COMMERCIAL FEDERAL CORP
Form 10-K
March 01, 2005

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE YEAR ENDED DECEMBER 31, 2004

Commission File Number: 1-11515

COMMERCIAL FEDERAL CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Nebraska	**47-0658852**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**
13220 California Street, Omaha, Nebraska	**68154**
(Address of Principal Executive Offices)	**(Zip Code)**

Registrant s telephone number, including area code: **(402) 554-9200**

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

Common Stock, Par Value $.01 Per Share

Title of Each Class	Name of Each Exchange on Which Registered
Shareholder Rights Plan	**New York Stock Exchange**
	New York Stock Exchange

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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 x No ¨

As of June 30, 2004, (the last business day of the registrant s most recently completed second fiscal quarter) the aggregate market value of the voting stock held by non-affiliates of the registrant, based upon the average high and low sales price of the registrant s common stock as quoted on the New York Stock Exchange was $762,895,090. As of February 17, 2005, there were issued and outstanding 39,233,436 shares of the registrant s common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2005 Annual Meeting of Stockholders See Part III.

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PART I

ITEM 1. BUSINESS

Forward Looking Statements

The statements in this Form 10-K that are not historical fact are forward-looking statements that involve inherent risks and uncertainties. Management cautions readers that a number of important factors could cause actual results to differ materially from those expressed in, or implied by, the forward looking statements. Factors that might cause a difference include, but are not limited to: fluctuations in interest rates, the effect of regulatory or government legislative changes, general economic conditions, competitive pressures in the geographic and business areas where Commercial Federal Corporation conducts its operations, changes in real estate values, expected cost savings and revenue growth not fully realized, the progress of strategic initiatives and whether realized within expected time frames and technology changes. These forward-looking statements are based on management s current expectations. Actual results in future periods may differ materially from those currently expected because of various risks and uncertainties. Forward-looking statements may be identified by the use of words such as anticipate, believe, estimate, expect, intend, plan, should, will, or similar expressions.

General

Commercial Federal Corporation (the parent company) was incorporated in Nebraska on August 18, 1983, as a unitary non-diversified savings and loan holding company. References in this document to the Corporation are to Commercial Federal Corporation and its consolidated subsidiaries and references to the Bank are to Commercial Federal Bank, a Federal Savings Bank, and its consolidated subsidiaries. The parent company s status as a unitary non-diversified savings and loan holding company provides an organizational structure that permits the Corporation to diversify its financial services to activities allowed by regulation at the parent company level and at the Bank level. The general offices of the Corporation are located at 13220 California Street, Omaha, Nebraska 68154.

The primary subsidiary of the parent company is the Bank. The Bank was originally chartered in 1887 and converted to a federally chartered mutual savings and loan association in 1972. On December 31, 1984, the Bank completed its conversion from mutual to stock ownership and became a wholly-owned subsidiary of the parent company. On August 27, 1990, the Bank s federal charter was amended from a savings and loan to a federal savings bank.

The Bank is a federally chartered savings institution with deposits insured by the Savings Association Insurance Fund (SAIF) that is administered by the Federal Deposit Insurance Corporation (FDIC). The Bank is subject to regulatory oversight, supervision and examination by the Office of Thrift Supervision (OTS). The Bank operates as a community banking institution offering commercial and retail banking services including mortgage loan origination and servicing, commercial and industrial lending, small business banking, construction lending, cash management services, deposit services, brokerage and insurance services, and Internet banking.

At December 31, 2004, the Corporation had assets of $11.5 billion and operated 198 branches located in its seven-state region of Colorado (50), Nebraska (43), Iowa (40), Kansas (27), Oklahoma (19), Missouri (13) and Arizona (6). The Bank is one of the largest retail financial institutions headquartered in the Midwest and, based upon total assets at December 31, 2004, the Bank was one of the largest thrift institutions in the United States. In addition, the Corporation serviced a residential mortgage loan portfolio totaling $13.4 billion at December 31, 2004, with $10.6 billion in mortgage loans serviced for third parties and approximately $2.8 billion in mortgage loans owned by the Bank. For additional information see Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) under Item 7 of this Form 10-K Annual Report for the Year Ended December 31, 2004 (the Report).

The Corporation s results of operations may be sensitive to general business and economic conditions in the United States and, in particular, the seven-state region where it has significant operations. These conditions include, among other things, interest rates, monetary supply, debt and equity capital market activity, national and local economies, real estate values, consumer spending, and borrowing and savings habits. As examples, an economic downturn, an increase in unemployment or higher interest rates could decrease the demand for loans and other products and services and result in deterioration in overall credit quality. The relationship of short-term interest rates to long-term interest rates impacts the shape of the yield curve which directly influences the Corporation s interest rate risk management strategies.

The long-term economic and political effects of international hostilities and terrorism remain uncertain, which could impact the economy and could negatively affect the Corporation s financial condition. Events that could adversely affect the Corporation s business and operating results in other ways cannot be predicted. Uncertainty in the economy could negatively impact the purchasing and decision-making activities of the Corporation s customers as well. If international hostilities, terrorist activity, or other unpredictable factors cause an economic decline, the financial condition and operating results of the Corporation could be materially adversely affected.

The Corporation s operations also are significantly affected by the fiscal and monetary policies of the federal government and by the policies of financial institution regulatory authorities, including the OTS, the Board of Governors of the Federal Reserve System and the FDIC. The policies of the Federal Reserve Board impact the Corporation significantly since they regulate the supply of money and credit in the United States. Those policies directly and indirectly influence the rate of interest earned on loans and paid on borrowings and interest-bearing deposits and can also affect the value of financial instruments the Corporation holds. Those policies determine to a significant extent the Corporation s cost of funds for lending and investing. Changes in those policies are beyond the Corporation s control and are difficult to predict. Deposit flows and costs of funds are also influenced by interest rates on competing investments and general market rates of interest. Lending activities are affected by the demand for consumer and commercial financing, which are influenced by the interest rates at which such financings may be offered, the availability of funds, and other factors, such as the supply of housing for mortgage loans and regional economic situations.

The Bank is a member of the Federal Home Loan Bank (FHLB) of Topeka, which is one of the 12 regional banks comprising the FHLB System. The Bank is further subject to regulations of the Federal Reserve Board, which governs reserves required to be maintained against deposits and certain other matters. As a federally chartered savings bank, the Bank is subject to numerous restrictions on operations and investments imposed by applicable statutes and regulations. See the Supervision and Regulation section of this Report.

Principal Products, Services and Business Activities

The Bank operates as a community banking institution offering commercial banking, retail banking and mortgage banking related products and services. Principal products offered by commercial banking include commercial operating loans, commercial and multi-family real estate loans, commercial and residential construction loans, agricultural loans, small business loans, dealer services, commercial demand deposits, and cash management products and services. Traditional consumer banking and financial services, including the origination of residential mortgage loans, are provided through retail banking operating activities. The mortgage banking line of business is principally focused on the origination and purchase of residential mortgage loans and the sale of these mortgage loans in the secondary market, in addition to the purchase and sale of the rights to service mortgage loans.

The Corporation is strongly focused on the growth of its commercial operating and small business loan portfolios through its branch network. The Corporation offers commercial demand deposit products and an Internet-based cash management program to strengthen its commercial banking relationships. Cash management services allow businesses access to electronic banking features such as funds transfers, vendor payments, direct payroll deposits, wire transfers and other services.

The Corporation also leverages its network of branch offices to originate commercial and multi-family real estate loans and commercial and residential construction loans. Commercial real estate loans are secured by various types of commercial properties including office buildings, shopping centers, warehouses and other income-producing properties primarily located within the Corporation s principal market areas of Denver, Colorado; Omaha, Nebraska; Des Moines, Iowa; and the Kansas City metropolitan areas. Multi-family residential loans consist of loans secured by various types of properties, including town-homes, condominiums and apartment projects with more than four dwelling units located in these same market areas. The Corporation s commercial and residential construction lending activity is primarily tied to operations in its seven-state region and in the greater Las Vegas, Nevada area.

The Corporation originates and purchases first mortgage loans for the purpose of financing or refinancing existing single-family residential properties through its branch network and nationwide wholesale network of correspondent banks and residential mortgage brokers. These single-family residential loans are generally originated following the underwriting, appraisal, and documentation standards acceptable to the Federal National Mortgage Association (FNMA), the Government National Mortgage Association (GNMA) and the Federal Home Loan Mortgage Corporation (FHLMC) to facilitate the sale of such loans in the secondary market. Mortgage loans sold to these agencies have generally been sold with servicing rights retained by the Corporation, thereby generating ongoing loan servicing fee income. Additionally, the Corporation sells qualifying single-family residential loans to the FHLB with servicing rights retained or in some cases, to other investors with the accompanying rights to service such loans generally released and sold to the buyer. The Corporation also chooses to retain the ownership of certain originated and purchased residential mortgage loans in accordance with its asset/liability management strategies.

The Corporation s residential mortgage loan servicing portfolio is subject to reduction as a result of the normal amortization and prepayment of outstanding mortgage loans. The servicing income generated from the loan servicing portfolio and the value of the Corporation s loan servicing portfolio may be adversely affected as mortgage interest rates decline and loan prepayments increase. The Corporation manages this risk through the use of interest rate floor agreements and other hedging strategies.

The Corporation aggressively markets its various deposit and consumer loan products since these are the principal entry points for consumers seeking a banking relationship. Deposit products primarily include checking, savings, money market and certificates of deposit. Consumer loan products offered primarily include home equity loans, auto loans, secured and unsecured loans, and credit card loans. These products are offered through the Corporation s retail banking network and direct mail solicitations. Many other related consumer services are offered by the Corporation including overdraft protection, on-line bill paying, cash advances, safe deposit and night depository facilities, electronic funds transfers, and wire transfer services. The Corporation also offers investment services and a variety of insurance products. The Bank has free-standing branch offices and supermarket locations, many of which offer extended weekday and weekend hours. Customers are further provided with the convenience of alternative delivery channels including online banking via the Bank s website, *www.comfedbank.com;* telephone banking, utilizing a 24-hour *AccessNow* automated customer service system tied to extended-hour operator availability; and ATMs through the Corporation s proprietary network and links to other national and international ATM services.

The Corporation is not dependent upon a single or a few customers whereby the loss of which would result in a material adverse effect to the Corporation. No material portion of the Corporation s business is considered seasonal.

Segment Reporting

The Corporation s operations are aligned into four lines of business for management reporting purposes: Commercial Banking, Retail Banking, Mortgage Banking and Treasury. This business operation alignment allows management to make well-informed operating decisions, to focus resources to benefit both the Corporation and its customers, and to assess performance and products on a continuous basis. See MD&A Operating Results by Segment and Note 20 Segment Information of this Report for additional information.

Subsidiaries

Commercial Federal Bank, a Federal Savings Bank, is the principal subsidiary of the parent company. At December 31, 2004, the Bank held 11 wholly-owned subsidiaries. Descriptions of the principal active subsidiaries of the Bank follow.

Commercial Federal Investment Services, Inc. (CFIS)

CFIS provides customers discount brokerage services at all of the Bank s branch offices. CFIS provides investment advice and access to all major stock, bond, mutual fund, and option markets through a third party registered broker-dealer, who provides all support functions either independently or through affiliates.

Commercial Federal Insurance Corporation (CFIC)

CFIC serves as a full-service independent insurance agency, offering a full line of homeowners , commercial (including property and casualty), health, auto and life insurance products. Additionally, a wholly-owned subsidiary of CFIC provides reinsurance on credit life and disability policies written by an unaffiliated carrier for consumer loan borrowers of the Corporation.

Commercial Federal Service Corporation (CFSC)

CFSC was formed primarily to develop and manage real estate, principally apartment complexes located in eastern Nebraska, directly and through a number of limited partnerships. Subsidiaries of CFSC act as general partner and syndicator in many of the limited partnerships. Under the capital regulations of the Bank, investments in and loans to CFSC are fully excluded from regulatory capital. See Supervision and Regulation Regulatory Capital Requirements of this Report for additional information.

REIT Holding Company (REIT)

The real estate investment trust was formed to hold mortgage loan participation interests. All earnings from the REIT are derived from loan participation interests acquired from the Bank.

For a complete listing of all subsidiaries of the Corporation, see Exhibit 21 Subsidiaries of the Corporation of this Report, which is incorporated herein by reference.

Employees

At December 31, 2004, the Corporation and its wholly-owned subsidiaries had 2,827 employees.

Competition

The Corporation faces strong competition in the attraction of deposits and in the origination of real estate, consumer and commercial loans. Its most direct competition for deposits comes from financial institutions located in its primary market areas. In addition, the Corporation competes with mortgage banking companies, insurance companies and other institutional lenders. The Corporation s primary market area for deposits includes its seven-state region and, for retail loan originations, also includes Las Vegas, Nevada (primarily residential construction lending). Management believes that the Corporation s extensive branch network enables the Corporation to compete effectively for deposits and loans against other financial institutions. The Corporation has been able to attract deposits primarily by offering depositors a wide variety of deposit accounts, the convenience of alternative delivery channels, a full range of financial services and competitive rates of interest. The Corporation competes for loans principally through the efficiency and quality of the service provided to borrowers and the interest rates and loan fees charged. Interest rates charged by the Corporation on its loans are primarily determined by pricing requirements in the secondary market and competitive loan rates offered in its lending areas.

Supervision and Regulation

General

The Bank must comply with various regulations of both the OTS and the FDIC. The Bank s lending and investing activities must comply with federal statutory and regulatory requirements. The Bank must also comply with the reserve requirements of the Federal Reserve Board. This supervision and regulation is intended primarily for the protection of the FDIC insurance funds and depositors. Both the OTS and the FDIC have extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies regarding the classification of assets and the establishment of adequate allowance for loan losses. The OTS regularly examines the Bank and prepares reports to the Board of Directors of the Bank regarding any deficiencies. The Bank must also file reports with the OTS and the FDIC concerning its activities and financial condition and must obtain regulatory approval before engaging in certain transactions.

As a savings and loan holding company, the parent company is also subject to the OTS s regulation, examination, supervision and reporting requirements. In addition, since the Corporation s common stock is registered under the Securities Exchange Act of 1934, as amended (the Exchange Act), the Corporation is subject to regulation by the Securities and Exchange Commission (the SEC) under the federal securities laws and must comply with the Exchange Act information, proxy solicitation, insider trading restrictions and other requirements. Finally, as the Corporation s common stock is listed on the New York Stock Exchange (the NYSE), the Corporation must comply with the NYSE s listing standards in order for the common stock to continue to be listed. Certain of these regulatory requirements are referred to within this Supervision and Regulation section or appear elsewhere in this Report.

Regulatory Capital Requirements

At December 31, 2004, the Bank exceeded all minimum regulatory capital requirements mandated by the OTS. In addition, the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) established five regulatory capital categories: well-capitalized, adequately-capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized, and authorized banking regulatory agencies to take prompt corrective action with respect to institutions in the three undercapitalized categories. These corrective actions become increasingly more stringent as an institution s regulatory capital declines. Prompt corrective action may include, without limitation, restricting the ability of the Corporation to pay dividends, restricting acquisitions or other activities, and placing limitations on asset growth. At December 31, 2004, the Bank exceeded the minimum requirements for the well-capitalized category under FDICIA.

The OTS requires savings institutions with more than a normal level of interest rate risk to maintain additional total capital. The Bank is not deemed to have more than a normal level of interest rate risk, as defined, and therefore is not required to increase its total capital as a result of the rule. In addition, the Director of the OTS is authorized to establish higher minimum levels of capital for a savings institution if the Director determines that such institution is in need of more capital in light of the particular circumstances of the institution. The Director of the OTS may treat the failure of any savings institution to maintain capital at or above such level as an unsafe or unsound practice and may issue a directive requiring any savings institution which fails to maintain capital at or above the minimum level required by the Director to submit and adhere to a plan for increasing capital. Such an order may be enforced in the same manner as an order issued by the FDIC. See Note 16 Regulatory Capital of this Report for additional information.

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Federal Home Loan Bank System

The Bank is a member of the FHLB of Topeka, which is one of 12 regional FHLBs. Each FHLB serves as a reserve or central bank for its member institutions within its assigned region. It is funded primarily from funds deposited by financial institutions and proceeds derived from the sale of consolidated obligations of the FHLB System. It makes loans to members in accordance with policies and procedures established by the Board of Directors of the FHLB of Topeka.

As a member of the FHLB of Topeka, the Bank must purchase and maintain shares of capital stock in the FHLB of Topeka in an amount at least equal to the greater of:

1.0% of the Bank s aggregate unpaid principal of its residential mortgage loans, home purchase contracts, and similar obligations at the beginning of each year; or

5.0% of its then outstanding advances (borrowings) from the FHLB.

The Bank was in compliance with this requirement at December 31, 2004.

Liquidity Requirements

Under OTS regulations, savings associations are required to maintain sufficient liquidity to ensure their safe and sound operation. Management believes that the Bank s procedures for managing liquidity are sufficient to ensure the Bank s safe and sound operations.

Qualified Thrift Lender Test

Savings institutions like the Bank are required to satisfy a qualified thrift lender (QTL) test. To be a QTL, an institution must either meet the Home Owner s Loan Act (HOLA) QTL test or the Internal Revenue Service (IRS) tax code Domestic Building and Loan Association (DBLA) test. To be a QTL under the HOLA test, the Bank must maintain at least 65.0% of its portfolio assets (total assets less goodwill and other intangible assets, property the Bank uses in conducting its business and liquid assets in an amount not exceeding 20.0% of total assets) in Qualified Thrift Investments. Qualified Thrift Investments consist primarily of residential mortgage loans, mortgage-backed securities, home equity loans and other securities related to domestic, residential real estate or manufactured housing. The shares of stock the Bank owns in the FHLB of Topeka also qualify as Qualified Thrift Investments as do loans for educational purposes, loans to small businesses and loans made through credit card accounts. Certain other types of assets also qualify as Qualified Thrift Investments subject to an aggregate limit of 20.0% of portfolio assets.

Compliance with the QTL HOLA test is measured on a monthly basis and the Bank must meet the test in nine out of 12 months. To be a QTL under the DBLA test, an institution must meet a business operations test and a 60.0% of assets test during its taxable year, with both tests defined under IRS regulations. Savings institutions may use either test to qualify as a QTL and may switch from one test to the other. If the Bank satisfies either test, it will continue to enjoy full borrowing privileges from the FHLB of Topeka. If it does not satisfy either test it may lose its borrowing privileges and be subject to activities and branching restrictions applicable to national banks. The Bank was in compliance with the QTL test throughout 2004.

Restrictions on Capital Distributions

The OTS limits the payment of dividends and other capital distributions (including stock repurchases and cash mergers) by the Bank. Under these regulations, a savings institution must submit notice to the OTS prior to making a capital distribution if:

- it does not qualify for expedited treatment under OTS application processing regulations,
- it would not be well-capitalized after the distribution,

the distribution would result in the retirement of any of the institution s common or preferred stock or debt counted as its regulatory capital, or

it is a subsidiary of a holding company.

A savings institution must file an application to the OTS and obtain its approval prior to paying a capital distribution if:

it does not qualify for expedited treatment under OTS application processing regulations,

it would not be adequately-capitalized following the distribution,

its total distributions for the calendar year exceeds its net income for the calendar year to date plus its net income (less distributions) for the preceding two years, or

the distribution would otherwise violate applicable law or regulation or an agreement with or condition imposed by the OTS.

The Bank pays cash distributions to the parent company on a periodic basis primarily to cover the amount of the principal and interest payments on the parent company s debt, to fund the parent company s common stock repurchases and to repay the parent company for the common stock cash dividends paid to the parent company s stockholders. The Bank is currently required to file an application to the OTS to obtain its approval prior to paying a capital distribution. Total distributions exceeded the Bank s retained net income for calendar year 2004 plus the preceding two years (the retained net income standard) by $19.2 million. In addition to the above authority, the OTS may prohibit any savings institution from making a capital distribution if the OTS determined that the distribution constituted an unsafe or unsound practice. Furthermore, under the OTS s prompt corrective action regulations, the Bank would be prohibited from making any capital distributions if, after making the distribution, the Bank would not satisfy its minimum capital requirements.

Deposit Insurance

The Bank s deposit accounts are insured up to applicable regulatory limits by the SAIF which is administered by the FDIC. The FDIC establishes an assessment rate for deposit insurance premiums which protects the insurance fund and considers the fund s operating expenses, case resolution expenditures, income and effect of the assessment rate on the earnings and capital of SAIF members. The SAIF assessment is based on the capital adequacy and supervisory rating of the institution and is assigned by the FDIC.

