of deferred costs | (23,967) | (201) |

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| | | |
|-----------------------------|---------------|---------------|
| Loans receivable | 13,222,321 | 12,135,748 |
| Allowance for credit losses | (320,001) | (315,402) |
| Loans receivable, net | \$ 12,902,320 | \$ 11,820,346 |

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Loans owned and managed by us, excluding dealer participation and deferred contract fees, totaled \$13.0 billion and \$11.9 billion as of September 30, 2005 and December 31, 2004, respectively. Nonperforming loans, or loans on which we have discontinued the accrual of interest income, included in net loans receivable were \$49.5 million and \$51.9 million at September 30, 2005 and December 31, 2004, respectively. Repossessed assets and real estate owned were \$7.2 million and \$8.3 million at September 30, 2005 and December 31, 2004, respectively, and are included in other assets on our Consolidated Statements of Financial Condition.

Note 4 Allowance for Credit Losses

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

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|-------------|--|-------------|
| | 2005 | 2004 | 2005 | 2004 |
| | (Dollars in thousands) | | | |
| Balance at beginning of period | \$ 318,776 | \$ 307,293 | \$ 315,402 | \$ 301,602 |
| Chargeoffs: | | | | |
| Consumer loans | (69,228) | (76,689) | (199,246) | (232,403) |
| Commercial loans | | (492) | (118) | (492) |
| Mortgage loans | | (37) | (138) | (167) |
| | (69,228) | (77,218) | (199,502) | (233,062) |
| Recoveries: | | | | |
| Consumer loans | 29,874 | 21,792 | 76,740 | 69,471 |
| Commercial loans | 391 | 18 | 482 | 40 |
| Mortgage loans | | | 14 | |
| | 30,265 | 21,810 | 77,236 | 69,511 |
| Net chargeoffs | (38,963) | (55,408) | (122,266) | (163,551) |
| Provision for credit losses | 40,188 | 60,337 | 126,865 | 174,171 |
| Balance at end of period | \$ 320,001 | \$ 312,222 | \$ 320,001 | \$ 312,222 |
| Ratio of net chargeoffs during the period (annualized) to average loans outstanding during the period | 1.2% | 1.9% | 1.3% | 1.9% |
| Ratio of allowance for credit losses to loans at the end of the period | 2.4% | 2.6% | 2.4% | 2.6% |

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Deposits consisted of the following:

| | September 30, 2005 | December 31, 2004 |
|-------------------------------|-----------------------------------|----------------------------------|
| | (Dollars in thousands) | |
| Noninterest bearing deposits | \$ 294,209 | \$ 268,556 |
| Demand deposit accounts | 301 | 705 |
| Passbook accounts | 4,239 | 5,880 |
| Money market deposit accounts | 1,268,821 | 1,257,074 |
| Certificate accounts | 749,835 | 651,284 |
| | \$ 2,317,405 | \$ 2,183,499 |

| | Weighted Average Rate at September 30, 2005 (1) | Weighted Average Rate for the Nine Months Ended September 30, 2005 Excluding the Effects of Hedging | Effects of Hedging for the Nine Months Ended September 30, 2005 | Weighted Average Rate for the Nine Months Ended September 30, 2005 Including the Effects of Hedging |
|-------------------------------|--|--|--|--|
| Demand deposit accounts | 0.1% | 0.1% | | 0.1% |
| Passbook accounts | 0.5 | 0.3 | | 0.3 |
| Money market deposit accounts | 3.0 | 2.4 | 1.3% | 3.7 |
| Certificate accounts | 3.4 | 2.9 | 2.2 | 5.1 |

(1) Contractual rate.

Note 6 Notes Payable on Automobile Secured Financing

In connection with our public asset-backed securitization activities, we issued \$2.7 billion and \$5.7 billion of notes secured by contracts for the three and nine months ended September 30, 2005, respectively, compared with \$1.6 billion and \$4.5 billion for the same respective periods in 2004. There were \$11.3 billion of notes payable on automobile secured financing outstanding at September 30, 2005, compared with \$10.2 billion at December 31, 2004. Interest payments 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 \$102 million and \$282 million for the three and nine months ended September 30, 2005, respectively, compared with \$90 million and \$273 million for the same respective periods in 2004.

Table of Contents**Note 7 Accumulated Other Comprehensive Loss, Net of Tax**

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

| | September 30, 2005 | December 31, 2004 |
|---|-----------------------------------|----------------------------------|
| | (Dollars in thousands) | |
| Unrealized (loss) gain on marketable securities | \$ (12,188) | \$ 3,648 |
| Unrealized (loss) gain on interest rate swaps: (1) | | |
| Deposits | (16,624) | (29,203) |
| Automobile secured financing | 3,011 | (353) |
| | (13,613) | (29,556) |
| Realized (loss) gain on settled cash flow hedges: (1) | | |
| Deposits | (2,917) | (8,369) |
| Automobile secured financing | 5,192 | (2,027) |
| | 2,275 | (10,396) |
| Total accumulated other comprehensive loss | \$ (23,526) | \$ (36,304) |

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

Note 8 Comprehensive income

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

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|-------------|--|-------------|
| | 2005 | 2004 | 2005 | 2004 |
| | (Dollars in thousands) | | | |
| Net income | \$ 66,521 | \$ 54,672 | \$ 192,521 | \$ 152,451 |
| Unrealized (losses) gains on securities available for sale, net of tax | (9,040) | 15,723 | (15,837) | (4,544) |
| Unrealized gains (losses) on cash flow hedges, net of tax | 11,911 | (15,278) | 12,490 | (4,211) |
| Reclassification adjustment for gains on securities available for sale included in income, net of tax | | | | (1,446) |
| | 4,294 | 9,832 | 16,125 | 36,458 |

Reclassification adjustment for losses on
cash flow hedges included in income, net
of tax

| | | | | |
|----------------------|-----------|-----------|------------|------------|
| Comprehensive income | \$ 73,686 | \$ 64,949 | \$ 205,299 | \$ 178,708 |
|----------------------|-----------|-----------|------------|------------|

Note 9 Dividends

On July 29, 2005, we declared a cash dividend of \$0.15 per share for shareholders of record as of November 1, 2005 with a payable date of November 15, 2005.

Table of Contents**Note 10 Stock Options**

In May 2001, we adopted the 2001 Westcorp Stock Option Plan, also known as the 2001 Plan, a stock option plan for certain employees, to whom we refer as 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 options 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. The 2001 Plan was amended and restated at the April 26, 2005 Annual Meeting of Shareholders.

Options outstanding and exercisable at September 30, 2005 were as follows:

| | Options Outstanding | | | Options Exercisable | |
|------------------------|---------------------|--|--|---------------------|--|
| | Number | Weighted Average Remaining Life | Weighted Average Exercise Price | Number | Weighted Average Exercise Price |
| Exercise Prices | Outstanding | (Years) | Price | Exercisable | Price |
| \$12.00 13.00 | 63,000 | 0.82 | \$ 12.67 | 63,000 | \$ 12.67 |
| 13.00 14.00 | 118,125 | 1.64 | 13.25 | 118,125 | 13.25 |
| 15.00 16.00 | 1,000 | 2.36 | 15.25 | 1,000 | 15.25 |
| 17.00 18.00 | 150,108 | 2.65 | 17.32 | 150,108 | 17.32 |
| 18.00 19.00 | 530,324 | 3.04 | 18.58 | 329,290 | 18.57 |
| 19.00 20.00 | 5,000 | 4.10 | 19.85 | 3,750 | 19.85 |
| 20.00 21.00 | 3,000 | 4.35 | 20.41 | 1,500 | 20.41 |
| 42.00 43.00 | 464,444 | 3.64 | 42.19 | 148,338 | 42.19 |
| 44.00 45.00 | 20,000 | 4.82 | 44.48 | | |
| 46.00 47.00 | 491,500 | 4.67 | 46.66 | | |
| 49.00 50.00 | 5,000 | 4.94 | 49.97 | | |
| \$12.00 50.00 | 1,851,501 | 3.46 | \$ 31.68 | 815,111 | \$ 21.42 |

Stock option activity is summarized as follows:

| | Shares | Weighted Average Exercise Price |
|-----------------------------------|-----------|---------------------------------------|
| Outstanding at January 1, 2004 | 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 |
| Granted | 564,000 | 46.61 |
| Exercised | (355,803) | 17.65 |
| Forfeited | (103,578) | 38.58 |
| Outstanding at September 30, 2005 | 1,851,501 | \$ 31.68 |

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

assumptions used in the option valuation model can materially affect the fair value estimate. We utilize the Binomial option valuation model for all stock options expensed as we believe 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. The weighted average fair value of options granted during the nine month period ended September 30, 2005 was \$14.75 per share compared to \$13.26 per share for the year ended December 31, 2004.

