COMMERCIAL FEDERAL CORP
Form 10-K
March 31, 2003

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d)

OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE YEAR ENDED DECEMBER 31, 2002

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:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, Par Value $.01 Per Share	**New York Stock Exchange**
Shareholder Rights Plan	**New York Stock Exchange**
7.95% Subordinated Notes due December 2006	**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 whether the registrant is an accelerated filer as defined in Rule 12b-2 of the Securities Exchange Act of 1934. Yes ¨ No x

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. x

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 on June 28, 2002, the last business day of the registrant s most recently completed second fiscal quarter, was $1,255,891,676. As of March 14, 2003, there were issued and outstanding 43,744,050 shares of the registrant s common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2003 Annual Meeting of Stockholders See Part III.

COMMERCIAL FEDERAL CORPORATION

FORM 10-K INDEX

PART I

ITEM 1. BUSINESS

Forward Looking Statements

This document contains certain statements that are not historical fact but 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 in the forward looking statements. Factors that might cause a difference include, but are not limited to: fluctuations in interest rates, inflation, the effect of regulatory or government legislative changes, expected cost savings and revenue growth not fully realized, the progress of strategic initiatives and whether realized within expected time frames, general economic conditions, adequacy of allowance for credit losses, costs or difficulties associated with restructuring initiatives, technology changes and competitive pressures in the geographic and business areas where Commercial Federal Corporation conducts its operations. 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.

General

Commercial Federal Corporation (the Corporation) was incorporated in the state of Nebraska on August 18, 1983, as a unitary non-diversified savings and loan holding company. The primary purpose of the Corporation was to acquire all of the capital stock of Commercial Federal Bank, a Federal Savings Bank (the Bank) in connection with the Bank s 1984 conversion from mutual to stock ownership. A secondary purpose was to provide the structure to expand and diversify the Corporation s financial services to activities allowed by regulation to a unitary savings and loan holding company. The general offices of the Corporation are located at 13220 California Street, Omaha, Nebraska 68154.

The primary subsidiary of the Corporation 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 Corporation. On August 27, 1990, the Bank s federal charter was amended from a savings and loan to a federal savings bank.

The assets of the Corporation, on an unconsolidated basis, substantially consist of 100% of the Bank s common stock. The Corporation has no significant independent source of income, and therefore depends almost exclusively on cash distributions from the Bank to meet its funding requirements. During the calendar year ended December 31, 2002, the Corporation incurred interest expense on its subordinated extendible notes, cumulative trust preferred securities and unsecured term notes and revolving line of credit. Interest was payable monthly on the subordinated extendible notes, and quarterly on the cumulative trust preferred securities, the unsecured term note and the line of credit. On December 31, 2002, the Corporation redeemed the $45.0 million of cumulative trust preferred securities of the CFC Preferred Trust. These securities were callable after May 14, 2002. The redemption price totaling $46.1 million consisted of the $45.0 million plus accrued interest of $1.1 million. In addition, on December 30, 2002, the Corporation entered into a term and revolving credit agreement totaling $104.0 million. This credit facility is in the form of an unsecured, five-year term note due December 31, 2007, totaling $94.0 million and an unsecured revolving note totaling $10.0 million due December 31, 2003, renewable annually. On December 30, 2002, the $94.0 million term note was drawn down to repay the term note due June 30, 2004, for $49.4 million including accrued interest. The remaining proceeds of $44.6 million were used to redeem the 9.375% cumulative trust preferred securities that were paid off in full by the Corporation on December 31, 2002. This term note had an outstanding principal balance of $94.0 million at December 31, 2002. Terms of the note require quarterly principal payments of $2.4 million and quarterly interest payable at a monthly adjustable rate priced at 100 basis points below the lender s national base rate, or 3.25% at December 31, 2002. For additional information on the debt of the Corporation see Note 13 Other Borrowings to the Consolidated Financial Statements that are filed under Item 8 of this Form 10-K Annual Report for the year ended December 31, 2002 (the Report).

The Corporation began repurchasing its common stock in April 1999. For the year ended December 31, 2002, the Corporation purchased and cancelled 1,057,700 shares of its common stock at a cost of $25.7 million. Since the first repurchase was announced in April 1999, the Corporation has purchased and canceled 16,759,200 shares of its common stock through December 31, 2002, at a cost of $355.7 million. The Corporation also pays operating expenses primarily for shareholder and stock related expenditures such as the annual report, proxy, corporate filing fees and assessments and certain costs directly attributable to the holding company. In addition, common stock cash dividends totaling $15.8 million, or $.35 per common share, were declared during the year ended December 31, 2002.

The Bank pays cash distributions to the Corporation on a periodic basis primarily to cover the amount of the principal and interest payments on the Corporation s debt, to fund the Corporation s common stock repurchases and to repay the Corporation for the common stock cash dividends paid to the Corporation s shareholders. During the year ended December 31, 2002, the Corporation received cash distributions totaling $85.0 million from the Bank. See Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) Liquidity and Capital Resources under Item 7 of this Report for additional information.

The Bank operates as a federally chartered savings institution with deposits insured by the Savings Association Insurance Fund (SAIF) and the Bank Insurance Fund (BIF) both administered by the Federal Deposit Insurance Corporation (FDIC). The Bank is a community banking institution offering commercial and consumer banking services including mortgage loan origination and servicing, commercial and industrial lending, small business banking, construction lending, cash management, brokerage and insurance services, and Internet banking.

At December 31, 2002, the Corporation had assets of $13.1 billion and stockholders equity of $756.5 million, and operated 189 branches located in Colorado (44), Iowa (40), Nebraska (40), Kansas (26), Oklahoma (19), Missouri (14) and Arizona (6). The Bank is one of the largest retail financial institutions in the Midwest and, based upon total assets at December 31, 2002, the Corporation was the 8th largest publicly-held thrift institution holding company in the United States. In addition, the Corporation serviced a loan portfolio totaling $15.6 billion at December 31, 2002, with approximately $11.5 billion in loans serviced for third parties and $4.1 billion in loans serviced for the Bank. See MD&A General under Item 7 of this Report.

The operations of the Corporation are significantly influenced by general economic conditions, by inflation and changing prices, by the related monetary, fiscal and regulatory policies of the federal government and by the policies of financial institution regulatory authorities, including the Office of Thrift Supervision (OTS), the Board of Governors of the Federal Reserve System and the FDIC. Deposit flows and costs of funds are influenced by interest rates on competing investments and general market rates of interest. Lending activities are affected by the demand for mortgage and commercial financing, consumer loans and other types of loans, which, in turn, are affected 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 Regulation section of this Report.

Corporate Highlights

The Corporation s business and earnings are sensitive to general business and economic conditions in the United States and, in particular, the Midwestern states where it has significant operations. These conditions include short-term and long-term interest rates, inflation, monetary supply, fluctuations in both debt and equity capital markets, the strength of the national and local economies and consumer spending, borrowing and savings habits. A continued economic downturn, an increase in unemployment or higher interest rates could decrease the demand for loans and other products and services and result in a deterioration in credit quality and loan performance and collectibility. Higher interest rates also could increase the Corporation s cost to borrow funds and increase the rate the Corporation pays on deposits.

The long-term economic and political effects of terrorism and international hostilities are uncertain which could result in a further economic slowdown that could negatively affect the Corporation s financial condition. These events could adversely affect the Corporation s business and operating results in other ways that presently cannot be predicted. In addition, a continued economic slowdown could negatively impact the purchasing and decision making activities of the Corporation s customers. If terrorist activity, international hostilities or other factors cause a further economic decline, the financial condition and operating results of the Corporation could be materially adversely affected.

The Corporation s earnings also are significantly affected by the fiscal and monetary policies of the federal government and its agencies. The policies of the Federal Reserve Board impact the Corporation significantly. The Federal Reserve Board regulates the supply of money and credit in the United States. Its 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.

Accounting for Goodwill

Effective January 1, 2002, the Corporation adopted the provisions of Statement of Financial Accounting Standards No. 142 Goodwill and Other Intangible Assets (SFAS No. 142), which required that the amortization of goodwill cease, and that goodwill be evaluated for impairment at the reporting unit level. No impairment losses were recognized in 2002. For calendar year 2002, amortization of goodwill totaling $7.8 million that would have been recorded prior to the implementation of this statement, was not recorded against current operations. See Note 10 Intangible Assets to the Consolidated Financial Statements under Item 8 of this Report for additional information.

Mortgage Banking Operations

Historically low interest rates in 2002 generated record volumes of mortgage loan demand contributing to pre-tax gains on the sales of mortgage loans totaling $36.2 million in 2002. These low interest rates also increased mortgage loan pay-downs which in turn caused an increase in amortization expense of mortgage servicing rights and the valuation allowances for impairment losses on mortgage servicing rights during 2002. The amortization expense of mortgage servicing rights increased $13.9 million over 2001 to $31.0 million for 2002. In addition, valuation adjustments for impairment losses totaling $60.4 million were recorded during the year ended December 31, 2002, compared to $19.1 million during 2001. During the year ended December 31, 2002, the Corporation sold available-for-sale investment and mortgage-backed securities totaling approximately $1.1 billion resulting in pre-tax gains of $35.9 million. These net gains were recognized to partially offset the valuation adjustment losses recognized on the mortgage servicing rights portfolio during 2002.

Redemption of Cumulative Trust Preferred Securities

On December 31, 2002, the Corporation redeemed the $45.0 million fixed-rate 9.375% cumulative trust preferred securities of the CFC Preferred Trust. The redemption price totaling $46.1 million consisted of 1,800,000 shares (liquidation amount of $25.00 per security) totaling $45.0 million plus accrued interest totaling approximately $1.1 million. These cumulative trust preferred securities were originally issued on May 14, 1997, and were due May 15, 2027. The redemption of the cumulative trust preferred securities resulted in the Corporation recognizing $1.8 million in expense on the write-off on the related deferred debt issuance costs. These costs are classified in other operating expenses in the Consolidated Statement of Operations for 2002.

Segment Reporting

Effective January 1, 2002, the Corporation s operations were realigned into four lines of business operations for management reporting purposes: Commercial Banking, Mortgage Banking, Retail Banking and Treasury. Before this realignment, the Corporation identified and utilized two lines of business: Community Banking and Mortgage Banking. This realignment was made to allow management to make more 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 under Item 7 of this Report and Note 24 Segment Information to the Consolidated Financial Statements under Item 8 of this Report for additional information.

Dissolution of Mortgage Banking Subsidiary

Effective October 1, 2002, Commercial Federal Mortgage Corporation (CFMC), the Bank s wholly-owned full-service mortgage banking subsidiary, was dissolved. All real estate lending, secondary marketing, mortgage servicing and foreclosure activities are now conducted through the Bank. This dissolution had no effect on the Corporation s financial position, liquidity or results of operations.

Common Stock Repurchases

During the year ended December 31, 2002, the Corporation continued to repurchase its outstanding common stock. On February 28, 2002, and on November 25, 2002, the Board of Directors authorized repurchases for 500,000 shares and 5,000,000 shares, respectively, of the Corporation s outstanding common stock. During 2002, the Corporation purchased 1,057,700 shares of its common stock at a cost of $25.7 million.

Regulatory Capital Compliance

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Corporation s financial position and results of operations. The regulations require the Bank to meet specific capital adequacy guidelines. Prompt corrective action provisions contained in the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) require specific capital ratios to be considered well-capitalized. At December 31, 2002, the Bank exceeded the minimum requirements for the well-capitalized category. As of December 31, 2002, the most recent notification from the OTS categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action provisions under FDICIA. There are no conditions or events since such notification that management believes have changed the Bank s classification. See Regulation Regulatory Capital Requirements and Note 17 Regulatory Capital to the Consolidated Financial Statements under Item 8 of this Report.

Supervisory Goodwill Lawsuit

On September 12, 1994, the Bank and the Corporation commenced litigation relating to supervisory goodwill against the United States in the United States Court of Federal Claims seeking to recover monetary relief for the government s refusal to honor certain contracts that it had entered into with the Bank. The suit alleges that such governmental action constitutes a breach of contract and an unlawful taking of property by the United States without just compensation or due process in violation of the Constitution of the United States. The Corporation and the Bank are pursuing alternative damage claims of up to approximately $230 million. The Bank also assumed a lawsuit in the merger with Mid Continent Bancshares, Inc. (Mid Continent), a fiscal year 1998 acquisition, against the United States also relating to a supervisory goodwill claim filed by the former company. The litigation status and process of these legal actions, as well as that of numerous actions brought by others alleging similar claims with respect to supervisory goodwill and regulatory capital credits, make the value of the claims asserted by the Bank (including the Mid Continent claim) uncertain as to their ultimate outcome, and contingent on a number of factors and future events which are beyond the control of the Bank, both as to substance, timing and the dollar amount of damages that may be awarded to the Bank and the Corporation if they finally prevail in this litigation.

On March 25, 1998, the Corporation filed a motion for summary judgment and the United States filed a cross motion for summary judgment on the question of liability for breach of contract. On March 24, 2003, the Corporation received an order from the United States Court of Federal Claims denying its motion for summary judgment seeking to establish liability for breach of contract and granting the United States government s cross motion seeking to establish no liability for breach of contract with respect to the Corporation s acquisition of Empire Savings Building and Loan (Empire). In the litigation, the Corporation alleged that with respect to its 1987 acquisition of Empire, the Federal Home Loan Bank Board promised that $190 million of goodwill (the amount by which Empire s liabilities exceeded its assets) would be included in the Bank s regulatory capital as well as the $60 million of preferred stock issued by the Bank to fund the acquisition of Empire. The United States Court of Federal Claims granted the Corporation s motion for summary judgment and denied the United States government s cross-motion for summary judgment on the question of liability for breach of contract with respect to the Corporation s acquisition of the savings deposits of Territory Savings and Loan Association (Territory) whereby the Bank accepted a five year $20 million promissory note from the Federal Savings and Loan Insurance Corporation (FSLIC) as part of the FSLIC s payment for the Bank s assumption of Territory s savings deposits. In the litigation, the Corporation alleged that the FSLIC promised that the Bank could include the promissory note in its regulatory capital. The Corporation is currently considering its options in light of the order recently issued by the United States Court of Federal Claims.

Other Information

Additional information concerning the general business of the Corporation during the year ended December 31, 2002, is included in the following sections of this Report and under Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations and under Item 8 Notes to the Consolidated Financial Statements of this Report. Additional information concerning the Bank s regulatory capital requirements and other regulations which affect the Corporation is included in the Regulation section of this Report.

Additional Information

The Corporation makes its annual, current and quarterly reports available, free of charge, on its corporate web site, *www.comfedbank.com*, as reasonably practicable after such reports are electronically filed with the Securities and Exchange Commission. Other information on the Corporation and the Bank are also available on this web site. All information and reports on the Corporation s web site is not incorporated by reference to this annual report Form 10-K.

Lending Activities

General

The Corporation s lending activities focus on the origination of first mortgage loans for the purpose of financing or refinancing single-family residential properties, single-family residential construction loans, commercial real estate loans, commercial operating loans, consumer and home improvement loans. Commercial real estate loans, commercial operating and consumer loans have been emphasized during the year ended December 31, 2002. The origination activity of these loans has increased significantly over 2001. Management plans to continue to expand the Corporation s commercial lending activity in 2003 and beyond. Residential loan origination activity, including activity through correspondents, increased significantly in calendar year 2002 due to the low interest rate environment generating new residential loan volumes as well as a large volume of loan refinancing activity compared to prior years. See Loan Activity section of this Report.

The functions of processing and servicing real estate loans, including responsibility for servicing the Corporation s loan portfolio, had been conducted by CFMC, the Bank s wholly-owned mortgage banking subsidiary. Effective October 1, 2002, CFMC was dissolved. All real estate lending, secondary marketing, mortgage servicing and foreclosure activities are now conducted through the Bank. The Corporation conducts loan origination activities primarily through its branch office network to increase the volume of single-family residential loan originations and take advantage of its extensive branch network. The Corporation will continue to originate real estate loans through its branches, loan offices and through its nationwide correspondent network.

At December 31, 2002, the Corporation s total loan and mortgage-backed securities portfolio was $10.2 billion, representing 78.0% of its $13.1 billion of total assets. Mortgage-backed securities totaled $1.6 billion at December 31, 2002, representing 16.0% of the Corporation s total loan and mortgage-backed securities portfolio. The Corporation s total loan and mortgage-backed securities portfolio was secured primarily by real estate at December 31, 2002.

Commercial real estate and land loans are secured by various types of commercial properties including office buildings, shopping centers, warehouses and other income producing properties. Commercial lending increased during 2002 and is expected to significantly expand for the Corporation in the future. The Corporation s single-family residential construction lending activity is primarily attributable to operations in Las Vegas, Nevada and in its primary market areas. Multi-family residential loans consist of loans secured by various types of properties, including townhomes, condominiums and apartment projects with more than four dwelling units.

The Corporation s primary area of loan production is the origination of loans secured by existing single-family residences. Adjustable-rate single-family residential loans are originated for retention in the Corporation s loan portfolio to match more closely the repricing of the Corporation s interest-bearing liabilities as a result of changes in interest rates and for sale in the secondary market. Fixed-rate single-family residential loans are originated using underwriting guidelines, appraisals and documentation which are acceptable to the Federal Home Loan Mortgage Corporation (FHLMC), the Government National Mortgage Association (GNMA) and the Federal National Mortgage Association (FNMA) to facilitate the sale of such loans to such agencies in the secondary market. The Corporation also originates fixed-rate single-family residential loans using internal lending policies in accordance with what management believes are prudent underwriting standards but which may not strictly adhere to FHLMC, GNMA and FNMA guidelines. Fixed-rate single-family residential loans are originated or purchased for the Corporation s loan portfolio if such loans have characteristics which are consistent with the Corporation s asset and liability goals and long-term interest rate yield requirements. At December 31, 2002, fixed-rate single-family residential loans remained consistent at $2.5 billion compared to December 31, 2001. The adjustable-rate portfolio decreased to $2.1 billion at December 31, 2002, compared to $2.2 billion at December 31, 2001. The net decrease in adjustable-rate residential loans is due to the low mortgage rate environment in 2002 where many adjustable-rate loans were refinanced into low interest fixed-rate loans.

The Corporation s commercial and multi-family real estate loans are primarily secured by properties located within the Corporation s primary market areas. The Corporation continues to build on its commercial relationships. In the fourth quarter of 2001, the Corporation started a new internet-based full-service cash management program. This service allows businesses access to electronic banking features such as funds transfers, debit consumer accounts, payment of vendors, direct payroll deposit, wire transfers and other services. These loans, which are subject to prudent credit review and other underwriting standards and collection procedures, are expected to constitute a greater portion of the Corporation s lending business in the future.

In addition to real estate loans, the Corporation originates consumer, automobile, home improvement, agricultural, commercial business and savings account loans as well as consumer credit cards through the Corporation s branch and loan office network and direct mail solicitation. Management intends to continue to increase its consumer loan origination activity with strict adherence to prudent underwriting and credit review procedures.

Regulatory guidelines generally limit loans and extensions of credit to one borrower. At December 31, 2002, all loans were within the regulatory limitation of $210.9 million to one borrower.

Composition of Loan Portfolio

The following table sets forth the composition of the Corporation s loan and mortgage-backed securities portfolios (including loans held for sale and mortgage-backed securities available for sale) as of the dates indicated below. Other than as disclosed below, there were no concentrations of loans which exceeded 10% of total loans at December 31, 2002.