The FDIC s assessment schedule for SAIF deposit insurance mandates the assessment rate for well-capitalized institutions. Institutions with the highest supervisory ratings are assessed at a zero rate and institutions in the lower risk classification are assessed at the rate of .27% of insured deposits. The insured deposits of the Bank are assessed at a zero rate. In addition, all institutions are required to pay assessments to help fund interest payments on certain bonds issued by the Financing Corporation. The Financing Corporation assessment rate is reset quarterly. The annualized rates assessed on insured deposits for each of the calendar quarters during 2004 were 1.54 basis points, 1.54 basis points, 1.48 basis points and 1.46 basis points, respectively.

Transactions with Related Parties

Generally, transactions between the Bank and any of its affiliates must comply with Sections 23A and 23B of the Federal Reserve Act and Regulation W promulgated thereunder as interpreted by the OTS. Section 23A limits the extent to which the savings institution or its subsidiaries may engage in covered transactions with any one affiliate up to an amount equal to 10.0% of such institution s capital stock and surplus, and contains an aggregate limit on all such transactions with all affiliates up to an amount equal to 20.0% of such capital stock and surplus. Savings institutions are also prohibited from making loans to any affiliate that is not engaged in activities permissible to bank holding companies. Section 23B requires that such transactions be on terms as substantially the same, or at least as favorable, to the institution or subsidiary as those provided to a non-affiliate. An affiliate of a savings institution is any company or entity that controls, is controlled by, or is under common control with, the savings institution. In a holding company context, the parent holding company of a savings institution and any companies that are controlled by such parent holding company are affiliates of the savings institution.

Loans to Executive Officers, Directors and Principal Stockholders

Savings institutions are also subject to the restrictions contained in Section 22(h) of the Federal Reserve Act and the Federal Reserve Board s Regulation O thereunder on loans to executive officers, directors and principal stockholders. Under Section 22(h), loans to a director, executive officer and to a greater than 10.0% stockholder of a savings institution and certain affiliated interests of such persons may not exceed, together with all other outstanding loans to such persons and affiliated interests, the institution s loans-to-one-borrower limit (generally equal to 15.0% of the institution s unimpaired capital and surplus). Section 22(h) also prohibits the making of loans above amounts prescribed by the appropriate federal banking agency, to directors, executive officers and greater than 10.0% stockholders of a savings institution, and their respective affiliates, unless such loan is approved in advance by a majority of the board of directors of the institution with any interested director not participating in the voting. Regulation O requires board of director approval for loans to executive officers, directors and principal stockholders for loan amounts aggregating $500,000 or more as well as for loan amounts exceeding the greater of $25,000 or 5.0% of capital and surplus. Further, Section 22(h) requires that loans to directors, executive officers and principal stockholders be made on terms substantially the same as offered in comparable transactions to other persons. Section 22(h) also generally prohibits a depository institution from paying the overdrafts of any of its executive officers or directors.

Savings institutions must also comply with Section 22(g) of the Federal Reserve Act and Regulation O on loans to executive officers and the restrictions of 12 U.S.C. Section 1972 on certain tying arrangements and extensions of credit by correspondent banks. Section 22(g) of the Federal Reserve Act restricts the amounts and types of loans that can be made to executive officers. Section 1972 prohibits a depository institution from extending credit to or offering any other services, or fixing or varying the consideration for such extension of credit or service, on the condition that the customer obtain some additional service from the institution or certain of its affiliates or not obtain services of a competitor of the institution, subject to certain exceptions. Section 1972 also prohibits extensions of credit to executive officers, directors, and greater than 10.0% stockholders of a depository institution by any other institution which has a correspondent banking relationship with the institution, unless such extension of credit is on substantially the same terms as those prevailing at the time for comparable transactions with other persons and does not involve more than the normal risk of repayment or present other unfavorable features.

Federal Reserve System Reserve Requirements

Pursuant to current regulations of the Federal Reserve Board, a thrift institution must maintain average daily reserves equal to 3.0% on transaction account balances over $7.0 million and up to $47.6 million, plus 10.0% on the remainder. This percentage is subject to adjustment by the Federal Reserve Board. Because required reserves must be maintained in the form of vault cash or in a non-interest-bearing account at a Federal Reserve Bank, the effect of the reserve requirement is to reduce the amount of the institution s interest-earning assets.

Savings and Loan Holding Company Regulation

The parent company is a registered savings and loan holding company. As such, it is subject to OTS regulations, examinations, supervision and reporting requirements. As a subsidiary of a savings and loan holding company, the Bank is subject to certain restrictions in its dealings with the parent company and any affiliates.

Activities Restrictions

Since the parent company only owns one thrift institution that was acquired prior to May 4, 1999, it is classified as a grandfathered unitary savings and loan holding company. There are generally no restrictions on the activities of a grandfathered unitary savings and loan holding company. However, if the Director of the OTS determines that there is reasonable cause to believe that the continuation by a savings and loan holding company of an activity that constitutes a serious risk to the financial safety, soundness or stability of its subsidiary savings institution, the Director of the OTS may impose restrictions to address such risk. If the parent company were to acquire control of another savings institution, other than through merger or other business combination with the Bank, the parent company would become a multiple savings and loan holding company. In addition, if the Bank fails to meet the QTL test, then the parent company would also become subject to the activity restrictions applicable to multiple holding companies. A multiple savings and loan holding company may only engage in the following activities:

- furnishing or performing management services for a subsidiary savings institution;
- conducting an insurance agency or escrow business;
- holding, managing, or liquidating assets owned by or acquired from a subsidiary savings institution;
- holding or managing properties used or occupied by a subsidiary savings institution;
- acting as trustee under deeds of trust;
- those activities authorized by regulation as of March 5, 1987, to be engaged in by multiple holding companies;
- those activities authorized by the Federal Reserve Board as permissible for bank holding companies, unless the Director of the OTS by regulation prohibits or limits such activities; or
- activities permitted for financial holding companies under the Bank Holding Company Act.

The parent company would also have to register as a bank holding company and become subject to applicable restrictions unless the Bank requalified as a QTL within one year thereafter. See Supervision and Regulation Qualified Thrift Lender Test of this Report.

Restrictions on Acquisitions

The parent company must obtain the prior approval of the OTS before acquiring control of any other savings institution. Except with the prior approval of the Director of the OTS, no director or officer of a savings and loan holding company or person owning or controlling by proxy or otherwise more than 25.0% of such company s stock, may also acquire control of any savings institution, other than a subsidiary savings institution, or of any other savings and loan holding company.

The Director of the OTS may only approve acquisitions resulting in the formation of a multiple savings and loan holding company which controls savings institutions in more than one state if:

the multiple savings and loan holding company involved controls a savings institution which operated a home or branch office in the state of the institution to be acquired as of March 5, 1987;

the acquired is authorized to acquire control of the savings institution pursuant to the emergency acquisition provisions of the Federal Deposit Insurance Act; or

the statutes of the state in which the institution to be acquired is located specifically permit institutions to be acquired by state-chartered institutions or savings and loan holding companies located in the state where the acquiring entity is located (or by a holding company that controls such state-chartered savings institutions).

The USA PATRIOT Act

The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the USA PATRIOT Act), was signed into law on October 26, 2001. The USA PATRIOT Act gives the federal government new powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing, and broadened anti-money laundering requirements. By way of amendments to the Bank Secrecy Act, Title III of the USA PATRIOT Act takes measures intended to encourage information sharing among bank regulatory agencies and law enforcement bodies. Further, certain provisions of Title III impose affirmative obligations on a broad range of financial institutions, including banks, thrifts, brokers, dealers, credit unions, money transfer agents and parties registered under the Commodity Exchange Act.

Among other requirements, Title III of the USA PATRIOT Act imposes the following requirements with respect to financial institutions:

Pursuant to Section 352, all financial institutions must establish anti-money laundering programs that include, at a minimum: (i) internal policies, procedures, and controls; (ii) specific designation of an anti-money laundering compliance officer; (iii) ongoing employee training programs; and (iv) an independent audit function to test the anti-money laundering program.

Section 326 authorizes the Secretary of the Department of the Treasury, in conjunction with other bank regulators, to issue regulations that provide for minimum standards with respect to customer identification at the time new accounts are opened.

Section 312 requires financial institutions that establish, maintain, administer or manage private banking accounts or correspondence accounts in the United States for non-United States persons or their representatives (including foreign individuals visiting the United States) to establish appropriate, specific and, where necessary, enhanced due diligence policies, procedures, and controls designed to detect and report money laundering.

A prohibition against establishing, maintaining, administering or managing correspondent accounts for foreign shell banks (foreign banks that do not have a physical presence in any country), and certain record keeping obligations with respect to correspondent accounts of foreign banks.

Bank regulators are directed to consider a holding company s effectiveness in combating money laundering when ruling on Federal Reserve Act and Bank Merger Act applications.

The Bank has implemented the policies and procedures that federal banking agencies have passed as regulations pursuant to the USA PATRIOT Act.

The Gramm-Leach-Bliley Act

On November 12, 1999, the Gramm-Leach-Bliley Act (the GLB Act) was signed into law. Effective March 11, 2000, the GLB Act authorized affiliations between banking, securities and insurance firms and authorized bank holding companies and national banks to engage in a variety of new financial activities. Among the new activities permitted for bank holding companies are securities and insurance brokerage, securities underwriting, insurance underwriting and merchant banking. The Federal Reserve Board, in consultation with the Secretary of the Treasury, may approve additional financial activities. The GLB Act, however, prohibits future acquisitions of existing unitary savings and loan holding companies, like the parent company, by firms which are engaged in commercial activities, unless the parent company ceases to engage in activities that are not permissible for a savings and loan holding company which is not an exempt unitary holding company, and it limits the permissible activities of unitary holding companies formed after May 4, 1999.

The GLB Act imposes certain burdens on the parent company s operations. From a competitive environment perspective, the GLB Act reduces the range of companies with which the parent company may affiliate, although the GLB Act may facilitate affiliations with companies in the financial services industry.

The GLB Act imposed new privacy requirements on financial institutions. Financial institutions are generally prohibited from disclosing customer information to non-affiliated third parties unless the customer has been given the opportunity to object and the customer has not objected to such disclosure. Financial institutions are also required to disclose their privacy policies to customers annually. Financial institutions, however, must comply with state law if it is more protective of customer privacy than the GLB Act.

Corporate Governance

On July 30, 2002, the President of the United States signed into law the Sarbanes-Oxley Act of 2002 (the Act) which mandated a variety of reforms intended to address corporate and accounting fraud. The Corporation believes that it has complied with all provisions of the Act. The Act provides for the establishment of a new Public Company Accounting Oversight Board (PCAOB) which enforces auditing, quality control and independence standards for firms that audit SEC-reporting companies and is funded by fees from all SEC-reporting companies. The Act imposes higher standards for auditor independence and restricts performance of consulting services by auditing firms to companies they audit. Any non-audit services being provided to an audit client requires preapproval by the Corporation s audit committee members. In addition, certain audit partners must be rotated periodically. The Act requires chief executive officers and chief financial officers, or their equivalent, to certify to the accuracy of periodic reports filed with the SEC, subject to civil and criminal penalties if they knowingly or willfully violate this certification requirement. In addition, under the Act, the Corporation s counsel is required to report evidence of a material violation of the securities laws or a breach of fiduciary duty by a company to its chief executive officer or its chief legal officer, and, if such officer does not appropriately respond, to report such evidence to the audit committee or other similar committee of the board of directors or the board itself.

Longer prison terms will also be applied to corporate executives who violate federal securities laws, the period during which certain types of suits can be brought against a company or its officers has been extended, and bonuses issued to top executives prior to restatement of a company s financial statements are now subject to disgorgement if such restatement was due to corporate misconduct. Executives are also prohibited from trading during retirement plan blackout periods, and loans to company executives are restricted. In addition, a provision directs that civil penalties levied by the SEC as a result of any judicial or administrative action under the Act be deposited in a fund for the benefit of harmed investors. Directors and executive officers must also report most changes in their ownership of a company s securities within two business days of the change.

The Act also increases the oversight and authority of audit committees of publicly traded companies. Audit committee members must be independent, pursuant to Rule 10A-3 of the Exchange Act and the listing standards of the NYSE, and are barred from accepting consulting, advisory or other compensatory fees from the issuer. In addition, all SEC reporting companies must disclose whether at least one member of the committee is a financial expert (as such term is defined by the SEC rules) and if not, why not. Audit committees of publicly traded companies have authority to retain their own counsel and other advisors funded by the company. Audit committees must establish procedures for the receipt, retention and treatment of complaints regarding accounting and auditing matters and procedures for confidential, anonymous submission of employee concerns regarding questionable accounting or auditing matters.

It is unlawful for any person that is not a registered public accounting firm (RPAF) with the PCAOB to audit an SEC-reporting company. Under the Act, a RPAF is prohibited from performing statutorily mandated audit services for a company if such company s chief executive officer, chief financial officer, comptroller, chief accounting officer or any person serving in equivalent positions has been employed by such firm and participated in the audit of such company during the one-year period preceding the audit initiation date. The Act also prohibits any officer or director of a company or any other person acting under their direction from taking any action to fraudulently influence, coerce, manipulate or mislead any independent public or certified accountant engaged in the audit of the Corporation s financial statements for the purpose of rendering the financial statement s materially misleading. The Act also requires the SEC to prescribe rules requiring inclusion of an internal control report and assessment by management in the annual report to shareholders. The Act requires the RPAF that issues the audit report to attest to management s assessment of and report on the Corporation s internal controls. In addition, the Act requires that each financial report required to be prepared in accordance with (or reconciled to) generally accepted accounting principles and filed with the SEC reflect all material correcting adjustments that are identified by a RPAF in accordance with generally accepted accounting principles and the rules and regulations of the SEC.

The NYSE submitted corporate governance rules to the SEC which were approved on November 4, 2003, and subsequently amended. Failure to comply with these rules could result in the delisting of the common stock of the Corporation or subject the Corporation to other penalties as determined by the NYSE. The Corporation has complied with all of the NYSE corporate governance standards as follows:

- a majority of the Corporation s directors must be independent as defined in the NYSE Listed Company Manual;
- the Board of Directors must have scheduled executive sessions;
- the Board of Directors must have a nominating/corporate governance committee (such committee must have a written charter) composed entirely of independent directors;
- the Board of Directors must have a compensation committee (such committee must have a written charter) composed entirely of independent directors;
- the Board of Directors must have an audit committee composed of a minimum of three members, each of whom is financially literate, independent and at least one of whom has accounting or financial management expertise;
- the audit committee must have a written charter, containing certain specific provisions;
- the Corporation must adopt and disclose corporate governance guidelines; and
- the Corporation must adopt and disclose a code of business conduct and ethics for directors, officers and employees.

Subsidiaries

The Bank is permitted to invest an amount up to 2.0% of its consolidated regulatory assets in capital stock and secured and unsecured loans in its service corporations, as defined, and an amount up to an additional 1.0% of its consolidated regulatory assets when such additional investment is used for community development purposes. In addition, federal savings institutions meeting regulatory capital requirements and certain other tests may invest up to 50.0% of their regulatory core capital in conforming first mortgage loans to service corporations. As of December 31, 2004, the Bank was in compliance with this limitation requirement for investment in service corporations. In addition, the Bank has authority to invest without separate or aggregate limit in operating subsidiaries engaged in activities in which the Bank could conduct directly.

Regulatory capital standards require savings associations to deduct from capital 100% of all post-April 12, 1989, investments in and extensions of credit to subsidiaries engaged in activities not permissible for national banks. The Bank has two subsidiaries (Commercial Federal Service Corporation and First Savings Investment Corporation) engaged in activities not permissible for national banks. At December 31, 2004, the Bank s total investment in these two subsidiaries was $4.5 million, which was deducted from regulatory capital. At December 31, 2004, the Bank had 11 wholly-owned subsidiaries. With the exception of the two real estate subsidiaries discussed above, these subsidiaries engage in activities considered permissible for national banks, therefore not requiring deductions from capital.

The Bank is required to give the FDIC and the Director of the OTS 30 days prior notice before establishing or acquiring a new subsidiary, or commencing any new activity through an existing subsidiary. Both the FDIC and the Director of the OTS have authority to order termination of subsidiary activities determined to pose a risk to the safety or soundness of an institution.

Taxation

The Corporation is subject to the provisions of the Internal Revenue Code of 1986, as amended. The Corporation and all includible subsidiaries file a consolidated federal income tax return based on a June 30 fiscal year end. Taxable income is determined on an accrual basis. The IRS has completed examination of the income tax returns of the Corporation through June 30, 1999.

The State of Nebraska imposes a franchise tax on all financial institutions. The franchise tax is assessed at a rate of $.47 per $1,000 of average deposits, limited to 3.81% of the financial institution s income before tax (including subsidiaries) as reported on the financial institution s regulatory filings. Many of the other states in which the Corporation conducts business impose franchise or income taxes on companies doing business in those states. For further information regarding income taxes see Note 14 Income Taxes of this Report.

Available Information

The Corporation makes its annual, current and quarterly reports and any amendments to these reports available, free of charge, on its corporate website, *www.comfedbank.com*, as soon as reasonably practicable after such reports are electronically filed with or furnished to the SEC. Other information on the Corporation and the Bank are also available on this website. Information and reports on the Corporation s website are not incorporated by reference to this Annual Report on Form 10-K.

Executive Officers of the Registrant

The executive officers of the Corporation and/or the Bank are as follows:

Name	Age at December 31, 2004	Current Position(s)
William A. Fitzgerald	67	Chairman of the Board and Chief Executive Officer
Frederick R. Kulikowski	46	Director, President and Chief Operating Officer
David S. Fisher	48	Chief Financial Officer and Executive Vice President
John S. Morris	53	Chief Credit Officer and Executive Vice President of the Bank
Lauren W. Kingry	53	Executive Vice President of the Bank
Robert E. Gruwell	56	Senior Vice President of the Bank
Kevin C. Parks	50	Senior Vice President of the Bank

Officers of the Corporation are elected annually by the Board of Directors and serve at the pleasure of the Board of Directors. The principal occupation of each executive officer of the Corporation and/or the Bank for the last five years is set forth below:

William A. Fitzgerald Chairman of the Board and Chief Executive Officer of the Corporation and the Bank. Mr. Fitzgerald joined Commercial Federal in 1955. He was named Vice President in 1968, Executive Vice President in 1973, President in 1974, Chief Executive Officer in 1983 and Chairman of the Board in 1994. Mr. Fitzgerald joined Commercial Federal s Board of Directors in 1973. Mr. Fitzgerald is well known in the banking community for his participation in numerous industry organizations, including the Federal Home Loan Bank Board, the Heartland Community Bankers, the Board of America s Community Bankers and the Board of Governors of the Federal Reserve System Thrift Institutions Advisory Council. Mr. Fitzgerald is the Chairman of the Board for Creighton University, on the Board of Governors for the Knights of Ak-Sar-Ben, a Trustee on the Archbishop s Committee for Educational Development and a Board Member for the Omaha Symphony.

Frederick R. Kulikowski Director, President and Chief Operating Officer of the Corporation and the Bank. Mr. Kulikowski joined the Bank in December 2004. Mr. Kulikowski served as Senior Vice President of Small Business Banking at M&T Bank from 2002 to November 2004. From 1998 to 2002, Mr. Kulikowski served as Senior Vice President for M&T Bank s Consumer Banking operations. Prior to joining M&T in 1998, Mr. Kulikowski served as President and Chief Executive Officer of Citibank (New York State), a commercial and retail bank subsidiary of Citicorp.

David S. Fisher Chief Financial Officer and Executive Vice President of the Corporation and the Bank. Mr. Fisher oversees all financial functions, as well as Operations, Information Technology, Investor Relations, Real Estate and Administrative Services. Mr. Fisher joined the Bank in June 2000. Mr. Fisher served as Senior Vice President and Treasurer of Associated Banc-Corp from May 1998 to May 2000 and was responsible for financial analysis and planning, investments, funding, asset/liability management, treasury and investment accounting functions. Previously, Mr. Fisher was Senior Vice President and director of funds management and bank investments at First of America Bank Corporation from 1988 to 1998. Mr. Fisher serves as a board member for the Nebraska Bankers Association and Children s Hospital.