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Pro forma information regarding net income and earnings per share is required by Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation, as amended by Statement of Financial Accounting Standards No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure an amendment of FASB Statement No. 123, and has been determined as if we had accounted for our employee stock options under the fair value method of that statement.

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

| | For the Three Months | | For the Nine Months Ended | |
|---|---|-------------|----------------------------------|-------------|
| | Ended | | September 30, | |
| | September 30, | | September 30, | |
| | 2005 | 2004 | 2005 | 2004 |
| | (Dollars in thousands, except per share amounts) | | | |
| Net income, as reported | \$ 66,521 | \$ 54,672 | \$ 192,521 | \$ 152,451 |
| Add: Stock-based employee compensation expense included in reported net income, net of related tax effects | 795 | 458 | 2,022 | 1,167 |
| Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects | 845 | 581 | 2,233 | 1,597 |
| Pro forma net income | \$ 66,471 | \$ 54,549 | \$ 192,310 | \$ 152,021 |
| Basic earnings per share: | | | | |
| As reported | \$ 1.27 | \$ 1.05 | \$ 3.70 | \$ 2.94 |
| Pro forma | \$ 1.27 | \$ 1.05 | \$ 3.69 | \$ 2.93 |
| Diluted earnings per share: | | | | |
| As reported | \$ 1.26 | \$ 1.04 | \$ 3.65 | \$ 2.90 |
| Pro forma | \$ 1.26 | \$ 1.04 | \$ 3.65 | \$ 2.89 |

Note 11 Proposed Acquisition and Merger

On September 12, 2005, we terminated the Agreement and Plan of Merger and Reorganization, dated as of May 23, 2004, entered into among Western Financial Bank, WFS Financial and us, in connection with our entry into the Merger Agreement with Wachovia described below.

On September 12, 2005, we entered into an Agreement and Plan of Merger, which was subsequently amended and restated on October 21, 2005, also known as the Merger Agreement, by and among Wachovia Corporation, Western Financial Bank, WFS Financial and us, that provides for, among other things (i) the merger of us with and into Wachovia, also known as the Westcorp Merger, (ii) the conversion of Western Financial Bank into a national banking association, (iii) the merger of Wachovia Bank, National Association, a national banking association and wholly owned subsidiary of Wachovia and Western Financial Bank and (iv) the acquisition of WFS Financial by Wachovia, pursuant to the merger of WFS Financial with a new wholly owned subsidiary, also known as the WFS Financial Merger.

In connection with the Westcorp Merger, each share of our common stock that is outstanding immediately prior to the effective time of the Westcorp Merger (other than shares held by our subsidiaries or Wachovia or any of its subsidiaries or those held by persons properly exercising their dissenters' rights, if available), will be converted into the right to receive 1.2749 shares of Wachovia's common stock. In connection with the WFS Financial Merger, each share of WFS Financial's common stock that is outstanding immediately prior to the effective time of the WFS Financial Merger (other than those shares held by Wachovia or us, or any of our respective subsidiaries or those held by persons properly exercising their dissenters' rights, if available), will be converted into the right to receive 1.4661 shares of Wachovia's common stock.

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The Westcorp Merger is subject to the requisite approval of our shareholders, and the WFS Financial Merger is subject to the requisite approval of WFS Financial's shareholders (including the approval of a majority of shares of WFS Financial common stock represented and voting at the WFS shareholder meeting, excluding shares of WFS Financial common stock held by us and our affiliates). Additionally, each of the mergers are subject to receipt of requisite regulatory approvals, including the approval of applicable banking regulators, receipt of tax opinions and other closing conditions.

Note 12 Commitments and Contingencies

We or our subsidiaries are involved as a party to certain legal proceedings incidental to our business. We are vigorously defending these actions and do not believe that the outcome of these proceedings will have a material effect upon our financial condition, results of operations and cash flows.

Beginning on May 24, 2004 and continuing thereafter, a total of four separate purported class action lawsuits relating to the announcement by WFS and us that we had entered into the May 23, 2004 merger agreement, pursuant to which we would acquire the outstanding 16% common stock interest of WFS not already owned by the Bank, and WFS would be merged with and into the Bank were filed in the Orange County, California Superior Court against WFS, us, WFS's individual board members, and our individual board members. 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 Action. 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 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. Pursuant to the terms of the MOU, the parties agreed, among other things, that additional disclosures would be made in our Registration Statement on Form S-4 related to the May 23, 2004 merger agreement (as filed with the SEC on July 16, 2004), the claims asserted in the Action would be fully released, and the Action would be dismissed with prejudice. Further, pursuant to the MOU, the defendants agreed to pay plaintiffs' attorneys' fees and expenses in the amount of \$675,000, or in such lesser amount as the Court may order. The effectiveness of the settlement agreement was contingent on the transaction actually occurring. The parties prepared a formal settlement agreement based on the terms of the MOU and obtained preliminary approval for the settlement from the Court on June 17, 2005. The parties further agreed, with the Court's consent, that the parties would not proceed with providing notice of the proposed settlement to shareholders nor schedule a final hearing on approval of the settlement unless and until the necessary regulatory approvals for the transaction have been obtained. Subsequently, on September 12, 2005, we entered into an Agreement and Plan of Merger by and among Wachovia Corporation, also known as Wachovia, WFS, Western Financial Bank and us, also known as the Wachovia Merger Agreement, as described above in Note 11. Accordingly, on September 12, 2005, we terminated the merger agreement dated as of May 23, 2004, which is the subject of the Action. Thereafter, counsel for plaintiffs indicated that they are evaluating the Wachovia Merger Agreement to determine whether and to what extent they might proceed with the Action. A further status conference in the Action is scheduled for January 18, 2006. We are vigorously defending this Action and do not believe that the outcome of this proceeding will have a material effect upon our financial condition, results of operations and cash flows.

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Note 13 Subsequent Events

On October 25, 2005, we entered into a conduit financing transaction with WFS wholly owned subsidiary, WFS Funding, Inc., WFS Financial 2005-A Owner Trust, a trust created by WFS Funding, Wachovia Capital Markets, LLC, also known as Wachovia Capital, Wachovia Bank, National Association and certain purchasers, pursuant to which WFS Funding, Inc. sold automobile contract-backed notes issued by the WFS Financial 2005-A Owner Trust to an asset-backed commercial paper conduit administered by Wachovia Capital. The initial funding under the conduit was \$1.4 billion. The asset-backed commercial paper conduit is obligated to purchase up to \$3.0 billion of notes. The conduit financing transaction will terminate on October 24, 2006, unless terminated sooner. The terms of the conduit financing were negotiated between the parties on an arm's length basis. WFS and Wachovia Capital will each receive fees that are considered usual and customary for transactions of this type. This transaction will be accounted for as a secured financing.