	December 31,						**June 30,**					
	2002		**2001**		**2000**		**2000**		**1999**		**1998**	
	Amount	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**
	(Dollars in Thousands)											
oan Portfolio												
onventional real estate ortgage loans:												
oans on existing operties												
ngle-family residential	$ 4,334,628	41.4%	$ 4,437,766	42.1%	$ 5,015,369	47.0%	$ 6,684,993	56.4%	$ 6,268,958	57.8%	$ 5,476,608	60.2
ulti-family residential	273,071	2.6	324,602	3.1	232,203	2.2	193,711	1.6	182,510	1.7	169,860	1.9
and	53,920	.5	38,797	.4	32,558	.3	30,138	.3	105,504	.9	22,582	.2
ommercial real estate	1,455,864	13.9	1,324,748	12.6	1,138,038	10.7	985,008	8.3	756,412	7.0	494,325	5.4
otal	6,117,483	58.4	6,125,913	58.2	6,418,168	60.2	7,893,850	66.6	7,313,384	67.4	6,163,375	67.7
onstruction loans												
ngle-family residential	294,962	2.9	304,638	2.9	258,972	2.4	245,302	2.1	241,548	2.2	279,437	3.1
ulti-family residential	133,248	1.3	120,826	1.1	99,041	.9	51,845	.4	25,893	.2	2,979	-
and	182,261	1.7	178,675	1.7	143,602	1.4	121,396	1.0	-	-	2,803	-
ommercial real estate	159,627	1.5	179,312	1.7	215,979	2.0	152,260	1.3	78,908	.8	40,479	.5
otal	770,098	7.4	783,451	7.4	717,594	6.7	570,803	4.8	346,349	3.2	325,698	3.6
HA and VA loans	270,825	2.6	270,193	2.6	351,376	3.3	579,021	4.9	463,437	4.3	468,503	5.1
otal real estate loans	7,158,406	68.4	7,179,557	68.2	7,487,138	70.2	9,043,674	76.3	8,123,170	74.9	6,957,576	76.4
ortgage-backed securities	1,632,622	15.6	1,829,728	17.4	1,514,510	14.2	1,221,831	10.3	1,277,575	11.8	1,083,789	11.9
otal real estate loans and ortgage-backed securities	8,791,028	84.0	9,009,285	85.6	9,001,648	84.4	10,265,505	86.6	9,400,745	86.7	8,041,365	88.3
onsumer, commercial and her loans												
ome improvement and her consumer loans	1,480,486	14.1	1,330,877	12.6	1,361,354	12.8	1,292,806	10.9	1,114,583	10.3	809,671	8.9
ommercial loans	187,647	1.8	170,280	1.6	228,426	2.1	179,703	1.5	186,242	1.7	155,617	1.8
avings account loans	10,450	.1	18,598	.2	22,589	.2	21,297	.2	19,125	.2	21,948	.2
eases	117		160		53,836	.5	94,694	.8	122,704	1.1	73,395	.8
otal consumer and other ans	1,678,700	16.0	1,519,915	14.4	1,666,205	15.6	1,588,500	13.4	1,442,654	13.3	1,060,631	11.7
otal loans	$ 10,469,728	100.0%	$ 10,529,200	100.0%	$ 10,667,853	100.0%	$ 11,854,005	100.0%	$ 10,843,399	100.0%	$ 9,101,996	100.0

(Continued on next page)

Composition of Loan Portfolio (continued)

	December 31,						June 30,					
	2002		2001		2000		2000		1999		1998	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in Thousands)											
Balance forward of total loans	$ 10,469,728	100.0%	$ 10,529,200	100.0%	$ 10,667,853	100.0%	$ 11,854,005	100.0%	$ 10,843,399	100.0%	$ 9,101,996	100.0%
Add (subtract):												
Unamortized premiums, net of discounts	16,055		8,984		160		(670)		10,138		14,161	
Unearned income							(16,730)		(22,543)		(13,253)	
Deferred loan costs, net	8,617		5,819		20,250		26,374		11,809		24,178	
Fair market valuation	17,867		1,175									
Loans in process	(201,769)		(209,574)		(196,940)		(164,313)		(153,124)		(112,781)	
Allowance for loan losses	(106,291)		(102,451)		(83,439)		(70,556)		(80,419)		(64,757)	
Allowance for losses on mortgage-backed securities							(280)		(322)		(419)	
Loan portfolio	$ 10,204,207		$ 10,233,153		$ 10,407,884		$ 11,627,830		$ 10,608,938		$ 8,949,125	

For additional information regarding the Corporation s loan portfolio and mortgage-backed securities, see Note 3 Mortgage-Backed Securities, Note 4 Loans Held for Sale and Note 5 Loans Receivable to the Consolidated Financial Statements under Item 8 of this Report.

The table below sets forth the geographic distribution of the Corporation s total real estate loan portfolio (excluding mortgage-backed securities, consumer and other loans, and before any reduction for unamortized premiums (net of discounts), undisbursed loan proceeds, deferred loan costs, unearned income and allowance for loan losses) as of the dates indicated:

	December 31,						June 30,					
	2002		2001		2000		2000		1999		1998	
State	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in Thousands)											
Colorado	$ 1,165,297	16.3%	$ 1,302,407	18.1%	$ 1,436,156	19.2%	$ 1,647,963	18.2%	$ 1,686,667	20.8%	$ 1,710,256	24.6%
Iowa	829,101	11.6	776,131	10.8	716,499	9.6	818,293	9.0	737,677	9.1	676,099	9.7
Nebraska	718,466	10.0	735,495	10.2	723,068	9.7	1,073,664	11.9	1,014,198	12.5	985,906	14.2
Kansas	625,109	8.7	668,161	9.3	658,366	8.8	954,020	10.5	860,740	10.6	678,734	9.8
Arizona	464,294	6.5	437,640	6.1	381,628	5.1	351,001	3.9	253,480	3.1	180,740	2.6
Massachusetts	424,513	5.9	156,477	2.2	203,742	2.7	188,500	2.1	62,233	.8	55,902	.8
Missouri	391,314	5.5	395,378	5.5	345,931	4.6	380,653	4.2	329,985	4.1	185,282	2.7
Oklahoma	353,780	4.9	363,114	5.1	378,789	5.1	459,315	5.1	382,474	4.7	318,198	4.6
Nevada	226,695	3.2	232,017	3.2	253,057	3.4	207,364	2.3	160,643	2.0	130,159	1.9
Georgia	180,924	2.5	198,719	2.8	254,097	3.4	302,929	3.3	232,128	2.9	227,971	3.3
Virginia	179,119	2.5	159,396	2.2	153,731	2.0	240,818	2.7	206,814	2.5	161,793	2.3
California	151,489	2.1	196,487	2.7	180,254	2.4	192,598	2.1	247,835	3.0	148,401	2.1
Minnesota	144,629	2.0	120,501	1.7	120,579	1.6	125,979	1.4	92,964	1.1	62,765	.9
Texas	132,126	1.9	185,555	2.6	188,700	2.5	205,783	2.3	184,313	2.3	158,614	2.3
Maryland	129,417	1.8	121,036	1.7	123,827	1.7	208,833	2.3	183,460	2.2	157,180	2.3
Florida	123,334	1.7	170,526	2.4	191,265	2.6	268,492	3.0	242,972	3.0	123,528	1.8
Ohio	90,880	1.3	100,478	1.4	110,181	1.5	143,992	1.6	122,146	1.5	93,325	1.3
Washington	88,694	1.2	89,053	1.2	99,303	1.3	113,932	1.3	93,956	1.2	91,670	1.3
Illinois	80,768	1.1	72,156	1.0	102,066	1.3	137,217	1.5	131,098	1.6	111,142	1.6
North Carolina	79,401	1.1	115,151	1.6	148,086	2.0	135,085	1.5	118,207	1.4	60,634	.9
Michigan	68,453	1.0	41,601	.6	66,295	.9	55,349	.6	29,505	.4	38,495	.5
Alabama	63,028	.9	74,949	1.0	86,709	1.1	125,767	1.4	90,675	1.1	50,285	.7
Connecticut	61,480	.9	57,582	.8	66,068	.9	83,567	.9	71,696	.9	64,975	.9
Utah	35,396	.5	37,459	.5	36,510	.5	53,060	.6	39,336	.5	25,444	.4
New Jersey	28,439	.4	38,876	.5	54,139	.7	71,352	.8	82,068	1.0	98,061	1.4
Pennsylvania	27,313	.4	31,376	.5	40,319	.5	51,811	.6	55,130	.7	59,083	.8
Indiana	21,066	.3	28,293	.4	38,986	.5	63,255	.7	66,727	.8	40,357	.6
New York	16,318	.2	21,296	.3	27,439	.4	31,548	.3	39,146	.5	38,382	.5
Other states	257,563	3.6	252,247	3.6	301,348	4.0	351,534	3.9	304,897	3.7	224,195	3.2
Total	$ 7,158,406	100.0%	$ 7,179,557	100.0%	$ 7,487,138	100.0%	$ 9,043,674	100.0%	$ 8,123,170	100.0%	$ 6,957,576	100.0%

The following table presents the composition of the Corporation s total real estate portfolio (excluding mortgage-backed securities, consumer and other loans, and before any reduction for unamortized premiums (net of discounts), undisbursed loan proceeds, deferred loan costs, unearned income and allowance for loan losses) by state and property type at December 31, 2002:

State	Conventional Residential 1-4 Units	FHA/VA Residential Loans	Multi-Family	Land Loans	Sub Total	Commercial Real Estate Loans	Total	% of Total
	(Dollars in Thousands)							
Colorado	$ 611,720	$ 17,972	$ 85,165	$ 36,154	$ 751,011	$ 414,286	$ 1,165,297	16.3%
Iowa	433,705	11,485	68,235	60,403	573,828	255,273	829,101	11.6
Nebraska	501,175	41,394	36,652	16,131	595,352	123,114	718,466	10.0
Kansas	401,572	52,021	31,616	7,902	493,111	131,998	625,109	8.7
Arizona	242,331	14,829	18,919	34,487	310,566	153,728	464,294	6.5
Massachusetts	422,960		474		423,434	1,079	424,513	5.9
Missouri	202,431	21,017	46,100	6,038	275,586	115,728	391,314	5.5
Oklahoma	184,753	12,656	55,633	7,321	260,363	93,417	353,780	4.9
Nevada	65,676	2,592	26,675	65,465	160,408	66,287	226,695	3.2
Georgia	154,687	9,795			164,482	16,442	180,924	2.5
Virginia	172,478	6,641			179,119		179,119	2.5
California	74,058	2,769	7,174	52	84,053	67,436	151,489	2.1
Minnesota	121,501	4,380	6,675	184	132,740	11,889	144,629	2.0
Texas	60,744	7,531	3,746		72,021	60,105	132,126	1.9
Maryland	117,257	11,945			129,202	215	129,417	1.8
Florida	90,508	3,198	6,931		100,637	22,697	123,334	1.7
Ohio	86,399	2,814	1,198		90,411	469	90,880	1.3
Washington	75,167	9,044	793		85,004	3,690	88,694	1.2
Illinois	76,033	4,433		24	80,490	278	80,768	1.1
North Carolina	66,029	861			66,890	12,511	79,401	1.1
Michigan	64,423	3,490			67,913	540	68,453	1.0
Alabama	55,838	7,190			63,028		63,028	.9
Connecticut	56,701	107	2,417	2,006	61,231	249	61,480	.9
Utah	20,992	7,514	935		29,441	5,955	35,396	.5
New Jersey	27,923	516			28,439		28,439	.4
Pennsylvania	25,123	1,970	206	14	27,313		27,313	.4
Indiana	16,265	4,801			21,066		21,066	.3
New York	11,967	54			12,021	4,297	16,318	.2
Other states	189,174	7,806	6,775		203,755	53,808	257,563	3.6
Total	$ 4,629,590	$ 270,825	$ 406,319	$ 236,181	$ 5,542,915	$ 1,615,491	$ 7,158,406	100.0%
% of Total	64.7%	3.8%	5.6%	3.3%	77.4%	22.6%	100.0%	

Contractual Principal Repayments

The following table sets forth certain information at December 31, 2002, regarding the dollar amount of all loans and mortgage-backed securities maturing in the Corporation s portfolio based on contractual terms to maturity. This repayment information excludes scheduled payments or an estimate of possible prepayments. 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 and mortgage-backed securities, management believes that the following table will bear little resemblance to what will be the actual repayments. Loan balances have not been reduced for (1) unamortized premiums (net of discounts), undisbursed loan proceeds, deferred loan costs and allowance for loan losses or (2) nonperforming loans.

	Due During the Year Ended December 31,			
	2003	2004-2007	After 2007	Total
	(In Thousands)			
Principal Repayments				
Real estate loans:				
Single-family residential (1)				
Fixed-rate	$ 73,390	$ 184,939	$ 2,288,951	$ 2,547,280
Adjustable-rate	23,689	36,259	1,998,225	2,058,173
Multi-family residential, land and commercial real estate				
Fixed-rate	74,533	472,665	200,403	747,601
Adjustable-rate	71,987	103,915	859,352	1,035,254
	243,599	797,778	5,346,931	6,388,308
Construction loans:				
Fixed-rate	108,821	12,487	6,488	127,796
Adjustable-rate	613,380	6,495	22,427	642,302
	722,201	18,982	28,915	770,098
Consumer and other loans:				
Fixed-rate	74,349	735,960	555,108	1,365,417
Adjustable-rate	76,919	23,124	213,240	313,283
	151,268	759,084	768,348	1,678,700
Mortgage-backed securities:				
Fixed-rate	100,786	473,190	906,056	1,480,032
Adjustable-rate	3,640	16,666	132,284	152,590
	104,426	489,856	1,038,340	1,632,622
Total principal repayments	$ 1,221,494	$ 2,065,700	$ 7,182,534	$ 10,469,728

(1) Includes conventional, FHA and VA mortgage loans.

Scheduled contractual principal repayments do not reflect the actual maturities of the assets. The average maturity of loans is substantially less than their average contractual terms. This is due primarily to prepayments and, in the case of conventional mortgage loans, due-on-sale clauses, which generally give the Corporation the right to declare a loan immediately due and payable in the event that the borrower sells the real property subject to the mortgage and the loan is not repaid. The average life of mortgage loans tends to increase when current mortgage loan rates are substantially higher than rates on existing mortgage loans and, conversely, decrease when rates on existing mortgage loans are substantially higher than current mortgage loan rates. Under the latter circumstances, the weighted average yield on loans decreases as higher yielding loans are repaid.

The following table sets forth the amount of all loans and mortgage-backed securities due after December 31, 2003 (January 1, 2004, and thereafter), which have fixed interest rates and those which have adjustable interest rates. These loans and mortgage-backed securities have not been reduced for (1) unamortized premiums (net of discounts), undisbursed loan proceeds, deferred loan costs and allowance for loan losses or (2) nonperforming loans.

	Fixed-Rate	Adjustable Rate	Total
		(In Thousands)	
Real estate loans:			
Single-family residential	$ 2,473,890	$ 2,034,484	$ 4,508,374
Multi-family residential, land and commercial real estate	673,068	963,267	1,636,335
Construction loans	18,975	28,922	47,897
Consumer and other loans	1,291,068	236,364	1,527,432
Mortgage-backed securities	1,379,246	148,950	1,528,196
Total principal repayments due after December 31, 2003	$ 5,836,247	$ 3,411,987	$ 9,248,234

Residential Loans

The Corporation originates and purchases both fixed-rate and adjustable-rate mortgage loans secured by single-family units through its branch network, its loan offices and a nationwide correspondent network. Such residential mortgage loans are either:

- 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

- FHA/VA loans which qualify for sale in the form of securities guaranteed by GNMA.

The Corporation originates substantially all conforming or nonconforming loans with loan-to-value ratios at or below 80.0% unless the borrower obtains private mortgage insurance (which premium the borrower pays with their mortgage payment) for the Corporation s benefit covering that portion of the loan in excess of 80.0% of the appraised value or purchase price, whichever is less. Occasional exceptions to the 80.0% loan-to-value ratio for mortgage loans are made for loans to facilitate the resolution of nonperforming assets.

Fixed-rate residential mortgage loans generally are originated with terms of 15 and 30 years and are amortized on a monthly basis with principal and interest due each month. Adjustable-rate residential mortgage loans are also originated with terms of 15 and 30 years. However, certain adjustable-rate loans contain provisions which permit the borrower, at the borrower s option, to convert at certain periodic intervals over the life of the loan to a long-term fixed-rate loan. The adjustable-rate loans generally have interest rates which are scheduled to adjust at six and 12 month intervals based upon various indices, including the Treasury Constant Maturity Index or the Eleventh District Federal Home Loan Bank Cost of Funds Index. The amount of any such interest rate increase is limited to one or two percentage points annually and four to six percentage points over the life of the loan. Certain adjustable-rate loans are also offered which have interest rates fixed over annual periods ranging from two through seven years, in addition to ten years, with such loans repricing annually after the fixed interest-rate term. The Corporation applies its underwriting criteria to such loans based on the amount of the loan for which the borrower could qualify at the indexed rate. At December 31, 2002, approximately ..90%, or $43.9 million, of the Corporation s residential real estate loan portfolio was 90 days or more delinquent compared to .99%, or $49.9 million, at December 31, 2001.

Construction Loans

During the years ended December 31, 2002 and 2001, the six months ended December 31, 2000, and the fiscal year ended June 30, 2000, the Corporation originated $792.3 million, $728.4 million, $342.1 million and $608.1 million, respectively, of construction loans. The Corporation conducts its construction lending operations in its primary market areas and Las Vegas, Nevada. The residential construction lending operations, which loans are subject to prudent credit review and other underwriting standards and procedures, are expected to continue to increase over prior periods. At December 31, 2002, approximately .52%, or $2.3 million, of the Corporation s residential construction loan portfolio was 90 days or more delinquent compared to .53%, or $3.0 million, at December 31, 2001.

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.

Commercial Real Estate and Land Loans

The Corporation originated commercial real estate and land loans totaling $805.6 million, $768.6 million, $291.2 million and $347.0 million, respectively, during the years ended December 31, 2002 and 2001, the six months ended December 31, 2000, and the fiscal year ended June 30, 2000. 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 economic conditions, business cycle downturns and construction related risks. 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. At December 31, 2002, approximately .98%, or $18.1 million, of the Corporation s commercial real estate and land loans were 90 days or more delinquent compared to 1.36%, or $23.3 million, at December 31, 2001.

The aggregate amount of loans which a federal savings institution may make on the security of liens on nonresidential real property may not exceed 400.0% of the institution s total risk-based capital as determined under current regulatory capital standards. This limitation totaled approximately $3.5 billion at December 31, 2002, compared to $1.9 billion of commercial real estate and land loans outstanding at December 31, 2002. This restriction has not and is not expected to materially affect the Corporation s business.

Consumer Loans

Federal regulations permit federal savings institutions to make secured and unsecured consumer loans up to 35.0% of an institution s total regulatory assets. Any loans in excess of 30.0% of assets may only be made directly to the borrower and cannot involve the payment of any finders or referral fees. In addition, a federal savings institution has lending authority above the 35.0% category for certain consumer loans, such as home equity loans, property improvement loans, mobile home loans and savings account secured loans. Consumer loans originated by the Corporation are primarily second mortgage loans, loans to depositors on the security of their savings accounts and loans secured by automobiles. The Corporation has increased its secured consumer lending activities in order to meet its customers financial needs and will continue to increase such lending activities in the future in its primary market areas.

Consumer loans entail greater risk than do residential mortgage loans, particularly in the case of consumer loans which are unsecured or secured by rapidly depreciable assets such as automobiles. 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 further 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 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. Such loans may also give rise to claims and defenses by a consumer loan borrower against an assignee of such loans such as the Corporation, and a borrower may be able to assert against such assignee claims and defenses which it has against the seller of the underlying collateral. At December 31, 2002, approximately ..48%, or $8.1 million, of the Corporation s consumer loans are 90 days or more delinquent compared to .44%, or $6.9 million, at December 31, 2001.

Loan Sales

In addition to originating loans for its portfolio, the Corporation participates in secondary mortgage market activities by selling whole and securitized loans to institutional investors or other financial institutions with the Corporation generally retaining the right to service such loans. Substantially all of the Corporation s secondary mortgage market activity is with GNMA, FNMA and FHLMC. Conventional conforming loans are either sold for cash as individual whole loans to FNMA or FHLMC, or pooled in exchange for securities issued by FNMA or FHLMC which are then sold to investment banking firms. FHA and VA loans are originated or purchased by the Corporation and either are retained for the Corporation s real estate loan portfolio or are pooled to form GNMA securities which are subsequently sold to investment banking firms or retained by the Bank.

During the years ended December 31, 2002 and 2001, the six months ended December 31, 2000, and the fiscal year ended June 30, 2000, the Corporation sold an aggregate of $3.4 billion, $2.7 billion, $2.3 billion and $762.1 million, respectively, in mortgage loans. These sales resulted in net realized gains during calendar years 2002 and 2001 totaling $28.5 million and $4.8 million, respectively, and net losses of $18.0 million and $110,000, respectively, during the six months ended December 31, 2000, and the fiscal year ended June 30, 2000. Of the amount of mortgage loans sold during the years ended December 31, 2002 and 2001, the six months ended December 31, 2000, and fiscal year 2000, $3.3 billion, $2.3 billion, $2.2 billion and $742.4 million, respectively, were sold in the secondary market, and the remaining balances were sold to other institutional investors. At December 31, 2002, the carrying value of loans held for sale totaled $868.6 million compared to $337.1 million at December 31, 2001.

Mortgage loans are generally sold in the secondary mortgage market without recourse to the Corporation in the event of borrower default, subject to certain limitations applicable to VA loans. Historical losses realized by the Corporation as a result of limitations applicable to VA loans have been immaterial on an annual basis. However, in connection with a 1987 acquisition of a financial institution, the Bank assumed agreements providing for recourse in the event of default on obligations transferred in connection with sales of certain securities by such institution. At December 31, 2002 and 2001, the remaining balance of these loans sold with recourse totaled $4.3 million and $8.8 million, respectively.

Loan Activity

The following table sets forth the Corporation s loan and mortgage-backed securities activity for the periods as indicated:

	Year Ended December 31, 2002	Year Ended December 31, 2001	Six Months Ended December 31, 2000	Year Ended June 30, 2000
	(In Thousands)			
Originations:				
Real estate loans-				
Residential loans	$ 1,601,121	$ 1,201,279	$ 357,465	$ 672,295
Construction loans	792,290	728,432	342,102	608,145
Commercial real estate and land loans	805,639	768,578	291,237	346,979
Consumer and other loans	1,058,210	1,343,577	530,862	1,289,878
Loans originated	$ 4,257,260	$ 4,041,866	$ 1,521,666	$ 2,917,297
Purchases:				
Mortgage loans-				
Residential loans	$ 3,611,685	$ 2,569,630	$ 718,495	$ 1,697,395
Bulk residential loan purchases				207,494
Commercial loans		19,075	9,968	51,267
Mortgage-backed securities	818,299	1,074,215	909,599	160,073
Loans purchased	$ 4,429,984	$ 3,662,920	$ 1,638,062	$ 2,116,229
Securitizations:				
Mortgage loans securitized into mortgage-backed securities held by the Bank	$ 76,947	$ 41,910	$ 3,543	$ 42,635
Sales:				
Mortgage loans	$ 3,361,384	$ 2,736,379	$ 2,282,895	$ 762,070
Mortgage-backed securities	50,739	93,281	549,834	
Loans sold	$ 3,412,123	$ 2,829,660	$ 2,832,729	$ 762,070

Loan Servicing for Other Institutions

The Corporation services substantially all of the mortgage loans that it originates and purchases (whether retained for the Bank s portfolio or sold in the secondary market), thereby generating ongoing loan servicing fees. The Corporation also periodically purchases mortgage servicing rights.