John S. Morris Chief Credit Officer and Executive Vice President of the Bank. Mr. Morris joined the Bank in December 2001. Mr. Morris served as Senior Vice President of Credit Administration for U.S. Bank from February 1996 to December 2001. Mr. Morris is a board member for Nebraska Methodist College.

Lauren W. Kingry Executive Vice President of the Bank. In February 2005, Mr. Kingry was appointed Southwest Regional President. Since December 2001, Mr. Kingry served as the Director of Commercial Banking and Executive Vice President after holding the position of Senior Vice President. Mr. Kingry joined the Bank in February 1998 through the acquisition of Liberty Bank and Trust.

Robert E. Gruwell Senior Vice President of the Bank. Mr. Gruwell has served as Treasurer since 2000 and has also served as the Director of Mortgage Banking since March 2004. Mr. Gruwell served as Assistant Treasurer from December 1996 through 2000.

Kevin C. Parks Senior Vice President of the Bank. Mr. Parks has served as Director of Retail Banking since December 2001. Mr. Parks served as Director of Internal Audit from November 1993 through November 2001. Mr. Parks has resigned from the Bank effective March 2005.

ITEM 2. PROPERTIES

As of December 31, 2004, the Corporation conducted business through 198 branch offices in seven states: Colorado (50), Nebraska (43), Iowa (40), Kansas (27), Oklahoma (19), Missouri (13) and Arizona (6). During 2004, seven new branches were opened in Colorado, Nebraska and Iowa. In addition, construction of a new operations center building in Omaha, Nebraska started in 2004 with the completion scheduled for April 2005.

At December 31, 2004, the Corporation owned the buildings for 110 of its branch offices and leased the remaining 88 branches under leases expiring (not assuming exercise of renewal options) between February 2005 and August 2031. The Corporation has 249 Cashbox ATMs located throughout its seven-state region. At December 31, 2004, the total net book value of land, office properties and equipment owned by the Corporation was $174.4 million. Management believes that the Corporation s premises are suitable for its present and anticipated needs. The Corporation s business segments utilize the Corporation s properties except for the Treasury segment which primarily only utilizes the corporate headquarters.

ITEM 3. LEGAL PROCEEDINGS

There are no pending legal proceedings to which the Corporation, the Bank or any subsidiary is a party or to which any of their property is subject which are expected to have a material adverse effect on the Corporation s financial position.

The Bank assumed a lawsuit in its merger with Mid Continent Bancshares, Inc. (Mid Continent), a 1998 acquisition, against the United States government (the Government) relating to a supervisory goodwill claim filed by the former Mid Continent. The Bank was awarded $5.6 million in damages on January 29, 2004. The Government filed a Motion for Reconsideration of this ruling on February 12, 2004, which was denied. On July 16, 2004, the Government filed its appellate brief with the United States Court of Appeals for the Federal District (the Court). The Bank filed an appellate brief with the Court on September 22, 2004. The Government filed a responsive brief on November 22, 2004, and a corrected brief on November 30, 2004. The Bank filed a reply brief on December 20, 2004. The Government filed a joint appendix on December 23, 2004. Oral arguments are scheduled for April 7, 2005. The ultimate collectibility of this award is contingent on a number of factors and future events which are beyond the control of the Bank, as to substance, timing and amount of damages that may be paid to the Bank. The Corporation has not recorded a receivable pursuant to this award.

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

There were no matters submitted to a vote of stockholders during the quarter ended December 31, 2004.

PART II

ITEM 5. MARKET FOR COMMERCIAL FEDERAL CORPORATION S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Corporation s common stock is traded on the New York Stock Exchange under the symbol CFB. The following table sets forth the high, low and closing sales prices and dividends declared for the periods indicated for the common stock:

	Common Stock Price			
Quarter Ended	**High**	**Low**	**Close**	**Dividends Declared**
December 31, 2004	$ 30.38	$ 26.94	$ 29.71	$ .135
September 30, 2004	28.22	25.73	26.98	.135
June 30, 2004	28.35	24.58	27.10	.135
March 31, 2004	28.33	26.25	27.60	.125
December 31, 2003	27.68	24.13	26.71	.125
September 30, 2003	25.18	21.38	24.35	.100
June 30, 2003	23.75	20.25	21.20	.100
March 31, 2003	24.10	20.70	21.72	.090

The following table details the Corporation s purchases of its common stock during the fourth quarter ended December 31, 2004:

Period	**(a) Total Number of Shares Purchased**	**(b) Average Price Paid per Share**	**(c) Total Number of Shares Purchased as Part of Publicly Announced Plan (1)**	**(d) Maximum Number of Shares that can be Purchased Under the Plan**
October 2004:				
Beginning Date October 1				
Ending Date October 31	12,500	$ 27.38	12,500	1,746,300
November 2004:				
Beginning Date November 1				
Ending Date November 30	28,300	$ 28.94	28,300	1,718,000
December 2004:				
Beginning Date December 1				
Ending Date December 31	251,200	$ 29.71	251,200	1,466,800

(1) On November 25, 2003, the Corporation s Board of Directors approved and the Corporation publicly announced the repurchase of 3,000,000 shares of common stock to be completed by June 30, 2005.

As of December 31, 2004, there were 39,254,139 shares of common stock issued and outstanding that were held by approximately 5,100 shareholders of record and 4,067,833 shares subject to outstanding stock options. The number of shareholders of record does not reflect the persons or entities who hold their stock in nominee or street name.

Cash dividends declared for 2004 totaled $21.2 million, or $.53 per common share, compared to $17.9 million, or $.415 per common share, for 2003. For information regarding the payment of future dividends and any possible restrictions see MD&A Liquidity and Capital Resources and Note 15 Stockholders Equity and Regulatory Restrictions of this Report.

ITEM 6. SELECTED FINANCIAL DATA

	As of or for the Year Ended December 31,				As of or for the Six Months Ended December 31,	As of or for the Year Ended June 30,
	2004	2003	2002	2001	2000 (1)	2000
	(Dollars in Thousands Except Per Share Data)					
Interest income	$ 575,525	$ 650,744	$ 777,053	$ 871,374	$ 498,732	$ 927,690
Interest expense	303,244	375,174	449,325	563,945	344,297	585,549
Net interest income	272,281	275,570	327,728	307,429	154,435	342,141
Provision for credit losses	(14,002)	(22,003)	(31,002)	(38,945)	(27,854)	(13,760)
Retail fees and charges	66,181	57,798	55,279	53,519	25,650	43,230
Loan servicing fees, net of mortgage servicing rights amortization	(4,917)	(29,995)	8,099	22,680	12,104	25,194
Mortgage servicing rights valuation adjustment, net	4,313	28,678	(60,417)	(19,058)	(583)	
Gain (loss) on sales of securities and changes in fair values of derviatives, net	(6,219)	26,767	40,583	15,422	(69,462)	
Gain (loss) on sales of loans	5,039	23,916	36,173	8,739	(18,023)	(110)
Bank owned life insurance	17,470	11,574	12,654	12,986	(3,370)	
Other operating income	28,611	27,943	28,067	27,235	12,123	33,613
General and administrative expenses	263,716	271,409	260,070	234,483	151,017	252,019
Amortization of core value of deposits	4,402	5,533	6,368	7,211	3,903	8,563
Amortization of goodwill				8,134	4,250	8,673
Income (loss) before income taxes and cumulative effect of change in accounting principle	100,639	123,306	150,726	140,179	(74,150)	161,053
Income tax provision (benefit)	24,276	34,286	43,723	43,374	(19,691)	55,269
Income (loss) before cumulative effect of change in accounting principle	76,363	89,020	107,003	96,805	(54,459)	105,784
Cumulative effect of change in accounting principle, net (2)					(19,125)	(1,776)
Net income (loss)	$ 76,363	$ 89,020	$ 107,003	$ 96,805	$ (73,584)	$ 104,008
Earnings (loss) per common share: (3)						
Income (loss) before cumulative effect of change in accounting principle	$ 1.87	$ 2.02	$ 2.33	$ 1.92	$ (1.00)	$ 1.82
Cumulative effect of change in accounting principle, net (2)					(.35)	(.03)
Net income (loss)	$ 1.87	$ 2.02	$ 2.33	$ 1.92	$ (1.35)	$ 1.79
Dividends declared per common share	$ .53	$ .415	$ .35	$ .31	$ .14	$ .28
Other data:						
Net interest rate spread (4)	2.70%	2.49%	2.80%	2.65%	2.49%	2.70%
Net yield on interest-earning assets (4)	2.64%	2.44%	2.79%	2.68%	2.47%	2.80%
Return on average total assets	.65%	.70%	.81%	.75%	(1.07)%	.77%
	10.09%	12.01%	14.10%	12.12%	(16.19)%	10.85%

Return on average total stockholders equity						
Average total stockholders equity to average total assets	6.44%	5.79%	5.76%	6.21%	6.62%	7.10%
Dividend payout ratio	28.34%	20.54%	15.02%	16.15%	n/a	15.36%
Total number of branches at end of period	198	192	189	196	241	255

(Continued on next page)

	As of or for the Year Ended December 31,				As of or for the Six Months Ended December 31,	As of or for the Year Ended June 30,
	2004	2003	2002	2001	2000 (1)	2000
	(Dollars in Thousands Except Per Share Data)					
Total assets	$ 11,451,453	$ 12,188,859	$ 13,092,932	$ 12,902,994	$ 12,536,221	$ 13,793,038
Investment securities	1,071,223	1,055,055	1,296,050	1,150,345	771,137	993,167
Mortgage-backed securities	996,844	1,337,805	1,632,622	1,829,728	1,514,510	1,220,138
Loans held for sale, net	276,772	351,539	914,474	381,365	242,200	183,356
Loans receivable, net	7,698,970	7,956,743	7,703,016	8,066,375	8,651,174	10,224,336
Core value of deposits	12,430	16,832	22,365	28,733	36,209	42,488
Goodwill	162,717	162,717	162,717	162,717	171,218	188,362
Deposits	6,422,783	6,454,610	6,439,041	6,396,522	7,694,486	7,330,500
Advances from Federal Home Loan Bank	3,685,630	4,484,708	4,848,997	4,939,056	3,565,465	5,049,582
Other borrowings	310,958	215,243	621,192	526,582	175,343	206,026
Stockholders equity	789,330	755,353	750,100	729,694	859,656	987,978
Book value per common share	20.11	18.20	16.57	15.87	16.16	17.67
Regulatory capital ratios of the Bank:						
Tangible capital	6.19%	5.93%	5.75%	5.54%	6.48%	6.55%
Core capital (Tier 1 capital)	6.19%	5.88%	5.69%	5.56%	6.51%	6.59%
Risk-based capital						
Tier 1 capital	9.03%	9.13%	9.15%	9.47%	10.80%	11.74%
Total capital	10.61%	10.87%	10.87%	11.37%	11.79%	12.59%

(1) In 2000, the Corporation changed its year end to December 31 from June 30.

(2) Represents the cumulative effect of the change in method of accounting for derivative instruments and hedging activities, net of income tax benefit, for the six months ended December 31, 2000, and for start-up and organizational costs, net of income tax benefit, for the fiscal year ended June 30, 2000.

(3) All periods presented are based on diluted earnings (loss) per share. The conversion of stock options for the six months ended December 31, 2000, is not assumed since the Corporation incurred a loss from operations. As a result, for the six months ended December 31, 2000, the diluted loss per share is computed the same as the basic loss per share.

(4) Includes taxable-equivalent adjustments related to tax-exempt income using the statutory tax rate of 35.0%.

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

Commercial Federal Corporation is a unitary non-diversified savings and loan holding company whose primary asset is Commercial Federal Bank, a Federal Savings Bank. The Bank is one of the largest financial institutions headquartered in the Midwest and one of the largest thrift holding companies in the United States. The Bank, with a thrift charter, operates as a community banking institution, offering commercial and retail banking, mortgage banking, insurance and investment services.

Executive Management Overview

The Corporation, headquartered in Omaha, Nebraska, operated 198 branches in Colorado, Nebraska, Iowa, Kansas, Oklahoma, Missouri and Arizona as of December 31, 2004. The Corporation conducts commercial and retail banking activities, as well as loan origination activities through its branch network, other alternative delivery channels, loan offices and a nationwide wholesale network of correspondent banks and residential mortgage brokers. The Corporation also provides insurance products and securities brokerage services in addition to other retail financial services.

The Corporation s revenues are from three principal sources: net interest income, retail fee income and loan servicing income. These revenues are derived from loan products and services (primarily single-family residential, consumer, commercial real estate and commercial operating loans), deposit products and services, and mortgage loan servicing. Consistent with its continuing strategy, the Corporation has been highly focused on the growth of commercial and consumer loan products and core deposit products that diversify the product mix and contribute to enhanced core profitability. This focus aligns with the Corporation s continuing objective to transition its balance sheet from that of a traditional thrift institution to more of a commercial banking franchise.

The Corporation s strategy is further centered on building multiple product relationships with the Bank s existing customer base and expanding the Bank s market share most predominantly in its high-growth markets. Seven new branches were opened in 2004 across Colorado, Nebraska and Iowa utilizing a state of the art design that leverages the latest technology to most conveniently and effectively serve the customer. By incorporating new technology and creating a customer experience focused on client convenience and service, the new offices offer alternatives to broaden and strengthen customer relationships. The Corporation emphasizes the importance of its sales and service culture to deepen and broaden its relationships with retail and commercial banking clients to enhance core profitability. During 2004, the Corporation recorded net increases in the following five targeted core business drivers:

7% in core deposit balances (checking, savings, and money market accounts, excluding custodial escrows),

4% in the number of retail checking accounts,

33% in the number of commercial and small business checking accounts,

47% in commercial operating outstanding loan balances, and

16% in home equity outstanding loan balances.

As the above results indicate, the Corporation has made notable progress in the growth of these targeted commercial and consumer banking products. With the expansion and strengthening of the Bank s customer relationships, the potential for growth in net interest and fee income will be enhanced. The Corporation s operations are also continually reviewed in order to gain efficiencies, enhance productivity and minimize costs.

The Corporation s net income for 2004 was $76.4 million, or $1.87 per diluted share, compared to net income of $89.0 million, or $2.02 per diluted share for 2003 and $107.0 million, or $2.33 per diluted share for 2002. The financial results of the Corporation were largely influenced by general economic conditions and the interest rate environment, including the shape of the yield curve. Improved general economic conditions during 2004 positively impacted the Corporation which is reflected in improvements in credit quality and loan growth. However, the Federal Reserve gradually raised the short-term targeted Federal Funds rate from 1.00% to 2.25% during the second half of 2004, while long-term interest rates were nearly unchanged during 2004. This flattening of the yield curve has put pressure on the Corporation s net interest margin and its ability to increase net interest income. Although economic conditions and the interest rate environment are not in the Corporation s control, management strives to mitigate risks and optimize opportunities presented by changes in these external factors through the execution of its business plan and overall balance sheet management strategies.

The financial results of the Corporation were largely impacted by the performance of the mortgage banking segment. For the year ended December 31, 2004, the mortgage banking segment incurred a net loss of $17.9 million compared to a net loss of $26.8 million for the year ended December 31, 2003. The reduction in the net loss reflects the effects of slower loan prepayments, due to an industry-wide slowdown in mortgage loan refinancing activity, and the resulting $26.6 million reduction in the Corporation s amortization of mortgage servicing rights. In spite of the positive impact from these slower loan prepayments, loan prepayment speeds continued to be at higher than historical levels resulting in higher than normal levels of mortgage servicing rights amortization during 2004. Additionally, the Corporation experienced a reduction in the gain on sale of mortgage loans of $18.9 million comparing 2004 to 2003 due to the industry-wide slowdown in refinancing and new loan origination activity as well as increasingly competitive pricing due to overcapacity in the mortgage industry. Of this reduction, $2.8 million relates to the Corporation s implementation of guidance pursuant to SEC Staff Accounting Bulletin No. 105 (SAB No. 105) effective January 1, 2004. See Note 23 Current Accounting Pronouncements of this Report for additional information on SAB No. 105.

The slight increase in long-term interest rates at year end 2004 compared to a year ago resulted in the recognition of a $4.3 million net recovery in the valuation of mortgage servicing rights for 2004. This valuation recovery was mostly offset by the recognition of losses on the sales of available-for-sale securities which were specifically held by the Corporation to offset changes in the fair value of mortgage servicing rights and changes in the fair value of certain derivatives also used to offset changes in the fair value of mortgage servicing rights.

Net interest income for 2004, on a taxable-equivalent basis, decreased by $3.4 million from 2003, while the Corporation s net interest rate spread improved by 21 basis points (inclusive of the effects of noninterest-bearing deposits). The improvement in the net interest rate spread resulted primarily from the reduction in the cost of interest-bearing liabilities reflecting the benefits of the termination and maturity of certain interest rate swap agreements from September 2003 through September 2004. The decrease in net interest income was largely due to the decrease in the average outstanding balances for residential mortgage loans and the reduction in the yield on the Corporation s real estate loan portfolios primarily during the first half of 2004 when residential and commercial real estate mortgage interest rates resumed a downward trend. These decreases in interest income were substantially offset by decreases in interest expense caused by a decrease in the average balance of advances from the FHLB and the reduced costs of FHLB advances and savings deposits as a result of the previously mentioned termination and maturity of certain interest rate swap agreements that were used to hedge these funding sources. The decrease in net interest income also reflects the pressure caused by the flattening yield curve in 2004 whereby the rise in intermediate and long-term rates did not keep pace with the gradual rise in short-term interest rates.

Earnings for 2004 also reflect a reduction of $8.0 million in the provision for credit losses from 2003. This reduction reflects further improvements in the strength of the overall credit quality of the Corporation s loan portfolio and the general stability of the seven-state region where the Corporation operates. The Corporation continues to emphasize prudent underwriting and credit monitoring procedures as well as a strong focus on identifying and limiting credit concentrations.

The increases in retail fees and charges in 2004 compared to 2003 reflect the Corporation s continued focus on retail deposit generation, a change in overdraft payment practices and changes in the retail fee structure.

Results for 2004 also reflect the recognition of additional pretax income of $5.3 million as a result of signing an amendment to a bank owned life insurance (BOLI) policy in the first quarter of 2004.

The decrease in total general and administrative expenses in 2004 compared to 2003 demonstrates management s focus on expense control measures and reduced loan-related expenses primarily due to the slowdown in residential mortgage loan origination volumes and prepayments year over year. Compensation and benefits rose only slightly even with the continued pace of benefits cost escalation and the opening of seven new branches in 2004, while advertising expense decreased as a result of management s decision to focus on advertising programs and outlets having the most immediate impact.

Future trends in the Corporation s interest rate spreads and net interest income will be dependent upon and influenced by changes in short-term and long-term market interest rates among other factors that are not in the Corporation s control. Management anticipates that if the yield curve continues to flatten in 2005, the Corporation s net interest rate spread would be unfavorably impacted. Management s continued focus on changing the mix of the loan portfolio to carry a greater concentration of higher-yielding commercial operating and consumer loans, as well as growth in lower-costing core deposits, should result in higher net interest income, absent any potential pressures due to interest rate changes or changes in the shape of the yield curve. The Corporation is also currently evaluating certain strategic options associated with its future role in mortgage banking including, but potentially not limited to, decreasing its mortgage servicing portfolio. Actions taken, if any, with respect to this evaluation could potentially result in short-term expense recognition related to changes in funding sources, hedging activities and asset/liability management strategies, to the extent any such areas would be affected.

Results for 2003 were significantly affected by an unprecedented interest rate environment primarily driven by the Federal Reserve s reductions of the targeted federal funds interest rate down to one percent, the lowest level in over 40 years. The resulting compression in the Corporation s net interest margin was accentuated by record levels of prepayments on higher-yielding loans and mortgage-backed securities. Furthermore, increased amortization of net deferred loan costs and premiums on loans and mortgage-backed securities, which are fully amortized against interest income when a loan pays off, magnified the compression to net interest margin. The higher loan prepayments also caused a considerable increase in the amortization of mortgage servicing rights, although the stabilization and slight increase in interest rates toward the end of 2003 allowed the Corporation to record net recoveries in its mortgage servicing rights valuation allowance for 2003. The low interest rate environment also resulted in record levels of residential mortgage loan production and refinancing activity as consumers took advantage of lower interest rates to refinance existing loans or originate new mortgage loans. The significantly higher levels of loan prepayments contributed to an increase in corresponding expenses for 2003.