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations****Overview**

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, also known as the Bank. The Bank currently owns 84% of the capital stock of WFS.

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, also known as MBS, and other short-term investments. We fund our loan portfolio and investments with deposits, advances from the Federal Home Loan Bank, also known as the FHLB, securities sold under agreements to repurchase, securitizations, other borrowings and equity.

Noninterest income is primarily made up of revenues generated from the servicing of contracts and real estate loans. The primary components of noninterest income include late charges and other miscellaneous servicing fee income. Other components of noninterest income include gains and losses from the sale of investment securities and mortgage-backed securities, insurance income, fees related to the sales of investment products such as mutual funds and annuities, and fee income from depository accounts. The primary components of noninterest expense are salaries, credit and collection expenses, and data processing costs.

Selected Financial Data

The following table presents summary unaudited financial data for the three and nine months ended September 30, 2005 and 2004. 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.

| | For the Three Months Ended | | For the Nine Months Ended | |
|--|---|-------------|----------------------------------|-------------|
| | September 30, | | September 30, | |
| | 2005 | 2004 | 2005 | 2004 |
| | (Dollars in thousands, except per share amounts) | | | |
| Consolidated Statements of | | | | |
| Income Data: | | | | |
| Interest income | \$ 365,222 | \$ 321,238 | \$ 1,041,976 | \$ 945,880 |
| Interest expense | 138,959 | 115,000 | 384,536 | 348,071 |
| Net interest income | 226,263 | 206,238 | 657,440 | 597,809 |
| Provision for credit losses | 40,188 | 60,337 | 126,865 | 174,171 |
| Net interest income after provision for credit losses | 186,075 | 145,901 | 530,575 | 423,638 |
| Noninterest income | 19,846 | 30,027 | 58,713 | 86,272 |
| Noninterest expense | 78,010 | 74,946 | 224,692 | 219,981 |
| Income before income tax | 127,911 | 100,982 | 364,596 | 289,929 |
| Income tax | 51,138 | 40,188 | 143,876 | 115,227 |
| Income before minority interest | 76,773 | 60,794 | 220,720 | 174,702 |
| Minority interest in earnings of subsidiaries | 10,252 | 6,122 | 28,199 | 22,251 |

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| | | | | | | | | |
|--|----|------------|----|------------|----|------------|----|------------|
| Net income | \$ | 66,521 | \$ | 54,672 | \$ | 192,521 | \$ | 152,451 |
| Weighted average number of shares and common share equivalents diluted | | 52,886,618 | | 52,510,834 | | 52,746,532 | | 52,528,983 |
| Earnings per common share diluted | \$ | 1.26 | \$ | 1.04 | \$ | 3.65 | \$ | 2.90 |
| Dividends declared per share | \$ | 0.15 | \$ | 0.14 | \$ | 0.45 | \$ | 0.42 |
| Dividend payout ratio | | 11.9% | | 13.5% | | 12.3% | | 14.5% |

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| | September 30, 2005 | December 31, 2004 |
|---|-----------------------------------|----------------------------------|
| | (Dollars in thousands) | |
| Consolidated Statements of Financial Condition Data: | | |
| Assets: | | |
| Cash and due from banks | \$ 410,380 | \$ 218,510 |
| Loans: | | |
| Consumer (1) | 12,916,400 | 11,756,178 |
| Mortgage (2) | 179,163 | 213,764 |
| Commercial | 126,758 | 165,806 |
| Mortgage-backed securities | 2,635,947 | 2,649,758 |
| Investments and time deposits | 715,167 | 537,644 |
| Other assets | 335,314 | 319,082 |
| Less: Allowance for credit losses | 320,001 | 315,402 |
| Total assets | \$ 16,999,128 | \$ 15,545,340 |
| Liabilities and Shareholders' Equity: | | |
| Deposits | \$ 2,317,405 | \$ 2,183,499 |
| Notes payable on automobile secured financing | 11,327,812 | 10,242,900 |
| FHLB advances and other borrowings | 1,130,651 | 1,148,098 |
| Subordinated debentures | 296,074 | 295,321 |
| Other liabilities | 199,445 | 170,362 |
| Total liabilities | 15,271,387 | 14,040,180 |
| Minority interest in equity of subsidiaries | 196,824 | 165,484 |
| Shareholders' equity | 1,530,917 | 1,339,676 |
| Total liabilities and shareholders' equity | \$ 16,999,128 | \$ 15,545,340 |

| | At or For the Three Months Ended September 30, | | At or For the Nine Months Ended September 30, | |
|--|---|---------------|--|---------------|
| | 2005 | 2004 | 2005 | 2004 |
| | (Dollars in thousands) | | | |
| Other Selected Financial Data: | | | | |
| Average automobile contracts managed | \$ 12,550,228 | \$ 11,268,695 | \$ 12,090,699 | \$ 10,980,339 |
| Average shareholders' equity (3) | \$ 1,522,940 | \$ 1,300,509 | \$ 1,462,262 | \$ 1,253,692 |
| Return on average shareholders' equity (3) | 17.47% | 16.82% | 17.55% | 16.21% |
| Book value per share (3) | \$ 29.75 | \$ 25.55 | \$ 29.75 | \$ 25.55 |
| Total equity to assets (4) | 10.30% | 9.66% | 10.30% | 9.66% |
| Originations: | | | | |
| Consumer loans (1) | \$ 2,075,369 | \$ 1,801,355 | \$ 5,874,060 | \$ 5,055,659 |
| Mortgage loans (2) | 11,979 | 15,548 | 27,324 | 27,003 |
| Commercial loans | 180,968 | 111,853 | 491,392 | 237,570 |

| | | | | |
|---|--------------|--------------|--------------|--------------|
| Total loan originations | \$ 2,268,316 | \$ 1,928,756 | \$ 6,392,776 | \$ 5,320,232 |
| Interest rate spread | 4.91% | 5.02% | 5.05% | 5.02% |
| (1) Net of unearned discounts. | | | | |
| (2) Net of undisbursed loan proceeds. | | | | |
| (3) Excludes other comprehensive loss. | | | | |
| (4) Excludes other comprehensive loss and includes minority interest. | | | | |

Table of Contents**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 in our 2004 Form 10-K 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, shareholders' equity, 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. Key analyses considered in the process of establishing our allowance for credit losses include migration analysis of delinquent and current accounts by risk category, econometric forecasts, the evaluation of the size of any particular asset group, the concentration of any credit tier, the delinquency percentage, the values of repossessions, trends in the number of days repossessions are held in inventory, trends in delinquency roll rates, and trends in the economy. 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 on 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.

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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.

Proposed Acquisition and Merger

On September 12, 2005, we terminated the Agreement and Plan of Merger and Reorganization, dated as of May 23, 2004, entered into among Western Financial Bank, WFS Financial and us, in connection with our entry into the Merger Agreement with Wachovia described below.

On September 12, 2005, we entered into an Agreement and Plan of Merger, which was subsequently amended and restated on October 21, 2005, also known as the Merger Agreement, by and among Wachovia Corporation, Western Financial Bank, WFS Financial and us, that provides for, among other things (i) the merger of us with and into Wachovia, also known as the Westcorp Merger, (ii) the conversion of Western Financial Bank into a national banking association, (iii) the merger of Wachovia Bank, National Association, a national banking association and wholly owned subsidiary of Wachovia and Western Financial Bank and (iv) the acquisition of WFS Financial by Wachovia, pursuant to the merger of WFS Financial with a new wholly owned subsidiary, also known as the WFS Financial Merger.