At December 31, 2002, the Corporation was servicing approximately 136,200 loans and participations for others with principal balances aggregating $11.5 billion, compared to 133,400 loans and participations for others with principal balances totaling $9.5 billion at December 31, 2001.

Loan servicing includes collecting and remitting loan payments, accounting for principal and interest, holding escrow (impound funds) for payment of taxes and insurance, making inspections as required of the mortgage premises, collecting amounts due from delinquent mortgagors, supervising foreclosures in the event of unremedied defaults and generally administering the loans for the investors to whom they have been sold.

The Corporation receives fees for servicing mortgage loans for others, ranging generally from .18% to .57% per annum on the declining principal balances of the loans. The average service fee collected by the Corporation was .33%, .35%, .36% and .39%, respectively, for the years ended December 31, 2002 and 2001, the six months ended December 31, 2000, and the fiscal year ended June 30, 2000. The Corporation s servicing portfolio is subject to reduction primarily by reason of normal amortization and prepayment of outstanding mortgage loans. In general, the value of the Corporation s loan servicing portfolio may also be adversely affected as mortgage interest rates decline and loan prepayments increase. It is expected that income generated from the Corporation s loan servicing portfolio also will decline in such an environment. This negative effect on the Corporation s income may be offset somewhat by a rise in origination and servicing fee income attributable to new loan originations, which historically have increased in periods of low mortgage interest rates. The weighted average mortgage loan note rate of the Corporation s servicing portfolio at December 31, 2002, was 6.82% compared to 7.16% at December 31, 2001.

At December 31, 2002 and 2001, approximately 95.3% and 92.9%, respectively, of the Corporation s mortgage servicing portfolio for other institutions was covered by servicing agreements pursuant to the mortgage-backed securities programs of GNMA, FNMA and FHLMC. Under these agreements, the Corporation may be required to advance funds temporarily to make scheduled payments of principal, interest, taxes or insurance if the borrower fails to make such payments. Although the Corporation cannot charge any interest on these advanced funds, the Corporation typically recovers the advances within a reasonable number of days upon receipt of the borrower s payment, or in the absence of such payment, advances are recovered through FHA insurance, VA guarantees or FNMA or FHLMC reimbursement provisions in connection with loan foreclosures. During the years ended December 31, 2002 and 2001, the average amount of funds advanced by the Corporation pursuant to servicing agreements totaled approximately $4.3 million and $2.4 million, respectively.

Interest Rates and Loan Fees

Interest rates charged by the Corporation on its loans are primarily determined by secondary market yield requirements and competitive loan rates offered in its lending areas. In addition to interest earned on loans, the Corporation receives loan origination fees for originating certain loans. These fees are a percentage of the principal amount of the mortgage loan and are charged to the borrower.

Loan Commitments

At December 31, 2002, the Corporation had issued commitments totaling $1.4 billion, excluding the undisbursed portion of loans in process, to fund and purchase loans and to extend credit on consumer and commercial unused lines of credit. These commitments are generally expected to settle within three months following December 31, 2002. These outstanding loan commitments to extend credit do not necessarily represent future cash requirements since many of the commitments may expire without being drawn. Additionally, mortgage loan commitments included in total commitments include loans in the process of approval for which the Corporation has rate lock commitments. The Corporation anticipates that normal amortization and prepayments of loan and mortgage-backed security principal will be sufficient to fund these loan commitments. See MD&A Liquidity and Capital Resources under Item 7 of this Report.

Collection Procedures

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 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.

Asset Quality

Nonperforming Assets

Loans are reviewed on a regular basis and, except for first mortgage loans and credit cards, are placed on a nonaccruing status when either principal or interest is 90 days or more past due. Interest accrued and unpaid at the time a loan is placed on nonaccruing status is charged against interest income. Subsequent payments are generally first applied to interest income up to the amount charged off and then to the outstanding principal balance. First mortgage loans are placed on a nonaccruing status if four or more monthly payments are missed. Credit cards continue to accrue interest up to 120 days past due at which time the credit card balance plus accrued interest are charged off.

Real estate acquired by the Corporation as a result of foreclosure or by deed in lieu of foreclosure is classified as real estate owned. 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.

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 economic 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. In these circumstances, 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 troubled debt restructuring is a loan on 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. A loan classified as a troubled debt restructuring may be reclassified as current if such loan has returned to a performing status at a market rate of interest for at least eight to twelve 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. Such loan balances decreased to $1.5 million at December 31, 2002, compared to $3.1 million at December 31, 2001, and $4.3 million at December 31, 2000.

The Corporation s nonperforming assets totaled $114.0 million at December 31, 2002, a decrease of $17.5 million, or 13.3%, compared to December 31, 2001. This decrease is due to decreases totaling $10.7 million in nonperforming loans, $5.2 million in real estate owned and $1.6 million in troubled debt restructurings. At December 31, 2001, nonperforming assets totaled $131.5 million, an increase of $17.7 million, or 15.6%, compared to December 31, 2000. This increase is the result of a net increase totaling $19.2 million in real estate owned partially offset by net decreases in troubled debt restructurings and nonperforming loans totaling $1.2 million and $299,000, respectively. At December 31, 2000, nonperforming assets totaled $113.8 million, an increase of $25.1 million, or 28.3% compared to June 30, 2000, primarily as a result of an increase of $29.9 million in nonperforming loans partially offset by decreases of $3.6 million in real estate owned and $1.1 million in troubled debt restructurings. For a discussion of the major components of the changes in nonperforming assets at December 31, 2002, compared to December 31, 2001, see MD&A Provision for Loan Losses and Real Estate Operations under Item 7 of this Report.

The following table sets forth information with respect to the Corporation s nonperforming assets as follows:

	December 31,			June 30,		
	2002	2001	2000	2000	1999	1998
	(Dollars in Thousands)					
Loans accounted for on a nonaccrual basis: (1)						
Real estate						
Residential (2)	$ 46,394	$ 52,792	$ 68,978	$ 37,535	$ 49,061	$ 43,212
Commercial	17,890	23,423	4,446	2,550	12,220	1,369
Consumer and other loans	8,130	6,929	10,019	13,466	8,734	4,785
Total nonperforming loans	72,414	83,144	83,443	53,551	70,015	49,366
Real estate:						
Commercial	2,550	8,762	10,198	12,862	8,880	8,945
Residential	37,458	36,446	15,824	16,803	14,384	8,821
Total	40,008	45,208	26,022	29,665	23,264	17,766
Troubled debt restructurings: (3)						
Commercial	1,547	3,057	4,195	5,259	9,534	3,524
Residential		84	90	172	195	778
Total	1,547	3,141	4,285	5,431	9,729	4,302
Nonperforming assets	$ 113,969	$ 131,493	$ 113,750	$ 88,647	$ 103,008	$ 71,434
Nonperforming loans to total loans (4)	.82%	.96%	.91%	.50%	.73%	.62%
Nonperforming assets to total assets	.87%	1.02%	.91%	.64%	.81%	.69%
Allowance for loan losses	$ 106,291	$ 102,451	$ 83,439	$ 70,556	$ 80,419	$ 64,757
Allowance for loan losses to:						
Total loans (4)	1.20%	1.18%	.91%	.66%	.84%	.81%
Total nonperforming assets	93.26%	77.91%	73.35%	79.59%	78.07%	90.65%
Total nonperforming loans	146.78%	123.22%	100.00%	131.75%	114.86%	131.18%
Nonresidential nonperforming assets	352.93%	242.94%	289.14%	206.68%	204.28%	347.73%

(1) No interest income was recorded on loans contractually past due 90 days or more during the years ended December 31, 2002 and 2001, the six months ended December 31, 2000, or during the fiscal years ended June 30, 2000, 1999 and 1998. Had these nonaccruing loans been current in accordance with their original terms and outstanding throughout this year or since origination, the Corporation would have recorded gross interest income on these loans totaling $6.5 million, $6.4 million, $5.3 million, $3.8 million, $4.2 million and $4.3 million, respectively, during the aforementioned periods.

(2) Nonperforming residential real estate loans at December 31, 2001 and 2000, and June 30, 2000, have been restated due to a change in determining past due loans. During 2002, the Corporation changed its method of determining delinquent residential real estate loans to a method where the number of days past due are determined by the number of contractually delinquent loan payments. Previous to this change, the Corporation utilized a methodology where the loan system converted monthly loan payments missed on a loan to days past due. This change in determining these delinquent loans conforms the Corporation s reporting with the Bank s regulatory thrift financial reporting. This change in methods reduced nonperforming residential real estate loans previously reported by $10.7 million, $12.4 million and $11.5 million, respectively, at December 31, 2001 and 2000, and June 30, 2000. The June 30, 1999 and 1998, balances have not been restated.

(3) During the years ended December 31, 2002 and 2001, the six months ended December 31, 2000, and the fiscal years ended June 30, 2000, 1999 and 1998, the Corporation recognized interest income on loans classified as troubled debt restructurings aggregating $224,000, $236,000, $176,000, $430,000, $470,000 and $380,000, respectively, whereas under their original terms the Corporation would have recognized interest income of $255,000, $268,000, $194,000, $494,000, $526,000 and $499,000, respectively. At December 31, 2002, the Corporation had no commitments to lend additional funds to borrowers whose loans were subject to troubled debt restructuring.

(4) Based on the total balance of loans receivable (before any adjustments for unamortized premiums net of discounts, undisbursed loan proceeds, deferred loan costs and allowance for loan losses) at the respective dates.

The geographic concentration of nonperforming loans as of the dates indicated was as follows:

	December 31,			June 30,		
State	**2002**	**2001**	**2000**	**2000**	**1999**	**1998**
	(In Thousands)					
Iowa	$ 9,716	$ 8,589	$ 11,367	$ 12,135	$ 6,111	$ 4,013
Oklahoma	9,622	2,440	3,000	2,070	3,568	3,178
Kansas	9,074	15,542	5,528	3,966	15,552	6,030
Nevada	6,650	10,122	23,932	1,656	1,651	1,198
Nebraska	3,525	5,028	2,999	2,140	2,455	2,595
Maryland	3,134	3,667	2,925	3,334	2,712	2,258
Florida	3,093	2,999	3,422	3,628	4,356	1,502
Colorado	2,242	5,527	1,725	1,712	2,646	4,065
Texas	2,058	2,236	1,304	1,524	1,378	2,028
Arizona	1,953	2,423	1,111	572	450	1,195
Alabama	1,939	2,075	1,741	1,145	863	1,307
Virginia	1,901	1,741	1,864	2,126	1,691	1,479
Ohio	1,852	1,986	2,651	2,271	1,818	722
Georgia	1,686	2,854	3,127	2,036	2,752	2,127
North Carolina	1,314	656	1,479	1,056	907	293
Missouri	1,296	1,841	1,433	900	3,241	1,944
Illinois	1,209	1,048	1,212	866	1,325	1,579
California	1,100	1,159	2,505	2,082	3,988	3,377
Pennsylvania	671	943	646	814	844	852
Minnesota	633	804	499	313	590	1,004
Michigan	527	442	471	497	725	310
Washington	473	830	588	509	690	182
Connecticut	365	1,013	432	253	605	752
New Jersey	361	556	934	972	1,414	1,277
New York	276	457	980	771	686	671
Other states	5,744	6,166	5,568	4,203	6,997	3,428
Nonperforming loans	$ 72,414	$ 83,144	$ 83,443	$ 53,551	$ 70,015	$ 49,366

Nonperforming loans at December 31, 2002, consisted of the following types and number of loans:

	Amount	**Number of Loans**
	(Dollars in Thousands)	
Residential real estate loans	$ 43,939	750
Commercial real estate loans	15,306	40
Residential construction loans	2,243	10
Commercial construction loans	2,796	3
Consumer loans	4,820	467
Agricultural loans	1,865	23
Commercial and other operating loans	1,334	28
Small business loans	111	3
	$ 72,414	1,324

The geographic concentration of nonperforming real estate as of the dates indicated was as follows:

	December 31,			June 30,		
State	2002	2001	2000	2000	1999	1998
	(In Thousands)					
Nevada	$ 22,182	$ 21,892	$ 167	$ 333	$ 657	$ 138
Iowa	2,799	2,167	1,905	2,016	3,595	1,345
Missouri	2,427	4,593	4,147	8,725	4,811	465
Kansas	1,980	1,580	6,997	5,753	1,809	1,876
Nebraska	1,685	1,691	944	796	1,196	5,417
Illinois	1,465	1,539	1,955	2,179	2,069	373
Oklahoma	1,257	955	770	1,913	1,292	1,299
Georgia	694	1,051	451	386	301	140
Colorado	591	444	791	1,119	2,768	2,825
Florida	583	702	1,410	1,422	1,180	297
Arizona	462	4,417	401	171	582	
Maryland	446	823	839	531	471	1,315
Ohio	345	706	967	550	678	
Pennsylvania	199	336	79	126	377	111
Minnesota	89	78	99	163	627	456
New Jersey	80	21	269	102	122	317
Indiana	68	62	431	559	395	29
California	67	69	443	626	1,098	52
Texas	5	9	525	503	85	445
Other states	2,584	2,073	2,432	1,917	2,224	1,338
Reserves				(225)	(3,073)	(472)
Nonperforming real estate	$ 40,008	$ 45,208	$ 26,022	$ 29,665	$ 23,264	$ 17,766

At December 31, 2002, nonperforming real estate totaling $40.0 million (432 properties) consisted of residential real estate totaling $37.5 million (418 properties) or 93.6% of the total and commercial real estate totaling $2.5 million (14 properties). The real estate located in Nevada primarily consists of a residential master planned community property totaling $22.2 million at December 31, 2002. The Corporation continues to develop and manage this property while listing such property for sale.

Under the Corporation s credit policies and practices, certain real estate loans meet the definition of impaired loans under Statement of Financial Accounting Standards No. 114, Accounting by Creditors for Impairment of a Loan and Statement of Financial Accounting Standards No. 118, Accounting by Creditors for Impairment of a Loan Income Recognition and Disclosures. A loan is considered impaired when it is probable that the Corporation, based upon current information, will not collect amounts due, both principal and interest, according to the contractual terms of the loan agreement. Loan impairment is measured based on the present value of expected future cash flows discounted at the loan s effective interest rate or, as a practical expedient, at the observable market price of the loan or the fair value of the collateral if the loan is collateral dependent. Certain loans are exempt from the provisions of the aforementioned accounting statements, including large groups of smaller-balance homogenous loans that are collectively evaluated for impairment which, for the Corporation, include one-to-four family first mortgage loans and consumer loans.

Loans reviewed for impairment by the Corporation are primarily commercial loans and loans modified in a troubled debt restructuring. The Corporation s impaired loan identification and measurement processes are conducted in conjunction with the Corporation s review of classified assets and adequacy of its allowance for possible loan losses. Specific factors utilized in the impaired loan identification process include, but are not limited to, delinquency status, loan-to-value ratio, debt coverage and certain other conditions pursuant to the

Corporation s classification policy. At December 31, 2002, the Corporation had impaired loans totaling $13.3 million, net of specific reserves. Troubled debt restructurings totaling $1.1 million, net of specific reserves totaling $475,000, are classified as impaired loans and included in the table for nonperforming assets. At December 31, 2001, impaired loans totaled approximately $17.3 million.

Classification of Assets

Savings institutions are required to review their assets on a regular basis and, as warranted, classify them as substandard, doubtful, or loss as defined by OTS regulations. Adequate valuation allowances are required to be established for assets classified as substandard or doubtful. If an asset is classified as a loss, the institution must either establish a specific valuation allowance equal to the amount classified as loss or charge off such amount. An asset which does not currently warrant classification as substandard but which possesses credit deficiencies or potential weaknesses deserving close attention is required to be designated as special mention. In addition, a savings institution is required to set aside adequate valuation allowances to the extent that any affiliate possesses assets which pose a risk to the savings institution. The OTS has the authority to approve, disapprove or modify any asset classification or any amount established as an allowance pursuant to such classification. The Corporation generally charges off the amount of loans classified as loss. At December 31, 2002, the Corporation had $75.3 million in assets classified as special mention, $146.6 million in assets classified as substandard, $3.6 million in assets classified as doubtful and no assets classified as loss. Substantially all nonperforming assets at December 31, 2002, are classified as substandard pursuant to applicable asset classification standards. Of the Corporation s loans which were not classified at December 31, 2002, 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.

Loan and Real Estate Review Policy

Management of the Corporation has the responsibility for establishing policies and procedures for the timely evaluation of the credit risk in the Corporation s loan and real estate portfolios. Management is also responsible for the determination of all specific and estimated provisions for loan losses and impairments for real estate losses, taking into consideration a number of factors, including changes in the composition of the Corporation s loan portfolio and real estate balances, current economic conditions, including real estate market conditions in the Corporation s lending areas that may affect the borrower s ability to make payments on loans, regular examinations by the Corporation s credit review team of the quality of the overall loan and real estate portfolios, and regular review of specific problem loans and real estate.

Management also has the responsibility of ensuring timely charge-offs of loan and real estate balances, as appropriate, when general and economic conditions warrant a change in the value of these loans and real estate. To ensure that credit risk is properly and timely monitored, this responsibility has been delegated to a credit review team which consists of key personnel of the Corporation knowledgeable in the specific areas of loan and real estate valuation.

The objectives of the credit review team are:

- to examine the risk of collectibility of the Corporation s loans and the likelihood of liquidation of real estate and other assets and their book value,
- to confirm problem assets at the earliest possible time,
- to assure an adequate level of allowances for loan losses to cover identified and anticipated credit risks,

to monitor the Corporation s compliance with established policies and procedures, and

to provide the Corporation s management with information obtained through the asset review process.

Effective January 1, 2002, the Corporation amended its policy for calculating reserves on the loan portfolio by classifying the credit risk of the portfolio into eight categories compared to six at December 31, 2001. Classes one through four represent varying degrees of pass rated credits, or minimal credit risk. Classes five (special mention), six (substandard), seven (doubtful) and eight (loss), mirror regulatory definitions and are consistent between all commercial loan types. Also, due to the increase in the size of the small business loan portfolio, such loans have been broken out from consumer loans and are subject to new reserve percentages. These changes were designed to more accurately reflect the inherent risk in the Corporation s loan portfolio and the current economic environment.

The credit review team analyzes all significant loans and real estate of the Corporation for appropriate levels of reserves on loans and impairment losses on real estate based on varying degrees of loan or real estate value weakness. These types of loans and real estate are assigned a credit risk rating as follows:

Credit Risk Rating Class	Credit Quality
One	Excellent
Two	Good
Three	Satisfactory
Four	Acceptable
Five	Special Mention
Six	Substandard
Seven	Doubtful
Eight	Loss

Loans with minimal credit risk (not adversely classified or with a credit risk rating of one to five) generally have reserves established on the basis of the Corporation s historical loss experience and various other factors. Loans adversely classified (substandard, doubtful, loss or with a credit risk rating of six to eight) have greater levels of reserves established, including specific reserves if applicable, to recognize impairment in the value of loans. Impairment losses are recorded on real estate when the fair value less estimated selling costs of the property is less than the carrying value of the property.

It is management s responsibility to maintain a reasonable allowance for loan losses applicable to all categories of loans through periodic charges to operations. Management employs a systematic methodology to determine the amount of specific allowances allocated to specific loans. Specific loans that are impaired, or any portion impaired, may be allocated a specific allowance equal to the amount of impairment or, instead of establishing a specific allowance, the impaired portion also may be 100% charged off when management determines such amount to be uncollectable. The estimated allowances established on each of the Corporation s specific pools of outstanding loan portfolios is based on a minimum and maximum percentage range of the specific portfolios as follows:

Type of Loan and Status	Minimum Loan Loss Percentage	Maximum Loan Loss Percentage
Residential real estate loans:		
Current	.15%	.25%
90 days delinquent (or classified substandard)	7.50	10.00
Commercial real estate loans:		
Class 1 excellent	.25	.50
Class 2 good	.60	1.20
Class 3 satisfactory	.85	1.70
Class 4 acceptable	1.35	2.70
Class 5 special mention	5.00	10.00

Class 6	substandard	10.00	20.00
Class 7	doubtful	50.00	100.00
Class 8	loss	100.00	100.00

Type of Loan and Status	Minimum Loan Loss Percentage	Maximum Loan Loss Percentage
Construction loans:		
Class 1 excellent	.30%	.60%
Class 2 good	.65	1.30
Class 3 satisfactory	.90	1.80
Class 4 acceptable	1.40	2.80
Class 5 special mention	5.00	10.00
Class 6 substandard	10.00	20.00
Class 7 doubtful	50.00	100.00
Class 8 loss	100.00	100.00
Commercial operating loans:		
Class 1 excellent	.45	.90
Class 2 good	.80	1.60
Class 3 satisfactory	1.05	2.10
Class 4 acceptable	1.55	3.10
Class 5 special mention	5.00	10.00
Class 6 substandard	10.00	20.00
Class 7 doubtful	50.00	100.00
Class 8 loss	100.00	100.00
Agricultural loans:		
Class 1 excellent	.55	1.10
Class 2 good	.90	1.80
Class 3 satisfactory	1.15	2.30
Class 4 acceptable	1.65	3.30
Class 5 special mention	5.00	10.00
Class 6 substandard	10.00	20.00
Class 7 doubtful	50.00	100.00
Class 8 loss	100.00	100.00
Consumer loans:		
Current auto	1.75	2.50
Current indirect	2.75	3.50
Current home equity	.75	1.50
Current all other	2.75	3.50
Substandard and 90 days delinquent	20.00	30.00
120 days delinquent (unsecured balances of consumer loans 120 days delinquent are generally written off)	100.00	100.00
Small business loans:		
Pass	2.00	4.00
Special mention	2.00	10.00
Substandard	30.00	50.00
Doubtful/loss	100.00	100.00
Credit card/taxsaver:		
Current standard	4.00	5.00
Current taxsaver	.75	1.50
Substandard and 90 days delinquent	20.00	30.00
120 days delinquent (credit cards 120 days delinquent are generally written off)	100.00	100.00
Commercial leases:		
Pass	2.00	4.00
Special mention	2.00	10.00
Substandard	30.00	50.00
Doubtful/loss	100.00	100.00

Allowance for Losses on Loans

The allowance for loan losses is based upon management s continuous evaluation of the collectibility of outstanding loans which takes into consideration such factors as changes in the composition of the loan portfolio and economic and business conditions that may affect the borrower s ability to pay, credit quality and delinquency trends, regular examinations by the Corporation s credit review team of specific problem loans and of the overall portfolio quality and real estate market conditions in the Corporation s lending areas.