During 2003, the Corporation sold available-for-sale securities which resulted in the recognition of net gains to strategically offset continued high levels of amortization of mortgage servicing rights, accelerated amortization of net deferred costs and premiums on mortgage loans and mortgage-backed securities, and losses recognized on the termination of certain swap agreements. The Corporation also sold available-for-sale securities during 2003 that resulted in net losses to strategically offset net recoveries in the valuation allowance of mortgage servicing rights. Gains on sales of loans decreased in 2003 compared to 2002 as production volumes for residential mortgages held for sale slowed during the latter part of 2003 and pricing spreads began to shrink in response to changing competitive market factors.

The Corporation s credit quality saw additional improvement in 2003 which was indicative of the Corporation s diligence in credit underwriting and monitoring procedures, as well as the Corporation s focus on identifying and limiting credit concentrations. The positive trends in credit quality also reflect the general stability of the economy in the seven-state region where the Corporation operates.

During the second half of 2003, the Corporation strategically reduced the size of its balance sheet as part of a plan to decrease certain residential mortgage loan and available-for-sale securities portfolios that were lower margin contributors to net interest income. In addition to decreasing lower-yielding assets, a portion of the

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advances from the FHLB was paid down. As a related part of this strategy, the Corporation sold certain available-for-sale securities resulting in net gains realized to partially offset the recognition of a $29.4 million loss on the termination of certain interest rate swap agreements that were previously hedging the FHLB debt that was paid down. The Corporation also executed FHLB debt restructuring strategies in the fourth quarter of 2003 that favorably impacted net interest margin. The reduction in the size of the balance sheet also resulted in a decrease to required levels of regulatory capital allowing management to continue repurchasing approximately 3.8 million shares of the Corporation s common stock in 2003.

Critical Accounting Estimates

The MD&A, and disclosures included within this Form 10-K Annual Report, are based on the Corporation s audited consolidated financial statements. These statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The significant accounting policies of the Corporation are described in Note 1 of the consolidated financial statements. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an ongoing basis, management evaluates the estimates used, including the adequacy of allowances for loan losses, valuation of mortgage-servicing rights and contingencies. Estimates are based upon historical experience, current economic conditions and other factors that management considers reasonable under the circumstances. These estimates result in judgments regarding the carrying values of assets and liabilities where these values are not readily available from other sources as well as assessing and identifying the accounting treatments of commitments and contingencies. Actual results may differ from these estimates under different assumptions or conditions. The following critical accounting policies involve the more significant judgments and assumptions used in the preparation of the consolidated financial statements.

Allowance for Loan Losses and Allowance for Unfunded Loan Commitments and Letters of Credit

The allowance for loan losses and the allowance for unfunded loan commitments and letters of credit represents management s best estimate of probable losses inherent in the loan portfolio and unfunded credit facilities as of the balance sheet date. The adequacy of the allowances is regularly evaluated and is subject to numerous estimates and applications of judgment. The allowance for loan losses is measured by estimating two primary elements. The first element is an allocated allowance established for specifically identified loans that are evaluated individually for impairment. A specific loan is considered impaired when, based on current information and events, it is probable that the Corporation will be unable to collect the scheduled payments of principal and interest, when due, according to the contractual terms of the loan agreement. Impairment is measured by (i) the fair value of the collateral if the loan is collateral dependent (the primary method used by the Corporation), (ii) the present value of expected future cash flows, or (iii) the loan s observable market price. The second element is an estimated allowance established for impairment on each of the Corporation s pools of outstanding loans. The determination of the allowance for unfunded commitments and letters of credit is based on periodic evaluations of the unfunded credit facilities including an assessment of the probability of commitment usage, credit risk factors for similar types of loans outstanding and the terms of the unfunded credit facilities.

The estimated allowances for loan losses and unfunded loan commitments and letters of credit are based on several analysis factors including the Corporation s past loss experience, economic and business conditions that may affect the borrower s ability to pay, geographic and industry concentrations, composition of the loan portfolio, credit quality and delinquency trends, regular examinations of specific problem loans by the Corporation s credit review team, the overall portfolio quality and market conditions in the Corporation s lending areas, and known and inherent risks in each of the portfolios. These evaluations are inherently subjective because, while they are based on objective data (delinquency trends, portfolio composition, loan grading and other data), it is the interpretation of that data by management that ultimately determines the estimate of the appropriate allowance level. Due to the interplay of the variety of factors that impact the estimated allowances, a significant change in a single factor generally may not result in a considerable change in the overall required allowance levels. Additionally, while the allowance estimate attempts to measure the impairment inherent in the loan portfolio and in unfunded credit facilities at the balance sheet date, its adequacy is uncertain and will ultimately be dependent upon how conditions existing at the balance sheet date impact the loans in the future. Consequently, these estimates require revisions as new or changed information becomes available.

A significant portion of the Corporation s loans are collateralized by residential or commercial real estate. Therefore, the collectibility of such loans is susceptible to changes in prevailing real estate market conditions and other factors, which can cause the fair value of the collateral to decline below the loan balance. If it becomes necessary to initiate foreclosure on real estate collateralizing a loan, a new appraisal is obtained to determine if the market value of the underlying collateral has declined to justify a charge-off of the loan. Recoveries of loan charge-offs occur when loan payments are received on the deficient loan in excess of the remaining recorded book balance of the loan. Upon foreclosure and conversion of the loan into real estate owned, the Corporation may realize income through the disposition of such real estate when the sale proceeds exceed the carrying value of the real estate.

Although management believes that the Corporation s allowances for loan losses and unfunded loan commitments and letters of credit are adequate to reflect the risk inherent in its loan portfolios, there can be no assurance that the Corporation will not experience increases in its nonperforming assets, that it will not increase the level of its allowances in the future or that significant provisions for credit losses will not be required based on factors such as deterioration in market conditions, changes in borrowers financial conditions, delinquencies and defaults. In addition, regulatory agencies review the adequacy of the allowances on a regular basis as an integral part of their examination process. Such agencies may require additions to the allowances based on their judgments of information available to them at the time of their examinations.

Mortgage Servicing Rights

Mortgage servicing rights are recorded based on the cost of acquiring the right to service mortgage loans or the allocated fair value of servicing rights retained on loans originated by the Bank and subsequently sold in the secondary market. These costs are initially capitalized and then amortized in proportion to, and over the period of, estimated net servicing revenues. Projected net servicing revenues are based on the estimated future balance of the underlying mortgage loan portfolio which decreases over time from scheduled loan amortization and prepayments. Future prepayment rates are estimated based on data from third party sources and relevant characteristics of the servicing portfolio, such as loan types, interest rate stratification and recent prepayment experience, as well as current interest rate levels, market forecasts and other economic conditions.

The Corporation records mortgage servicing rights at the lower of carrying value or fair value for individual stratums with similar risk characteristics. The determination of fair value is an important estimate. Since mortgage servicing rights are not quoted in an active market, the fair value of mortgage servicing rights is determined using a software model which factors in the calculation of the present value of estimated future cash flows and incorporates assumptions that market participants would use in their estimates of values. Among these assumptions are the overall level of mortgage interest rates, the expected rate of prepayment activity on the underlying loans, estimated servicing costs, the level of liquidity in the servicing trading market, the relative strength of supply and demand in the market, the number and quality of servicing market participants at any given point in time, and the market s overall required return for other financial instruments of similar risk. These assumptions may be difficult to measure and bear the risk of change due to their subjective nature. Management also uses third party estimates of prepayment speeds and maintains relationships with servicing brokers to keep abreast of any market developments which may impact the value of this asset. Furthermore, on a periodic basis, management of the Corporation obtains an independent valuation report for comparison to the valuation results of the software model. See Note 7 Mortgage Banking Activities of this Report for a sensitivity analysis of how changes in prepayment speeds and discount rates affect the fair value of mortgage servicing rights.

Derivative Financial Instruments

Derivatives are recognized as either assets or liabilities in the consolidated statement of financial condition and measured at fair value. If certain conditions are met, a derivative may be specifically designated as a hedge. For a derivative designated as hedging the exposure to variable cash flows of a forecasted transaction (referred to as a cash flow hedge), the effective portion of the derivative s gain or loss is initially reported as a component of accumulated other comprehensive income and subsequently reclassified into earnings when the forecasted transaction affects earnings. The ineffective portion of the gain or loss is reported in earnings immediately. For a derivative designated as hedging the exposure to changes in fair value of an asset or liability (referred to as a fair value hedge), any gain or loss associated with the derivative is reported in earnings along with the change in fair value of the asset or liability being hedged. For a derivative not designated as a hedging instrument, the gain or loss is recognized in earnings in the period of change. For purposes of measuring fair value and the resulting gain or loss on derivatives and hedged items, when applicable, the Corporation uses various methods depending on the nature of the derivative or hedged item such as quotes obtained from independent pricing services, valuation models of independent pricing services with known factors put into the model, or software models utilizing assumptions or data obtained from independent sources. Changes in market conditions and actual liquidation experience may result in additional valuation adjustments that could impact earnings in future periods.

Segment Reporting

Operating Results by Segment

The Corporation s operations consist of four lines of business for management reporting purposes. These lines of business are Commercial Banking, Retail Banking, Mortgage Banking and Treasury. See Note 20 Segment Information for additional information on the Corporation s lines of business including tabular results of operations for the years ended December 31, 2004, 2003 and 2002. The financial information presented does not necessarily represent results of operations or financial condition as if the lines of business were independent companies. Results of operations for each line of business are derived from management s internal reporting system used to measure the performance of the segments and the Corporation in total. This management reporting system and the results of operations and financial condition by reported line of business may not be in accordance with accounting principles generally accepted in the United States.

Commercial Banking

The Commercial Banking segment involves the origination of commercial operating loans, commercial real estate loans, commercial and residential construction loans, agricultural loans, small business loans and dealer services. Also included in this segment are commercial demand deposits and cash management products and services. The Commercial Banking segment reported net income of $48.1 million for the year ended December 31, 2004, compared to $34.8 million and $33.4 million, respectively, for the years ended December 31, 2003 and 2002.

For the year ended December 31, 2004, net interest income increased $12.5 million compared to the year ended December 31, 2003. This increase in net interest income is due primarily to a $344.1 million increase in the average balance of the commercial loan portfolio during 2004 over 2003. This increase is due to the continued sales efforts of the commercial lenders resulting from the strategic focus to expand commercial and industrial lending. The provision for credit losses decreased $339,000 for 2004 compared to 2003. The primary reason for the provision decrease was a reduction in the anticipated loss percentage for the segment due to changes in the portfolio mix. Total other income increased $12.8 million in 2004. This increase is primarily due to the Treasury segment charging the Commercial Banking segment a break funding fee totaling $5.6 million in 2004 compared to $17.8 million in 2003, relating to commercial real estate loans paying off in full prior to maturity. This intersegment charge was implemented in 2003. In addition, other income from commercial deposits, primarily from cash management services, increased $1.4 million in 2004. Offsetting these increases was a decrease of $700,000 in loan prepayment fees relating to a reduction in early payoffs. Total other expense increased $3.6 million for 2004 compared to 2003 driven mostly by a $1.0 million increase in new production costs relating to increased production and a $1.5 million increase in allocated overhead cost attributable to increases in this segment s revenues.

For the year ended December 31, 2003, net interest income increased $23.9 million compared to 2002. This increase in net interest income was due primarily to the $315 million increase in the average balance of the

commercial loan portfolio during 2003 over 2002. The provision for credit losses decreased $570,000 due to a reduction in the anticipated loss percentage compared to 2002. Total other income decreased $12.2 million for 2003 compared to 2002. This decrease was primarily due to the Treasury segment charging the Commercial Banking segment a break funding fee totaling $17.8 million relating to commercial real estate loans paying off in full prior to maturity which was implemented in 2003. Partially offsetting this charge was an increase in other income from cash management services which increased $1.7 million in 2003. Total other expense increased $11.2 million for 2003 compared to 2002 primarily due to (i) the $8.4 million reclassification of commercial deposit cost entirely to the Commercial segment for 2003 while this segment only had 50% of the cost in 2002, (ii) increased production incentive bonuses and (iii) more full-time equivalent employees during the year ended December 31, 2003, compared to 2002.

Retail Banking

The Retail Banking segment involves a variety of traditional banking and financial services, including the origination of residential mortgage loans through the Bank s branch network and the sale of these mortgage loans to the Treasury segment or the Mortgage Banking segment. In addition, rights to service mortgage loans are sold to the Mortgage Banking segment. Other core Retail Banking services include consumer checking, savings and certificate of deposit accounts (regular and retirement); consumer loans for home equity, autos, secured and unsecured purposes, as well as credit cards; and other ancillary retail banking services including overdraft protection, electronic and telephone bill-paying and cash advances. Also included in this segment are insurance and securities brokerage services. The Retail Banking segment reported net income of $11.3 million for the year ended December 31, 2004, compared to $9.2 million and $15.5 million for the years ended December 31, 2003 and 2002.

Net interest income increased $8.8 million for 2004 compared to 2003. This increase in net interest income is primarily due to an improvement in the transfer pricing spread on certificates of deposit which accounted for $7.6 million of this increase. Overall, the transfer pricing spread for the segment improved by 29 basis points for 2004 compared to 2003. In addition, net interest income on home equity loans increased $3.5 million due to a $99.0 million increase in the average balance of the portfolio. The provision for credit losses increased $456,000 for 2004 compared to 2003 due to an increase in home equity loans. Total other income decreased $20.5 million for 2004 compared to 2003. The decrease was primarily related to the $28.3 million decrease in retail mortgage loan income due to a $1.2 billion decrease in originations of residential mortgage loans. This decrease was offset by an $8.5 million increase in nonsufficient funds and overdraft charges comparing 2004 to 2003 due to the implementation of an enhanced authorization matrix for electronic transactions, an increase in the number of accounts and a fee increase during 2004. Total other expense decreased $15.3 million for 2004 compared to 2003. This decrease was primarily due to a $6.9 million decrease in incentive pay comparing 2004 to 2003 based on lower mortgage origination volumes. In addition, the termination of the cash back rebate program on debit card purchases decreased 2004 expenses $1.9 million compared to 2003 and allocated overhead and support area cost decreased $5.3 million due to lower overall revenue and certain cost control initiatives.

Net interest income decreased $22.4 million for 2003 compared to 2002. This decrease in net interest income was primarily due to a lower transfer pricing spread on consumer deposits and the reallocation of commercial deposits to the Commercial segment in 2003. The spread on consumer deposits for December 2003 was 4.03% compared to 5.33% for December 2002. The movement of commercial deposits to the Commercial segment reduced net interest income $4.5 million. The provision for credit losses decreased $2.4 million for 2003 compared to 2002 due to a reduction in the anticipated loss percentage for home equity loans. Total other income increased $5.4 million for 2003 compared to 2002 primarily due to the $626 million increase in mortgage loan volume. This was offset by a $1.7 million decrease in credit life income due to a change in federal regulations limiting premiums on loans. In addition, reimbursed loan fees collected were reclassified from other income in 2002 to other expense in 2003. These fees totaled $1.8 million in 2002. Total other expense decreased $4.0 million for 2003 compared to 2002. The primary reasons for this decrease are the $8.4 million reclassification of costs associated with commercial deposits being allocated entirely to the

Commercial segment for 2003 while the segment was charged 50% of the cost in 2002, reimbursed loan fees reclassified from other income in 2002 to other expense in 2003 totaling $1.4 million and a $700,000 decrease in title search fees due to the segment switching to the use of third party title insurance in 2003 for home equity loans. In addition, there was a $500,000 decrease in fraud loss due to increased fraud monitoring activities in 2003 and a $500,000 decrease in item processing cost in 2003 due to less paper items being processed for checking accounts. These decreases were offset by an increase of $6 million in compensation due to higher staffing of the branches over the summer, a $2.2 million increase in advertising cost for the Bank s promotion to provide cash back on debit card activity and a $1.3 million increase in facilities expense due to additional maintenance done to improve the appearance of the branches.

Mortgage Banking

The Mortgage Banking segment involves the acquisition of certain correspondent, broker and originated residential mortgage loans, the sale of these mortgage loans in the secondary mortgage market and to the Treasury segment, the purchase and origination of rights to service mortgage loans, and the servicing of mortgage loans for the Treasury segment and outside investors. The Mortgage Banking segment reported a net loss of $17.9 million for the year ended December 31, 2004, compared to net loss of $26.8 million and net income of $35.7 million, respectively, for the years ended December 31, 2003 and 2002.

For 2004, net interest income decreased $27.1 million compared to the year ended December 31, 2003. This decrease in net interest income is due to decreases in its custodial cash earnings that were credited using an internal cost of funds rate and net interest income from mortgage loans in the warehouse. The custodial cash earnings decreased due to decreases in escrow balances resulting from the lower volume of mortgage refinancing activity and mortgage originations. The average balance of the warehouse decreased $411.6 million for 2004 compared to 2003 primarily due to a reduction in mortgage originations. Total mortgage loan production for 2004 was $2.8 billion compared to $6.5 billion for 2003. Total other income increased $32.7 million for 2004 primarily due to a decrease of $27.8 million in amortization of mortgage servicing rights in 2004. This was due to the payoff of $3.5 billion in principal balances in the loan servicing portfolio for 2004 compared to $7.8 billion in 2003. In addition, in 2003 a $14.8 million intersegment charge for impairment of mortgage servicing rights on originated loans and purchased servicing was received from the Treasury segment with no charge in 2004 due to improved pricing of servicing rights. This was offset by a decrease of $8.3 million on the net gains on sales due to the unfavorable interest rate market conditions in 2004. Total other expense decreased $8.1 million for the year ended December 31, 2004, compared to 2003. The decrease is due to decreased mortgage loan origination costs of $2.6 million over 2003 due to reduced originations and $5.5 million decrease in mortgage servicing costs due to the reduction in loan payoffs over 2003.

For 2003, net interest income increased $9.9 million compared to the year ended December 31, 2002. This increase in net interest income comparing the respective years was primarily due to increases in its custodial cash earnings that were credited using an internal cost of funds rate and higher warehouse loan balances. The custodial cash earnings increased due to increases in escrow balances primarily from the higher volume of mortgage refinancing activity and the increase in the average escrow balance resulting from the purchase of bulk loan servicing totaling $1.9 million during the latter half of 2002. Total other income decreased $98.4 million for 2003 primarily due to an increase of $49.5 million in amortization of mortgage servicing rights in 2003. This was due to the payoff of $7.8 billion in principal balances in the loan servicing portfolio and a $14.8 million intersegment charge for impairment of mortgage servicing rights on originated loans and purchased servicing. Also, a decrease of $5.4 million on the net gains on sales of warehouse loans was due to the competitive interest rate market conditions in 2003. Total other expense increased $10.2 million for the year ended December 31, 2003, compared to 2002 due to increased loan origination costs from mortgage loan originations of $611 million over the 2002 activity and increased servicing costs due to mid month loan payoffs, which increased $5.8 million in 2003 over 2002. The change in net income for the Mortgage Banking segment was also significantly affected by a shift from income tax expense of $21.1 million in 2002 to an income tax benefit of $14.7 million for 2003.

Treasury and Other

The Treasury segment is responsible for managing corporate interest rate risk through asset and liability management strategies. The Treasury segment manages the Corporation s single-family residential mortgage loan portfolio, mortgage servicing rights portfolio, investment and mortgage-backed securities, wholesale deposits, advances from the FHLB and all other borrowings. The Treasury segment reported net income of $34.9 million for year ended December 31, 2004, compared to net income of $71.8 million and $22.4 million, respectively, for the years ended December 31, 2003 and 2002.

Net interest income increased $2.4 million for 2004 compared to 2003 due to a $7.5 million increase from higher yields earned on the Treasury investment portfolio offset by a decrease of $5.1 million in the mortgage loan portfolio due to a $531.5 million reduction in the average size of the portfolio comparing 2004 to 2003. The provision for credit losses decreased $8.1 million for 2004 compared to 2003 due primarily to an overall reduction in the Bank s anticipated loss percentage which impacted the allocation of the provision to the Treasury segment. Total other income decreased $61.2 million for 2004 compared to 2003 due to a decrease in intersegment loan prepayment fees totaling $12.2 million generated from the Commercial Banking segment due to lower loan prepayments. In addition, intersegment revenue related to the immediate impairment of the mortgage servicing rights purchased during the year from the Mortgage Banking and Retail Banking segments decreased $18.6 million. Also contributing to the decrease were reductions in net gains and losses on sales of securities and changes in fair values of derivatives totaling $36.1 million in 2004 compared to 2003. The gains and losses on the sales of available-for-sale investment securities are recognized as part of management s strategy to partially offset valuation adjustments in the mortgage servicing rights portfolio. These decreases were offset by a $5.9 million increase in income from bank owned life insurance. Total other expense increased $11.1 million for 2004 compared to 2003, primarily due to a decrease in deferred expense from mortgage loan originations.