In connection with the Westcorp Merger, each share of our common stock that is outstanding immediately prior to the effective time of the Westcorp Merger (other than shares held by our subsidiaries or Wachovia or any of its subsidiaries or those held by persons properly exercising their dissenters' rights, if available), will be converted into the right to receive 1.2749 shares of Wachovia's common stock. In connection with the WFS Financial Merger, each share of WFS Financial's common stock that is outstanding immediately prior to the effective time of the WFS Financial Merger (other than those shares held by Wachovia or us, or any of our respective subsidiaries or those held by persons properly exercising their dissenters' rights, if available), will be converted into the right to receive 1.4661 shares of Wachovia's common stock.

The Westcorp Merger is subject to the requisite approval of our shareholders, and the WFS Financial Merger is subject to the requisite approval of WFS Financial's shareholders (including the approval of a majority of shares of WFS Financial common stock represented and voting at the WFS shareholder meeting, excluding shares of WFS Financial common stock held by us and our affiliates). Additionally, each of the mergers are subject to receipt of requisite regulatory approvals, including the approval of applicable banking regulators, receipt of tax opinions and other closing conditions.

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 \$226 million and \$657 million for the three and nine months ended September 30, 2005, respectively, compared with \$206 million and \$598 million for the same respective periods in 2004. The increase in net interest income was primarily the result of us holding more contracts on balance sheet.

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

| | For the Three Months Ended September 30, | | | | | |
|---|---|-----------------|------------------------|----------------------------|-----------------|------------------------|
| | 2005 | | | 2004 | | |
| | Average Balance | Interest | Yield/ Rate | Average Balance | Interest | Yield/ Rate |
| | (Dollars in thousands) | | | | | |
| Interest earning assets: | | | | | | |
| Total investments: | | | | | | |
| Mortgage-backed securities | \$ 2,596,121 | \$ 27,368 | 4.22% | \$ 2,610,918 | \$ 25,828 | 3.96% |
| Other short-term investments | 934,014 | 8,378 | 3.56 | 660,922 | 2,427 | 1.46 |
| Investment securities | 192,156 | 1,798 | 3.74 | 115,445 | 1,173 | 4.07 |
| Interest earning deposits with others | 52,911 | 40 | 0.30 | 5,668 | 14 | 0.98 |
| Total investments | 3,775,202 | 37,584 | 3.98 | 3,392,953 | 29,442 | 3.47 |
| Total loans: (1) | | | | | | |
| Consumer loans | 12,748,833 | 322,144 | 10.02 | 11,461,360 | 287,806 | 9.99 |
| Mortgage loans | 151,574 | 2,186 | 5.77 | 174,927 | 2,181 | 4.99 |
| Commercial loans | 168,048 | 2,799 | 6.52 | 116,178 | 1,628 | 5.48 |
| Construction loans | 29,789 | 509 | 6.68 | 13,944 | 181 | 5.08 |
| Total loans | 13,098,244 | 327,638 | 9.92 | 11,766,409 | 291,796 | 9.87 |
| Total interest earning assets | \$ 16,873,446 | 365,222 | 8.59 | \$ 15,159,362 | 321,238 | 8.43 |
| Interest bearing liabilities: | | | | | | |
| Deposits | \$ 2,255,371 | 21,110 | 3.71 | \$ 2,083,963 | 15,101 | 2.88 |
| FHLB advances and other borrowings | 990,907 | 8,772 | 3.47 | 638,999 | 1,937 | 1.19 |
| Notes payable on automobile secured financing | 11,511,409 | 101,587 | 3.53 | 10,722,274 | 89,869 | 3.35 |
| Subordinated debentures | 295,897 | 7,490 | 10.12 | 321,990 | 8,093 | 10.05 |
| Total interest bearing liabilities | \$ 15,053,584 | 138,959 | 3.68 | \$ 13,767,226 | 115,000 | 3.41 |
| Net interest income and interest rate spread | | \$ 226,263 | 4.91% | | \$ 206,238 | 5.02% |
| Net yield on average interest earning assets | | | 5.31% | | | 5.41% |

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

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| | For the Nine Months Ended September 30, | | | | | |
|---|--|-------------------|------------------------|----------------------------|-------------------|------------------------|
| | 2005 | | | 2004 | | |
| | Average Balance | Interest | Yield/ Rate | Average Balance | Interest | Yield/ Rate |
| | (Dollars in thousands) | | | | | |
| Interest earning assets: | | | | | | |
| Total investments: | | | | | | |
| Mortgage-backed securities | \$ 2,594,732 | \$ 82,020 | 4.21% | \$ 2,593,595 | \$ 72,666 | 3.74% |
| Other short-term investments | 794,687 | 18,500 | 3.11 | 638,409 | 5,840 | 1.22 |
| Investment securities | 151,902 | 4,146 | 3.64 | 123,329 | 3,354 | 3.63 |
| Interest earning deposits with others | 44,541 | 128 | 0.39 | 5,740 | 31 | 0.74 |
| Total investments | 3,585,862 | 104,794 | 3.90 | 3,361,073 | 81,891 | 3.25 |
| Total loans: (1) | | | | | | |
| Consumer loans | 12,286,641 | 921,646 | 10.03 | 11,167,879 | 851,622 | 10.19 |
| Mortgage loans | 161,158 | 6,665 | 5.51 | 204,821 | 7,708 | 5.02 |
| Commercial loans | 159,785 | 7,610 | 6.28 | 106,169 | 4,371 | 5.41 |
| Construction loans | 25,592 | 1,261 | 6.49 | 7,817 | 288 | 4.83 |
| Total loans | 12,633,176 | 937,182 | 9.92 | 11,486,686 | 863,989 | 10.05 |
| Total interest earning assets | \$ 16,219,038 | 1,041,976 | 8.59 | \$ 14,847,759 | 945,880 | 8.51 |
| Interest bearing liabilities: | | | | | | |
| Deposits | \$ 2,203,380 | 59,099 | 3.59 | \$ 2,026,245 | 42,291 | 2.79 |
| Securities sold under agreements to repurchase | | | | 10,894 | 94 | 1.13 |
| FHLB advances and other borrowings | 900,494 | 20,861 | 3.06 | 608,456 | 5,640 | 1.22 |
| Notes payable on automobile secured financing | 11,073,297 | 282,114 | 3.40 | 10,377,881 | 272,678 | 3.50 |
| Subordinated debentures | 295,663 | 22,462 | 10.13 | 365,619 | 27,368 | 9.98 |
| Total interest bearing liabilities | \$ 14,472,834 | 384,536 | 3.54 | \$ 13,389,095 | 348,071 | 3.49 |
| Net interest income and interest rate spread | | \$ 657,440 | 5.05% | | \$ 597,809 | 5.02% |

| | | |
|--|-------|-------|
| Net yield on average interest earning assets | 5.43% | 5.39% |
|--|-------|-------|

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

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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):

| | For the Nine Months Ended September 30, 2005 Compared to the Nine Months Ended September 30, 2004 (1) | | |
|--|--|---------------|---------------|
| | Volume | Rate | Total |
| | (Dollars in thousands) | | |
| Increase (decrease) in interest income: | | | |
| Mortgage-backed securities | \$ 33 | \$ 9,321 | \$ 9,354 |
| Other short-term investments | 1,728 | 10,932 | 12,660 |
| Investment securities | 783 | 9 | 792 |
| Interest earning deposits with others | 128 | (31) | 97 |
| Total loans: | | | |
| Consumer loans | 91,431 | (21,407) | 70,024 |
| Mortgage loans | (2,093) | 1,050 | (1,043) |
| Commercial loans | 2,457 | 782 | 3,239 |
| Construction loans | 845 | 128 | 973 |
| Total interest income | \$ 95,312 | \$ 784 | \$ 96,096 |
| Increase (decrease) in interest expense: | | | |
| Deposits | \$ 3,927 | \$ 12,881 | \$ 16,808 |
| Securities sold under agreements to repurchase | (47) | (47) | (94) |
| FHLB advances and other borrowings | 3,674 | 11,546 | 15,220 |
| Notes payable on automobile secured financing | 21,167 | (11,731) | 9,436 |
| Subordinated debentures | (5,565) | 660 | (4,905) |
| Total interest expense | \$ 23,156 | \$ 13,309 | \$ 36,465 |
| Increase in net interest income | | | \$ 59,631 |

(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) have
been allocated
proportionately
based on the
absolute value
of the volume
and rate
variances.