Management determines the elements of the allowance through two methods. The first valuation process is the analysis of specific loans for individual impairment. This impairment is measured according to the provisions of Statements of Financial Accounting Standards No. 114, Accounting by Creditors for Impairment of a Loan and No. 118, Accounting by Creditors for Impairment of a Loan Income Recognition and Disclosures. Management applies specific monitoring policies and procedures that vary according to the relative risk profile and other characteristics of the loans within the various loan portfolios. Management completes periodic specific credit evaluations on commercial real estate, construction, commercial operating, and agricultural loans and loan relationships with committed balances in excess of $1.0 million. Management reviews these loans to assess the ability of the borrower to service all principal and interest obligations and, as a result, may adjust the risk grade accordingly and the corresponding classification. Loans and loan relationships in these portfolios which possess, in management s estimation, potential or well defined weaknesses which could affect the full collection of the Corporation s contractual principal and interest are evaluated under more stringent reporting and oversight procedures. These specific loans are classified as either special mention, substandard, doubtful or loss. The loans, or a portion of a loan, classified as loss are allocated a specific allowance equal to 100% of the amount of the loan, or such loan is charged off.

The second valuation process in determining the estimated allowance is based on minimum and maximum range percentages applied to each of the Corporation s pools of outstanding loan portfolios. The Corporation s residential, consumer and credit card portfolios are relatively homogenous. Generally, no single loan is individually significant in terms of its size or potential loss. Therefore, management reviews these portfolios by analyzing their performance as a specific pool against which management estimates an allowance for impairment. Management s determination of the level of the reserve within the minimum and maximum percentages for these homogenous pools rests upon various judgments and assumptions used to determine the impairment related to the risk characteristics of the specific portfolio pools. The minimum and maximum range percentages are evaluated at least on a quarterly basis for appropriateness based on historical write-offs, delinquency trends, economic conditions and other factors.

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 uncollectable. When the Corporation records charge-offs on these loans, it typically also begins the foreclosure process of taking possession of the real estate which served as collateral for such loans. A majority 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. 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. Upon foreclosure and conversion of the loan into real estate owned, the Corporation may realize income to real estate operations 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 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.

The following table sets forth the activity in the Bank s allowance for loan losses for the periods as indicated:

	Year Ended December 31,		Six Months Ended December 31,	Year Ended June 30,		
	2002	2001	2000	2000	1999	1998
			(Dollars in Thousands)			
Allowance for loan losses at beginning of year	$ 102,451	$ 83,439	$ 70,556	$ 80,419	$ 64,757	$ 60,929
Loans charged-off:						
Single-family residential	(4,743)	(2,405)	(909)	(1,874)	(2,542)	(2,838)
Multi-family residential and commercial real estate	(8,247)	(1,054)	(2,564)	(1,938)	(71)	
Consumer and other	(19,703)	(21,615)	(13,435)	(20,350)	(13,147)	(11,319)
Loans charged-off	(32,693)	(25,074)	(16,908)	(24,162)	(15,760)	(14,157)
Recoveries:						
Single-family residential		6	9	81	210	254
Multi-family residential and commercial real estate	60			5		2,822
Consumer and other	5,615	5,312	2,539	5,747	3,464	1,740
Recoveries	5,675	5,318	2,548	5,833	3,674	4,816
Net loans charged-off	(27,018)	(19,756)	(14,360)	(18,329)	(12,086)	(9,341)
Provision charged to operations	31,002	38,945	27,854	13,760	12,400	13,853
Activity of combining companies to convert to June 30 fiscal year						390
Allowances acquired in acquisitions					17,307	1,273
Change in estimate of allowance for bulk purchased loans	(144)	(172)	(87)	(5,294)	(1,959)	(2,324)
Charge-off to allowance for bulk purchased loans			(28)			(23)
Charge-off to allowance on sale of securitized loans		(5)	(496)			
Allowance for loan losses at end of year	$ 106,291	$ 102,451	$ 83,439	$ 70,556	$ 80,419	$ 64,757
	.31%	.22%	.14%	.19%	.14%	.12%

Ratio of net loans charged-off to average loans outstanding during the period						
Average balance of outstanding loans	$ 8,638,609	$ 8,782,321	$ 10,257,240	$ 9,798,198	$ 8,933,834	$ 7,629,067

Activity and balances for allowance for losses established on loans held for sale are included above.

Investment Activities

Management believes that the Bank s procedures for managing liquidity are sufficient to ensure its safe and sound operation. The Corporation s management objective is to invest primarily in short-term liquid assets so as to maintain liquidity at a level sufficient to assure adequate funds, taking into account anticipated cash flows and available sources of credit, to allow future flexibility to meet withdrawal requests, to fund loan commitments, to maximize income while protecting against credit risks and to manage 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 maintaining safety of principal. The relative size and mix of investment securities in the Corporation s portfolio are based on management s judgment compared to the yields and maturities available on other investment securities. The Corporation emphasizes low credit risk in selecting investment options.

The following table sets forth the carrying value of the Corporation s investment securities and short-term cash investments as of the dates indicated as follows:

	December 31,			June 30,
	2002	2001	2000	2000
	(In Thousands)			
U.S. Treasury and other Government agency obligations	$ 882,017	$ 848,131	$ 534,502	$ 894,099
Obligations of states and political subdivisions	228,648	179,593	141,363	51,646
Other debt securities	185,385	122,621	95,272	47,422
Total investment securities	1,296,050	1,150,345	771,137	993,167
Interest-earning cash on deposit and federal funds	505	590	1,283	1,086
Total investments	$ 1,296,555	$ 1,150,935	$ 772,420	$ 994,253

The following table sets forth the scheduled maturities, amortized cost, market values and weighted average yields for the Corporation s investment securities at December 31, 2002:

	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	Market Value	Average Yield
	(Dollars in Thousands)										
U.S. Treasury and other Government agency obligations	$	%	$ 114,256	5.30%	$ 650,876	4.61%	$ 68,810	1.94%	$ 833,942	$ 882,017	4.50%
States and political subdivisions	1,185	5.22	16,174	6.09	15,916	4.87	182,365	4.85	215,640	228,648	4.94
Other debt securities			45,133	5.98	23,183	6.43	110,797	3.56	179,113	185,385	4.58
Total	$ 1,185	5.22%	$ 175,563	5.55%	$ 689,975	4.68%	$ 361,972	3.92%	$ 1,228,695	$ 1,296,050	4.61%

For further information regarding the Corporation s investment securities, see Note 2 Investment Securities to the Consolidated Financial Statements under Item 8 of this Report.

Sources of Funds

General

Deposits have historically been the major source of the Corporation s funds 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 advances, prepayment and maturity of investment securities, and other borrowings. At December 31, 2002, deposits made up 54.1% of total interest-bearing liabilities compared to 54.0% at December 31, 2001, and 67.3% at December 31, 2000. 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 s deposit strategy is to emphasize acquisition and retention of consumer and commercial deposits acquired through the retail branch network. Deposits are acquired through extensive marketing and advertising efforts and product promotion, such as offering a variety of checking accounts and deposit programs to satisfy customer needs. The Corporation has increased its non-interest bearing checking accounts and plans to increase such non-interest checking accounts in the future. In addition, the Corporation intends to continue pricing its certificates of 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 competition for certificates of deposit is very strong in a market of shrinking funds as individuals continually seek the most attractive investment alternatives available. Rates on deposits are priced based on the competitive environment, what is considered necessary in order to retain the customer deposit and relationship, and other investment opportunities available to the customers. In addition, rates on deposits are based upon the Corporation s desire to control the flow of funds in its deposit accounts according to its business objectives and the cost of alternative sources of funds.

The Corporation s core deposits (checking accounts, money market accounts and savings accounts) increased $150.7 million to $3.6 billion at December 31, 2002, compared to $3.4 billion at December 31, 2001. Non-interest bearing checking accounts totaled $974.5 million at December 31, 2002, compared to $699.9 million at December 31, 2001.

Fixed-term, fixed-rate certificates of deposit at December 31, 2002, represented 44.2% (or $2.8 billion) of total deposits compared to 46.2% (or $3.0 billion) of total deposits at December 31, 2001. The Corporation offers certificate accounts with terms ranging from one month to 120 months. The net decrease totaling $108.2 million in certificates of deposits comparing December 31, 2002, to December 31, 2001, is due primarily to the Corporation s planned run-off of higher costing certificates of deposit accounts from single service customer households according to the Corporation s business plan. In addition, the sale of four branches in Minnesota during 2002 contributed to the decline in certificate of deposit balances.

For additional information on the Corporation s deposits, see Note 11 Deposits to the Consolidated Financial Statements under Item 8 of this Report.

The following table sets forth the balances and percentages of the various types of deposits offered by the Corporation at the dates indicated and the change in the amount of deposits between such dates:

	December 31, 2002			December 31, 2001			December 31, 2000			June 30, 2000	
	Amount	% of Deposits	Increase (Decrease)	Amount	% of Deposits	Increase (Decrease)	Amount	% of Deposits	Increase (Decrease)	Amount	% of Deposits
	(Dollars in Thousands)										
Savings accounts	$ 1,618,593	25.1%	$ (321,003)	$ 1,939,596	30.3%	$ 78,522	$ 1,861,074	24.2%	$ 285,694	$ 1,575,380	21.5%
Checking accounts	1,469,330	22.8	270,684	1,198,646	18.7	132,676	1,065,970	13.8	37,330	1,028,640	14.0
Money market accounts	505,679	7.9	201,059	304,620	4.8	(77,724)	382,344	5.0	(148,973)	531,317	7.3
Certificates of deposit	2,845,439	44.2	(108,221)	2,953,660	46.2	(1,431,438)	4,385,098	57.0	189,935	4,195,163	57.2
Total deposits	$ 6,439,041	100.0%	$ 42,519	$ 6,396,522	100.0%	$ (1,297,964)	$ 7,694,486	100.0%	$ 363,986	$ 7,330,500	100.0%

The following table shows the composition of average deposit balances and average rates for the periods as indicated:

	Year Ended December 31,				Six Months Ended		Year Ended	
	2002		2001		December 31, 2000		June 30, 2000	
	Average Balance	Avg. Rate	Average Balance	Avg. Rate	Average Balance	Avg. Rate	Average Balance	Avg. Rate
	(Dollars in Thousands)							
Savings accounts (1)	$ 1,802,558	4.32%	$ 1,958,022	4.73%	$ 1,703,299	5.34%	$ 1,320,996	4.48%
Checking accounts	1,278,541	.11	1,119,219	.37	1,031,255	.61	1,041,483	.71
Money market acounts	314,243	1.32	335,798	2.77	448,043	3.82	774,660	4.01
Certificates of deposit	2,862,960	3.36	3,709,030	5.51	4,283,327	5.88	4,295,975	5.31
Average deposit accounts (2)	$ 6,258,302	2.87%	$ 7,122,069	4.36%	$ 7,465,924	4.90%	$ 7,433,114	4.38%

(1) The average rate is affected by interest expense on interest rate swap agreements totaling $50.4 million, $28.1 million, $1.0 million and $2.9 million for the respective periods.

(2) The average balances reflect the sales of deposits totaling $25.3 million, $446.3 million, $30.2 million and $10.4 million for the respective periods pursuant to branch divestiture initiatives.

The following table sets forth the Corporation s certificates of deposit (fixed maturities) classified by rates at the periods as indicated:

Rate	December 31, 2002	December 31, 2001	December 31, 2000	June 30, 2000
	(In Thousands)			
Less than 2.00%	$ 672,486	$ 45,207	$ 1,968	$
2.00% 2.99%	986,701	562,840	78	7,685
3.00% 3.99%	705,000	537,808	6,119	6,740
4.00% 4.99%	418,350	825,086	583,156	771,419
5.00% 5.99%	55,487	611,563	1,251,274	2,007,819
6.00% 6.99%	5,681	257,613	2,313,213	1,328,741
7.00% and over	1,734	113,543	229,290	72,759
Certificates of deposit	$ 2,845,439	$ 2,953,660	$ 4,385,098	$ 4,195,163

The following table presents the outstanding amount of certificates of deposit in amounts of $100,000 or more by time remaining until maturity at the periods as indicated:

Maturity Period	December 31, 2002	December 31, 2001	December 31, 2000	June 30, 2000
	(In Thousands)			
Three months or less	$ 180,134	$ 256,828	$ 353,172	$ 208,258
Over three through six months	196,738	69,244	222,913	117,680
Over six through twelve months	183,690	87,912	279,053	254,141
Over twelve months	99,868	70,136	61,388	113,341
Total	$ 660,430	$ 484,120	$ 916,526	$ 693,420

Borrowings

The Corporation has also relied upon other borrowings, primarily advances from the FHLB, as additional sources of funds. The maximum amount of FHLB advances which the FHLB will advance for purposes other than meeting deposit withdrawals fluctuates from time to time in accordance with federal regulatory policies. The Corporation is required to maintain an investment in FHLB stock in an amount equal to the greater of 1.0% of the aggregate unpaid loan principal of the Corporation s loans secured by home mortgage loans, home purchase contracts and similar obligations, or 5.0% of advances from the FHLB to the Corporation. 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 additional collateral which may be unencumbered whole residential first mortgage loans with an aggregate unpaid principal amount equal to 158.0% of the Corporation s total outstanding FHLB advances. Alternatively, the Corporation can pledge 90.0% of the market value of U.S. government or U.S. government agency guaranteed securities, including mortgage-backed securities, as collateral for the outstanding FHLB advances. Pursuant to these requirements, as of December 31, 2002, the Corporation had pledged $4.7 billion of its real estate loans and $691.7 million of its mortgage backed securities and held FHLB stock totaling $283.2 million.

At December 31, 2002, the Corporation had advances totaling $4.8 billion from the FHLB at interest rates ranging from 1.35% to 7.69% and at a weighted average rate of 4.66%. At December 31, 2001, and December 31, 2000, such advances from the FHLB totaled $4.9 billion and $3.6 billion, respectively, at weighted average rates of 4.76% and 6.41%. Fixed-rate advances totaling $1.7 billion at December 31, 2002, with a weighted average rate of 5.29% are convertible into adjustable-rate advances at the option of the FHLB with call dates ranging from January 2003 to March 2003. Such convertible advances all have scheduled maturities due over five years. See Note 14 Derivative Financial Instruments to the Consolidated Financial Statements under Item 8 of this Report for additional information relating to the Corporation s hedging strategies for the management of interest rate risk involving FHLB advances.

Set forth below is certain information relating to the Corporation s FHLB advances and securities sold under agreements to repurchase at the dates and for the periods indicated:

	Year Ended December 31,		Six Months Ended December 31,	Year Ended June 30,
	2002	2001	2000	2000
	(Dollars in Thousands)			
FHLB Advances:				
Balance at end of year	$ 4,848,997	$ 4,939,056	$ 3,565,465	$ 5,049,582
Maximum month-end balance	$ 5,508,180	$ 4,928,075	$ 5,180,560	$ 5,049,582
Average balance	$ 5,204,501	$ 4,265,468	$ 4,883,700	$ 4,373,510
Weighted average interest rate during the year	4.68%	5.49%	6.10%	5.51%
Weighted average interest rate at end of year	4.66%	4.76%	6.41%	5.98%
Repurchase Agreements:				
Balance at end of year	$ 400,446	$ 201,912	$ 6,905	$ 33,379
Maximum month-end balance	$ 402,228	$ 201,912	$ 33,411	$ 132,432
Average balance	$ 353,977	$ 82,215	$ 18,692	$ 69,763
Weighted average interest rate during the year	3.93%	5.32%	4.98%	5.62%
Weighted average interest rate at end of year	3.30%	4.30%	4.91%	4.99%

For additional information on the Corporation s FHLB advances, securities sold under agreements to repurchase and other borrowings, see Note 12 Advances from the Federal Home Bank and Note 13 Other Borrowings to the Consolidated Financial Statements under Item 8 of this Report.

Customer Services

Retail management aggressively markets the Corporation s various checking and loan products since these are the principal entry points for consumers seeking a banking relationship. The Corporation s primary goal is to become the new customer s primary bank so that the opportunity is there immediately and over time to cross-sell the Corporation s numerous services to develop profitable household relationships. Accordingly, management continues to update the data processing equipment within the branch operations to provide a cost-effective and efficient delivery of services to the Corporation s customers. Management has also been proactive in the implementation of new consumer-oriented technologies, including online banking and bill-paying through the Corporation s web site at *www.comfedbank.com*. Management continues to strive to provide customers with the ability to bank when, where and how they choose. The Corporation utilizes a full-service cash management program to further develop the Corporation s commercial banking relationships. The Corporation utilizes an internet-based cash management tool providing business owners access to full-service electronic banking. Services of this program, among others, include funds transfer, debit of consumer accounts, electronic payment of vendors, payroll direct deposits and wire transfers. In addition to online banking, the Corporation offers customers the ability to bank in person at our free-standing branch offices and supermarket locations, many of which offer extended weekday and weekend hours; by telephone, utilizing our 24-hour *AccessNow* automated customer service system tied to extended-hour operator availability; and by ATMs through the Corporation s proprietary network and links to other national and international ATM services.

Subsidiaries

The Bank is permitted to invest an amount equal to 2.0% of its consolidated regulatory assets in capital stock and secured and unsecured loans in its service corporations, and an amount equal 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. Under such limitations, at December 31, 2002, the Bank was allowed to invest up to $383.7 million in the stock of, or loans to, service corporations (based upon the 3.0% limitation). As of December 31, 2002, the Bank s investment in capital stock in its service corporations and their wholly-owned subsidiaries was $8.4 million.

Regulatory capital standards also contain a provision requiring that in determining capital compliance all savings associations must deduct from capital the amount of all post-April 12, 1989, investments in and extensions of credit to subsidiaries engaged in activities not permissible for national banks. Currently, the Bank has two subsidiaries (Commercial Federal Service Corporation and First Savings Investment Corporation) engaged in activities not permissible for national banks. Investments in such subsidiaries must be 100% deducted from capital. See Regulation Regulatory Capital Requirements. At December 31, 2002, the total investment in such subsidiaries was $8.8 million which was deducted from capital. Capital deductions are not required for investment in subsidiaries engaged in non-national bank activities as agent for customers rather than as principal, subsidiaries engaged solely in mortgage banking activities, and certain other exempted subsidiaries.

The Bank is also 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 the institution.

At December 31, 2002, the Bank had eleven wholly-owned subsidiaries, four of which own and operate certain real estate properties of the Bank. With the exception of the two real estate subsidiaries discussed above, these subsidiaries are classified as service corporations and are considered engaged in permissible activities therefore not requiring deductions from capital. Descriptions of the principal active subsidiaries of the Bank follow.

See Exhibit 21 Subsidiaries of the Corporation herein for a complete listing of all subsidiaries of the Corporation.

Commercial Federal Mortgage Corporation (CFMC)

Effective October 1, 2002, CFMC, the Bank s wholly-owned full-service mortgage banking subsidiary, was dissolved. All real estate lending, secondary marketing, mortgage servicing and foreclosure activities are now conducted through the Bank. This dissolution had no effect on the Corporation s financial position, liquidity or results of operations.

Commercial Federal Investment Services, Inc. (CFIS)

CFIS offers customers discount brokerage services in 48 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 previously discussed, the Bank s investments in and loans to CFSC are fully excluded from regulatory capital. See   Regulation   Regulatory Capital Requirements.

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.

Employees

At December 31, 2002, the Corporation and its wholly-owned subsidiaries had approximately 2,800 employees. The Corporation provides its employees with a comprehensive benefit program, including major medical insurance, dental insurance, life and accidental death and dismemberment insurance, short and long-term disability coverage and a 401(k) plan. The Corporation also offers a tuition reimbursement program, an employee assistance program and discounts on loan rates and fees to its employees who qualify based on term of employment (except that no preferential rates or terms are offered to executive officers and senior management). The Corporation considers its employee relations to be good.

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 savings deposits has come historically from commercial banks and from thrift institutions located in its primary market areas. The Corporation s primary market area for savings deposits includes Colorado, Iowa, Nebraska, Kansas, Oklahoma, Missouri and Arizona and, for loan originations, includes Colorado, Iowa, Nebraska, Kansas, Oklahoma, Missouri, Arizona and 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 savings deposits primarily by offering depositors a wide variety of deposit accounts, convenient branch locations, a full range of financial services and competitive rates of interest.

The Corporation s competition for real estate, consumer and commercial loans comes principally from other thrift institutions, mortgage banking companies, commercial banks, insurance companies and other institutional lenders. 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.

Regulation

General

The Bank must comply with various regulations of both the OTS and the FDIC. The Bank s lending activities and other investments 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 SAIF 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 Corporation 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 Act, 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. Certain of these regulatory requirements are referred to within this Regulation section or appear elsewhere in this Report.