Net interest income decreased $63.5 million for 2003 compared to 2002 due primarily to the lower yields earned on the Treasury segment s total interest-earning assets portfolio and a reduction in the average size of the portfolio comparing 2003 to 2002. The provision for credit losses decreased $5.6 million for 2003 compared to 2002 due primarily to an overall reduction in the anticipated loss percentage for the Bank comparing the respective periods. Total other income increased $131.4 million for 2003 primarily as a result of the credit relating to the net valuation recovery for mortgage servicing rights totaling $49.6 million, intersegment loan prepayment fees totaling $17.8 million generated from the Commercial Banking segment (which was implemented in 2003) and the intersegment revenue totaling $18.6 million in 2003 from the Mortgage Banking and Retail Banking segments (also implemented in 2003) from the immediate impairment of the mortgage servicing rights purchased during 2003. These increases to total other income were partially offset by decreases in net gains and losses on sales of securities and changes in fair values of derivatives totaling $55 million compared to 2002. Total other expense for 2003 is a net credit balance of $355,000 compared to expense of $6.5 million for 2002 due to the increase in deferred expense from mortgage loan originations. The change in net income for the Treasury segment was also impacted by a shift from an income tax benefit of $4.6 million in 2002 to an income tax expense of $26.3 million for 2003.

CONSOLIDATED STATEMENT OF INCOME ANALYSIS

Net Interest Income

Throughout the second half of 2004, the Federal Reserve gradually increased the targeted Federal Funds rate from 1.00% to 2.25% which triggered increases in overall short-term interest rates, while long-term interest rates were nearly unchanged during 2004. This flattening of the yield curve and the overall low interest rate environment resulted in continued pressure on the Corporation s net interest margin and its inability to improve its net interest income during 2004.

Net interest income, before adjustment to a taxable-equivalent basis, totaled $272.3 million for 2004, compared to $275.6 million for 2003, a decrease of $3.3 million. Net interest income for 2004, on a taxable-equivalent basis, decreased by $3.4 million from 2003, while the Corporation s net interest rate spread improved by 21 basis points (inclusive of the effects of noninterest-bearing deposits). The improvement in the net interest rate spread resulted primarily from the reduction in the cost of interest-bearing liabilities reflecting the benefits of the termination and maturity of certain interest rate swap agreements from September 2003 through September 2004. Total interest income decreased $75.4 million comparing the respective periods primarily due to a decrease in the average balance of residential mortgage loans held for sale and in the Corporation s portfolio in response to a slowdown in refinancing and new loan origination activity that occurred during 2004. Additionally, reductions in yields on the Corporation s real estate and consumer loan portfolios, primarily during the first half of 2004 when mortgage interest rates resumed a downward trend, contributed to this decrease. Although the volume of mortgage-backed securities and investments decreased as a result of management s strategic decision to decrease these portfolios, the yields on these portfolios improved partially due to the sale of the lower-yielding securities. Total interest expense decreased $71.9 million comparing periods largely due to a reduction in the average balance of higher-costing FHLB advances and the benefits derived from the previously mentioned termination and maturity of certain interest rate swap agreements from September 2003 through September 2004. The decrease in FHLB advances and the termination of certain interest rate swap agreements were related to management s execution of debt restructuring and derivative strategies during the latter half of 2003 to improve net interest rate spreads and the net yield on interest-earning assets. Decreases in rates paid on deposits and management s planned reduction in the balances of certificates of deposit also contributed to the overall reduction in the cost of interest-bearing liabilities, although the benefits provided by noninterest-bearing deposits decreased due to reduced custodial escrow balances associated with the reduction in loans serviced for others compared to last year. The cost of interest-bearing liabilities also continues to reflect the effects of certain derivative positions, which have effectively locked in long-term fixed rates of interest at costs higher than current market interest rates. See the section entitled Asset/Liability Management of this MD&A and Note 13 Derivative Financial Instruments of this Report for a discussion of the Corporation s use of derivative financial instruments in managing its interest rate risk.

Net interest income, before adjustment to a taxable-equivalent basis, totaled $275.6 million for 2003, compared to $327.7 million for 2002, a decrease of $52.1 million. Net interest income on a taxable-equivalent basis totaled $282.3 million for 2003 compared to $334.4 million for 2002. During 2003 and 2002, the net interest rate spreads inclusive of noninterest-bearing deposits were 2.49% and 2.80%, respectively, a decrease of 31 basis points comparing periods; and the net yields on interest-earning assets were 2.44% and 2.79%, respectively, a decrease of 35 basis points. The decreases in the interest rate spread and the net yield earned on interest-earning assets comparing 2003 to 2002 were due primarily to an 86 basis point decrease in the yield earned on interest-earning assets resulting from historically low market interest rates driven by the Federal Reserve s reduction of the targeted Federal Funds rate to the lowest level in over 40 years. Earning assets contractually repriced downward during 2003 and higher-yielding assets were replaced with lower-yielding assets as the Corporation s customers took advantage of the historically low interest rates to originate or refinance loans. The decrease in yield was further magnified by the acceleration of amortization of net deferred costs and premiums on mortgage loans and mortgage-backed securities, which are fully amortized against interest income when a loan or mortgage-backed security pays off. The decrease in yield for interest-earning assets was partially offset by a 55 basis point decline in the rate incurred on total deposits and interest-bearing liabilities. This decrease was also due to the downward repricing of interest-bearing liabilities in response to lower market interest rates, but at a slower rate than the repricing of interest-earning assets. The cost of interest-bearing liabilities also reflects the effects of certain derivative positions, which effectively locked in long-term fixed rates of interest at costs higher than current market interest rates.

Future trends in interest rate spreads and net interest income will be dependent upon and influenced by changes in short-term and long-term market interest rates among other factors that are not in the Corporation s control. Management anticipates that if the yield curve continues to flatten in 2005, the Corporation s net interest spread would be unfavorably impacted. Management s continued focus on changing the mix of the loan portfolio to carry a greater concentration of higher-yielding commercial operating and consumer loans, as well as growth in lower-costing core deposits, should result in higher net interest income, absent any potential pressures due to adverse interest rate or yield curve shifts.

The following table presents average interest-earning and non-interest earning assets and average interest-bearing and non-interest bearing liabilities and stockholders equity, interest income and interest expense, and average yields earned on interest-earning assets and average rates incurred on total deposits and interest-bearing liabilities during the years ended December 31:

TABLE 1

	2004			2003			2002		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
	(Dollars in Thousands)								
Interest-earning assets:									
Loans-(1) (2)									
Residential real estate	$ 3,431,913	$ 172,646	5.03%	$ 4,413,645	$ 242,915	5.50%	$ 4,799,413	$ 304,460	6.34%
Commercial real estate	1,937,102	124,657	6.38	1,870,574	130,495	6.93	1,707,469	136,503	7.94
Construction	578,562	42,037	7.15	492,376	35,571	7.13	519,790	39,469	7.49
Commercial operating and other (3)	548,720	30,751	5.52	433,873	24,298	5.53	283,473	19,363	6.74
Consumer home equity	924,563	58,552	6.32	826,128	56,701	6.86	784,117	60,875	7.76
Consumer other	724,332	45,292	6.24	667,725	47,544	7.12	587,139	48,150	8.20
Total loans (2)	8,145,192	473,935	5.79	8,704,321	537,524	6.16	8,681,401	608,820	6.99
Mortgage-backed securities	1,141,453	45,238	3.96	1,362,145	49,836	3.66	1,799,174	93,047	5.17
Investments (2)	1,285,192	62,922	4.88	1,490,856	70,107	4.69	1,494,011	81,887	5.48
Total interest-earning assets (2)	10,571,837	$ 582,095	5.48%	11,557,322	$ 657,467	5.67%	11,974,586	$ 783,754	6.53%
Noninterest-earning assets	1,180,220			1,248,143			1,200,976		
Total assets	$ 11,752,057			$ 12,805,465			$ 13,175,562		
Noninterest-bearing deposits	$ 960,874			$ 1,059,562			$ 728,774		
Interest-bearing deposits:									
Interest-bearing checking	599,758	$ 1,688	.28%	540,489	$ 2,523	.47%	549,767	$ 1,364	.25%
Savings (4)	1,251,434	41,533	3.31	1,416,203	60,226	4.25	1,802,558	77,896	4.32
Money market	1,169,488	16,372	1.40	893,820	14,137	1.58	314,243	4,144	1.32
Interest-bearing core deposits	3,020,680	59,593	1.97	2,850,512	76,886	2.70	2,666,568	83,404	3.13
Certificates of deposit	2,428,907	55,393	2.27	2,719,225	70,204	2.58	2,862,960	96,192	3.36
Total interest-bearing deposits	5,449,587	114,986	2.10	5,569,737	147,090	2.64	5,529,528	179,596	3.25
Total deposits	6,410,461	114,986	1.79	6,629,299	147,090	2.22	6,258,302	179,596	2.87
Advances from FHLB (5)	3,900,623	174,229	4.39	4,542,015	210,045	4.56	5,204,501	243,710	4.68
Other borrowings	486,570	14,029	2.84	526,397	18,039	3.38	581,838	26,019	4.41
Total interest-bearing liabilities	9,836,780	303,244	3.05	10,638,149	375,174	3.50	11,315,867	449,325	3.94
Net earnings balance, net interest income and net interest rate spread (2)	$ 735,057	$ 278,851	2.43%	$ 919,173	$ 282,293	2.17%	$ 658,719	$ 334,429	2.59%
Total deposits and interest-bearing liabilities	$ 10,797,654	$ 303,244	2.78%	$ 11,697,711	$ 375,174	3.18%	$ 12,044,641	$ 449,325	3.73%
Other noninterest-bearing liabilities	197,793			366,417			372,262		
Stockholders equity	756,610			741,337			758,659		

Total liabilities and stockholders equity	$ 11,752,057			$ 12,805,465			$ 13,175,562		
Net interest income and net interest rate spread including noninterest-bearing deposits (2)		$ 278,851	2.70%		$ 282,293	2.49%		$ 334,429	2.80%
Net yield on interest-earning assets (2)			2.64%			2.44%			2.79%

(1) Includes nonaccruing loans averaging $47.2 million, $65.8 million and $76.2 million for the respective years at a yield of zero percent.

(2) Includes taxable-equivalent adjustments totaling $6.6 million, $6.7 million and $6.7 million, respectively, related to tax-exempt income on certain loans and investments for 2004, 2003 and 2002 using the statutory tax rate of 35%.

(3) In addition to commercial operating loans, includes small business, agricultural and Nebraska Investment Finance Authority loans.

(4) Includes interest expense on derivative-related transactions totaling $28.4 million, $48.6 million and $50.4 million, respectively, for 2004, 2003 and 2002.

(5) Includes interest expense incurred on derivative-related transactions totaling $46.9 million, $72.2 million and $66.0 million, respectively, for 2004, 2003 and 2002.

The following table presents the dollar amount of changes in interest income and expense for each major component of interest-earning assets and interest-bearing liabilities, and the amount of change in each attributable to: (i) changes in volume (change in volume multiplied by prior year rate), and (ii) change in rate (change in rate multiplied by prior year volume). The net change attributable to changes in both volume and rate has been allocated proportionately to the change due to volume and the change due to rate. The net change between years in interest expense from interest rate swap and swaption agreements used to hedge savings and FHLB advances is classified in the rate column.

TABLE 2

	2004 Compared to 2003			2003 Compared to 2002		
	Increase (Decrease) Due to			Increase (Decrease) Due to		
	Volume	Rate	Total	Volume	Rate	Total
	(In Thousands)					
Interest income on loans and investments:						
Residential real estate	$ (50,682)	$ (19,587)	$ (70,269)	$ (23,247)	$ (38,298)	$ (61,545)
Commercial real estate	4,654	(10,492)	(5,838)	12,413	(18,421)	(6,008)
Construction	6,358	108	6,466	(2,029)	(1,869)	(3,898)
Commercial operating and other	6,497	(44)	6,453	8,886	(3,951)	4,935
Consumer home equity	6,529	(4,678)	1,851	3,142	(7,316)	(4,174)
Consumer other	3,878	(6,130)	(2,252)	6,164	(6,770)	(606)
Mortgage-backed securities	(8,518)	3,920	(4,598)	(19,602)	(23,609)	(43,211)
Investments	(9,961)	2,776	(7,185)	(171)	(11,609)	(11,780)
Total interest income	(41,245)	(34,127)	(75,372)	(14,444)	(111,843)	(126,287)
Interest expense on deposits and other debt:						
Interest-bearing checking	253	(1,088)	(835)	(23)	1,182	1,159
Savings	(1,451)	(17,242)	(18,693)	(5,038)	(12,632)	(17,670)
Money market	4,022	(1,787)	2,235	9,018	975	9,993
Certificates of deposit	(7,001)	(7,810)	(14,811)	(4,630)	(21,358)	(25,988)
Advances from FHLB	(24,334)	(11,482)	(35,816)	(20,010)	(13,655)	(33,665)
Other borrowings	(1,285)	(2,725)	(4,010)	(2,318)	(5,662)	(7,980)
Total interest expense	(29,796)	(42,134)	(71,930)	(23,001)	(51,150)	(74,151)
Effect on net interest income	$ (11,449)	$ 8,007	$ (3,442)	$ 8,557	$ (60,693)	$ (52,136)

Provision for Credit Losses

The Corporation recorded provisions for credit losses totaling $14.0 million, $22.0 million and $31.0 million for 2004, 2003 and 2002, respectively. The decreases in the provision for credit losses relate to improvements in general economic conditions and favorable asset quality trends due to management s continued focus on prudent loan underwriting, active monitoring of loans and aggressive collection efforts. Additionally, the decreases in the provision for credit losses reflect the declines in the Corporation s level of nonperforming loans to $36.9 million at December 31, 2004, from $55.9 million and $72.4 million at December 31, 2003 and 2002, respectively. See the Asset Quality section in the MD&A of this Report for additional information.

Non-Interest Income

Retail Fees and Charges

The primary source of retail fees is customer charges for retail financial services such as checking account fees and service charges, charges for nonsufficient checks or uncollected funds, stop payment fees, overdraft protection fees, transaction fees for personal checking, interchange revenue from use of debit and credit cards and automatic teller machine services. The following table presents the major components of retail fees and charges for the years ended December 31:

TABLE 3

	2004	2003	2002
		(In Thousands)	
Nonsufficient fund charges and overdraft fees	$ 42,287	$ 33,233	$ 31,320
Service charges	11,208	11,665	12,042
Debit and credit card fees, net	8,013	8,135	7,506
Transaction fees and other	4,673	4,765	4,411
Total retail fees and charges	$ 66,181	$ 57,798	$ 55,279

The net increase in nonsufficient fund charges and overdraft fees totaling $9.1 million comparing 2004 to 2003 is primarily the result of a change in the Corporation s policy and practice beginning in March 2004 related to accepting more overdraft transactions presented by the Bank s customers and an increase in the number of customers. Fees charged on nonsufficient funds and overdraft transactions were increased effective July 1, 2004, which also contributed to the overall increase in retail fees and charges comparing 2004 to 2003. The net decrease in debit and credit card fees totaling $122,000 comparing 2004 to 2003 is primarily due to the elimination of the VISA debit annual fee charged to customers during the third quarter of 2004. Another factor contributing to the decrease was the reduction of interchange fees for debit card purchases effective August 1, 2003, due to a third-party settlement of debit card litigation with VISA Inc. to which the Corporation was not a party. As a result of this litigation, the interchange rate paid for debit card transactions was reduced and, therefore, the Corporation generated less fee income per VISA debit card transaction in 2004 compared to fee income generated through July 31, 2003. These decreases were partially offset by an increase in the number of accounts and the dollar amounts of transactions processed comparing the respective periods.

The net increase in nonsufficient fund and overdraft fees totaling $1.9 million comparing 2003 to 2002 is due primarily to increases in transaction volumes and a 5.6% increase in the number of checking accounts. The increase in debit and credit card fees of $629,000 comparing 2003 to 2002 is due to an increase in the number of accounts and the dollar amounts of transactions comparing the respective periods. These increases were partially offset by a reduction of interchange fees for debit card purchases effective August 1, 2003, due to the aforementioned third-party settlement of debit card litigation with VISA Inc. which reduced the interchange rate paid for debit card transactions.

Loan Servicing Fees, Net of Mortgage Servicing Rights Amortization

The following table presents the major components of loan servicing fees for the years ended December 31 and the amount of loans serviced for other institutions at December 31:

TABLE 4

	2004	2003	2002
		(In Thousands)	
Revenue:			
Loan servicing fees	$ 37,375	$ 38,341	$ 32,580

Late loan payment fees	6,154	6,709	6,544
Total revenue	43,529	45,050	39,124
Amortization of mortgage servicing rights	(48,446)	(75,045)	(31,025)
Loan servicing fees, net	$ (4,917)	$ (29,995)	$ 8,099
Mortgage loans serviced by the Bank at December 31:			
For other institutions	$ 10,640,028	$ 11,439,187	$ 11,531,755
For loans owned by the Bank	2,749,939	3,559,050	4,144,861
Total mortgage loans serviced by the Bank at December 31	$ 13,389,967	$ 14,998,237	$ 15,676,616

The amount of revenue generated from loan servicing fees, and change in comparing periods, is primarily due to the average size of the Corporation s portfolio of mortgage loans serviced for other institutions and the level of rates for service fees collected. Revenue from loan servicing fees is reduced by the amortization expense of mortgage servicing rights and, as necessary, adjusted for changes to the valuation allowance for impairment. The loan servicing fees category also includes fees collected for late loan payments for all loans serviced by the Bank. The net decrease in revenue from loan servicing fees comparing 2004 to 2003 is primarily due to a lower balance of loans serviced for others, net of a higher average service fee rate, which increased to .34% of outstanding loan balances for 2004 compared to .33% for 2003. Mortgage servicing rights are amortized in proportion to and over the period of estimated net servicing income. The lower amortization of mortgage servicing rights for 2004 compared to 2003 reflects slower loan prepayments comparing the respective periods. Management anticipates lower levels of mortgage servicing rights amortization during 2005 in anticipation of decreased loan prepayment speeds in 2005.

The increase in revenues from loan servicing fees comparing 2003 to 2002 is due to a higher average balance of mortgage loans serviced for others of $11.5 billion during 2003 compared to $9.7 billion during 2002. The higher average balance of loans serviced for others related to the purchases of loan servicing portfolios of $2.0 billion during the latter part of 2002, net of a sale of servicing which occurred during the second quarter of 2003 for $501.9 million. The average service fee rate remained constant at .33% for 2003 compared to 2002. Since the expected future net servicing income cash flows were reduced as a result of a sharp increase in loan prepayments during this period of historically low interest rates, amortization expense of mortgage servicing rights was significantly increased comparing periods.

Mortgage Servicing Rights Valuation Adjustment, Net

The fair value of the Corporation s loan servicing portfolio increases as mortgage interest rates increase resulting in slower loan prepayments. Conversely, the value of the Corporation s loan servicing portfolio decreases as mortgage interest rates decline. A net valuation adjustment recovery totaling $4.3 million was recorded during 2004 as an increase to the net carrying amount of the mortgage servicing rights portfolio in response to an increase in long-term interest rates during the latter part of 2004. During 2003, a net valuation adjustment recovery totaling $28.7 million was recorded resulting from increased interest rates during the latter part of 2003, and a net valuation adjustment loss totaling $60.4 million was recorded during 2002 in response to declining interest rates. The valuation allowance on the mortgage servicing rights portfolio totaled $41.2 million, $49.3 million and $80.1 million, respectively, at December 31, 2004, 2003 and 2002. During 2004, the Corporation recorded a permanent impairment on mortgage servicing rights totaling $3.9 million. Unlike a valuation allowance, a permanent impairment reduces the carrying value of the mortgage servicing rights asset and the valuation allowance, precluding subsequent reversals.