Provision for Credit Losses

We maintain an allowance for credit losses to cover probable losses that can be reasonably estimated. 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 loan portfolio that can be reasonably estimated. The provision for credit losses totaled \$40.2 million and \$127 million for the three and nine months ended September 30, 2005, respectively, compared with \$60.3 million and \$174 million for the same respective periods in 2004. The provision for credit losses declined as a result of improved credit performance due to an improving economy, the recognition of \$7.3 million in sales tax refunds on accounts that were charged off, and our continued emphasis on risk-focused underwriting. Of the \$7.3 million in sales tax refunds, \$6.4 million relates to prior periods and was recognized due to a favorable tax authority ruling received during the quarter.

Table of Contents**Contract Securitizations**

The following table lists each of our public securitizations. All securitizations prior to 2002-1 were paid in full on or before their contractual maturity dates and none of the remaining securitizations, including 2002-1, have yet reached their contractual maturity dates.

| | | Securitizations | | | | | |
|------------------------|-------------------|-------------------------|--|---|--------------------------------------|--|---------------------------------------|
| Issue Number | Close Date | Original Balance | Remaining Balance at September 30, 2005 (1) | Remaining Balance 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 |

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| | | | | | | | |
|--------|--------------------|-----------|--------------|--------|-------|------|-------|
| 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 | Paid in full | | 14.87 | 5.77 | 9.10 |
| 2001-B | May, 2001 | 1,370,000 | Paid in full | | 14.41 | 4.23 | 10.18 |
| 2001-C | August, 2001 | 1,200,000 | Paid in full | | 13.90 | 4.50 | 9.40 |
| 2002-1 | March, 2002 | 1,800,000 | \$ 225,650 | 12.54% | 13.50 | 4.26 | 9.24 |
| 2002-2 | May, 2002 | 1,750,000 | 279,329 | 15.96 | 12.51 | 3.89 | 8.62 |
| 2002-3 | August, 2002 | 1,250,000 | 238,683 | 19.09 | 12.30 | 3.06 | 9.24 |
| 2002-4 | November, 2002 | 1,350,000 | 325,244 | 24.09 | 12.18 | 2.66 | 9.52 |
| 2003-1 | February, 2003 | 1,343,250 | 340,892 | 25.38 | 11.79 | 2.42 | 9.37 |
| 2003-2 | May, 2003 | 1,492,500 | 453,531 | 30.39 | 11.57 | 2.13 | 9.44 |
| 2003-3 | August, 2003 | 1,650,000 | 656,912 | 39.81 | 10.59 | 2.66 | 7.93 |
| 2003-4 | November, 2003 | 1,403,625 | 565,991 | 40.32 | 10.89 | 2.70 | 8.19 |
| 2004-1 | February, 2004 | 1,477,500 | 651,189 | 44.07 | 10.89 | 2.35 | 8.54 |
| 2004-2 | May, 2004 | 1,477,500 | 761,933 | 51.57 | 10.98 | 3.02 | 7.96 |
| 2004-3 | August, 2004 | 1,552,000 | 942,305 | 60.72 | 10.64 | 3.49 | 7.15 |
| 2004-4 | October, 2004 | 1,358,000 | 904,542 | 66.61 | 11.19 | 3.10 | 8.09 |
| 2005-1 | January, 2005 | 1,552,000 | 1,156,863 | 74.54 | 11.25 | 3.66 | 7.59 |
| 2005-2 | March, 2005 | 1,458,750 | 1,214,145 | 83.23 | 11.51 | 4.27 | 7.24 |
| 2005-3 | July, 2005 | 2,723,000 | 2,634,924 | 96.77 | 11.66 | 4.35 | 7.31 |

Total \$ 46,209,555 \$ 11,352,133

- (1) Represents only the note payable amounts outstanding at the period indicated.
- (2) Represents the difference between the original weighted average annual percentage rate, also known as the APR, and the estimated weighted average securitization rate on the closing date of the securitization.

Table of Contents***Noninterest Income and Noninterest Expense***

Noninterest income decreased \$10.2 million to \$19.8 million for the three months ended September 30, 2005 compared with \$30.0 million for the same period a year earlier. For the nine months ended September 30, 2005, noninterest income decreased \$27.6 million to \$58.7 million compared with \$86.3 million for the same period a year ago. Noninterest income was reduced by \$18.1 million and \$49.3 million of loan origination fees that were deferred during the three and nine months ended September 30, 2005, respectively. Noninterest expense increased to \$78.0 million or 32% of total revenues for the three months ended September 30, 2005 compared with \$74.9 million or 32% of total revenues for the same period a year earlier. For the nine months ended September 30, 2005, noninterest expense increased to \$225 million or 31% of total revenues compared with \$220 million or 32% of total revenues a year ago. Included in noninterest expense for the three months ended September 30, 2005 is \$6.6 million of transaction expenses related to the previously proposed merger of WFS into the Bank as part of the acquisition of the minority interest in WFS and the recently announced merger agreement entered into among Wachovia, Western Financial Bank, WFS Financial and us. We expect to recognize additional transaction related expenses associated with the proposed merger with Wachovia through the consummation of the transaction. Noninterest expense was reduced by \$7.3 million and \$20.7 million of direct origination costs that were deferred during the three and nine months ended September 30, 2005, respectively. Historically, we performed analysis on the fees and direct costs related to our origination of automobile loans and elected not to defer and amortize such amounts as the net effect was not material to our financial statements in accordance with Statement of Financial Accounting Standard No. 91, Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases, and SEC Staff Accounting Bulletin: No. 99 Materiality. Due to continuing improvements in operating efficiencies and the higher amount of documentation fees earned, the difference between the amount of fees received and the direct costs incurred has gradually increased. We decided to defer and amortize these amounts to interest income prospectively beginning in the first quarter of this year.

Income Taxes

We file federal and certain state tax returns as part of a consolidated group that includes the Bank and WFS. 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 40% for both the three and nine months ended September 30, 2005 as well as for the same respective periods in 2004.

Financial Condition***Overview***

Total assets increased \$1.5 billion or 9.4% to \$17.0 billion at September 30, 2005 from \$15.5 billion at December 31, 2004. The increase is due primarily to an increase in contracts originated.

Table of Contents***Loan Portfolio***

The following table presents a summary of our contracts purchased:

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---------------------|---|---------------------|--|---------------------|
| | 2005 | 2004 | 2005 | 2004 |
| | (Dollars in thousands) | | | |
| New vehicles | \$ 736,363 | \$ 626,272 | \$ 1,917,969 | \$ 1,795,921 |
| Pre-owned vehicles | 1,334,331 | 1,172,834 | 3,948,761 | 3,255,200 |
| Total volume | \$ 2,070,694 | \$ 1,799,106 | \$ 5,866,730 | \$ 5,051,121 |
| | | | | |
| Prime | \$ 1,573,843 | \$ 1,434,280 | \$ 4,472,088 | \$ 4,096,399 |
| Non-prime | 496,851 | 364,826 | 1,394,642 | 954,722 |
| Total volume | \$ 2,070,694 | \$ 1,799,106 | \$ 5,866,730 | \$ 5,051,121 |

Commercial Loan Portfolio

We had outstanding commercial loan commitments of \$445 million at September 30, 2005 compared with \$327 million at December 31, 2004. We originated \$181 million and \$491 million of commercial loans for the three and nine months ended September 30, 2005, respectively, compared with \$112 million and \$238 million for the same respective periods in 2004. Amounts outstanding at September 30, 2005 and December 31, 2004 were \$127 million and \$166 million, respectively.