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. The GLB Act, however, prohibits future affiliations between existing unitary savings and loan holding companies, like the Corporation, and firms that are engaged in commercial activities and prohibits the formation of new unitary holding companies.

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 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.

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

Regulatory Capital Requirements

At December 31, 2002, the Bank exceeded all minimum regulatory capital requirements mandated by the OTS. The following table sets forth information relating to the Bank s regulatory capital compliance at December 31, 2002:

	Actual	Requirement	Excess
	(Dollars in Thousands)		
Bank s stockholder s equity	$ 833,474		
Add accumulated losses on certain available for sale securities and cash flow hedges, net	103,422		
Less intangible assets	(185,082)		
Less investments in non-includable subsidiaries	(8,766)		
Tangible capital	$ 743,048		
Tangible capital to adjusted assets (1)	5.81%	1.50%	4.31%
Tangible capital	$ 743,048		
Plus certain restricted amounts of other intangible assets	1,413		
Less disallowed portion of mortgage servicing rights	(9,591)		
Core capital (Tier 1 capital)	$ 734,870		
Core capital to adjusted assets (2)	5.75%	3.00%(3)	2.75%
Core capital	$ 734,870		
Less equity investments and other assets required to be deducted	(13,286)		
Plus qualifying subordinated debt	50,000		
Plus qualifying loan loss allowances	99,824		
Risk-based capital (Total capital)	$ 871,408		
Risk-based capital to risk-weighted assets (4)	10.92%	8.00%	2.92%

(1) Based on adjusted total assets totaling $12,795,343.
(2) Based on adjusted total assets totaling $12,787,164.
(3) This is the minimum percentage requirement for institutions that are not anticipating or experiencing significant growth and have well-diversified risks, including minimal interest rate risk exposure, excellent asset quality, high liquidity and stable and sufficient earnings. For all other institutions the minimum required ratio is 4.00%.
(4) Based on risk-weighted assets totaling $7,982,964.

The Federal Deposit Insurance Corporation Improvement Act of 1991 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. At December 31, 2002, the Bank exceeded the minimum requirements for the well-capitalized category as shown in the following table:

	Tier 1 Capital to Adjusted Total Assets	Tier 1 Capital to Risk-Weighted Assets	Total Capital to Risk-Weighted Assets
Percentage of adjusted assets	5.75%	9.21%	10.92%
Minimum requirements to be classified well-capitalized	5.00%	6.00%	10.00%

Under OTS capital regulations, the Bank must maintain tangible capital equal to 1.5% of adjusted total assets, core or Tier 1 capital equal to 3.0% of adjusted total assets (4.0% for institutions other than the most highly rated institutions) and total or risk-based capital (a combination of core and supplementary capital) equal to 8.0% of risk-weighted assets. In addition, the OTS can impose certain restrictions on savings associations that have a total risk-based capital ratio that is less than 8.0%, a ratio of Tier 1 capital to risk-weighted assets of less than 4.0% or a ratio of Tier 1 capital to adjusted total assets of less than 4.0% (or 3.0% if the institution is rated a Composite 1 under the regulatory CAMELS examination rating system).

Tangible capital is defined as common shareholders equity (including retained earnings), noncumulative perpetual preferred stock and related surplus, minority interests in the equity accounts of fully consolidated subsidiaries and certain nonwithdrawable accounts and pledged deposits, less intangible assets, non-mortgage servicing assets, and credit-enhancing interest-only strips above the amount that may be included in core capital. Tangible capital is increased by any accumulated net losses on certain available-for-sale securities and cash flow hedges, net of income taxes. These losses, classified in the Bank s total stockholder s equity under the caption accumulated other comprehensive loss, net totaled $103.4 million at December 31, 2002. Tangible capital is also reduced by an amount equal to the savings association s debt and equity investments in subsidiaries engaged in activities not permissible for national banks. At December 31, 2002, the Bank had approximately $8.8 million of debt and equity invested in two subsidiaries which are engaged in activities not permissible for national banks that was deducted from capital. See Business Subsidiaries.

Core capital consists of tangible capital plus restricted amounts of certain grandfathered intangible assets, purchased credit card relationships and mortgage and non-mortgage servicing rights. The Bank s core capital totaling $734.9 million at December 31, 2002, includes $1.4 million of restricted amounts of certain intangible assets (core value of deposits) reduced by $9.6 million for the disallowed portion of mortgage servicing rights.

Risk-based capital is comprised of core capital and supplementary capital. Supplementary capital consists of certain preferred stock issues, nonwithdrawable accounts and pledged deposits that do not qualify as core capital, certain approved subordinated debt, certain other capital instruments and a portion of the Bank s loan loss allowances. The portion of the allowances for loan losses includable in supplementary capital is limited to 1.25% of risk-weighted assets and totaled $99.8 million at December 31, 2002. Qualifying subordinated debt is included in supplementary capital and totaled $50.0 million at December 31, 2002. Supplementary capital at December 31, 2002, was required to be reduced by the amount of land the Bank acquired for investment purposes. Therefore, a total of $13.3 million in real estate held for investment was required to be deducted at December 31, 2002, is determining risk-based capital.

The risk-based capital requirement is measured against risk-weighted assets, which equal the sum of every on-balance-sheet asset and the credit-equivalent amount of every off-balance-sheet item after being multiplied by an assigned risk weight. The risk weights are determined by the OTS and range from 0% for cash to 100% for consumer loans, non-qualifying single-family, multi-family and residential construction loans and commercial real estate loans, repossessed assets and loans more than 90 days past due. OTS capital regulations require savings institutions to maintain minimum total capital, consisting of core capital plus supplementary capital (limited to 100% of core capital), equal to 8.0% of risk-weighted assets.

The OTS requires savings institutions with more than a normal level of interest rate risk to maintain additional total capital. A savings institution with a greater than normal interest rate risk is required to deduct from total capital, for purposes of calculating its risk-based capital requirement, an amount (the interest rate risk component) equal to one-half the difference between the institution s measured interest rate risk and the normal level of interest rate risk, multiplied by the economic value of its total assets. The Bank has determined that, on the basis of current financial data, it will not be deemed to have more than a normal level of interest rate risk under the rule and therefore will not be required to increase its total capital as a result of the rule.

In addition to these standards, 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.

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, 2002, with an investment in FHLB stock totaling $283.2 million.

Liquidity Requirements

The OTS issued a final rule effective July 18, 2001, whereby savings associations are only 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 meet the QTL test, the Bank must maintain at least 65.0% of its portfolio assets (total assets less 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 and mortgage-backed securities 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 cards or 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.

If the Bank satisfies the test, it will continue to enjoy full borrowing privileges from the FHLB of Topeka. If it does not satisfy the test it may lose it borrowing privileges and be subject to activities and branching restrictions applicable to national banks. Compliance with the QTL test is measured on a monthly basis and the Bank must meet the test in nine out of every 12 months. As of December 31, 2002, the Bank was in compliance with the QTL test with approximately 71.81% of the Bank s portfolio assets invested in Qualified Thrift Investments.

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:

- the association 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 association s common or preferred stock or debt counted as its regulatory capital, or
- the association is a subsidiary of a holding company.

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

- the association does not qualify for expedited treatment under OTS application processing regulations,
- the association would not be adequately capitalized following the distribution,
- the association s total distributions for the calendar year exceeds the association s 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 is currently required to file an application to the OTS prior to paying a capital distribution. During calendar year 2002 the Bank recorded net income of approximately $114.8 million and made capital distributions totaling $85.0 million. Total distributions exceeded the Bank s retained net income for calendar year 2002 plus the preceding two years (the retained net income standard) by $219.9 million. Despite 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 SAIF insures the Bank s deposit accounts up to applicable regulatory limits. The Bank also has a portion of deposits (approximately 14 %) acquired from acquisitions that are insured by the BIF. 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. 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 rates for each of the respective quarters during 2002 (annualized) were 1.82 basis points, 1.76 basis points, 1.72 basis points and 1.70 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 to an amount equal to 10.0% of such institution s capital stock and surplus, and contain an aggregate limit on all such transactions with all affiliates 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 (such as the Corporation) 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 person 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 prescribes the loan amount (which includes all other outstanding loans to such person) as to which such prior board of director approval is required as being the greater of $25,000 or 5.0% of capital and surplus (up to $500,000). 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. Pursuant to Section 22(g) of the Federal Reserve Act, the institution s board of directors must approve loans to executive officers, directors and principal shareholders of the institution. Section 1972 also 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

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 $6.0 million and up to $42.1 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. As of December 31, 2002, the Bank met its reserve requirements.

The USA PATRIOT Act

In response to the events of September 11, 2001, 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 includes, 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 federal banking agencies have begun to propose and implement regulations pursuant to the USA PATRIOT Act. These proposed and interim regulations require financial institutions to adopt the policies and procedures contemplated by the USA PATRIOT Act.

Savings and Loan Holding Company Regulation

The Corporation 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 Corporation and any affiliates.

Activities Restrictions

Since the Corporation only owns one thrift institution, it is classified as a unitary savings and loan holding company. There are generally no restrictions on the activities of a 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 Corporation were to acquire control of another savings institution, other than through merger or other business combination with the Bank, the Corporation would become a multiple savings and loan holding company. In addition, if the Bank fails to meet the QTL test, then the Corporation 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; or

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.

The Corporation 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 Regulation Qualified Thrift Lender Test.

Restrictions on Acquisitions

The Corporation 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).

Sarbanes-Oxley Act of 2002

On July 30, 2002, the President 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 Act provides for the establishment of a new Public Company Accounting Oversight Board (PCAOB) which will enforce auditing, quality control and independence standards for firms that audit SEC-reporting companies and will be funded by fees from all SEC reporting companies. The Act imposes higher standards for auditor independence and restricts provision of consulting services by auditing firms to companies they audit. Any non-audit services being provided to an audit client will require 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, counsel will be 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

43

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 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 will 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.

Beginning six months after the SEC determines that the PCAOB is able to carry out its functions, it will be unlawful for any person that is not a registered public accounting firm (RPAF) 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 and report on management s assessment of 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.

Although the Corporation anticipates it will incur additional expense in complying with the provisions of the Act and the related rules, management does not expect that such compliance will have a material impact on the Corporation s financial condition or results of operations. Certain provisions of the Act were effective immediately upon passage or at various times in 2002. Other provisions of the Act will be effective throughout 2003.

Taxation

The Corporation is subject to the provisions of the Internal Revenue Code of 1986, as amended. The Corporation and its subsidiaries, including the Bank, file a consolidated federal income tax return based on a June 30 fiscal year end compared to a December 31 year end for accounting reporting purposes. Consolidated taxable income is determined on an accrual basis. The Internal Revenue Service has completed examination of the Corporation s consolidated federal income tax returns through June 30, 1999, with no material effect on the Corporation s results of operations.

The State of Nebraska imposes a franchise tax on all financial institutions. Under the franchise tax, the Bank cannot join in the filing of a consolidated return with the Corporation (which is filed separately). The Bank is assessed at a rate of $.47 per $1,000 of average deposits. The franchise tax is limited to 3.81% of the Bank s income before tax (including subsidiaries) as reported on the Bank s consolidated books and records. The Corporation also pays franchise or state income taxes in a number of jurisdictions in which the Corporation or its subsidiaries conduct business. For further information regarding federal and state income taxes payable by the Corporation, see Note 15 Income Taxes to the Consolidated Financial Statements under Item 8 of this Report.

ITEM 2. PROPERTIES

At December 31, 2002, the Corporation conducted business through 189 branch offices in seven states: Colorado (44), Iowa (40), Nebraska (40), Kansas (26), Oklahoma (19), Missouri (14) and Arizona (6). During 2002, three branches were consolidated and four branches in Minnesota were sold.

At December 31, 2002, the Corporation owned the buildings for 108 of its branch offices and leased the remaining 81 branches under leases expiring (not assuming exercise of renewal options) between January 2003 and April 2048. The Corporation has 230 Cashbox ATMs located throughout its seven-state region. At December 31, 2002, the total net book value of land, office properties and equipment owned by the Corporation was $148.4 million. Management believes that the Corporation s premises are suitable for its present and anticipated needs.

On November 15, 2002, the Corporation announced that it planned to open 15 to 19 new branches over the next two to three years in three of it main markets: Denver, Colorado; Omaha, Nebraska and Des Moines, Iowa. The Corporation plans to open 10 to 12 new branches in the Denver area, three to four new branches in Omaha and two to three new branches in Des Moines. Also included in the plan is the addition of 15 to 20 new freestanding automated teller machines located in high traffic areas. During 2003, the Corporation plans to build five new branches in the Denver area and two branches in Omaha. The plan also includes the relocation of four branches two in Denver and one each in Iowa and Oklahoma.

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.

On September 12, 1994, the Bank and the Corporation commenced litigation relating to supervisory goodwill against the United States in the United States Court of Federal Claims seeking to recover monetary relief for the government s refusal to honor certain contracts that it had entered into with the Bank. The suit alleges that such governmental action constitutes a breach of contract and an unlawful taking of property by the United States without just compensation or due process in violation of the Constitution of the United States. The Corporation and the Bank are pursuing alternative damage claims of up to approximately $230,000,000. The Bank also assumed a lawsuit in the merger with Mid Continent against the United States also relating to a supervisory goodwill claim filed by the former Mid Continent. The litigation status and process of these legal actions, as well as that of numerous actions brought by others alleging similar claims with respect to supervisory goodwill and regulatory capital credits, make the value of the claims asserted by the Bank (including the Mid Continent claim) uncertain as to their ultimate outcome, and contingent on a number of factors and future events which are beyond the control of the Bank, both as to substance, timing and the dollar amount of damages that may be awarded to the Bank and the Corporation if they finally prevail in this litigation.

On March 25, 1998, the Corporation filed a motion for summary judgment and the United States filed a cross motion for summary judgment on the question of liability for breach of contract. On March 24, 2003, the Corporation received an order from the United States Court of Federal Claims denying its motion for summary judgment seeking to establish liability for breach of contract and granting the United States government s cross motion seeking to establish no liability for breach of contract with respect to the Corporation s acquisition of Empire Savings Building and Loan (Empire). In the litigation, the Corporation alleged that with respect to its 1987 acquisition of Empire, the Federal Home Loan Bank Board promised that $190 million of goodwill (the amount by which Empire s liabilities exceeded its assets) would be included in the Bank s regulatory capital as well as the $60 million of preferred stock issued by the Bank to fund the acquisition of Empire. The United States Court of Federal Claims granted the Corporation s motion for summary judgment and denied the United States government s cross-motion for summary judgment on the question of liability for breach of contract with respect to the Corporation s acquisition of the savings deposits of Territory Savings and Loan Association (Territory) whereby the Bank accepted a five year $20 million promissory note from the Federal Savings and Loan Insurance Corporation (FSLIC) as part of the FSLIC s payment for the Bank s assumption of Territory s savings deposits. In the litigation, the Corporation alleged that the FSLIC promised that the Bank could include the promissory note in its regulatory capital. The Corporation is currently considering its options in light of the order recently issued by the United States Court of Federal Claims.

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, 2002.

PART II

ITEM 5. MARKET FOR COMMERCIAL FEDERAL CORPORATION S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

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, 2002	$ 24.20	$ 19.31	$ 23.35	$ .09
September 30, 2002	28.31	20.75	21.77	.09
June 30, 2002	30.00	26.37	29.00	.09
March 31, 2002	26.90	23.20	26.90	.08
December 31, 2001	26.40	22.15	23.50	.08
September 30, 2001	28.55	22.12	24.27	.08
June 30, 2001	23.40	21.11	23.10	.08
March 31, 2001	22.99	19.94	22.30	.07

As of December 31, 2002, there were 45,270,360 shares of common stock issued and outstanding that were held by over 5,300 shareholders of record and 3,597,106 shares subject to outstanding 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 calendar year 2002 totaled $15.8 million, or $.35 per common share, compared to $15.2 million, or $.31 per common share, for calendar year 2001. For information regarding the payment of future dividends and any possible restrictions see MD&A Liquidity and Capital Resources under Item 7 of this Report and Note 16 Stockholders Equity and Regulatory Restrictions to the Consolidated Financial Statements under Item 8 of this Report.

46

ITEM 6. SELECTED FINANCIAL DATA

	Year Ended December 31,		Six Months Ended December 31,	Year Ended June 30,		
	2002	2001	2000 (1)	2000	1999	1998
	(Dollars in Thousands Except Per Share Data)					
Interest income	$ 777,053	$ 871,374	$ 498,732	$ 927,690	$ 839,354	$ 757,688
Interest expense	449,325	563,945	344,297	585,549	507,021	477,389
Net interest income	327,728	307,429	154,435	342,141	332,333	280,299
Provision for loan losses	(31,002)	(38,945)	(27,854)	(13,760)	(12,400)	(13,853)
Retail fees and charges	55,279	53,519	25,650	43,230	36,740	30,284
Loan servicing fees, net	8,099	22,680	12,104	25,194	22,961	24,523
Mortgage servicing rights valuation adjustment	(60,417)	(19,058)	(583)			
Gain (loss) on sales of securities and changes in fair values of derivatives, net	40,583	15,422	(69,462)		4,376	3,765
Gain (loss) on sales of loans	36,173	8,739	(18,023)	(110)	3,423	3,092
Bank owned life insurance	14,115	13,863	713			
Real estate operations	(6,926)	(6,971)	(4,809)	(88)	(1,674)	1,894
Other operating income	33,294	32,447	13,474	33,015	24,189	23,702
General and administrative expenses	258,371	232,724	147,559	251,333	238,594	206,123
Amortization of core value of deposits	6,368	7,211	3,903	8,563	8,984	5,954
Amortization of goodwill		8,134	4,250	8,673	6,718	1,860
Income (loss) before income taxes and cumulative effect of change in accounting principle	152,187	141,056	(70,067)	161,053	155,652	139,769
Income tax provision (benefit)	43,723	43,374	(19,691)	55,269	63,260	52,356
Income (loss) before cumulative effect of change in accounting principle	108,464	97,682	(50,376)	105,784	92,392	87,413
Cumulative effect of change in accounting principle, net (2)			(19,125)	(1,776)		
Net income (loss)	$ 108,464	$ 97,682	$ (69,501)	$ 104,008	$ 92,392	$ 87,413
Earnings (loss) per common share: (3)						
Income (loss) before cumulative effect of change in accounting principle	$ 2.37	$ 1.93	$ (.92)	$ 1.82	$ 1.54	$ 1.52
Cumulative effect of change in accounting principle, net (2)			(.35)	(.03)		
Net income (loss)	$ 2.37	$ 1.93	$ (1.27)	$ 1.79	$ 1.54	$ 1.52
Dividends declared per common share	$ .35	$ .31	$ .14	$ .28	$ .25	$ .21
Other data:						
Net interest rate spread	2.78%	2.61%	2.46%	2.67%	2.85%	2.62%

Net yield on interest-earning assets	2.75%	2.62%	2.44%	2.78%	2.99%	2.88%
Return on average total assets	.82%	.76%	(1.01)%	.77%	.77%	.85%
Return on average total stockholders equity	14.30%	12.23%	(15.30)%	10.85%	9.95%	10.96%
Dividend payout ratio	14.77%	16.06%	n/a	15.36%	16.23%	13.95%
Total number of branches at end of period	189	196	241	255	256	195

(Continued on next page)

	Year Ended December 31, 2002	Year Ended December 31, 2001	Six Months Ended December 31, 2000	Year Ended June 30, 2000	Year Ended June 30, 1999	Year Ended June 30, 1998
	(Dollars in Thousands Except Per Share Data)					
Total assets	$ 13,081,467	$ 12,901,585	$ 12,540,304	$ 13,793,038	$ 12,775,462	$ 10,399,229
Investment securities	1,296,050	1,150,345	771,137	993,167	946,571	673,304
Mortgage-backed securities	1,632,622	1,829,728	1,514,510	1,220,138	1,282,545	1,091,849
Loans receivable, net	8,571,585	8,403,425	8,893,374	10,407,692	9,326,393	7,857,276
Intangible assets	185,082	191,450	207,427	230,850	252,677	77,186
Deposits	6,439,041	6,396,522	7,694,486	7,330,500	7,655,415	6,558,207
Advances from Federal Home Loan Bank	4,848,997	4,939,056	3,565,465	5,049,582	3,632,241	2,379,182
Other borrowings	603,306	520,213	175,343	206,026	353,897	444,968
Stockholders equity	756,521	734,654	863,739	987,978	966,883	861,195
Book value per common share	16.71	15.98	16.23	17.67	16.22	14.67
Regulatory capital ratios of the Bank:						
Tangible capital	5.81%	5.58%	6.51%	6.55%	6.97%	7.88%
Core capital (Tier 1 capital)	5.75%	5.60%	6.55%	6.59%	7.05%	7.99%
Risk-based capital						
Tier 1 capital	9.21%	9.50%	10.84%	11.74%	12.74%	14.58%
Total capital	10.92%	11.38%	11.84%	12.59%	13.70%	15.49%

(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.

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

Commercial Federal Corporation (the Corporation) is a unitary non-diversified savings and loan holding company whose primary asset is Commercial Federal Bank, a Federal Savings Bank (the Bank). The Corporation is one of the largest financial institutions in the Midwest and the 8th largest publicly held thrift holding company in the United States. The Bank, with a thrift charter, operates as a community banking institution, offering commercial and consumer banking, mortgage banking, insurance and investment services.

General

At December 31, 2002, the Corporation, headquartered in Omaha, Nebraska, operated 189 branches with 44 located in Colorado, 40 in Iowa, 40 in Nebraska, 26 in Kansas, 19 in Oklahoma, 14 in Missouri and 6 in Arizona. To serve its customers, the Corporation conducts community banking operations and loan origination activities through its branch network, loan offices and a nationwide correspondent network of mortgage loan originators. The Corporation also provides insurance and securities brokerage and other retail financial services.