Gain (Loss) on Sales of Securities and Changes in Fair Values of Derivatives, Net

The following transactions were recorded during the years ended December 31:

TABLE 5

	2004	2003	2002
		(In Thousands)	
Gain (loss) on sales of available-for-sale securities:			
Investment securities	$ (6,787)	$ 47,699	$ 35,365
Mortgage-backed securities		11,693	520
Net gain (loss) on sales of available-for-sale securities	(6,787)	59,392	35,885
Changes in the fair value of interest rate floor agreements not qualifying for hedge accounting	(3,184)	(3,225)	6,667
Changes in the fair value of interest rate swaption agreements not qualifying for hedge accounting	5,950		
Changes in the fair value of interest rate cap agreement not qualifying for hedge accounting	(2,134)		
Termination of interest rate swap agreements		(29,426)	
Other items, net	(64)	26	(1,969)
Subtotal	568	(32,625)	4,698
Gain (loss) on sales of securities and changes in fair values of derivatives, net	$ (6,219)	$ 26,767	$ 40,583

During 2004, the Corporation sold available-for-sale investment securities totaling $1.9 billion resulting in a pretax loss totaling $6.8 million. This pretax loss in 2004 on the sale of these investment securities was recognized to primarily offset the net valuation adjustment recovery totaling $4.3 million in the mortgage servicing rights portfolio recorded during 2004. Changes in the fair value of interest rate floor agreements and interest rate swaption agreements discussed in the following paragraph, which do not qualify for hedge accounting, also partially offset valuation adjustments recognized in the mortgage servicing rights portfolio. During 2003 and 2002, the Corporation sold available-for-sale investment and mortgage-backed securities totaling $2.1 billion and $1.1 billion, respectively, resulting in net pretax gains of $59.4 million and $35.9 million. A portion of the 2003 gain was recognized to partially offset the impact to net income caused by the recognition of a $29.4 million loss on the termination of certain swap agreements that were previously hedging FHLB advance debt that was paid down. Before these FHLB advances were paid off, the fair value loss for these interest rate swap agreements was previously recorded as a component of other comprehensive income since these swap agreements were designated as cash flow hedges. The Corporation s sales of securities recorded in 2003 also reflect net gains recognized as part of management s strategy to offset valuation adjustments in the mortgage servicing rights portfolio, continued high levels of amortization of mortgage servicing rights due to the low interest rate environment and the resulting increase in mortgage loan prepayments, and accelerated amortization of net deferred costs and premiums on mortgage loans and mortgage-backed securities. The Corporation expects to continue to offset valuation adjustments of mortgage servicing rights with securities gains and losses during 2005.

At December 31, 2004, 2003 and 2002, the Corporation had interest rate floor agreements with notional amounts totaling $1.6 billion, $1.4 billion and $1.2 billion, respectively, with net market valuation adjustment losses totaling $3.2 million for both 2004 and 2003, and a net gain totaling $6.7 million for 2002. These interest rate floor agreements are used to protect the fair value of the mortgage servicing rights portfolio to impairment exposure risk from declining interest rates. During the second quarter of 2004, the Corporation entered into three interest rate swaption agreements with notional amounts totaling $150.0 million. These swaption agreements are also used to protect the fair value of the mortgage servicing portfolio. During 2004, a net market valuation adjustment gain of $6.0 million was recorded related to these interest rate swaption agreements.

At December 31, 2004, the Corporation had an interest rate cap agreement with a notional amount totaling $100.0 million. Net market valuation adjustments were recorded during 2004 resulting in a loss totaling $2.1 million. This interest rate cap agreement is used to protect against the risk of a potential rise in interest rates.

Gain on Sales of Loans

The category in the consolidated statement of income entitled Gain on Sales of Loans includes changes in the fair values of certain derivative financial instruments (forward loan sales commitments, rate lock commitments to originate mortgage loans held for sale and call options) and changes in the fair value of hedged items (warehouse loans) in addition to net realized gains on the sales of loans. These derivative financial instruments relate to mortgage banking activities. Warehouse loans which qualify for hedge accounting are recorded at fair value with the changes in fair value reported in current earnings. Warehouse loans which do not qualify for hedge accounting are carried at the lower of cost or market. See Note 13 Derivative Financial Instruments of this Report for additional information related to derivative financial instruments.

During 2004, 2003 and 2002, mortgage loans totaling $2.7 billion, $5.1 billion and $3.4 billion, respectively, were sold. Mortgage loans are typically originated by the Corporation and sold in the secondary market. Generally, for loans originated during 2004 within the Corporation s market area, the loans were sold with loan servicing retained while certain loans originated outside of the Corporation s market area totaling $308.4 million were sold with loan servicing released. During 2004, 2003 and 2002, the Corporation recorded net gains on (i) the sales of loans and (ii) changes in the fair values of mortgage banking related derivative financial instruments and hedged items totaling $5.0 million, $23.9 million and $36.2 million, respectively. The significant decrease in the volume of loans sold during 2004 compared to 2003 and 2002 relates to reduced demand for new loan originations in 2004 compared to the record high mortgage loan production volumes that occurred in 2003 and 2002 as consumers took advantage of historically low market interest rates to refinance or originate mortgage loans. The decreases in gains on sales of loans in 2004 compared to 2003 and in 2003 compared to 2002 are primarily attributable to a significant decline in the volume of residential mortgage loans sold in 2004 and the latter part of 2003, and compressed loan pricing spreads resulting from overcapacity in the industry. Furthermore, the Corporation s implementation of guidance provided by the SEC in SAB No. 105 effective January 1, 2004, resulted in a reduction to the gain on sales of loans totaling $2.8 million for 2004. Management anticipates a continuation of 2004 levels for gains on sales of loans during 2005 primarily due to continued low expectations for mortgage loan production volumes and competitive market conditions.

Bank Owned Life Insurance

In December 2000, the Corporation invested in two BOLI policies with a total contract value of $200.0 million. In 2004, the Corporation recorded $17.5 million in net revenue from the BOLI program compared to $11.6 million and $12.7 million, respectively, during 2003 and 2002. The increase in 2004 compared to 2003 is due to an amendment signed on one of these BOLI policies effective February 25, 2004, resulting in the recognition of an asset and an increase to income totaling $5.3 million in the first quarter of 2004. The amendment allows the Corporation to receive a guaranteed payment of a certain component of the BOLI policy if there is a full and complete surrender of all outstanding certificates of the BOLI.

Other Operating Income

The following table details the major components of other operating income for the years ended December 31:

TABLE 6

	2004	**2003**	**2002**
		(In Thousands)	

Brokerage commissions	$ 8,560	$ 7,825	$ 7,460
Insurance services income	5,414	5,724	6,134
Credit life and disability commissions	1,863	890	2,544
Loan fee income	6,359	5,942	4,803
Other	6,415	7,562	7,126
Total other operating income	$ 28,611	$ 27,943	$ 28,067

Brokerage commissions for 2004 increased over 2003 primarily due to increased trade volume resulting from more favorable market conditions in 2004 compared to 2003. Insurance services income decreased in 2004 compared to 2003 due to lower sales on annuity products and lower commissions paid by insurance companies comparing 2004 to 2003. Sales of annuity products declined because of lower annuity rates offered making annuity products less attractive to customers. Credit life and disability commissions increased for 2004 compared to 2003 primarily due to higher volumes of policies written resulting from increased consumer and home equity loan volume. Loan fee income increased for 2004 compared to 2003 primarily due to a $1.7 million prepayment penalty collected in 2004 on the early pay-off of a commercial real estate loan partially offset by lower loan fee income due to decreases in certain loan volumes and related fee generation.

The increase in brokerage commissions comparing 2003 to 2002 was due to increased customer activity in the stock market as consumer confidence in the stock market began to improve during 2003. Insurance services income decreased slightly comparing periods due primarily to increases in life insurance and accident and health insurance-related expenses. Credit life and disability commissions decreased $1.7 million in 2003 compared to 2002 due to lower commission rates on policies sold and lower sales as a result of regulatory changes that capped the amount of credit life insurance that could be sold in connection with a consumer loan. The $1.1 million increase in loan fee income was related to increased loan production and prepayment activity as a result of the low interest rate environment.

Non-Interest Expense

General and Administrative Expenses

The following table details the components of general and administrative expenses for the years ended December 31, 2004, 2003 and 2002, and the increases and decreases by dollar amount and percentage for 2004 compared to 2003 and 2003 compared to 2002:

TABLE 7

			2004 to 2003			2003 to 2002	
	2004	2003	Increase (Decrease)	Percentage Change	2002	Increase (Decrease)	Percentage Change
	(Dollars in Thousands)						
Compensation and benefits	$ 127,405	$ 123,847	$ 3,558	2.9%	$ 114,022	$ 9,825	8.6%
Occupancy and equipment	40,077	41,190	(1,113)	(2.7)	38,956	2,234	5.7
Data processing	18,726	18,157	569	3.1	17,861	296	1.7
Advertising	13,172	16,073	(2,901)	(18.0)	15,171	902	5.9
Communication	13,227	13,663	(436)	(3.2)	13,071	592	4.5
Item processing	12,543	13,718	(1,175)	(8.6)	14,225	(507)	(3.6)
Outside services	14,614	12,456	2,158	17.3	13,833	(1,377)	(10.0)
Loan expenses	7,065	10,981	(3,916)	(35.7)	5,236	5,745	109.7
Foreclosed real estate, net	2,486	3,924	(1,438)	(36.6)	6,805	(2,881)	(42.3)
Other operating expenses	14,401	17,400	(2,999)	(17.2)	20,890	(3,490)	(16.7)
Total general and administrative expenses	$ 263,716	$ 271,409	$ (7,693)	(2.8)%	$ 260,070	$ 11,339	4.4%

The net decrease for 2004 compared to 2003 is due primarily to decreases in loan expenses, other operating expenses, advertising and foreclosed real estate partially offset by net increases in compensation and benefits and outside services. Despite the 2.8% decrease in general and administrative expenses, the efficiency ratio (general and administrative expenses as a percentage of the total of net interest income and total other income) increased to 68.9% at December 31, 2004, from 64.3% at December 31, 2003, largely due to the decreases in net interest income and total other income during 2004.

Loan expenses decreased comparing 2004 to 2003 primarily as a result of significantly higher loan servicing expenses in 2003 related to higher loan prepayment activity. Advertising decreased for 2004 compared to 2003 primarily due to the discontinuation of promotions relating to checking products and the termination of the cash incentive program for debit card transactions. The 2004 decrease in other operating expense is largely due to a reduction in operating and fraud losses due to the Corporation s heightened attention to training and other loss mitigation techniques. Net expenses on foreclosed real estate decreased for 2004 compared to 2003 primarily due to the recognition of income totaling $2.2 million related to foreclosed property in Nevada. The decrease in item processing comparing periods is due to a decrease in Internet banking expenses. The decrease in occupancy and equipment is due primarily to a decrease in equipment depreciation partially due to accelerated depreciation taken in 2003 in anticipation of the company-wide upgrade of personal computers that occurred during 2004 and the latter part of 2003. The net increase in compensation and benefits for 2004 compared to 2003 is primarily due to annual merit increases, severance costs, increases in the Corporation s portion of costs for employee benefits, the opening of seven new branches during 2004 and certain executive payments. These increases were partially offset by lower incentive costs during the year. Outside services increased for 2004 compared to 2003 primarily due to executive search fees, increased special project-related consulting costs, and increased public accounting fees associated with the additional costs to comply with the expanded requirements of the Sarbanes-Oxley Act.

The net increase for 2003 compared to 2002 is due primarily to increases in compensation and benefits, loan expenses, occupancy and equipment and advertising partially offset by net decreases in other operating expenses, foreclosed real estate and outside services. This net increase in general and administrative expenses resulted in an unfavorable increase in the Corporation s efficiency ratio to 64.3% at December 31, 2003, from 58.0% at December 31, 2002. The increase in compensation and benefits was due primarily to increased labor costs associated with record levels of loan prepayments, increased production incentive bonuses, annual merit increases and increased employee benefits and taxes. Loan expenses increased primarily as a result of significantly higher loan servicing expenses related to loan prepayment activity. Occupancy and equipment increased due primarily to additional costs related to new branch expansion and retail system upgrades comparing the respective periods. Advertising increased primarily due to a cash back incentive program for debit and credit card transactions that generated higher interchange revenue for the Bank offset by increased expenses in the first part of 2003 and expanded promotions of products relating to checking accounts and Internet banking. Other operating expenses decreased for 2003 compared to 2002 due primarily to decreases in contributions totaling $2.7 million and decreased losses on the sale of fixed assets totaling $1.6 million. These decreases to other operating expenses were partially offset by a net gain totaling $895,000 on the sale of four Minnesota branches in 2002 which reduced 2002 expenses. Foreclosed real estate expenses decreased $2.9 million due primarily to a $1.9 million impairment loss recorded in the 2002 period on the residential master planned community property in Nevada. Outside services decreased due primarily to decreases in consulting services comparing periods.

Amortization of Core Value of Deposits

During 2004, the amortization of core value of deposits totaled $4.4 million compared to $5.5 million and $6.4 million, respectively, for 2003 and 2002. The decrease in amortization expense for 2004 compared to 2003 is primarily due to the core value of deposits amortizing on an accelerated run-off basis and certain core values of deposits that became fully amortized by June 30, 2004. The decrease comparing 2003 to 2002 is primarily due to certain core values of deposits amortizing on an accelerated basis.

Provision for Income Taxes

The provision for income taxes totaled $24.3 million for 2004 compared to $34.3 million and $43.7 million, respectively, for 2003 and 2002. The effective income tax rate was 24.1% for 2004 compared to 27.8% and 29.0% for 2003 and 2002, respectively. The effective income tax rates are lower for 2004 compared to 2003 due to the lower level of pre-tax income and to increases primarily in non-taxable BOLI income, tax-exempt interest income and tax credits. The effective tax rate is lower for 2003 compared to 2002 due to the lower level of pre-tax income and increases in tax-exempt interest income and tax credits. The effective tax rates for 2004, 2003 and 2002 vary from the statutory rate of 35.0% primarily due to tax benefits from the BOLI, tax-exempt interest income and tax credits.

ANALYSIS OF CONSOLIDATED FINANCIAL CONDITION

Total assets of the Corporation decreased $737.4 million, or 6.0%, to $11.5 billion at December 31, 2004, compared to $12.2 billion at the end of 2003. The net decrease in total assets is primarily attributable to reductions in the residential mortgage loan portfolio, loans held-for-sale and the mortgage-backed securities portfolio. Total liabilities decreased $771.4 million at December 31, 2004 compared to 2003 primarily due to reductions in FHLB advances and certificates of deposits. Total stockholders equity was $789.3 million at December 31, 2004, compared to $755.4 million at December 31, 2003.

Loans

Loans Receivable

The Corporation s loan portfolio includes residential real estate loans, commercial real estate loans, commercial and residential construction loans, commercial operating loans, agricultural loans, small business loans, and consumer loans, including home equity mortgage loans, automobile loans, credit card and other loans. The following table details the composition of the Corporation s loan portfolio at December 31:

TABLE 8

	2004		2003		2002		2001		2000	
	Amount	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**
					(Dollars in Thousands)					
Residential real estate	$ 2,638,548	33.9%	$ 3,420,692	42.5%	$ 3,670,388	47.1%	$ 4,329,595	53.1%	$ 5,286,232	60.7%
Commercial real estate	2,002,645	25.8	1,969,802	24.5	1,834,512	23.5	1,711,171	21.0	1,252,744	14.4
Construction, net of loans-in-process	670,302	8.6	519,599	6.5	492,409	6.3	534,719	6.5	517,788	5.9
Commercial operating and other	650,399	8.4	525,431	6.5	302,906	3.9	247,823	3.0	297,904	3.4
Consumer home equity	997,738	12.8	859,383	10.7	817,912	10.5	738,784	9.1	795,821	9.1
Consumer other	814,440	10.5	750,745	9.3	675,477	8.7	592,481	7.3	564,084	6.5
Total loans receivable	7,774,072	100.0%	8,045,652	100.0%	7,793,604	100.0%	8,154,573	100.0%	8,714,573	100.0%
Unearned income, net	14,739		19,245		15,560		14,161		18,864	
Allowance for loan losses	(89,841)		(108,154)		(106,148)		(102,359)		(82,263)	
Total loans receivable, net	$ 7,698,970		$ 7,956,743		$ 7,703,016		$ 8,066,375		$ 8,651,174	

For additional information regarding the Corporation s loans receivable portfolio, see Note 4 Loans Receivable of this Report.

As the preceding table reflects, the Corporation has made progress in the shift of its loan portfolio mix from lower-yielding residential mortgage loans to an increased proportion of higher-yielding commercial, construction and consumer loans. This shift has occurred because of management s strategic initiative to diversify its loan product mix to enhance core profitability as part of a plan to transform the Corporation s balance sheet from that of a traditional thrift to one more like a commercial bank.

The following section provides a general description of the various loan types in the Corporation s loan portfolio and the risks associated with these loan types. The Corporation exercises prudent and conservative underwriting standards to appropriately minimize the risks outlined for each loan type.

Residential Real Estate Loans

The Corporation originates and purchases mortgage loans secured by single-family units primarily through its branch network and nationwide wholesale network of correspondent banks and residential mortgage brokers. The Corporation offers a variety of residential mortgage loan products including:

- conventional mortgage loans which comply with the requirements for sale to, or conversion into securities issued by, FNMA or FHLMC (conforming loans),
- mortgage loans which exceed the maximum loan amount allowed by FNMA or FHLMC but which otherwise generally comply with FNMA and FHLMC loan requirements, or mortgage loans not exceeding the maximum loan amount allowed by FNMA or FHLMC but do not meet all of the conformity requirements of FNMA and FHLMC (nonconforming loans) or
- Federal Housing Administration (FHA) and Department of Veteran s Administration (VA) guaranteed loans which qualify for sale in the form of securities guaranteed by GNMA.

To minimize the risk of loss in the event of foreclosure, the Corporation originates substantially all conforming and nonconforming loans with loan-to-value ratios at or below 80.0% unless the borrower obtains private mortgage insurance. Occasional exceptions to the 80.0% loan-to-value ratio for mortgage loans are made to facilitate the resolution of nonperforming assets.

Commercial Real Estate Loans

The commercial real estate portfolio primarily consists of loans secured by retail, office, apartment, or industrial warehouse properties. As noted in Table 9 below, this portfolio is well diversified geographically, with 94.4% of the commercial real estate portfolio secured by properties in the Corporation s seven-state region and Nevada.

Commercial real estate lending entails significant additional risks compared with residential real estate lending. These additional risks are due to larger loan balances, which are more sensitive to business cycle downturns and changes in economic conditions. The payment of principal and interest due on the Corporation s commercial real estate loans is substantially dependent upon the performance of the projects securing the loans. As an example, to the extent that the occupancy and rental rates on the secured commercial real estate are not high enough to generate the income necessary to make payments, the Corporation could experience an increased rate of delinquency and could be required either to declare the loans in default and foreclose upon the properties or to make concessions on the terms of the repayment of the loans.

Construction Loans

The Corporation conducts its construction lending operations in its seven-state region and Nevada. Construction financing is considered to involve a higher degree of risk of loss than long-term financing on improved, occupied real estate. Risk of loss on a construction loan is dependent largely upon the accuracy of the initial estimate of the property s value at completion of construction and the total estimated cost, including interest. During the construction phase, a number of factors could result in delays and cost overruns. If the estimate of construction costs proves to be inaccurate, the Corporation may be required to advance funds beyond the amount originally committed to permit completion of the project. If the estimate of value proves to be inaccurate, the Corporation may be confronted, at or prior to the maturity of the loan, with a project having a value which is insufficient to assure full repayment.

Real Estate Loans by State

The following table presents the primary composition of the Corporation s real estate loans receivable portfolio (before any reduction for unearned income and allowance for loan losses) by state and property type at December 31, 2004:

TABLE 9

	Residential Real Estate	Commercial Real Estate	Construction, Net of Loans in Process	Total	Percent of Total
			(Dollars in Thousands)		
Colorado	$ 349,590	$ 470,676	$ 132,943	$ 953,209	17.9%
Iowa	174,060	434,942	107,501	716,503	13.5
Nebraska	253,053	150,947	52,551	456,551	8.6
Kansas	220,044	178,490	50,129	448,663	8.4
Arizona	98,619	211,331	108,694	418,644	7.9
Missouri	108,892	209,958	38,680	357,530	6.7
Oklahoma	95,183	180,741	17,716	293,640	5.5
Nevada	10,262	52,575	146,508	209,345	3.9
Massachusetts	195,588			195,588	3.7
Minnesota	129,395	269		129,664	2.4
Georgia	119,508	2,710		122,218	2.3
Other states (39 states)	884,354	110,006	15,580	1,009,940	19.2
Total	$ 2,638,548	$ 2,002,645	$ 670,302	$ 5,311,495	100.0%
Percent of total	49.7%	37.7%	12.6%	100.0%	

Commercial Operating and Other Loans

Commercial operating and other loans represent commercial loans for the primary purpose of providing operating capital for commercial entities and also for agricultural and small business purposes. The performance of these loans is highly dependent on the stability of the operations of the commercial enterprise and the state of the economy as it relates to the industry of the borrower. The credit risk related to these loans is also high since the value of collateral underlying these loans may be highly specialized and more sensitive to economic downturns.