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.

We calculate delinquency based on the contractual due date. The improvement in delinquency is primarily the result of an improving economy and our continued emphasis on risk-focused underwriting.

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The following table sets forth information with respect to the delinquency of our portfolio of contracts:

| | September 30, 2005 | | December 31, 2004 | |
|---|-------------------------------|----------|--------------------------|----------|
| | Amount | % | Amount | % |
| Contracts managed at end of period | \$ 12,718,750 | | \$ 11,560,890 | |
| | (Dollars in thousands) | | | |
| Period of delinquency | | | | |
| 30-59 days | \$ 199,295 | 1.57% | \$ 191,001 | 1.65% |
| 60 days or more (1) | 74,295 | 0.58 | 67,660 | 0.59 |
| Total contracts delinquent and delinquencies as a percentage of contracts managed (1) | \$ 273,590 | 2.15% | \$ 258,661 | 2.24% |

(1) Excludes Chapter 13 bankruptcy accounts on nonaccrual status of \$47.2 million at September 30, 2005 and \$49.2 million at December 31, 2004.

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

| | September 30, 2005 | | December 31, 2004 | |
|--|----------------------------|---------------|----------------------------|---------------|
| | Number of Contracts | Amount | Number of Contracts | Amount |
| Contracts managed | 941,616 | \$ 12,718,750 | 876,695 | \$ 11,560,890 |
| Repossessed vehicles | 860 | \$ 6,756 | 1,049 | \$ 7,982 |
| Repossessed vehicles as a percentage of number and amount of contracts outstanding | 0.09% | 0.05% | 0.12% | 0.07% |

The following table sets forth information with respect to actual credit loss experience on our portfolio of managed contracts. Net chargeoffs declined as a result of an improving economy, the recognition of \$7.3 million in sales tax refunds on accounts that were charged off, and our continued emphasis on risk-focused underwriting.

| For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|-------------|--|-------------|
| 2005 | 2004 | 2005 | 2004 |

(Dollars in thousands)

| | | | | |
|--|---------------|---------------|---------------|---------------|
| Average contracts managed during period | \$ 12,550,228 | \$ 11,268,696 | \$ 12,090,699 | \$ 10,980,339 |
| Gross chargeoffs | \$ 69,225 | \$ 76,688 | \$ 199,237 | \$ 232,395 |
| Recoveries | 29,873 | 21,791 | 76,715 | 69,408 |
| Net chargeoffs | \$ 39,352 | \$ 54,897 | \$ 122,522 | \$ 162,987 |
| Net chargeoffs (annualized) as a percentage of average contracts managed during period | 1.25% | 1.95% | 1.35% | 1.98% |

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The following table sets forth the cumulative static pool losses by month for all outstanding public securitized pools:

**Cumulative Static Pool Loss Curves
At September 30, 2005**

| Period (1) | 2002-1 | 2002-2 | 2002-3 | 2002-4 | 2003-1 | 2003-2 | 2003-3 | 2003-4 | 2004-1 | 2004-2 | 2004-3 | 2004-4 | 2005-1 | 2005-2 | 2005-3 |
|------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | 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% |
| | 0.01% | 0.00% | 0.02% | 0.02% | 0.01% | 0.00% | 0.00% | 0.01% | 0.00% | 0.00% | 0.02% | 0.00% | 0.00% | 0.00% | 0.01% |
| | 0.06% | 0.03% | 0.06% | 0.07% | 0.04% | 0.02% | 0.02% | 0.03% | 0.02% | 0.03% | 0.06% | 0.04% | 0.02% | 0.02% | 0.03% |
| | 0.15% | 0.10% | 0.14% | 0.16% | 0.11% | 0.06% | 0.06% | 0.08% | 0.06% | 0.07% | 0.13% | 0.09% | 0.06% | 0.07% | |
| | 0.29% | 0.18% | 0.27% | 0.26% | 0.18% | 0.14% | 0.13% | 0.14% | 0.11% | 0.15% | 0.21% | 0.15% | 0.13% | 0.13% | |
| | 0.43% | 0.32% | 0.44% | 0.38% | 0.29% | 0.25% | 0.23% | 0.21% | 0.19% | 0.24% | 0.30% | 0.23% | 0.20% | 0.22% | |
| | 0.60% | 0.49% | 0.57% | 0.50% | 0.41% | 0.36% | 0.32% | 0.28% | 0.27% | 0.33% | 0.40% | 0.30% | 0.28% | 0.30% | |
| | 0.84% | 0.66% | 0.70% | 0.61% | 0.53% | 0.48% | 0.40% | 0.35% | 0.34% | 0.41% | 0.50% | 0.37% | 0.38% | | |
| | 1.06% | 0.82% | 0.82% | 0.78% | 0.66% | 0.59% | 0.47% | 0.44% | 0.42% | 0.51% | 0.56% | 0.45% | 0.48% | | |
| | 1.28% | 0.96% | 0.96% | 0.94% | 0.80% | 0.70% | 0.55% | 0.54% | 0.52% | 0.59% | 0.64% | 0.54% | | | |
| | 1.48% | 1.10% | 1.10% | 1.08% | 0.93% | 0.80% | 0.62% | 0.61% | 0.59% | 0.65% | 0.69% | 0.65% | | | |
| | 1.67% | 1.26% | 1.24% | 1.28% | 1.06% | 0.89% | 0.71% | 0.73% | 0.67% | 0.70% | 0.77% | 0.75% | | | |
| | 1.82% | 1.39% | 1.38% | 1.43% | 1.21% | 0.98% | 0.80% | 0.83% | 0.75% | 0.76% | 0.87% | | | | |
| | 1.99% | 1.51% | 1.53% | 1.59% | 1.31% | 1.08% | 0.88% | 0.93% | 0.81% | 0.83% | 0.94% | | | | |
| | 2.14% | 1.68% | 1.70% | 1.77% | 1.40% | 1.20% | 0.97% | 1.03% | 0.88% | 0.91% | | | | | |
| | 2.27% | 1.83% | 1.88% | 1.92% | 1.50% | 1.31% | 1.07% | 1.09% | 0.93% | 0.98% | | | | | |
| | 2.45% | 1.99% | 2.03% | 2.05% | 1.60% | 1.41% | 1.16% | 1.19% | 1.00% | 1.03% | | | | | |
| | 2.62% | 2.16% | 2.15% | 2.16% | 1.70% | 1.53% | 1.25% | 1.24% | 1.06% | | | | | | |
| | 2.80% | 2.31% | 2.28% | 2.25% | 1.85% | 1.66% | 1.33% | 1.30% | 1.12% | | | | | | |
| | 2.99% | 2.46% | 2.41% | 2.37% | 1.99% | 1.76% | 1.40% | 1.36% | 1.18% | | | | | | |
| | 3.15% | 2.60% | 2.52% | 2.49% | 2.14% | 1.87% | 1.45% | 1.42% | | | | | | | |
| | 3.31% | 2.72% | 2.62% | 2.62% | 2.27% | 1.95% | 1.50% | 1.47% | | | | | | | |
| | 3.45% | 2.86% | 2.74% | 2.73% | 2.37% | 2.02% | 1.57% | 1.54% | | | | | | | |
| | 3.58% | 2.95% | 2.83% | 2.84% | 2.47% | 2.09% | 1.62% | | | | | | | | |
| | 3.69% | 3.03% | 2.96% | 2.95% | 2.57% | 2.16% | 1.69% | | | | | | | | |
| | 3.80% | 3.13% | 3.08% | 3.06% | 2.63% | 2.21% | 1.74% | | | | | | | | |
| | 3.92% | 3.22% | 3.21% | 3.17% | 2.68% | 2.27% | | | | | | | | | |
| | 4.02% | 3.33% | 3.31% | 3.25% | 2.73% | 2.34% | | | | | | | | | |
| | 4.12% | 3.41% | 3.41% | 3.32% | 2.78% | 2.40% | | | | | | | | | |
| | 4.22% | 3.50% | 3.48% | 3.38% | 2.85% | | | | | | | | | | |
| | 4.30% | 3.58% | 3.56% | 3.43% | 2.91% | | | | | | | | | | |
| | 4.39% | 3.66% | 3.62% | 3.48% | 2.93% | | | | | | | | | | |
| | 4.49% | 3.73% | 3.67% | 3.55% | | | | | | | | | | | |
| | 4.56% | 3.78% | 3.71% | 3.61% | | | | | | | | | | | |
| | 4.63% | 3.84% | 3.74% | 3.63% | | | | | | | | | | | |
| | 4.69% | 3.86% | 3.80% | | | | | | | | | | | | |
| | 4.74% | 3.90% | 3.84% | | | | | | | | | | | | |
| | 4.77% | 3.93% | 3.86% | | | | | | | | | | | | |
| | 4.80% | 3.97% | | | | | | | | | | | | | |
| | 4.84% | 4.01% | | | | | | | | | | | | | |
| | 4.87% | 4.02% | | | | | | | | | | | | | |
| | 4.91% | | | | | | | | | | | | | | |
| | 4.90% | | | | | | | | | | | | | | |