Operations focus on offering deposits, making loans (primarily single-family residential, consumer, commercial real estate, commercial operating and small business lending) and providing customers with a full array of financial products and a high level of customer service. The Corporation s retail strategy centers on building multiple service relationships with the Bank s existing customer base and expanding the Bank s market share in its high-growth markets (Denver, Colorado; Omaha, Nebraska and Des Moines, Iowa). Additionally, the Corporation continues to build and leverage an infrastructure designed to increase noninterest income. The Corporation s operations are also continually reviewed in order to gain efficiencies to increase productivity and reduce costs.

Net income for the year ended December 31, 2002 was $108.5 million, or $2.37 per diluted share. Net income for 2002 includes pre-tax gains on the sales of available-for-sale securities totaling $35.9 million and mortgage loans totaling $36.2 million. These net gains were substantially offset by the valuation adjustment losses totaling $60.4 million in the mortgage servicing rights portfolio incurred during 2002. The gains on the sales of mortgage loans were the result of the Corporation taking advantage of pricing opportunities on its loans resulting from historically low interest rates and unprecedented loan demand during 2002. These low interest rates in 2002 significantly affected mortgage loan pay-downs which in turn increased the amortization expense of mortgage servicing rights and impacted the valuation allowances for impairment losses of mortgage servicing rights. Results for 2002 also included the implementation of SFAS No. 142 requiring that the amortization of goodwill cease beginning January 1, 2002. Also under this statement, goodwill was evaluated for transitional impairment as of January 1, 2002, and thereafter must be evaluated at least annually for impairment. The Corporation performed the transitional valuation as of January 1, 2002, and the annual valuation as of October 1, 2002. No impairment loss was recognized as a result of the transitional or annual valuation tests. See Note 10 Intangible Assets to the Consolidated Financial Statements under Item 8 of this Report for the pro forma effect on operations for prior periods excluding the amortization of goodwill pursuant to SFAS No. 142.

In 2000, the Corporation changed its year end to December 31 from June 30. A December 31 year aligned the Corporation with the financial industry from a reporting perspective and facilitated comparisons with industry norms. In August 2000, management implemented a number of key strategic initiatives designed to improve the Corporation s financial performance. These changes continued into 2001, focusing not only on revenue enhancement and cost reduction, but also on an executive management restructuring aimed at designing and implementing changes to build the Corporation s commercial banking business and enhancing shareholder value. These key initiatives included a complete balance sheet review, a thorough assessment of the Bank s delivery and servicing systems, the sale of an underperforming leasing company and a management restructuring. The balance sheet restructuring was completed during the six months ended December 31, 2000. The remainder of the August 2000 initiatives were substantially completed in 2001. These actions transitioned the Corporation into 2001 with improved operating margins, a more compact and stable balance sheet to generate future growth under all types of operating environments, improved operating efficiencies and a stronger management team.

Net income for the calendar year ended December 31, 2001, was $97.7 million, or $1.93 per diluted share. Net income for 2001 includes $15.6 million in net gains ($10.1 million after-tax, or $.20 per diluted share) relating to the completion of the August 2001 initiatives. These net gains, recorded as a credit to the expense category exit costs and termination benefits, are primarily the result of the Corporation realizing pre-tax gains on the sales of 34 branches sold during 2001 ($18.3 million pre-tax) partially offset by severance costs associated with right-sizing branch personnel and expenses to close branches ($2.0 million pre-tax) and expenses to exit leasing operations ($754,000 pre-tax). The Corporation also realized pre-tax gains on the sales of available-for-sale securities totaling $18.3 million recognized primarily to offset the valuation adjustment losses totaling $19.1 million in the mortgage servicing rights portfolio incurred during 2001.

The Corporation incurred a net loss of $69.5 million, or $1.27 loss per diluted share, including the cumulative effect of a change in accounting principle, for the six months ended December 31, 2000. This net loss reflects the implementation of the August 2000 key strategic initiatives and the implementation of Statement of Financial Accounting Standards No. 133 Accounting for Derivative Instruments and Hedging Activities (SFAS No. 133). For the six months ended December 31, 2000, implementation of these initiatives resulted in losses and expenses totaling approximately $112.2 million, or $77.1 million after-tax ($1.41 per diluted share). The losses and expenses totaling $112.2 million consisted of exit costs and terminations benefits totaling $25.8 million ($21.1 million after-tax), net losses on the sales of securities totaling $30.0 million ($19.4 million after-tax), loss on the sale of securitized mortgage loans totaling $18.2 million ($11.8 million after-tax) and losses on the termination of interest rate swap agreements totaling $38.2 million ($24.8 million after-tax). See Note 20 Exit Costs and Termination Benefits to the Consolidated Financial Statements under Item 8 of this Report for additional information. The effect of adopting the provisions of SFAS No. 133 was to record a net charge totaling $19.1 million, net of income tax benefits of $10.3 million, or $.35 per diluted share, as a cumulative effect of a change in accounting principle. See Note 22 Cumulative Effect of Change in Accounting Principle to the Consolidated Financial Statements under Item 8 of this Report for additional information.

Net income for the fiscal year June 30, 2000, was $104.0 million, or $1.79 per diluted share. The fiscal year ended June 30, 2000, net income includes the effect of after-tax charges of $2.9 million relating to exit costs and termination benefits, an after-tax gain of $5.4 million from the sale of the corporate headquarters building and a charge totaling $1.8 million after-tax, representing the effect of the change in accounting for certain start-up costs.

Critical Accounting Policies

The Management s Discussion and Analysis of Financial Condition and Results of Operations, 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 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 and litigation. 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 Losses on Loans

The allowance for loan losses is a valuation allowance for estimated credit losses inherent in the loan portfolio as of the balance sheet date. The allowance for loan losses consists of two elements. The first element is an allocated allowance established for specifically identified loans that are evaluated individually for impairment and are considered to be individually impaired. A 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 present value of expected future cash flows, (ii) the loan s obtainable market price, or (iii) the fair value of the collateral if the loan is collateral dependent (the primary method used by the Corporation). The second element is an estimated allowance established for impairment on each of the Corporation s pools of outstanding loans. See Provision for Loan Losses in the MD&A and Asset Quality under Item 1 of this Report for additional information. These estimated allowances are based on several analysis factors including the Corporation s past loss experience, economic and business conditions that may affect the borrowers 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 real estate 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. Additionally, while the allowance attempts to measure the impairment inherent in the loan portfolio at the balance sheet date, its adequacy 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 more information becomes available.

A majority 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. When the Corporation records charge-offs on these loans, it also begins the foreclosure process of taking possession of the real estate which served as collateral for such loans. 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 as a component of real estate operations 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 allowance for loan losses is 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 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 losses on loans 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.

Mortgage Servicing Rights

Mortgage servicing rights are established 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 proportionately over the period based on the ratio of net servicing income received in the current period to total net servicing income projected to be realized from the mortgage servicing rights. Projected net servicing income is determined on the basis of the estimated future balance of the underlying mortgage loan portfolio which decreases over time from scheduled loan amortization and prepayments. The Corporation estimates future prepayment rates based on 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 reports mortgage servicing rights at the lower of amortized cost or fair value. The fair value of mortgage servicing rights is determined based on the present value of estimated expected future cash flows, using assumptions as to current market discount rates and loan prepayment speeds. Mortgage servicing rights are stratified by loan type and interest rate for purposes of impairment measurement. Loan types include fixed and adjustable-rate government and conventional mortgage loans. Impairment losses are recognized to the extent the unamortized mortgage servicing rights for each stratum exceed the current fair value of that stratum. Impairment losses by stratum are recorded as reductions in the carrying value of the asset through a valuation allowance with a corresponding reduction to total other income. Individual allowances for each stratum are adjusted in subsequent periods to reflect changes in impairment. Valuation adjustments for impairment losses totaling $60,417,000, $19,058,000 and $583,000, respectively, were recorded during the years ended December 31, 2002 and 2001, and the six months ended December 31, 2000. Valuation allowances totaling $80.1 million, $19.6 million and $583,000, respectively, were outstanding at December 31, 2002, 2001 and 2000. Mortgage servicing rights totaled $88.4 million at December 31, 2002, compared to $114.1 million and $109.3 million, respectively, at December 31, 2001 and 2000. As part of its overall strategy to manage the level of exposure to the risk of interest rates adversely affecting the value of mortgage servicing rights, the Corporation uses interest rate floor agreements to protect the value of the mortgage servicing rights. Additionally, the Corporation partially offsets reductions in the fair value of mortgage servicing rights through the recognition of gains on the sales of available-for-sale securities.

The determination of the fair value of mortgage servicing rights is an important estimate. Since mortgage servicing rights are not quoted in an active market, management uses valuation models to estimate the fair value. The Corporation uses a software model to compute the fair value. Loan prepayment speeds are downloaded into the model from an independent market service and adjusted for geographic location and age of the loans. The loan prepayment speed assumption weighs heavily in determining the fair value of the mortgage servicing rights. On a quarterly basis, management of the Corporation obtains an independent valuation report for comparison to their software model.

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. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation. 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. On the date the Corporation enters into a derivative contract, management must designate the derivative as a hedge of the identified cash flow exposure, fair value exposure or as a no hedging derivative.

Proper documentation is a critical aspect pursuant to hedge accounting treatment. The Corporation formally documents all relationships between derivative instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. In this documentation, the Corporation specifically identifies the asset, liability, firm commitment, or forecasted transaction that has been designated as a hedged item and states how the hedging instrument is expected to hedge the risks related to the hedged item. The Corporation formally measures effectiveness of its hedging relationships both at the hedge inception and on an ongoing basis in accordance with its risk management policy. The methods used to measure effectiveness vary depending on the hedging relationship. The fair value of the Corporation s derivatives is determined using various methods depending on the nature of the derivatives 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.

Segment Reporting

Operating Results by Segment

Effective January 1, 2002, the Corporation s operations were realigned into four lines of business operations for management reporting purposes. These lines of business units are Commercial Banking, Mortgage Banking, Retail Banking and Treasury. See Note 24 Segment Information to the Consolidated Financial Statements under Item 8 of this Report for additional information on the Corporation s lines of business including tabular results of operations for the years ended December 31, 2002 and 2001. The financial information presented does not necessarily represent the business unit s results of operations or financial condition as if they were independent companies. Results of operations for each business unit is 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 business unit are not in accordance with accounting principles generally accepted in the United States.

Commercial Banking

The Commercial Banking segment involves the origination of commercial operating, agricultural, commercial real estate, and small business loans, as well as indirect lending and commercial and residential construction loans. Also included in this segment is commercial demand and time deposits and cash management products and services.

The Commercial Banking segment reported net income of $33.5 million for the year ended December 31, 2002, compared to $29.5 million for the year ended December 31, 2001. For the year ended December 31, 2002, net interest income increased $12.6 million compared to the year ended December 31, 2001. This increase in net interest income is due primarily to the increase in the average balance of the commercial loan portfolio during 2002 over 2001. The provision for loan losses increased $7.3 million for 2002 compared to 2001. This increase is due to the larger commercial loan portfolio compared to 2001 since the loss rate applied remained unchanged. Total other income decreased $2.7 million for 2002 compared to 2001. During the year ended December 31, 2002, the Corporation recorded an impairment loss totaling $1.9 million on a residential master planned community development in Nevada. Total other expense decreased $2.3 million for 2002 compared to 2001 primarily due to the allocation of the 2001 net gain on exit costs and termination benefits for the year ended December 31, 2001.

Mortgage Banking

The Mortgage Banking segment involves the acquisition of a portion of correspondent, brokered and originated residential mortgage loans, the sale of these mortgage loans in the secondary mortgage market and to the Treasury segment, the servicing of mortgage loans, and the purchase and origination of rights to service mortgage loans.

The Mortgage Banking segment reported net income of $35.9 million for the year ended December 31, 2002, compared to $16.9 million for the year ended December 31, 2001. For 2002, net interest income increased $18.7 million compared to the year ended December 31, 2001. This increase in net interest income comparing the respective years is primarily due to increases in the credit the Mortgage Banking segment received in 2002 compared to 2001 from increases in its custodial cash earnings that were computed using an internal cost of funds rate. The custodial cash earnings increased comparing 2002 over 2001 due to increases in escrow balances primarily from mortgage refinancing activity. Total other income increased $15.3 million for 2002 compared to 2001 primarily due to net gains on the sales of warehouse loans partially offset by increases in amortization expense of mortgage servicing rights in 2002 over 2001. Total other expense increased $3.5 million for the year ended December 31, 2002, compared to 2001 due to the allocation of the 2001 net gain on exit costs and termination benefits totaling $4.6 million for the year ended December 31, 2001.

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, loan servicing is sold to the Mortgage Banking segment. Other core Retail Banking services include consumer checking, savings and certificates 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 $16.6 million for the year ended December 31, 2002, compared to $24.3 million for the year ended December 31, 2001. Net interest income decreased $1.3 million for 2002 compared to 2001. This decrease in net interest income is primarily due to lower rates on consumer loans comparing 2002 to 2001. The provision for loan losses increased $1.6 million for 2002 compared to 2001 due to the changes in the Retail Banking segment s loan portfolio mix. Total other income increased $2.6 million for 2002 compared to 2001 due to the increased retail fee pricing structure effective September 1, 2001, partially offset by decreases in commission revenues from brokerage operations. Total other expense increased $12.5 million for 2002 compared to 2001 due to the allocation of the 2001 net gain on exit costs and termination benefits totaling $7.8 million for the year ended December 31, 2001.

Treasury

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, investment and mortgage-backed securities, wholesale deposits, advances from the Federal Home Loan Bank and all other borrowings.

The Treasury segment reported net income of $22.5 million for year ended December 31, 2002, compared to net income of $27.0 million for the year ended December 31, 2001. Net interest income decreased $9.6 million for 2002 compared to 2001 due primarily to the higher average balances of investment and mortgage-backed securities for 2002 compared to 2001 with lower yields in 2002 and to higher average balances of borrowed funds partially offset by lower rates in 2002 over 2001. The provision for loan losses decreased $17.6 million for 2002 compared to 2001 due to a lower balance of loans held in the Treasury segment comparing the respective periods. For the year ended December 31, 2002, total other income was a loss of $49.5 million compared to a loss of $21.1 million for 2001. This decrease in total other income is due primarily to valuation adjustments for impairment of the mortgage servicing rights totaling $60.4 million recorded in 2002 compared to $19.1 million recorded in 2001. Total other expense for 2002 is a net credit of $68,000 compared to an expense of $7.3 million for 2001. This net change is primarily due to higher loan production cost allocations in 2002 compared to 2001.

Consolidated Results of Operations

Comparison of Consolidated Results of Operations

Net income for the year ended December 31, 2002, was $108.5 million or $2.37 per diluted share ($2.39 per basic share), compared to net income of $97.7 million, or $1.93 per diluted share ($1.95 per basic share), for the year ended December 31, 2001. The Corporation implemented SFAS No. 142 as of January 1, 2002. See Note 10 Intangible Assets to the Consolidated Financial Statements under Item 8 of this Report for the pro forma effect on operations for prior periods excluding goodwill amortization pursuant to the provisions of SFAS No. 142.

The increase in net income for 2002 over 2001 is primarily due to an increase of $20.3 million in net interest income and decreases of $9.0 million in the amortization of intangible assets and $7.9 million in the provision for loan losses. These increases to net income were partially offset by an increase of $25.6 million in general and administrative expenses. Net income for 2002 includes pre-tax gains on the sales of available-for-sale securities totaling $35.9 million and mortgage loans totaling $36.2 million, compared to respective net gains of $18.3 million and $8.7 million for 2001. Loan servicing fees, net of amortization expense on mortgage servicing rights, totaled $8.1 million for 2002 compared to $22.7 million for 2001. The decrease in these loan servicing fees resulted from the lower interest rates in 2002 which also effected the valuation allowances for impairment losses of mortgage servicing rights. Valuation adjustment losses totaling $60.4 million in the mortgage servicing rights portfolio were recorded during 2002 compared to $19.1 million for 2001. The valuation adjustments are due to increases in loan prepayment speeds resulting from historically low interest rates.

Net income for the calendar year ended December 31, 2001, was $97.7 million, or $1.93 per diluted share ($1.95 per basic share). Net income for 2001 includes $15.6 million ($10.1 million after-tax, or $.20 per diluted share) in net gains relating to the August 2000 initiatives. These net gains, recorded as a credit to the expense category exit costs and termination benefits, are due to the net gains realized on the sales of branches ($18.3 million pre-tax) partially offset by severance costs associated with right-sizing branch personnel and expenses to close the branches ($2.0 million pre-tax) and expenses to exit leasing operations ($754,000 pre-tax). The Corporation also realized pre-tax gains on the sales of available-for-sale securities totaling $18.3 million. These net gains on these sales were recognized primarily to offset the valuation adjustment losses totaling $19.1 million in the mortgage servicing rights portfolio incurred during 2001. These valuation adjustments were due to an increase in loan prepayments resulting from a decrease in interest rates.

A net loss of $69.5 million, or $1.27 loss per basic and diluted share, was incurred for the six months ended December 31, 2000. Included in the net loss for the six months ended December 31, 2000, is a loss of $19.1 million ($.35 per basic and diluted share) from the cumulative effect of change in accounting principle, net of income tax benefits of $10.3 million, relating to the adoption of SFAS No. 133. The net decrease in income comparing the six month period ending December 31, 1999, is due to net decreases in total other income of $94.1 million and net interest income of $19.5 million, and in net increases of $21.1 million in the provision for loan losses, $19.5 million in total other expense and $17.3 million in the cumulative effect of changes in accounting principles. These net decreases to income were partially offset by a net change of $48.9 million in the income tax provision. The net decrease in total other income included net losses on the sales of securities of $30.0 million, losses on the termination of interest rate swap agreements of $38.2 million and loss on the sale of securitized mortgage loans of $18.2 million.

See Ratios for certain performance ratios of the Corporation for the years ended December 31, 2002 and 2001, the six months ended December 31, 2000, and the fiscal year ended June 30, 2000.

Net Interest Income and Interest Rate Spread

Net interest income for the year ended December 31, 2002, totaled $327.7 million compared to $307.4 million for the year ended December 31, 2001, an increase of $20.3 million, or 6.6%. During 2002 and 2001, the net interest rate spreads were 2.78% and 2.61%, respectively, an increase of 17 basis points comparing years. The net yield on interest-earning assets was 2.75% for 2002 compared to 2.62% for 2001, an increase of 13 basis points. The increase in the interest rate spread is due primarily to a 109 basis point decrease in the rate incurred on interest-bearing liabilities partially offset by a 92 basis point decline in the yield received on interest-earning assets. Total interest expense decreased $114.6 million comparing the year ended December 31, 2002, to December 31, 2001, primarily due to the lower cost of funds. At the same time, comparing 2002 to 2001, the average balance of interest-bearing liabilities increased $330.5 million, primarily due to increases in FHLB advances and securities sold under agreements to repurchase totaling $939.0 million and $271.8 million, respectively, partially offset by a decrease of $846.1 million in certificates of deposit. Total interest income deceased $94.3 million comparing 2002 to 2001 due to the lower yields on interest-earning assets, even though the average balance of interest-earning assets increased $206.9 million over the same time periods. Net interest income increased for 2002 compared to 2001 due to (i) the lower interest rate environment in which costing liabilities have been repricing downward at a faster rate than earning assets have been repricing, (ii) the continued shift in the asset mix toward higher yielding commercial and consumer loans and (iii) a shift in funding from certificates of deposit primarily to FHLB advances and to checking accounts and money market accounts in the latter part of 2002. See Note 14 Derivative Financial Instruments to the Consolidated Financial Statements under Item 8 of this Report for a discussion of the Corporation s use of derivative financial instruments in managing its interest rate risk.

Based on the current low interest rate environment, management anticipates a relatively stable interest rate spread through the first half of 2003 with a gradual decrease toward the end of calendar year 2003. However, the future trend in interest rate spreads and net interest income will be dependent upon and influenced by changes in and levels of both short-term and long-term market interest rates, and other factors such as the composition and size of the Corporation s interest-earning assets and interest-bearing liabilities, the interest rate risk exposure of the Corporation and the maturity and repricing activity of interest-sensitive assets and liabilities.

For calendar year 2001, net interest income totaled $307.4 million, the interest rate spread was 2.61% and the net yield on interest-earning assets was 2.62%. As a comparison, the net interest rate spread and the net yield on interest-earning assets were 2.46% and 2.44%, respectively, for the six months ended December 31, 2000. Net interest income for 2001 was lower compared to the previous twelve-month period ended December 31, 2000, due to the decrease of approximately $186.6 million in the average net-earnings balance. The Corporation s average balances of interest-earning assets and interest-bearing liabilities decreased in 2001 due mainly to the balance sheet restructuring completed during the six months ended December 31, 2000, and the Corporation s repurchases of its common stock totaling $180.9 million over the last twelve months. The average balance of interest-earning assets decreased $849.1 million in 2001 compared to the twelve months ended December 31, 2000; and the average balance of interest-bearing liabilities decreased $662.5 million over the same period. The increased interest rate spreads and net yield on interest-earning assets was due to the lower interest rate environment in 2001 in which costing liabilities repriced downward at a faster rate than earning assets repriced and the continued shift in the asset mix toward higher yielding commercial and consumer loans.