Consumer Loans

Consumer loans originated by the Corporation include second mortgage home equity loans, automobile loans, credit card loans, loans secured by savings accounts of depositors, and other loans to consumers. In some cases, these loans, which may be unsecured or secured entail greater risk than do residential mortgage loans. In such cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation. The remaining deficiency often does not warrant substantial collection efforts against the borrower. In addition, consumer loan collections are dependent on the borrower s continuing financial stability, and thus are more likely to be adversely affected by changes in the borrower s economic circumstances brought about by events such as job loss, divorce, illness or personal bankruptcy. Furthermore, the application of various federal and state laws, including federal and state bankruptcy and insolvency laws, may limit the amount which can be recovered on such loans.

Loans to One Borrower

Regulatory guidelines generally limit loans and extensions of credit to one borrower, as defined, equal to 15.0% of an institution s unimpaired capital and surplus (or $117.4 million at December 31, 2004). At December 31, 2004, all loans of the Corporation were within the regulatory limitation for loans to one borrower.

Scheduled Loan Repayments

The following table shows the maturities of loans receivable of the Corporation s portfolios based on contractual terms as of December 31, 2004. The table does not reflect the effects of loan prepayments or scheduled principal amortization. Demand loans (loans having no stated schedule of repayments and no stated maturity) and overdrafts are reported as due in one year or less. Since prepayments significantly shorten the average life of loans, management believes that the following table will bear little resemblance to what will be the actual repayments. Loan balances have not been reduced for (i) unearned income (ii) allowance for loan losses or (iii) nonperforming loans.

TABLE 10

	Due During the Year Ended December 31,			
	2005	**2006-2009**	**After 2009**	**Total**
	(In Thousands)			
Residential real estate:				
Fixed-rate	$ 3,669	$ 81,495	$ 840,515	$ 925,679
Adjustable-rate	3,715	21,940	1,687,214	1,712,869
	7,384	103,435	2,527,729	2,638,548
Commercial real estate:				
Fixed-rate	72,173	600,880	247,744	920,797
Adjustable-rate	86,033	226,358	769,457	1,081,848
	158,206	827,238	1,017,201	2,002,645
Construction loans, net of loans in process:				
Fixed-rate	58,016	2,901		60,917
Adjustable-rate	609,385			609,385
	667,401	2,901		670,302
Commercial operating and other:				
Fixed-rate	52,409	228,999	23,063	304,471
Adjustable-rate	203,120	85,324	57,484	345,928
	255,529	314,323	80,547	650,399
Consumer home equity:				
Fixed-rate	5,669	128,834	458,342	592,845
Adjustable-rate	854	4,608	399,431	404,893
	6,523	133,442	857,773	997,738
Consumer other:				
Fixed-rate	69,183	549,010	195,795	813,988
Adjustable-rate	155	106	191	452

	69,338	549,116	195,986	814,440
Total principal repayments	$ 1,164,381	$ 1,930,455	$ 4,679,236	$ 7,774,072

Loans Held for Sale

In addition to originating residential first mortgage loans for its portfolio, the Corporation also originates mortgage loans for sale in the secondary market to FNMA, GNMA, FHLMC, FHLB or institutional investors. Mortgage loans sold to FNMA, GNMA and FHLMC must meet required underwriting, appraisal and documentation standards and are generally sold without recourse, but with the rights to service the loans, and thereby the ongoing loan servicing fee income, retained by the Corporation. The Corporation also sells mortgage loans meeting certain requirements to the FHLB with the rights to service these loans retained by the

Corporation. These mortgage loans are sold to the FHLB with limited recourse provisions. For further information regarding the Corporation s sale of loans to the FHLB, see Note 17 Commitments and Contingencies of this Report. Loans sold to other institutional investors are generally sold without recourse and may be sold with servicing rights released.

Loans held for sale totaled $276.8 million, $351.5 million and $914.5 million at December 31, 2004, 2003 and 2002, respectively. The balances decreased comparing the respective years primarily due to reduced volumes of mortgage loan refinancing and prepayment activity resulting from increases in mortgage interest rates year over year, reduced demand for mortgage loan refinancings and general overcapacity in the mortgage banking industry.

Asset Quality

Management of the Corporation actively monitors credit risk associated with its loan portfolio and unfunded loan commitments and letters of credit. Credit risks are inherently different for each type of loan and may be affected by a variety of factors including the current economic conditions impacting the borrower and the value of the underlying collateral. Credit risks for each loan type are briefly discussed in the preceding MD&A section entitled Loans Receivable.

To ensure credit risk is properly monitored in a timely fashion, the Corporation s credit review team actively reviews asset credit quality. The primary objectives of the credit review team are to:

- examine the risk of collectibility of the Corporation s loans,
- assess the likelihood of partial or full liquidation of foreclosed real estate and other repossessed assets,
- confirm processes are in place to identify problem assets at the earliest possible time,
- assure an adequate level of allowances for credit losses is established to cover identified and anticipated credit risks,
- monitor the Corporation s compliance with established policies and procedures, and
- provide the Corporation s management with information obtained through the credit review process.

Allowance for Loan Losses and Allowance for Unfunded Loan Commitments and Letters of Credit

The allowance for loan losses and the allowance for unfunded loan commitments and letters of credit represents management s best estimate of probable losses inherent in the loan portfolio and unfunded credit facilities. These estimated allowances are based on several analysis factors including the Corporation s past loss experience, economic and business conditions that may affect the borrower s ability to pay, geographic and industry concentrations, composition of the loan portfolio, credit quality and delinquency trends, regular examinations of specific problem loans by the Corporation s credit review team, the overall portfolio quality and market conditions in the Corporation s lending areas, and known and inherent risks in each of the portfolios. The determination of the allowance for credit losses on unfunded commitments and letters of credit is based on periodic evaluations of the unfunded credit facilities including an assessment of the probability of commitment usage, credit risk factors for similar types of loans outstanding and the terms of the unfunded credit facilities. Management considers the determination of the allowance for loan losses and the allowance for unfunded loan commitments and letters of credit a critical accounting estimate. See the section of this MD&A entitled Critical Accounting Estimates for more information. See Note 1 Summary of Significant Accounting Policies of this Report for the Corporation s accounting policies related to the allowances for credit losses.

The Corporation s policy is to charge-off loans or portions thereof against the allowance for loan losses in the period in which loans or portions thereof are determined to be uncollectible. When the Corporation records charge-offs on loans secured by real estate, it typically has already begun the foreclosure process for gaining possession of real estate which served as collateral for such loans and has obtained an updated appraised value for the secured real estate. A significant portion of the Corporation s loans are collateralized by residential or commercial real estate. The collectibility of such loans is susceptible to changes in prevailing real estate market conditions and other factors which can cause the fair value of the collateral to decline below the loan balance. Recoveries of loan charge-offs occur when the loan payments are received on the deficient loan in excess of the remaining recorded book balance of the loan.

The following tables set forth the activity in the Corporation s allowances for loan losses for the periods indicated:

TABLE 11

	Year Ended December 31,				Six Months Ended December 31,
	2004	2003	2002	2001	2000
	(Dollars in Thousands)				
Allowance for loan losses at beginning of year	$ 108,154	$ 106,291	$ 102,451	$ 83,439	$ 70,556
Loans charged-off:					
Residential real estate	(422)	(547)	(2,210)	(2,074)	(854)
Commercial real estate	(10,189)	(2,205)	(8,247)	(423)	(2,564)
Construction, net of loans-in-process	(960)	(2,481)	(2,533)	(962)	(55)
Commercial operating and other	(3,420)	(1,820)	(3,303)	(3,981)	(505)
Consumer	(20,287)	(19,275)	(16,400)	(17,634)	(12,930)
Loans charged-off	(35,278)	(26,328)	(32,693)	(25,074)	(16,908)
Recoveries:					
Residential real estate	183			6	9
Commercial real estate	84	429	60		
Construction, net of loans-in-process	2	1			
Commercial operating and other	246	1,679	288	55	30
Consumer	5,107	4,697	5,327	5,257	2,509
Recoveries	5,622	6,806	5,675	5,318	2,548
Net loans charged-off	(29,656)	(19,522)	(27,018)	(19,756)	(14,360)
Provision charged to operations	14,002	22,003	31,002	38,945	27,854
Change in estimate or charge-offs for bulk purchase loans and sale of securitized loans, net		(618)	(144)	(177)	(611)
Transfer of allowance for unfunded loan commitments and letters of credit	(2,659)				
Allowance for loan losses at end of year (1)	$ 89,841	$ 108,154	$ 106,291	$ 102,451	$ 83,439
Allowance for loan losses to loans receivable (2)	1.15%	1.34%	1.36%	1.25%	.96%
Ratio of net loans charged-off to average loans receivable outstanding during the period	.38%	.25%	.34%	.23%	.14%
Average balance of outstanding loans receivable	$ 7,753,842	$ 7,851,848	$ 7,951,229	$ 8,440,881	$ 10,049,346

(1) Includes allowances for loan losses on loans held for sale of $143,000, $92,000 and $1,176,000 at December 31, 2002, 2001, and 2000, respectively.
(2) Based on the net book value of loans receivable before deducting allowance for loan losses at the respective dates.

The change in the allowance for loan losses is related to several factors, including but not limited to, changes in the composition of the Corporation s loan portfolio (see Table 8), net charge-offs (see Table 11), and nonperforming loans (see Table 13). Improvements in general economic conditions and favorable asset quality trends due to management s continued focus on prudent loan underwriting, active monitoring of loans and aggressive collection efforts have contributed to the decline in the allowance as a percentage of loans receivable from 2003 to 2004. The decrease in the allowance for loan losses also relates to the charge-off of a commercial real estate loan totaling $9.2 million during the first quarter of 2004 for which the allowance previously provided. This charge-off occurred as a result of management s decision to sell this loan at a loss since the real estate securing the loan, which was the primary source of repayment, was in a distressed market with no sign of improvement in the near future coupled with a potential indeterminate holding period until the market would stabilize. Management does not anticipate similar problem loans becoming a material issue to the Corporation in the foreseeable future. However, management will continue to consider the option of accelerating the resolution of specific, selected assets, on a case by case basis, that either are nonperforming or are expected to be nonperforming in the near future. The allowance for loan losses as a percentage of loans receivable for the years ended 2003 and 2002 remained relatively flat due to minimal change in management s assessment of the credit quality of the loan portfolios, general economic conditions, and other factors. The allowance for unfunded commitments and letters of credit, which is classified in other liabilities, totaled $2.7 million at December 31, 2004.

The following table sets forth the allocation of the Corporation s allowance for loan losses at December 31 and the categories of loans as a percentage of total loans. Changes in the allocation over time reflect changes in the loan portfolio, risk profile and refinements to the methodologies for determining the allowance for loan losses.

TABLE 12

	2004		2003		2002		2001		2000	
	Allowance	Percent of Loans to Total Loans	Allowance	Percent of Loans to Total Loans	Allowance	Percent of Loans to Total Loans	Allowance	Percent of Loans to Total Loans	Allowance	Percent of Loans to Total Loans
	(Dollars in Thousands)									
Residential real estate	$ 1,478	33.9%	$ 6,107	42.5%	$ 9,604	47.1%	$ 11,621	53.1%	$ 13,597	60.7%
Commercial real estate	21,375	25.8	26,234	24.5	22,776	23.5	27,703	21.0	18,166	14.4
Construction	5,578	8.6	7,652	6.5	8,095	6.3	7,321	6.5	6,461	5.9
Commercial operating and other	9,557	8.4	8,083	6.5	5,287	3.9	3,442	3.0	5,116	3.4
Consumer	31,117	23.3	27,883	20.0	24,620	19.2	21,315	16.4	16,458	15.6
Unallocated	20,736	n/a	32,195	n/a	35,766	n/a	30,957	n/a	22,465	n/a
Totals	$ 89,841	100.0%	$ 108,154	100.0%	$ 106,148	100.0%	$ 102,359	100.0%	$ 82,263	100.0%

The allocation methodology applied by the Corporation is designed to assist in the assessment of the adequacy of the allowance for loan losses. Among other qualitative and quantitative factors considered in the allocation methodology, the Corporation takes into consideration the size and characteristic of the loans in a specific loan type, changes to the level of nonperforming loans for each loan type, concentrations of loans to specific borrowers or industries, existing economic conditions, underlying collateral, historical delinquency and charge-off trends and the unique credit risks associated with the various types of loans. The allocation of the allowance is primarily based on specifically identifiable loans that are evaluated individually for impairment or the evaluation of pools of similar loans. For additional information on the Corporation s policy for allowance for loan losses, see Note 1 Summary of Significant Accounting Policies of this Report. In addition, the allowance for loan losses includes an unallocated component established to provide coverage for probable losses not considered in the specific and pool methodologies related to factors such as overall economic conditions or uncertainty in the subjective factors considered in the allocation methodology. The determination of the

unallocated component also factors in the Corporation s recognition that changes in the allowance may not directly coincide with changes in the risk ratings of the loan portfolio due to the lagging effect that may exist when changes in business cycles occur and the delay that may occur when the exposure and mix of loans changes within risk rating categories or in levels of nonperforming loans. The Corporation also performs an analysis of the estimated minimum and maximum potential loss ranges by type of loan and the overall loan portfolio. Management ensures that the total of the components of the allowance for loan losses for specifically identifiable loans, pools of similar loans and the unallocated component falls within this estimated range of potential loss. Furthermore, while allocations are made to specific loans and pools of loans, the total allowance is available to absorb losses from any part of the loan portfolio. The allocation of the loan loss allowance is subject to change and is not necessarily indicative of the trend of future losses for any particular loan type.

As part of the Corporation s credit risk assessment, the Corporation classifies its loans into various risk categories. Loans that are evaluated individually for impairment may be classified as special mention, substandard, doubtful, or loss as defined by OTS regulations. The Corporatio establishes estimated valuation allowances for loans classified as substandard or doubtful. If a loan is classified as a loss, the Corporation generally charges off the amount of the loss or it may establish a specific valuation allowance equal to the amount classified as loss. A loan which does not warrant classification as substandard but which possesses credit deficiencies or potential weaknesses deserving close attention is designated as special mention. The OTS has the authority to approve, disapprove or modify any loan classification or any amount established as an allowance pursuant to such classification. At December 31, 2004, the Corporation had $37.9 million in assets classified as special mention, $122.8 million in assets classified as substandard, $2.0 million in assets classified as doubtful and no assets classified as loss. Substantially all nonperforming assets at December 31, 2004, are classified as substandard pursuant to applicable asset classification standards. Of the Corporation s loans which were not classified at December 31, 2004, there were no loans where known information about possible credit problems of borrowers caused management to have serious doubts as to the ability of the borrowers to comply with present loan repayment terms.

Although management believes that the Corporation s allowance for loan losses is adequate to reflect the risk inherent in its portfolios, there can be no assurance that the Corporation will not experience increases in its nonperforming assets, that it will not increase the level of its allowances in the future or that significant provisions for losses will not be required based on factors such as deterioration in market conditions, changes in borrowers financial conditions, delinquencies and defaults. In addition, regulatory agencies review the adequacy of the allowance for loan losses on a regular basis as an integral part of their examination process. Such agencies may require additions to the allowance based on their judgments of information available to them at the time of their examinations.

Nonperforming Assets

Nonperforming assets include nonaccrual loans, foreclosed real estate and troubled debt restructurings. For all loans, except residential first mortgage loans and credit card loans, interest is generally not accrued when the loan becomes contractually delinquent 90 days or more. Credit card loans continue to accrue interest up to 120 days past due at which point the credit card loan balance plus accrued interest are charged off. Effective June 30, 2004, management of the Corporation changed its estimate for determining when the collection of residential first mortgage loans becomes doubtful and therefore, when these loans are placed on nonaccrual status. Previously, the Corporation placed all residential first mortgage loans on nonaccrual status when four or more payments were past due. The Corporation now places residential first mortgage loans on nonaccrual when more than twelve payments are missed unless the loan is not both well-secured and in the process of collection. If it is determined that a residential first mortgage loan is not both well-secured and in the process of collection before more than twelve payments are missed, the loan is placed on nonaccrual at this earlier point in time. The impact of this change in estimate was not material to the Corporation s results of operations.

Real estate acquired by the Corporation as a result of foreclosure or by deed in lieu of foreclosure is classified as foreclosed real estate. At foreclosure, such property is stated at the lower of cost or fair value, minus estimated costs to sell. Subsequent impairment losses are recorded when the carrying value exceeds the fair value minus estimated costs to sell the property. The Corporation may also realize income through the disposition of such real estate when the sales proceeds exceed the carrying value of the real estate.

In certain circumstances, the Corporation does not immediately foreclose when a delinquency is not cured promptly, particularly when the borrower does not intend to abandon the collateral, since by not foreclosing the risk of ownership would still be retained by the borrower. The evaluation of borrowers and collateral may involve determining that the most economical way to reduce the Corporation s risk of loss may be to allow the borrower to remain in possession of the property and to restructure the debt as a troubled debt restructuring. A troubled debt restructuring is a loan in which the Corporation, for reasons related to the debtor s financial difficulties, grants a concession to the debtor, such as a reduction in the loan s interest rate, a reduction in the face amount of the debt, or an extension of the maturity date of the loan, that the Corporation would not otherwise consider. In circumstances in which the Corporation decides to restructure debt as a troubled debt restructuring, the Corporation would strive to ensure that the borrower s continued participation in and management of the collateral does not put the Corporation at further risk of loss. In situations in which the borrower is not performing under the restructured terms, foreclosure proceedings are commenced when legally allowable. A loan classified as a troubled debt restructuring may be removed from troubled debt restructuring status if the loan exhibits improving fundamentals including a majority of the following criteria:

- the loan has returned to performing status,
- the loan is amortizing at a market rate of interest,
- the loan has had a good payment history for six months,
- the loan to value ratio is 80.0% or less,
- the cash flows generated from the collateralized property support the loan amount subject to minimum debt service coverage, as defined, and
- overall applicable economic conditions are favorable.

If a borrower fails to make required payments on a loan, the Corporation generally will take immediate action to satisfy its claim against the security on the loan. If a delinquency cannot otherwise be cured, the Corporation records a notice of default and, in the case of loans secured by real estate, commences foreclosure proceedings. When a trustee sale is held, the Corporation generally acquires title to the property. The property may then be sold for cash or with financing conforming to normal loan requirements, or it may be sold or financed with a loan to facilitate involving terms more favorable to the borrower than those permitted by applicable regulations for new loans. The Corporation did not have a material amount of loans to facilitate outstanding as of December 31, 2004.

The following table sets forth information with respect to the Corporation s nonperforming assets at December 31:

TABLE 13

	2004	2003	2002	2001	2000
			(Dollars in Thousands)		
Loans accounted for on a nonaccrual basis (1)(2):					
Real estate					
Residential (1)	$ 9,598	$ 40,065	$ 46,394	$ 52,792	$ 46,075
Commercial	20,206	7,363	17,890	23,423	27,349
Consumer, commercial operating and other loans	7,119	8,491	8,130	6,929	10,019
Total nonperforming loans	36,923	55,919	72,414	83,144	83,443
Foreclosed real estate:					
Commercial	3,071	32,839	24,707	30,368	10,198
Residential	14,764	16,905	15,301	14,840	15,824
Total foreclosed real estate	17,835	49,744	40,008	45,208	26,022
Troubled debt restructurings (3):					
Commercial	5,846	4,712	1,547	3,057	4,195
Residential				84	90
Total troubled debt restructurings	5,846	4,712	1,547	3,141	4,285
Total nonperforming assets	$ 60,604	$ 110,375	$ 113,969	$ 131,493	$ 113,750
Nonperforming loans to loans receivable (1)(4)	.47%	.69%	.93%	1.02%	.96%
Nonperforming assets to total assets	.53%	.91%	.87%	1.02%	.91%
Allowance for loan losses	$ 89,841	$ 108,154	$ 106,291	$ 102,451	$ 83,439
Allowance for loan losses to:					
Loans receivable (4)	1.15%	1.34%	1.36%	1.25%	.96%
Total nonperforming loans (1)	243.32%	193.41%	146.78%	123.22%	100.00%
Accruing loans deliquent more than 90 days (1):					
Residential real estate	$ 17,849	$	$	$	$

(1) Effective June 30, 2004, management of the Corporation changed its estimate for determining when the collection of residential first mortgage loans becomes doubtful and therefore, when these loans are placed on nonaccrual status. Previously, the Corporation placed all residential first mortgage loans on nonaccrual status when four or more payments were past due. The Corporation now places residential first mortgage loans on nonaccrual when more than 12 payments are missed unless the loan is not both well-secured and in the process of collection. If it is determined that a residential first mortgage loan is not both well-secured and in the process of collection before more than twelve payments are missed, the loan is placed on nonaccrual at this earlier point in time. The impact of this change in estimate was not material to the Corporation s results of operations. For all other loans, except credit card loans, interest is generally not accrued when the loan becomes contractually delinquent 90 days or more. Credit card loans continue to accrue interest up to 120 days past due at which point the credit card loan balance plus accrued interest are charged off.