| Time ix (2) | 70% | 87% | 85% | 80% | 80% | 82% | 84% | 82% | 82% | 82% | 81% | 78% | 78% | 77% | 76% |
|----------------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
|----------------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|

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

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

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Real Estate Loan Quality

We had 0.47% of total mortgage loans past due over 60 days at September 30, 2005 compared with 0.85% at December 31, 2004. The decrease is due to an improving economy.

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 became contractually past due over 120 days. For those accounts that are in Chapter 13 bankruptcy and became contractually past due over 120 days, all previously accrued interest is reversed and income is recognized on a cash basis. Interest on NPLs excluded from interest income was \$0.3 million and \$1.0 million for both the three and nine months ended September 30, 2005 and 2004, respectively. There were no other impaired loans at September 30, 2005 and December 31, 2004.

Nonperforming assets, also known as NPAs, consist of NPLs, repossessed automobiles and real estate owned, also known as REO. Repossessed automobiles and REO are carried at lower of cost or fair value. NPAs decreased \$3.5 million to \$56.7 million at September 30, 2005 compared with \$60.2 million at December 31, 2004. NPAs represented 0.3% of total assets at September 30, 2005 compared with 0.4% at December 31, 2004.

Allowance for Credit Losses

Our allowance for credit losses was \$320 million at September 30, 2005 compared to \$315 million at December 31, 2004. Net chargeoffs totaled \$39.0 million and \$122 million for the three and nine months ended September 30, 2005, respectively, compared with \$55.4 million and \$164 million for the same respective periods in 2004. The increase in the allowance for credit losses was the result of us holding more contracts at September 30, 2005. The allowance for credit losses as a percentage of owned loans outstanding was 2.4% at September 30, 2005 compared with 2.6% at December 31, 2004. Based on the analyses we performed related to the allowance for credit losses, 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 presents summarized data relative to the allowance for credit and real estate owned losses at the dates indicated:

| | September 30, 2005 | December 31, 2004 |
|--|-------------------------------|------------------------------|
| | (Dollars in thousands) | |
| Total loans (1) | \$ 13,222,321 | \$ 12,135,748 |
| Allowance for credit losses | 320,001 | 315,402 |
| Allowance for real estate owned losses | | 100 |
| Loans past due 60 days or more (2) | 76,593 | 69,645 |
| Nonperforming loans (3) | 49,536 | 51,883 |
| Nonperforming assets (4) | 56,701 | 60,229 |
| Allowance for credit losses as a percent of: | | |
| Total loans (1) | 2.4% | 2.6% |
| Loans past due 60 days or more | 417.8% | 452.9% |
| Nonperforming loans | 646.0% | 607.9% |
| Total allowance for credit losses and REO losses as a percent of nonperforming assets | 564.4% | 523.8% |
| Nonperforming loans as a percent of total loans | 0.4% | 0.4% |
| Nonperforming assets as a percent of total assets | 0.3% | 0.4% |

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

(2) Excludes Chapter 13 bankruptcy accounts on nonaccrual status.

(3) All nonperforming loans are on nonaccrual.

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

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 locations throughout Southern California. Our commercial banking division gathers deposits by establishing commercial relationships with businesses located throughout Southern California.

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

| | September 30, 2005 | December 31, 2004 |
|--------------------------------------|-----------------------------------|----------------------------------|
| | (Dollars in thousands) | |
| No minimum term: | | |
| Demand deposit accounts | \$ 301 | \$ 705 |
| Passbook accounts | 4,239 | 5,880 |
| Money market accounts | 1,268,821 | 1,257,074 |
| Noninterest bearing deposits | 294,209 | 268,556 |
| Core deposits | 1,567,570 | 1,532,215 |
| Certificate accounts: | | |
| Certificates (30 days to five years) | 689,057 | 586,678 |
| Individual retirement accounts | 60,778 | 64,606 |
| | \$ 2,317,405 | \$ 2,183,499 |

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.

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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.

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, our ability to manage risk-adjusted returns, and our efficient operations.

Principal Sources of Cash

Automobile Contract Securitizations Contract securitizations totaled \$2.7 billion and \$5.7 billion for the three and nine months ended September 30, 2005, compared with \$1.6 billion and \$4.5 billion for the same respective periods in 2004. All securitizations in 2005 and 2004 were public securitization transactions.

Collections of Principal and Interest from Loans and MBS and Release of Cash from Spread Accounts Total principal and interest collections on MBS, loans owned by us, loans securitized under a financial guarantee insurance policy issued by Financial Security Assurance, and release of cash from spread accounts on securitizations that are credit enhanced through the issuance of subordinated notes totaled \$1.1 billion and \$3.3 billion for the three and nine months ended September 30, 2005, respectively, compared with \$1.2 billion and \$4.0 billion for the same respective periods in 2004. The decrease is due to our shift to senior/subordinated securitizations where principal and interest collections are held in restricted cash accounts until distributed in accordance with the terms of the transactions.

Deposits - Deposits were \$2.3 billion at September 30, 2005 compared with \$2.2 billion at December 31, 2004.

FHLB Advances FHLB advances were \$1.1 billion at both September 30, 2005 and December 31, 2004.

Subordinated Debentures - At September 30, 2005 and December 31, 2004, there was \$300 million outstanding on our 9.625% subordinated debentures due in 2012, excluding discounts and issue costs.

Principal Uses of Cash

Acquisition of Loans and Investment Securities Loan originations totaled \$2.3 billion and \$6.4 billion for the three and nine months ended September 30, 2005, respectively, compared with \$1.9 billion and \$5.3 billion for the same respective periods in 2004. We purchased \$296 million and \$864 million of mortgage-backed securities and other investment securities during the three and nine months ended September 30, 2005, respectively, compared with \$252 million and \$1.0 billion for the same respective periods in 2004.

Payments of Principal and Interest on Securitizations Payments of principal and interest to noteholders totaled \$1.7 billion and \$4.9 billion for the three and nine months ended September 30, 2005, respectively, compared with \$1.7 billion and \$4.6 billion for the same respective periods in 2004.