Net interest income totaled $154.4 million for the six months ended December 31, 2000, compared to $173.9 million for the six months ended December 31, 1999, a decrease of $19.5 million, or 11.2%. During the six months ended December 31, 2000 and 1999, interest rate spreads were 2.46% and 2.82%, respectively, a decrease of 36 basis points. The net yield on interest-earning assets was 2.44% and 2.86%, a decrease of 42 basis points over the respective periods. Net interest income decreased for the six months ended December 31, 2000, compared to 1999, due to the compression of the interest rate spreads from the year 2000 rate increases by the Federal Reserve. This compression in the net yield on interest-earning assets was primarily due to the Corporation s interest-bearing liabilities repricing more quickly than the interest-earning assets. The decrease in the interest rate spread was due primarily to a 75 basis point increase in costing liabilities as a result of the rise in short-term interest rates comparing the respective six-month periods and the liability sensitive balance sheet of the Corporation. Total interest expense increased $62.4 million comparing the six months ended December 31, 2000 to 1999 due to the higher costs of funds and a net increase of $592.4 million in average interest-bearing liabilities. Total interest income increased $42.9 million over the same six-month period with a net increase of $487.6 million in average interest-earning assets. The increase in these average balances was due to net growth in the total loan portfolio ($630.4 million), primarily in residential mortgage loans and higher-yielding commercial and construction loans. The consumer loan portfolio also experienced moderate growth. This loan growth was funded primarily with FHLB advances. The average balance of advances from the FHLB and the weighted average rate paid on these advances increased $737.2 million and 91 basis points, respectively, comparing the six months ended December 31, 2000, to the six months ended December 31, 1999.

The following table presents certain information concerning yields earned on interest-earning assets and rates paid on interest-bearing liabilities during and at the end of each of the periods presented:

	For the Year Ended December 31,		Six Months Ended December 31,	For the Year Ended June 30,	At December 31,			At June 30,
	2002	**2001**	**2000**	**2000**	**2002**	**2001**	**2000**	**2000**
Weighted average yield on:								
Loans	7.03%	7.81%	7.96%	7.75%	6.71%	7.43%	8.21%	7.87%
Mortgage-backed securities	5.17	6.49	7.37	6.40	4.93	6.42	6.79	6.56
Investments	5.13	6.09	7.67	6.89	4.27	5.10	6.82	6.79
Interest-earning assets	6.51	7.43	7.87	7.52	6.13	6.98	7.89	7.64
Weighted average rate paid on:								
Core deposits (1) (2)	2.46	3.11	3.59	3.11	2.18	2.47	3.57	3.32
Certificates of deposit	3.36	5.51	5.88	5.31	3.05	4.35	5.95	5.76
Advances from FHLB (2)	4.68	5.49	6.10	5.51	4.66	4.76	6.41	5.98
Securities sold under agreements to repurchase	3.93	5.32	4.98	5.62	3.30	4.30	4.91	4.99
Other borrowings	5.56	6.39	8.08	7.80	3.81	4.33	8.69	8.69
Interest-bearing liabilities	3.73	4.82	5.41	4.85	3.47	3.97	5.44	5.28
Net interest rate spread	2.78%	2.61%	2.46%	2.67%	2.66%	3.01%	2.45%	2.36%
Net yield on interest-earning assets	2.75%	2.62%	2.44%	2.78%	2.63%	2.96%	2.46%	2.50%

(1) Core deposits consist of savings accounts, checking accounts and money market accounts.
(2) Rates also reflect the effect of net interest expense related to the interest rate swap and swaption agreements.

The following table presents average interest-earning assets and average interest-bearing liabilities, interest income and interest expense, and average yields and rates during the periods indicated. This table includes nonaccruing loans averaging $76.2 million, $84.5 million, $65.4 million and $59.0 million, respectively, for the years ended December 31, 2002 and 2001, the six months ended December 31, 2000, and the fiscal year ended June 30, 2000, as interest-earning assets at a yield of zero percent:

	Year Ended December 31,						Six Months Ended			Year Ended June 30,		
	2002			2001			December 31, 2000			2000		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
	(Dollars in Thousands)											
Interest-earning assets:												
Loans	$ 8,638,609	$ 607,370	7.03%	$ 8,782,321	$ 685,480	7.81%	$ 10,257,240	$ 408,582	7.96%	$ 9,798,198	$ 759,711	7.75%
Mortgage-backed securities	1,799,174	93,047	5.17	1,690,967	109,657	6.49	1,338,706	49,334	7.37	1,291,061	82,563	6.40
Investments	1,494,011	76,636	5.13	1,251,559	76,237	6.09	1,063,782	40,816	7.67	1,239,548	85,416	6.89
Interest-earning assets	11,931,794	777,053	6.51	11,724,847	871,374	7.43	12,659,728	498,732	7.87	12,328,807	927,690	7.52
Interest-bearing liabilities:												
Core deposits (1) (2)	3,395,342	83,404	2.46	3,413,039	105,992	3.11	3,182,597	57,601	3.59	3,137,139	97,715	3.11
Certificates of deposit	2,862,960	96,192	3.36	3,709,030	204,375	5.51	4,283,327	126,978	5.88	4,295,975	227,959	5.31
Advances from FHLB (3)	5,204,501	243,710	4.68	4,265,468	234,213	5.49	4,883,700	152,317	6.10	4,373,510	240,924	5.51
Securities sold under agreements to repurchase	353,977	13,895	3.93	82,215	4,374	5.32	18,692	476	4.98	69,763	3,922	5.62
Other borrowings	218,183	12,124	5.56	234,669	14,991	6.39	171,525	6,925	8.08	192,666	15,029	7.80
Interest-bearing liabilities	12,034,963	449,325	3.73	11,704,421	563,945	4.82	12,539,841	344,297	5.41	12,069,053	585,549	4.85
Net earnings balance	$ (103,169)			$ 20,426			$ 119,887			$ 259,754		
Net interest income		$ 327,728			$ 307,429			$ 154,435			$ 342,141	
Interest rate spread			2.78%			2.61%			2.46%			2.67%
Net yield on interest-earning assets			2.75%			2.62%			2.44%			2.78%

(1) Core deposits consist of savings accounts, checking accounts and money market accounts.

(2) Includes interest expense incurred on interest rate swap agreements totaling $50.4 million, $28.1 million, $1.0 million and $2.9 million for the respective periods.

(3) Includes interest expense incurred on interest rate swap and swaption agreements totaling $66.0 million and $18.7 million, respectively, for the years ended December 31, 2002 and 2001, and net interest received totaling $628,000 for the six months ended December 31, 2000.

The Corporation s average net earnings balance decreased $123.6 million during 2002 compared to 2001. The decrease in the average net earnings balance for 2002 compared to 2001 is primarily due to the Corporation increasing its outstanding FHLB advances and securities sold under agreements to repurchase to offset a decrease in certificates of deposit. Cash outlays on the purchases of swaption agreements, repurchases of common stock of the Corporation and income tax payments over the last twelve months also contributed to this decrease.

The average net earnings balance decreased $186.6 million during the year ended December 31, 2001. This decrease is primarily due to the Corporation repurchasing shares of its common stock at a cost of $180.9 million during 2001 and the impact from the balance sheet restructuring. The Corporation s net earnings balance decreased by $104.8 million during the six months ended December 31, 2000, compared to the six months ended December 31, 1999. This decrease in the net earnings balance comparing these periods is primarily due to the restructuring of the balance sheet, the repurchases of common stock of the Corporation totaling $82.8 million over the last twelve months and the funding of the $200.0 million bank owned life insurance (BOLI) program. The BOLI asset is excluded from the average balance of interest-earning assets and the BOLI related income is recorded in other income.

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) changes in rate (change in rate multiplied by prior year volume). The net change attributable to change in both volume and rate, which cannot be segregated, has been allocated proportionately to the change due to volume and the change due to rate. The following table demonstrates the effect of the change in the volume of interest-earning assets and interest-bearing liabilities, the changes in interest rates and the effect on the interest rate spreads previously discussed:

	2002 Compared to 2001			**Year Ended December 31, 2001 Compared to the Twelve Months Ended December 31, 2000**			**Six Months Ended December 31, 2000 Compared to December 31, 1999**		
	Increase (Decrease) Due to			**Increase (Decrease) Due to**			**Increase (Decrease) Due to**		
	Volume	**Rate**	**Total**	**Volume**	**Rate**	**Total**	**Volume**	**Rate**	**Total**
				(In Thousands)					
Interest income:									
Loans	$ (10,146)	$ (67,964)	$ (78,110)	$ (101,618)	$ (9,151)	$ (110,769)	$ 25,168	$ 11,369	$ 36,537
Mortgage-backed securities	6,677	(23,287)	(16,610)	25,127	(5,826)	19,301	1,032	6,762	7,794
Investments	13,484	(13,085)	399	6,915	(14,614)	(7,699)	(6,409)	4,929	(1,480)
Interest income	10,015	(104,336)	(94,321)	(69,576)	(29,591)	(99,167)	19,791	23,060	42,851
Interest expense:									
Core deposits (1)	(7,082)	(15,506)	(22,588)	11,887	(14,574)	(2,687)	3,683	7,280	10,963
Certificates of deposit	(39,908)	(68,275)	(108,183)	(30,287)	(6,217)	(36,504)	(2,104)	15,025	12,921
Advances from FHLB	47,590	(38,093)	9,497	(27,299)	(21,705)	(49,004)	21,290	21,003	42,293
Securities sold under agreements to repurchase	10,975	(1,454)	9,521	3,150	59	3,209	(2,412)	(345)	(2,757)
Other borrowings	(1,003)	(1,864)	(2,867)	4,272	(3,251)	1,021	(1,506)	447	(1,059)
Interest expense	10,572	(125,192)	(114,620)	(38,277)	(45,688)	(83,965)	18,951	43,410	62,361
Effect on net interest income	$ (557)	$ 20,856	$ 20,299	$ (31,299)	$ 16,097	$ (15,202)	$ 840	$ (20,350)	$ (19,510)

(1) Core deposits consist of savings accounts, checking accounts and money market accounts.

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 in 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 according to a specified index. The Corporation had swap agreements with notional principal amounts of $2.5 billion at December 31, 2002, compared to $2.6 billion and $ 1.5 billion, respectively at December 31, 2001 and 2000. For the years ended December 31, 2002 and 2001, the six months ended December 31, 2000, and for the fiscal year ended 2000, the Corporation recorded $104.1 million, $45.7 million, $415,000, and $2.9 million, respectively, in net interest expense from its interest rate swap agreements. The swap agreements outstanding as of December 31, 2002, have maturities ranging from May 2003 to March 2012.

At December 31, 2002, the Corporation has $1.7 billion of 10 year fixed-rate FHLB advances with interest rates ranging from 4.30% to 5.92%, call dates ranging from January 2003 to March 2003 and maturity dates ranging from February 2009 to December 2009. 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 the 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. See Note 14 Derivative Financial Instruments to the Consolidated Financial Statements under Item 8 of this Report for additional information on the Corporation s swap and swaption agreements.

The following table represents management s projected maturity and repricing of the Bank s interest-earning assets and interest-bearing liabilities at December 31, 2002. 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, 2002, and the Bank 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 Bank s interest-earning assets and interest-bearing liabilities may vary substantially if actual experience differs from the assumptions used.

	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)	$ 1,076,958	$ 811,204	$ 986,648	$ 1,131,382	$ 4,006,192
Other loans (2)	1,763,830	1,628,972	1,800,480	1,005,880	6,199,162
Investments (3)	529,078	21,315	72,525	957,123	1,580,041
Interest-earning assets	3,369,866	2,461,491	2,859,653	3,094,385	11,785,395
Interest-bearing liabilities:					
Savings deposits	1,524,136	376,962	674,862	1,017,643	3,593,603
Other time deposits	898,434	1,362,480	389,168	195,357	2,845,439
Borrowings (4)	3,442,135	132,000		1,878,168	5,452,303
Impact of interest rate swap agreements	(2,520,000)	400,000	850,000	1,270,000	
Interest-bearing liabilities	3,344,705	2,271,442	1,914,030	4,361,168	11,891,345
Gap position	25,161	190,049	945,623	(1,266,783)	(105,950)
Cumulative gap position	$ 25,161	$ 215,210	$ 1,160,833	$ (105,950)	$ (105,950)
Gap as a percentage of the Bank s total assets	.19%	1.46%	7.22%	(9.68)%	(.81)%
Cumulative gap as a percentage of the Bank s total assets	.19%	1.65%	8.87%	(.81)%	(.81)%

(1) Includes single-family and multi-family mortgage loans and mortgage-backed securities.
(2) Includes adjustable-rate single-family mortgage loans, adjustable-rate mortgage-backed securities and all other types of loans with either fixed or adjustable interest rates.
(3) Included in the Within 90 Days column is Federal Home Loan Bank stock of $283.2 million.
(4) Includes advances from the FHLB and other borrowings.

The Bank s one-year cumulative gap is a positive $215.2 million, or 1.65%, of the Bank s total assets at December 31, 2002, compared to a negative $9.8 million, or .08%, of the Bank s total assets at December 31, 2001, and a negative $1.1 billion, or 8.66% at December 31, 2000. The interest rate risk policy of the Bank limits the liability sensitive one-year cumulative gap not to exceed 15.0%.

The Corporation s interest rate sensitivity is also monitored through analysis of the change in the net portfolio value (NPV). The Corporation s Asset Liability Management Committee (ALCO), comprised of senior management, monitors the sensitivity of the value of the balance sheet to changes in market interest rates. The primary purpose of the asset/liability management function is to manage the Corporation s combined portfolio such that its capital is leveraged effectively into assets and liabilities which maximize corporate profitability while minimizing exposure to changes in interest rates. The ALCO and the Board of Directors review the interest rate risk position of the Bank on a quarterly basis.

Several measures are employed to determine the Bank s exposure to interest rate risk. Market value sensitivity analysis measures the change in the Bank s NPV ratio in the event of sudden and sustained changes in market interest rates. The NPV ratio is defined as the market value of the Bank s capital divided by the market value of its assets. Interest rate sensitivity gap analysis is used to compare the repricing characteristics of the Bank s assets and liabilities. Finally, net interest income sensitivity analysis is used to measure the impact of changing interest rates on corporate earnings.

If estimated changes to the NPV ratio and the sensitivity gap are not within the limits established by the Board of Directors, the Board may direct management to adjust its asset and liability mix to bring interest rate risk within Board-approved limits. The Corporation s Board of Directors has adopted an interest rate risk policy which establishes a minimum allowable NPV ratio (generally 4.00%) over a range of hypothetical interest rates extending from 300 basis points below current levels to 300 basis points above current levels. In addition, the policy establishes a maximum allowable change in the NPV ratio of 2.00% in the event of an instantaneous and adverse change in interest rates of 200 basis points. Due to the current low interest rates in 2002, the hypothetical changes in interest rates for the 200 basis point decline and the 300 basis point decline were not calculated since using such negative interest rate scenarios would yield meaningless results.

The OTS monitors the Bank s interest rate risk management procedures under guidelines set forth in Thrift Bulletin 13a. This bulletin requires that the Corporation s Board of Directors set interest rate risk limits that would prohibit the Bank from exhibiting a post-shock NPV ratio and interest rate sensitivity measure of significant risk or greater, as defined by the OTS. The OTS limits generally set a minimum NPV ratio of 6.00% at the 200 basis points rate shock level, and a maximum change in NPV ratio of 4.00% at the same level. Alternately, the OTS set a minimum NPV ratio of 4.00% at the 200 basis point rate shock level and a maximum change in the NPV ratio of 2.00% at the same level. Finally, due to the low interest rate environment, OTS limits have temporarily been removed from the down 200 basis points test to a down 100 basis points test. The limits the Corporation s Board of Directors has imposed on the Bank are more conservative than the limits set by the OTS.

The following table presents the projected change in the Bank s NPV ratio for various hypothetical rate shock levels as of December 31, 2002.

Hypothetical Change in Interest Rates	Market Value of Capital	Market Value of Assets	NPV Ratio	Minimum Board Limit	Change in NPV Ratio Over Base Scenario	Board Maximum Allowable Change
			(Dollars in Thousands)			
300 basis point rise	$ 748,615	$ 12,313,605	6.08%	4.00%	1.03%	n/a
200 basis point rise	765,973	12,590,021	6.08%	4.00%	1.03%	(2.00)%
100 basis point rise	750,178	12,845,234	5.84%	4.00%	.79%	n/a
Base Scenario	658,583	13,034,749	5.05%	4.00%		n/a
100 basis point decline	549,146	13,213,245	4.16%	4.00%	(.90)%	n/a

At December 31, 2002, the Bank s NPV ratios were within the targets set by the Board of Directors in all rate scenarios. In addition, at December 31, 2002, the Bank was within the limits set by the OTS to maintain a risk rating of better than significant risk. The NPV ratio is calculated by the Corporation pursuant to guidelines established by the OTS. The modeling calculation is based on the net present value of discounted estimated cash flows utilizing prepayment assumptions and market rates of interest provided by independent sources as of December 31, 2002, with adjustments made to reflect the shift in interest rates as appropriate. Computation of prospective effects of hypothetical interest rate changes are based on numerous assumptions, including relative levels of market interest rates, loan prepayments, and deposit decay, and should not be relied upon as indicative of actual results. Further, the computations do not contemplate any actions the ALCO could undertake in response to changes in interest rates.

62

Provision for Loan Losses

The allowance for loan losses is based upon management s continuous evaluation of the collectibility of outstanding loans, which takes into consideration such factors as changes in the composition of the loan portfolio and economic conditions that affect the borrower s ability to pay, regular examinations of specific problem loans by the Corporation s credit review team and of the overall portfolio quality and real estate market conditions in the Corporation s lending areas. Management of the Corporation believes that the present level of allowance for loan losses is adequate to reflect the risks inherent in its portfolios. However, 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 allowance 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.

The allowance for loan losses consists of two elements. The first element is an allocated allowance established for specifically identified loans that are evaluated individually for impairment and are considered to be individually impaired. The second element is an estimated allowance established for impairment on each of the Corporation s pools of outstanding loans. These estimated allowances are based on several analysis factors including the Corporation s past loss experience, general economic and business conditions, geographic and industry concentrations, credit quality and delinquency trends, and known and inherent risks in each of the portfolios. These evaluations are inherently subjective as they require frequent revisions as more information becomes available. The allowance for credit losses totaled $106.3 million at December 31, 2002, or 146.8% of total nonperforming loans, compared to $102.5 million, or 123.2% at December 31, 2001 and $83.4 million, or 100.0% at December 31, 2000.

The Corporation recorded loan loss provisions totaling $31.0 million and $38.9 million for the years ended December 31, 2002 and 2001, respectively. This decrease in loan loss provision is due to lower performing loans and a decrease in the loan portfolio. The Corporation s allowance for loan losses increased to $106.3 million, or 1.20% of loans, at December 31, 2002 from $102.5 million, or 1.18% of loans, at December 31, 2001. The nonperforming assets to total assets ratio and nonperforming loans to total loans ratio both improved at December 31, 2002 compared to December 31, 2001 due to the decrease in nonperforming assets and nonperforming loans at December 31, 2002, compared to December 31, 2001. The increase in the allowance for loan losses as a percentage of loans is a result of the shift in the portfolio mix from residential mortgage lending to commercial real estate and consumer lending which has a greater risk factor and requires a higher allowance on the Corporation s portfolio. Net loans charged-off totaled $27.0 million and $19.8 million in 2002 and 2001, respectively. This increase is due primarily to increases in charge-offs of commercial real estate loans, construction loans and commercial operating loans totaling $7.8 million, $1.6 million and $782,000, respectively, partially offset by decreases in agricultural loans and consumer loans totaling $1.7 million and $1.3 million, respectively.

The Corporation recorded provision for loan losses totaling $38.9 million for the year ended December 31, 2001. The total allowance for loan losses increased to $102.5 million, or 1.18% of loans, at December 31, 2001, compared to $83.4 million, or .91% of loans, at December 31, 2000. A significant reason for this increase in the allowance is due to the negative impact on the ability of borrowers to pay their loans attributable to the recessionary economic conditions present in the second half of 2001 and the continued deterioration in the economy. This is reflected in the increasing ratio of nonperforming loans to total loans and nonperforming assets to total assets, as well as the increase in total nonperforming asset balances.

The Corporation recorded loan loss provisions of $27.9 million and $6.8 million for the six months ended December 31, 2000 and 1999, respectively. The increase is primarily attributable to management s evaluation of the Corporation s portfolio credit risk and subsequent decision to increase reserves by $12.9 million from June 30, 2000, to December 31, 2000, based on changing economic conditions and increases in nonperforming loans during the last half of 2000. The total allowance for loan losses increased to $83.4 million, or .91% of loans, at December 31, 2000, compared to $70.6 million, or .66% of loans, at June 30, 2000. This increase was due to the additional loan loss provisions recorded during the six months ended December 31, 2000. Net loans charged-off totaled $14.4 million for the six-month period in 2000 compared to $6.6 million for the 1999 period. Net charge-offs were higher for the 2000 period due to increases in lease charge-offs ($5.5 million) and commercial real estate loan charge-offs ($2.6 million). The increase in lease charge-offs is primarily due to credit issues on the retained portfolio. The increase in the commercial real estate loan charge-offs is due primarily to a charge-off totaling $1.7 million on an office building in Kansas and $535,000 on an apartment building in Nebraska.

The Corporation s real estate loan portfolio is primarily secured by properties located within its branch market area. At December 31, 2002, the residential loan portfolio totaled $4.9 billion and is secured by properties located primarily in Colorado (13%), Nebraska (11%), Iowa (9%) and Kansas (9%). At December 31, 2001, the residential loan portfolio totaled $5.0 billion and was secured by properties located primarily in Colorado (16%), Nebraska (12%) and Kansas (10%). At December 31, 2000, the Corporation s residential loan portfolio totaling $5.6 billion was secured by properties located primarily in Colorado (17%), Nebraska (11%) and Kansas (9%). At June 30, 2000, these loans totaled $7.5 billion and were secured by properties located primarily in Colorado (17%), Nebraska (13%) and Kansas (11%).