(2) Had nonaccruing loans, excluding credit card loans, been current in accordance with their original terms and had been outstanding throughout the year or since origination, if held for part of the year, the Corporation would have recorded gross interest income on these loans totaling $2.9 million, $3.4 million, $6.5 million, $6.4 million and $5.3 million, respectively, during the aforementioned periods. The amount of interest income on these loans included in net income for the years presented was not material. Credit card loans continue to accrue interest up to 120 days past due at which point the credit card loan balances plus accrued interest are charged off.

(Continued on next page)

(3) During the years ended December 31, 2004, 2003, 2002 and 2001, and the six months ended December 31, 2000, the Corporation recognized interest income on loans classified as troubled debt restructurings aggregating $103,000, $238,000, $224,000, $236,000 and $176,000, respectively, whereas under their original terms the Corporation would have recognized interest income of $219,000, $254,000, $255,000, $268,000 and $194,000, respectively. At December 31, 2004, the Corporation had no commitments to lend additional funds to borrowers whose loans were subject to troubled debt restructuring.

(4) Based on the net book value of loans receivable before deducting allowance for loan losses at the respective dates.

The preceding table excludes nonperforming loans held for sale totaling $34.3 million, $25.0 million, $32.0 million and $37.9 million, respectively, at December 31, 2004, 2003, 2002 and 2001, related to the GNMA optional repurchase program. These guaranteed mortgage loans serviced for GNMA primarily include loans that are eligible for repurchase, or to a lesser extent, loans that have been repurchased by the Corporation at the Corporation s option and without prior authorization from GNMA when specific delinquency criteria are met. Therefore, the Corporation is deemed to have regained effective control over these loans. These nonperforming loans are guaranteed by the FHA or VA with the Corporation either reselling these loans or undertaking collection efforts through the FHA/VA foreclosure process for reimbursement of these repurchased loans. The Corporation is reimbursed for substantially all costs incurred after the foreclosure process is complete. There were no nonperforming loans held for sale at December 31, 2000.

Nonperforming loans at December 31, 2004, decreased $19.0 million compared to December 31, 2003, primarily due to management of the Corporation changing its estimate as of June 30, 2004, of determining when the collection of residential first mortgage loans becomes doubtful and therefore when the loans are placed on nonaccrual status. This change in estimate reduced the Corporation s nonperforming loans by approximately $17.8 million as of December 31, 2004, accounting for a substantial portion of the $30.5 million decrease in residential nonperforming loans. This change in estimating the doubtful and resulting nonaccrual status for residential mortgage loans had no impact on the Corporation s estimation of the allowance for loan losses. Partially offsetting the decrease in residential real estate nonperforming loans is an increase in nonperforming commercial real estate loans totaling $12.8 million due primarily to two well-secured commercial real estate loans totaling $11.7 million becoming delinquent during 2004. Nonperforming loans at December 31, 2003 decreased by $16.5 million compared to December 31, 2002, due primarily to net decreases in commercial real estate loans totaling $10.5 million and residential real estate loans totaling $6.3 million. The reductions in nonperforming loans is partially attributable to the foreclosure of real estate collateralizing certain loans in addition to the strength of the credit underwriting, loan review and collection processes of the Corporation.

The higher concentrations of nonperforming loans at December 31, 2004, were secured by properties in Oklahoma (23%), Florida (22%) and Iowa (12%). At December 31, 2003, the higher concentration levels of nonperforming loans were secured by properties in Iowa (15%), Oklahoma (13%), Colorado (12%) and Kansas (12%). Similarly, the higher concentration levels of nonperforming loans at December 31, 2002 were secured by properties located in Iowa (13%), Oklahoma (13%) and Kansas (13%). The economy of these markets has remained relatively stable during 2004.

The $31.9 million net decrease in foreclosed real estate at December 31, 2004, compared to December 31, 2003, is primarily due to the 2004 sale of a residential master planned community in Nevada totaling $30.0 million. The $9.7 million increase in foreclosed real estate at December 31, 2003 compared to 2002 is due to capitalized expenses totaling $6.2 million on the residential master planned community property in Nevada and the foreclosure of a residential construction project in Colorado totaling $4.0 million. Foreclosed real estate at December 31, 2004, was located primarily in Kansas (19%), Colorado (13%), Iowa (11%), Oklahoma (10%) and Nevada (10%) compared to December 31, 2003, where the highest concentrations were located primarily in Nevada (57%), Colorado (10%) and Iowa (8%), and to December 31, 2002, where the highest concentrations were located primarily in Nevada (55%), Iowa (7%) and Missouri (6%).

Troubled debt restructurings increased $1.1 million at December 31, 2004, compared to December 31, 2003, primarily due to the restructuring of two commercial real estate loans totaling $2.4 million, partially offset by the removal of one commercial real estate loan from troubled debt restructurings totaling $1.3 million. Troubled debt restructurings increased $3.2 million at December 31, 2003, compared to December 31, 2002, primarily due to the restructuring of a commercial real estate loan during 2003.

Investment and Mortgage-Backed Securities Portfolios

The Corporation manages the available-for-sale investment and mortgage-backed securities portfolios for various liquidity and asset-liability management purposes as well as for collateral against the Corporation s derivative positions and borrowings. Additionally, certain available-for-sale investment securities are held for the purpose of economically hedging changes in the fair value of mortgage servicing rights. The Corporation s management objective for liquidity is to maintain a sufficient level of readily available funds by investing primarily in short-term liquid assets, taking into account anticipated cash flows and available sources of credit. The Bank s procedures for managing its liquidity also allow for flexibility to meet withdrawal requests, fund loan commitments, maximize income while protecting against credit risks and balance the repricing characteristics of the Corporation s assets and liabilities. Such liquid funds are managed in an effort to produce the highest yield consistent with minimizing risk of principal loss. The Corporation s asset-liability management strategies also impact the relative size and mix of the Corporation s securities portfolios. The Bank invests only in permissible investments consistent with all applicable regulations.

The available-for-sale mortgage-backed securities portfolio consists mainly of high-quality collateralized mortgage obligations and government-backed securities. The carrying value of the Corporation s available-for-sale mortgage-backed securities totaled $1.0 billion at December 31, 2004, compared to $1.3 billion at December 31, 2003. This decrease in mortgage-backed securities comparing years is attributable primarily to normal mortgage loan pay-downs as well as management s strategic decision to decrease this portfolio. For further information regarding the Corporation s available-for-sale mortgage-backed securities portfolio, see Note 3 Mortgage-Backed Securities of this Report.

The following table sets forth the scheduled maturities, amortized cost, fair values and weighted average yields for the Corporation s investment securities at December 31, 2004. Weighted average yields do not give effect to changes in fair value that are reflected as a component of stockholders equity. Expected maturities may differ from contractual maturities because certain issuers have the right to call or prepay obligations with or without call or prepayment penalties.

TABLE 14

	One Year or Less		Over One Within Five Years		Over Five Within Ten Years		More Than Ten Years		Total		
	Amortized Cost	Average Yield	Amortized Cost	Average Yield	Amortized Cost	Average Yield	Amortized Cost	Average Yield	Amortized Cost	Average Yield	Fair Value
	(Dollars in Thousands)										
U.S. Treasury obligations	$	%	$ 188	5.96%	$	%	$	%	$ 188	5.96%	$ 197
Government-sponsored enterprise debt obligations					678,670	4.78			678,670	4.78	692,161
State and political subdivisions	5,017	7.12	16,923	5.80	17,125	4.77	178,456	5.13	217,521	5.20	234,027
Other securities	1	1.21	1,581	4.85	6,969	7.14	135,604	3.74	144,155	3.92	144,838
Total	$ 5,018	7.12%	$ 18,692	5.72%	$ 702,764	4.80%	$ 314,060	4.53%	$ 1,040,534	4.75%	$ 1,071,223

For further information regarding the Corporation s investment securities available-for-sale, see Note 2 Investment Securities of this Report.

Funding Sources

Deposits are the primary source of the Corporation s funding for lending and other investment purposes. In addition to deposits, the Corporation derives funds from principal and interest repayments on loans and mortgage-backed securities, sales of loans, FHLB advance borrowings, prepayment and maturity of investment securities, and other borrowings. At December 31, 2004, deposits made up 61.6% of total deposits and interest-bearing liabilities compared to 57.9% at December 31, 2003 which reflects the Corporation s intent to increase its proportion of funding from customer depository sources versus borrowings. Deposit levels are significantly influenced by general interest rates, economic conditions and competition. Other borrowings, primarily FHLB advances, are utilized to compensate for any decreases in the normal or expected inflow of deposits.

Deposits

The Corporation emphasizes the acquisition and retention of consumer and commercial deposits obtained primarily through the retail branch network from retail, commercial and small business customers. The Corporation also offers a variety of alternative customer service delivery channels including: the Bank s website, *www.comfedbank.com;* supermarket locations, many of which offer extended weekday and weekend hours; telephone, utilizing a 24-hour *AccessNow* automated customer service system tied to extended hour operator availability; and ATMs through the Corporation s proprietary network and links to other national and international ATM services. Deposits are obtained through extensive marketing and advertising efforts and product promotion, such as offering a variety of checking accounts and other deposit programs to satisfy customer needs. Rates on deposits are set based on the competitive environment, what is considered necessary in order to retain the customer deposit and relationship, and also considering other investment opportunities available to the customers. In addition, rates on deposits are established in consideration of the Corporation s asset/liability management strategies which factor in the level of deposits necessary to meet defined business objectives and the cost of alternative sources of funds. For further information regarding the Corporation s deposits, see Liquidity and Capital Resources and Note 10 Deposits of this Report.

The following table shows the composition of average deposit balances and average rates for the years ended December 31:

TABLE 15

	2004		2003		2002	
	Average Balance	**Avg. Rate**	**Average Balance**	**Avg. Rate**	**Average Balance**	**Avg. Rate**
	(Dollars in Thousands)					
Noninterest-bearing checking accounts	$ 647,211	%	$ 576,761	%	$ 530,036	%
Interest-bearing checking accounts	599,758	.28	540,489	.47	549,767	.25
Total checking excluding escrow accounts	1,246,969		1,117,250		1,079,803	
Savings accounts (1)	1,251,434	3.31	1,416,203	4.25	1,802,558	4.32
Money market accounts	1,169,488	1.40	893,820	1.58	314,243	1.32
Total core deposits	3,667,891		3,427,273		3,196,604	
Custodial escrow accounts	313,663		482,801		198,738	
Certificates of deposit	2,428,907	2.27	2,719,225	2.58	2,862,960	3.36

Average deposit accounts	$ 6,410,461	1.79%	$ 6,629,299	2.22%	$ 6,258,302	2.87%

(1) The average rate is affected by interest expense on interest rate swap agreements totaling $28.4 million, $48.6 million and $50.4 million for the respective years.

As Table 15 reflects, the Corporation s average core deposits reflect an upward trend over previous years as the intensity of the sales and service culture of the Corporation continues to evolve. The Corporation plans to continue this focus on the growth of core deposits, particularly noninterest-bearing checking accounts in the future. In addition, the Corporation intends to continue pricing its deposit products at rates that minimize the Corporation s total costs of funds while still allowing the Corporation to retain the customer deposit and the overall customer relationship.

The following table presents the outstanding amount of certificates of deposit of $100,000 or more by time remaining until maturity at December 31:

TABLE 16

	2004	2003	2002
		(In Thousands)	
Three months or less	$ 276,792	$ 221,992	$ 180,134
Over three through six months	118,834	133,289	196,738
Over six through twelve months	99,271	129,689	183,690
Over twelve months	139,867	161,096	99,868
Total	$ 634,764	$ 646,066	$ 660,430

Borrowed Funds

The Corporation also relies upon other borrowings, primarily advances from the FHLB as additional funding sources. The maximum amount of FHLB advances that the Corporation is permitted to borrow fluctuates from time to time in accordance with federal regulatory policies. The Corporation is required to maintain a minimum investment in FHLB stock per federal regulations based on the amount of FHLB advances outstanding. The Corporation is also required to pledge such stock as collateral for FHLB advances. In addition to this collateral requirement, the Corporation is required to pledge either unencumbered residential first mortgage loans or U.S. government or U.S. government agency guaranteed securities, including mortgage-backed securities, as collateral for the outstanding FHLB advances.

The following table sets forth certain information relating to the Corporation s short-term FHLB advances as of December 31:

TABLE 17

	2004	2003	2002
		(Dollars in Thousands)	
Maximum month-end balance	2,171,000	2,370,000	3,246,000
Average balance	1,560,873	2,178,358	2,400,667
Weighted average interest rate during the year	1.44%	1.20%	1.76%
Weighted average interest rate at end of year	2.26%	1.11%	1.44%

For additional information on the Corporation s FHLB advances, repurchase agreements and other borrowings, see Note 11 Advances from the Federal Home Loan Bank and Note 12 Other Borrowings. See Note 13 Derivative Financial Instruments of this Report for additional information relating to the Corporation s hedging strategies for the management of interest rate risk involving FHLB advances.

Asset/Liability Management

The net interest income of the Corporation is subject to the risk of interest rate fluctuations to the extent that there is a difference, or mismatch, between the amount of the Corporation s interest-earning assets and interest-bearing liabilities which mature or reprice in specified periods. When interest rates change, to the extent the Corporation s interest-earning assets have longer maturities or effective repricing periods than its interest-bearing liabilities, the interest income realized on the Corporation s interest-earning assets will adjust more slowly than the interest expense on its interest-bearing liabilities. This mismatch in the maturity and repricing characteristics of assets and liabilities is commonly referred to as the gap. A gap is considered positive when the interest rate sensitive assets maturing or repricing during a specified period exceed the interest rate sensitive liabilities maturing or repricing during the same period. A gap is considered negative when the interest rate sensitive liabilities maturing or repricing during a specified period exceed the interest rate sensitive assets maturing or repricing during the same period. Generally, during a period of rising interest rates, a negative gap would adversely affect net interest income while a positive gap would result in an increase to net interest income. Similarly, during a period of declining interest rates, a negative gap would result in an increase in net interest income while a positive gap would adversely affect net interest income.

The Corporation generally invests in interest-earning assets that reprice more slowly than its interest-bearing liabilities. This mismatch exposes the Corporation to interest rate risk. In a rising rate environment, interest-bearing liabilities will reprice faster than interest-earning assets, thereby decreasing net interest income. The Corporation seeks to control its exposure to interest rate risk by emphasizing shorter-term assets such as commercial and consumer loans. In addition, the Corporation utilizes longer-term advances from the FHLB to extend the repricing characteristics of its interest-bearing liabilities. The Corporation also enters into interest rate swap agreements in order to lengthen synthetically its short-term debt obligations.

In connection with its asset/liability management program, the Corporation has interest rate swap agreements with other counterparties under terms that provide for an exchange of interest payments on the outstanding notional amount of the swap agreement. These agreements are primarily used to synthetically lengthen the maturity of certain deposit liabilities and FHLB advances. In accordance with these arrangements the Corporation pays fixed rates and receives variable rates of interest, or receives fixed rates and pays variable rates, according to a specified index.

During the second half of 2003, the Corporation reduced the size of its balance sheet as part of a strategic plan to reduce available-for-sale investment and mortgage-backed securities that were lower margin contributors to net interest income. This plan also included paying down a portion of FHLB advance debt. During the third quarter of 2003, the Corporation recognized a $29.4 million loss on the termination of certain swap agreements that were previously hedging the adjustable interest payments related to the $300.0 million in adjustable rate FHLB advances that were paid off in connection with this plan.

During the fourth quarter of 2003, the Corporation restructured $1.1 billion of convertible fixed-rate FHLB advances by extending the maturities beyond their original 2009 maturity date and modifying the interest rate terms. Subsequent to the restructure, $100.0 million of these advances mature each year beyond the original 2009 maturity date. After 2009, the fixed-rate on these FHLB advances will be replaced by a floating rate. The outcome of this transaction was such that both the Corporation and the FHLB were in the same fundamental economic position at the conclusion of the restructuring.

The Corporation entered into swaption agreements beginning in 2001 to hedge the exposure to changes in the fair value of the call options embedded in certain fixed rate FHLB advances. All terms of the swaption agreements exactly match the terms of these FHLB advances. In the event any of these FHLB advances are called, the Corporation will exercise its corresponding option to enter into a swap agreement paying a fixed rate of interest and receiving a variable rate of interest. In November 2003, the Corporation terminated swaption agreements with a notional amount of $1.1 billion. These terminations occurred in conjunction with the aforementioned restructuring of terms of fixed-rate callable FHLB advances for which the embedded call options were being hedged by these terminated swaption agreements. See Note 13 Derivative Financial Instruments of this Report for additional information regarding the Corporation s swap and swaption agreements.

During the fourth quarter of 2003, the Corporation terminated interest rate swap agreements that were previously designated as cash flow hedges of adjustable interest payments related to $500.0 million in adjustable rate savings deposits. These terminations occurred as part of management s asset/liability strategy to maintain a balanced interest rate risk position after the sale of investments that occurred in conjunction with the restructuring of the Corporation s balance sheet during the third quarter of 2003.

The following table represents management s projected maturity and repricing of the Corporation s interest-earning assets and interest-bearing liabilities at December 31, 2004. The amounts of interest-earning assets, interest-bearing liabilities and interest rate swap agreements presented which mature or reprice within a particular period were determined in accordance with the contractual terms and expected behavior over time of such assets, liabilities and interest rate swap agreements. Adjustable-rate loans and mortgage-backed securities are included in the period in which they are first scheduled to adjust and not in the period in which they mature. All loans and mortgage-backed securities are adjusted for prepayment rates based on information provided by independent sources as of December 31, 2004, and the Corporation s historical prepayment experience. Fixed-rate savings accounts, checking accounts and non-indexed money market accounts are assumed to reprice or mature according to the decay rates defined by regulatory guidelines. Indexed money market accounts are deemed to reprice or mature within the 90-day category. Management believes that these assumptions approximate actual experience and considers such assumptions reasonable; however, the actual interest rate sensitivity of the Corporation s interest-earning assets and interest-bearing liabilities may vary substantially if actual experience differs from the assumptions used.

TABLE 18

	Within 90 Days	91 Days to 1 Year	Over 1 to 3 Years	3 Years and Over	Total
			(Dollars in Thousands)		
Interest-earning assets:					
Fixed-rate mortgage loans (1)	$ 387,145	$ 497,749	$ 555,486	$ 601,568	$ 2,041,948
Other loans (2)	2,318,452	1,473,214	1,888,966	1,250,006	6,930,638
Investments (3)	418,317	6,860	16,775	928,146	1,370,098
Interest-earning assets	3,123,914	1,977,823	2,461,227	2,779,720	10,342,684
Total deposits and interest-bearing liabilities:					
Checking, savings and money market deposits	1,936,558	546,057	504,212	1,096,592	4,083,419
Certificates of deposit	737,027	911,371	528,378	162,588	2,339,364
Borrowings (4)	2,020,571	200,000	300,000	1,465,869	3,986,440
Impact of interest rate swap agreements	(720,000)			720,000	
Total deposits and interest-bearing liabilities	3,974,156	1,657,428	1,332,590	3,445,049	10,409,223
Gap position	$ (850,242)	$ 320,395	$ 1,128,637	$ (665,329)	$ (66,539)