Amounts Paid to Dealers Participation paid by us to dealers was \$45.2 million and \$130 million for the three and nine months ended September 30, 2005, respectively, compared with \$42.3 million and \$117 million for the same respective periods in 2004.

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Operating Our Business Noninterest expenses totaled \$78.0 million and \$225 million for the three and nine months ended September 30, 2005, respectively, compared with \$74.9 million and \$220 million for the same respective periods in 2004.

Capital Requirements

The Bank is a federally chartered savings bank. As such, it 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. In order to be considered well capitalized, an institution must have a total risk-based capital ratio of 10.0% or greater, a tier 1 or core risk-based capital ratio of 6.0% or greater, a leverage ratio of 5.0% or greater and not be subject to any Office of Thrift Supervision order. The Bank currently meets all of the requirements of a well capitalized institution.

The following table summarizes the Bank's actual capital and required capital as of September 30, 2005 and December 31, 2004:

| | Tangible Capital | Core Capital | Tier 1 Risk-Based Capital | Risk-Based Capital |
|---|-------------------------------|-------------------------|--|-------------------------------|
| | (Dollars in thousands) | | | |
| September 30, 2005 | | | | |
| Actual Capital: | | | | |
| Amount | \$1,377,520 | \$1,377,520 | \$1,374,472 | \$1,828,496 |
| Capital ratio | 8.80% | 8.80% | 11.00% | 14.63% |
| FIRREA minimum required capital: | | | | |
| Amount | \$ 234,858 | \$ 469,716 | N/A | \$ 999,959 |
| Capital ratio | 1.50% | 3.00% | N/A | 8.00% |
| Excess | \$1,142,662 | \$ 907,804 | N/A | \$ 828,537 |
| FDICIA well capitalized required capital: | | | | |
| Amount | N/A | \$ 782,860 | \$ 749,969 | \$1,249,949 |
| Capital ratio | N/A | 5.00% | 6.00% | 10.00% |
| Excess | N/A | \$ 594,660 | \$ 624,503 | \$ 578,547 |
| 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 |

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

| | September 30, 2005 | December 31, 2004 |
|---|-----------------------------------|----------------------------------|
| | (Dollars in thousands) | |
| Bank shareholder's equity - GAAP basis | \$ 1,158,277 | \$ 993,959 |
| Plus: Net unrealized losses | 22,811 | 37,529 |
| Plus: Minority interest in equity of subsidiaries | 196,824 | 165,484 |
| Less: Non-permissible activities | (392) | (393) |
| Total tangible and core capital | 1,377,520 | 1,196,579 |
| Adjustments for risk-based capital: | | |
| Subordinated debentures (1) | 296,552 | 295,838 |
| General loan valuation allowance (2) | 157,472 | 129,950 |
| Low-level recourse deduction | (3,048) | (3,050) |
| Risk-based capital | \$ 1,828,496 | \$ 1,619,317 |

(1) Excludes capitalized discounts and issue costs.

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

Table of Contents**Item 3. 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 September 30, 2005, 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 September 30, 2005 based on guidance from the OTS:

| Changes in Interest Rates | NPV Ratio |
|----------------------------------|------------------|
| +100 basis points | 11.87% |
| Base case | 12.03% |
| - 100 basis points | 12.03% |

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 than assets repricing in shorter term maturity buckets and more interest sensitive assets 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

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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 monthly or quarterly basis and recognized as an adjustment to interest expense on 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. 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 to manage interest rate risk exposure. The fair value of the interest rate swap agreements is included in deposits 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 such activities continue to provide effective protection against interest rate risk. The amount and timing of hedging transactions 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 third quarter.

Item 4. Controls and Procedures

Disclosure controls and procedures are designed to ensure that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of the design and operations of our disclosure controls and procedures within 90 days of the filing date of this quarterly report. In evaluating our disclosure controls, our Chief Executive Officer and Chief Financial Officer considered that our Controller and Director of Tax resigned during the second quarter of 2005. We recently filled the Controller position, but do not plan to fill the Director of Tax position due to the proposed merger with Wachovia Corporation. Other tax and accounting personnel have assumed additional responsibility for the tax function to ensure that we maintain effective disclosure controls. Based on their evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures are effective. There have been no other significant changes in our internal controls or in other factors that could significantly affect the controls and procedures subsequent to the date of their evaluation.

Table of Contents**PART II. OTHER INFORMATION****Item 1. Legal Proceedings**

We or our subsidiaries are involved as a party to certain legal proceedings incidental to our business. We are vigorously defending these actions and do not believe that the outcome of these proceedings will have a material effect upon our financial condition, results of operations and cash flows.

Beginning on May 24, 2004 and continuing thereafter, a total of four separate purported class action lawsuits relating to the announcement by WFS and us that we had entered into the May 23, 2004 merger agreement, pursuant to which we would acquire the outstanding 16% common stock interest of WFS not already owned by the Bank, and WFS would be merged with and into the Bank were filed in the Orange County, California Superior Court against WFS, us, WFS individual board members, and our individual board members. 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 Action. 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 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. Pursuant to the terms of the MOU, the parties agreed, among other things, that additional disclosures would be made in our Registration Statement on Form S-4 related to the May 23, 2004 merger agreement (as filed with the SEC on July 16, 2004), the claims asserted in the Action would be fully released, and the Action would be dismissed with prejudice. Further, pursuant to the MOU, the defendants agreed to pay plaintiffs attorneys fees and expenses in the amount of \$675,000, or in such lesser amount as the Court may order. The effectiveness of the settlement agreement was contingent on the transaction actually occurring. The parties prepared a formal settlement agreement based on the terms of the MOU and obtained preliminary approval for the settlement from the Court on June 17, 2005. The parties further agreed, with the Court's consent, that the parties would not proceed with providing notice of the proposed settlement to shareholders nor schedule a final hearing on approval of the settlement unless and until the necessary regulatory approvals for the transaction have been obtained. Subsequently, on September 12, 2005, we entered into an Agreement and Plan of Merger by and among Wachovia Corporation, also known as Wachovia, WFS, Western Financial Bank and us, also known as the Wachovia Merger Agreement. Accordingly, on September 12, 2005, we terminated the merger agreement dated as of May 23, 2004, which is the subject of the Action. Thereafter, counsel for plaintiffs indicated that they are evaluating the Wachovia Merger Agreement to determine whether and to what extent they might proceed with the Action. A further status conference in the Action is scheduled for January 18, 2006. We are vigorously defending this Action and do not believe that the outcome of this proceeding will have a material effect upon our financial condition, results of operations and cash flows.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

None

Item 6. Exhibits

| Exhibit No. | Description of Exhibit |
|--------------------|---|
| 2.1 | Agreement and Plan of Merger, dated as of September 12, 2005, as amended and restated (1) |
| 10.1 | Severance Pay Policy |
| 10.2 | Westcorp 2001 Stock Incentive Plan |
| 31.1 | Section 302 Certification of CEO |
| 31.2 | Section 302 Certification of CFO |
| 32.1 | Section 906 Certification of CEO |
| 32.2 | Section 906 Certification of CFO |

(1) Exhibit
previously filed
with Westcorp
Form 8-K (File
No. 001-09910),
filed October 26,
2005,
incorporated
herein by
reference under
Exhibit Number
indicated.

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SIGNATURES

Pursuant to the requirements 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

(Registrant)

Date: November 7, 2005

By: /s/ Ernest S. Rady
Ernest S. Rady
Chairman of the Board and Chief
Executive Officer

Date: November 7, 2005

By: /s/ robert j. costantino
Robert J. Costantino
Executive Vice President, Chief
Financial Officer and Chief Operating
Officer

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indicated.