At December 31, 2002, the commercial real estate portfolio totaled $1.6 billion and is secured by properties located primarily in Colorado (26%), Iowa (16%) and Arizona (10%). At December 31, 2001, the commercial real estate portfolio totaled $1.5 billion and was secured by properties located primarily in Colorado (24%), Iowa (15%) and Kansas (9%). The commercial real estate loan portfolio at December 31, 2000, totaling $1.4 billion was secured by properties primarily located in Colorado (23%), Iowa (17%) and Kansas (9%). At June 30, 2000, commercial real estate loans totaled $1.1 billion and were secured by properties located primarily in Colorado (26%), Iowa (16%) and Kansas (11%).

Nonperforming assets are monitored on a regular basis by the Corporation s internal credit review and problem asset groups. Nonperforming assets at December 31 are summarized as follows:

	2002	2001	2000
		(Dollars in Thousands)	
Nonperforming loans (1)			
Residential real estate (2)	$ 46,394	$ 52,792	$ 68,978
Commercial real estate	17,890	23,423	4,446
Consumer and other loans	7,904	6,622	7,271
Leases	226	307	2,748
Total	72,414	83,144	83,443
Real estate (3)			
Commercial	2,550	8,762	10,198
Residential	37,458	36,446	15,824
Total	40,008	45,208	26,022
Troubled debt restructurings (4)			
Commercial	1,547	3,057	4,195
Residential		84	90
Total	1,547	3,141	4,285
Total nonperforming assets	$ 113,969	$ 131,493	$ 113,750
Nonperforming loans to total loans	.82%	.96%	.91%
Nonperforming assets to total assets	.87%	1.02%	.91%
Total allowance for loan losses	$ 106,291	$ 102,451	$ 83,439
Allowance for loan losses to:			
Total loans	1.20%	1.18%	.91%
Total nonperforming assets	93.26%	77.91%	73.35%
Total nonperforming loans	146.78%	123.22%	100.00%
Nonresidential nonperforming assets	352.93%	242.94%	289.14%

(1) Nonperforming loans consist of nonaccruing loans (loans 90 days or more past due) and accruing loans that are contractually past due 90 days or more. At December 31, 2002, 2001 and 2000, there were no accruing loans contractually past due 90 days or more.

(2) Nonperforming residential real estate loans at December 31, 2001 and 2000, have been restated due to a change in determining past due loans. During 2002, the Corporation changed its method of determining delinquent residential real estate loans to a method where the number of days past due are determined by the number of contractually delinquent loan payments. Previous to this change, the Corporation utilized a methodology where the loan system converted monthly loan payments missed on a loan to days past due. This change in determining these delinquent loans conforms the Corporation s reporting with the Bank s regulatory thrift financial reporting. This change in methods reduced nonperforming residential real estate loans previously reported by $10.7 million and $12.4 million, respectively, at December 31, 2001 and 2000.

(3) Real estate consists of commercial and residential property acquired through foreclosure or repossession (real estate owned and real estate in judgment) and real estate from certain subsidiary operations, and does not include performing real estate held for investment totaling $11.5 million, and $12.3 million and $12.8 million, respectively, at December 31, 2002, 2001 and 2000.

(4) A troubled debt restructuring is a loan on which the Corporation, for reasons related to the debtor s financial difficulties, grants a concession to the debtor that the Corporation would not otherwise consider. The concession could be 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.

Nonperforming loans at December 31, 2002 decreased by $10.7 million compared to December 31, 2001, due primarily to decreases in commercial real estate delinquencies totaling $8.0 million and residential delinquencies totaling $6.0 million. The decrease in commercial real estate delinquencies is primarily due to the foreclosure of a loan totaling $9.1 million and the charge-off of a group of related loans totaling $7.7 million partially offset by the addition of four loans totaling $9.0 million. These decreases in nonperforming loans were partially offset by increases in residential construction delinquencies totaling $1.5 million, commercial construction delinquencies totaling $557,000, commercial operating delinquencies totaling $460,000 and consumer delinquencies totaling $450,000. The increase in residential construction delinquencies is primarily due to one loan totaling $2.7 million. The higher concentration levels of nonperforming loans at December 31, 2002, were secured by properties located in Iowa (13%), Oklahoma (13%) and Kansas (13%). This compares to December 31, 2001, with nonperforming loans secured by properties located in Kansas (19%), Nevada (12%), and Iowa (10%).

Nonperforming loans at December 31, 2001, decreased $299,000 compared to December 31, 2000, due primarily to the foreclosure of a construction loan totaling $22.7 million which moved to the real estate category and a decrease of $2.6 million in leases. These decreases were offset by two commercial real estate groups of loans totaling $20.8 million going 90 days past due and general increases totaling $1.3 million in the residential real estate portfolio. The $22.7 million construction loan foreclosure was on a property located in Nevada for the development of a residential master planned community. The $2.6 million decrease in leases reflects the Corporation s sale of a substantial portion of this portfolio during the first quarter of 2001.

Real estate owned decreased $5.2 million at December 31, 2002 compared to December 31, 2001 due primarily to the sale of a commercial construction property totaling $3.9 million. Real estate owned at December 31, 2001, increased $19.2 million from December 31, 2000, due primarily to the addition of the residential master planned community development property located in Nevada. The book value of this property totaled $21.6 million at December 31, 2001. Real estate owned at December 31, 2002, is located primarily in Nevada (55%), Iowa and Missouri compared to December 31, 2001, where the higher concentrations were located primarily in Nevada (48%), Missouri and Arizona. At December 31, 2000, the higher concentrations were located primarily in Kansas and Missouri.

Troubled debt restructurings decreased $1.6 million at December 31, 2002, compared to December 31, 2001, due primarily to the reclassification of seven loans totaling $1.4 million from troubled debt restructuring status to current loan status. Troubled debt restructurings decreased $1.1 million at December 31, 2001, compared to December 31, 2000, due primarily to the charge-off of one loan totaling $582,000 and the reclassification of another loan for $414,000 from troubled debt restructuring status to current loan status.

Non-Interest Income

Retail Fees and Charges

Retail fees and charges totaled $55.3 million and $53.5 million, respectively, for the years ended December 31, 2002 and 2001. The primary source of this fee income is customer charges for retail financial services such as checking account fees and service charges, charges for insufficient checks or uncollected funds, stop payment fees, debit card annual fees, overdraft protection fees, transaction fees for personal checking, interchange revenue from use of debit and credit cards and automatic teller machine services. The reason for the 2002 increase over 2001 is due to an increased retail pricing structure effective September 1, 2001, debit card annual fees and to an increase in the number of checking accounts.

Retail fees and charges totaled $25.7 million and $20.7 million, respectively, for the six months ended December 31, 2000 and 1999. The net increase for the six months ended December 31, 2000, compared to 1999 was due to increases in fees for overdraft and insufficient funds charges on checking accounts and debit card fees.

Loan Servicing Fees and Mortgage Servicing Rights Valuation Adjustment

The major components of loan servicing fees for the periods indicated and the amount of loans serviced for other institutions are as follows:

	Year Ended December 31,		Six Months Ended December 31,	Year Ended June 30,
	2002	2001	2000	2000
	(In Thousands)			
Revenue from loan servicing fees	$ 32,580	$ 33,079	$ 13,814	$ 27,943
Revenue from late loan payment fees	6,544	6,693	2,848	5,954
Amortization of mortgage servicing rights	(31,025)	(17,092)	(4,558)	(8,703)
Loan servicing fees, net	$ 8,099	$ 22,680	$ 12,104	$ 25,194
Valuation adjustment for impairment	$ (60,417)	$ (19,058)	$ (583)	$
Loans serviced for other institutions at period end	$ 11,531,755	$ 9,488,621	$ 9,100,938	$ 7,271,014

The amount of revenue generated from loan servicing fees, and changes 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.

The fair value of the Corporation s loan servicing portfolio decreases as mortgage interest rates decline and loan prepayments increase. In such an environment, it is expected that income generated from the Corporation s loan servicing portfolio would decrease. However, this negative effect on the Corporation s income would be offset, in part, by an increase in additional servicing fee income attributable to new loan originations, which historically increase in periods of lower, or declining, mortgage interest rates. Conversely, the value of the Corporation s loan servicing portfolio would increase as mortgage interest rates rise.

The net decrease in revenue from loan servicing comparing the year ended December 31, 2002 to 2001 is due to a lower level of service fee rates comparing the respective years slightly offset by a higher average balance of mortgage loans serviced. The average service fee rate collected by the Corporation was .33% for the year ended December 31, 2002, compared to .35% for the year ended December 31, 2001. The mortgage loans serviced for other institutions increased at December 31, 2002, compared to December 31, 2001, due to the purchases of loan servicing portfolios in 2002 totaling $2.0 billion. The increase in amortization expense of mortgage servicing rights during 2002 compared to 2001 reflects an increase in loan prepayments due to the lower interest rate environment comparing the respective years. The amount of amortization expense of mortgage servicing rights is determined, in part, by the estimated future balance of the underlying mortgage loan servicing portfolio which is impacted by the rate of mortgage loan pay-downs. In addition, since mortgage servicing rights are recorded at the lower of amortized cost or fair value, valuation adjustments in impairment losses totaling $60.4 million and $19.1 million, respectively, were recorded during the years ended December 31, 2002 and 2001. Changes in the valuation allowances are due to increases or decreases in estimated loan prepayment speeds resulting from changes in interest rates. At December 31, 2002, the valuation allowance on the mortgage servicing rights portfolio totaled $80.1 million compared to $19.6 million at December 31, 2001.

The average service fee rate collected by the Corporation was .36% for the six months ended December 31, 2000, compared to .39% for the fiscal year ended June 30, 2000. A valuation adjustment totaling $583,000 was recorded during the six months ended December 31, 2000, as a reduction of loan servicing fees and of the carrying amount of the mortgage servicing rights portfolio. The mortgage loans serviced for other institutions increased at December 31, 2000, compared to June 30, 2000, due to the $1.6 billion of residential loans securitized and sold in November 2000 with servicing retained.

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

The following transactions were recorded during the periods indicated:

	Year Ended December 31,		**Six Months Ended December 31, 2000**
	2002	**2001**	
	(In Thousands)		
Gain (loss) on the sales of available-for-sale securities:			
Investment securities	$ 35,365	$ 14,727	$ (14,210)
Mortgage-backed securities	520	3,571	(19,102)
	35,885	18,298	(33,312)
Gain on the sales of trading securities:			
Investment securities			2,466
Mortgage-backed securities			876
			3,342
Changes in the fair values of derivative financial instruments not qualifying for hedge accounting:			
Interest rate floor agreements	6,727	(870)	(25)
Forward loan sales commitments			(665)
Conforming loan commitments			(380)
	6,727	(870)	(1,070)
Amortization expense on the deferred loss on terminated interest rate swap agreements included in accumulated other comprehensive income (loss)	(2,034)	(2,034)	(170)
Loss on the termination of interest rate swap agreements			(38,209)
Other items, net	5	28	(43)

Gain (loss) on the sales of securities and changes in fair values of derivatives, net	$ 40,583	$ 15,422	$ (69,462)

During the years ended December 31, 2002 and 2001, the Corporation sold available-for-sale investment and mortgage-backed securities totaling approximately $1.1 billion for each year resulting in pre-tax gains of $35.9 million and $18.3 million, respectively. These net gains were recognized to offset the valuation adjustment losses of $60.4 million and $19.1 million, respectively, in the mortgage servicing rights portfolio for the years

68

ended December 31, 2002 and 2001. At December 31, 2002 and 2001, the Corporation had interest rate floor agreements with notional amounts totaling $1.2 billion and $630.0 million, respectively, with a net market value adjustment gain totaling $6.7 million for 2002 and a net loss totaling $870,000 for 2001. 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. In December 2000, the Corporation incurred losses totaling $8.6 million on terminated interest rate swap agreements. Since the related hedged FHLB advances and deposit liabilities were not paid, this loss was included in other comprehensive income with $2.0 million amortized to operations during each of the years ended December 31, 2002 and 2001. The unamortized balance of these terminated interest rate swap agreements totaled $4.4 million and $6.4 million, respectively, at December 31, 2002 and 2001.

During the six months ended December 31, 2000, the Corporation realized a pre-tax net loss totaling $30.0 million on the sales of available-for-sale and trading securities. This net loss was the result of the Corporation selling securities in the trading portfolio totaling $429.8 million and in the available-for-sale portfolio totaling $765.6 million during the six months ended December 31, 2000. Effective July 1, 2000, the Corporation adopted the provisions of SFAS No. 133 and, under provisions of this statement, the Corporation transferred $432.6 million of its held-to-maturity portfolio of investment and mortgage-backed securities to the trading portfolio. The fair value adjustment of these transferred securities resulted in a pre-tax loss of $28.4 million ($18.5 million after-tax) recorded against current operations as of July 1, 2000, as a cumulative effect of a change in accounting principle, net of income tax benefits. The loss on the termination of interest rate swap agreements totaling $38.2 million resulted from the Corporation exiting interest rate swap agreements with a notional amount of $1.2 billion primarily due to the pay down of FHLB advances during the quarter ended December 31, 2000. Under SFAS No. 133, this loss of $38.2 million was recognized on these swap agreements ($1.0 billion notional amount) since the related hedged FHLB advances were paid off. A net loss of $1.1 million was also recorded during the six months ended December 31, 2000, resulting from the changes in fair value of certain derivatives.

There were no sales of securities available for sale during the fiscal year ended June 30, 2000.

Gain (Loss) on Sales of Loans

The category in the Consolidated Statement of Operations entitled Gain (Loss) on Sales of Loans also includes changes in the fair values of certain derivative financial instruments and hedged items. During the years ended December 31, 2002 and 2001, revenue from gains on the sales of loans and changes in the fair values of certain derivative financial instruments and hedged items totaled $36.2 million and $8.7 million, respectively. During the years ended December 31, 2002 and 2001, loans were sold totaling $3.4 billion and $2.7 billion, respectively, resulting in pre-tax gains of $28.5 million and $4.7 million, respectively. The increase in gains on sales of loans relate to the Corporation taking advantage of pricing opportunities resulting from historically low interest rates and unprecedented loan demand during 2002. Loans are typically originated by the Corporation and sold in the secondary market with loan servicing retained and without recourse to the Corporation. The Corporation s derivative financial instruments (forward loan sales commitments and conforming commitments to originate loans) and certain hedged items (warehouse loans) are recorded at fair value with the changes in fair value reported in current earnings. For the years ended December 31, 2002 and 2001, the net changes in the fair values of these derivative financial instruments and certain hedged items resulted in net gains approximating $7.7 million and $4.0 million, respectively.

During the six months ended December 31, 2000 and 1999, loans were sold totaling approximately $2.3 billion and $341.6 million, respectively, resulting in a pre-tax loss of $18.0 million for the six months ended December 31, 2000, and a pre-tax gain of $241,000 for the December 31, 1999, six month period. As part of the August 2000 strategic initiatives to restructure the balance sheet, approximately $1.6 billion of 30-year residential mortgage loans were securitized and sold. This November 2000 sale of these securitized mortgage loans resulted in a pre-tax loss of $18.2 million, and allowed the Corporation to increase margins and the volume of loans serviced for others.

Real Estate Operations

The Corporation recorded net losses from real estate operations totaling $6.9 million and $7.0 million for the years ended December 31, 2002 and 2001. Real estate operations reflect impairment losses for real estate, net real estate operating activity, and gains and losses on dispositions of real estate. Impairment losses on real estate are recognized when and to the extent that the carrying value of a property is greater than its market value less estimated selling costs. The loss from real estate operations for 2002 is due primarily to impairment losses. These impairment losses totaling $5.2 million at December 31, 2002, consisted primarily of $2.0 million recorded on residential properties, $1.9 million on the Nevada residential master planned community development property and $1.2 million on commercial properties, compared to a total of $5.8 million at December 31, 2001, which consisted primarily of $3.0 million on the Nevada property and $2.2 million on residential properties. Net operating losses on real estate properties owned totaled $1.5 million for 2002 compared to $1.4 million for 2001 and expenses related to the Nevada property totaled $1.6 million and $767,000 for 2002 and 2001, respectively. Partially offsetting the impairment losses and operating expenses were net gains on the sale of real estate properties totaling $1.3 million and $826,000 for 2002 and 2001, respectively.

The Corporation recorded a loss from real estate operations totaling $4.8 million for the six months ended December 31, 2000, compared to a gain totaling $138,000 for the six months ended December 31, 1999. The net decrease in real estate operations for the six months ended December 31, 2000, was due primarily to impairment losses recorded on two hotel properties in Kansas totaling $3.1 million and four commercial properties totaling $449,000. Net operating losses on the two Kansas hotels totaled $1.1 million for the six-month 2000 period. Net gains on disposal of real estate properties decreased by $236,000 for the six months ended December 31, 2000, compared to 1999.

Bank Owned Life Insurance

In December 2000, the Corporation invested in a BOLI program with a contract value of $200.0 million. Revenue from the BOLI program became a significant component of other operating income beginning in calendar year 2001 and continued in 2002. In 2002, the Corporation recorded $14.1 million in revenue from the BOLI program compared to $13.9 million during the year ended December 31, 2001.

Other Operating Income

Other operating income totaled $33.3 million for the year ended December 31, 2002, compared to $32.4 million for the year ended December 31, 2001. The following details the major components of other operating income for the years ended December 31:

	2002	**2001**
	(In Thousands)	
Brokerage commissions	$ 7,516	$ 9,955
Insurance commissions	6,228	6,100
Credit life and disability commissions	2,544	2,255
Mortgage loan income	6,427	4,420
Non-mortgage loan income	5,910	6,089
Miscellaneous other	4,669	3,628
Total other operating income	$ 33,294	$ 32,447

Brokerage commissions decreased $2.5 million comparing 2002 to 2001 due to decreased volumes of customer transactions attributable to the overall drop in stock market activity and value during 2002. Credit life and disability commissions increased during 2002 over 2001 due to increased volumes in policies written. Mortgage loan income increased $2.0 million in 2002 compared to 2001 primarily due to additional fees generated, such as prepayment fees, from the significant volume of mortgage loan refinance activity.

Other operating income totaled $13.5 million and $20.7 million, respectively, for the six months ended December 31, 2000 and 1999. Other operating income totaled $33.0 million for the fiscal year ended June 30, 2000. Brokerage commission income totaled $4.2 million and $4.5 million for the six months ended December 31, 2000 and 1999. The decrease in comparing periods was primarily attributable to the volatility in the stock market between 2000 to 1999. Insurance commission remained relatively stable and totaled $1.9 million for both six month periods. Credit life and disability insurance totaled $1.4 million and $2.0 million for the six months ended December 31, 2000 and 1999. Other operating income totaled $7.5 million and $12.3 million for the six months ended December 31, 2000 and 1999. The decrease for the 2000 six month period compared to the 1999 period was due primarily to the sale of the corporate headquarters building in December 1999 that resulted in a pre-tax gain of $8.5 million. Additionally, during the six months ended December 31, 2000, the Corporation recorded a $1.3 million gain on the sale of a parcel of the Corporation s business park.

Non-Interest Expense

General and Administrative Expenses

General and administrative expenses totaled $258.4 million for 2002 compared to $232.7 million for 2001. The net increase of $25.6 million in general and administrative expenses for 2002 compared to 2001 is primarily due to the net gain of $15.6 million in exit costs and termination benefits recorded in 2001 and to an increase in compensation and benefits, losses and impairments on assets, an increase in advertising, write-off of deferred debt issuance costs and additional charitable contributions. These increases were partially offset by decreases in item processing and professional fees. Compensation and benefits increased $8.9 million for the year ended December 31, 2002, compared to 2001 primarily due to annual merit increases, increased bonuses and related employer taxes. Also in 2002 the Corporation recognized losses on the sales of fixed assets totaling $1.9 million and a loss on the impairment of fixed assets totaling $2.8 million, exceeding 2001 losses on sales of fixed assets by $882,000 and losses on impairment of fixed assets by $2.6 million. Advertising increased $3.2 million comparing the year ended December 31, 2002, to 2001 primarily due to the expanded promotion of products relating to checking accounts, consumer loans and business banking. Contributions increased $1.2 million over 2001 due to an additional $1.0 million contribution over 2001 to the Corporation s charitable trust. On December 31, 2002, deferred debt issuance costs totaling $1.8 million were written off relating to the redemption of the Corporation s cumulative trust preferred securities due May 15, 2027.

These increases in 2002 over 2001 were partially offset by decreases totaling $2.2 million and $3.2 million, respectively, in item processing and professional fees. The decrease in item processing is due to a decrease in transaction volume. The decrease in professional fees is attributable to the $4.1 million in legal expenses recorded in 2001 associated with the Corporation s supervisory goodwill lawsuit against the United States.

Total general and administrative expenses were $232.7 million for the year ended December 31, 2001. Included in total general and administrative expenses is a net gain in exit costs and terminations benefits totaling $15.6 million resulting from pre-tax gains on the sale of 34 branches during 2001 totaling $18.3 million partially offset by expenses associated with right-sizing branch personnel ($2.0 million) and $754,000 in expenses to exit leasing operations. Major changes in expenses incurred or charged to operations during 2001 include (i) $13.9 million in bonuses and commissions for management incentive plans and retail and mortgage production incentive plans compared to $3.4 million for the six months ended December 31, 2000, (ii) employee medical and dental costs of $6.2 million compared to $2.9 million for the six months ended December 31, 2000, (iii) $4.1 million in legal expenses in 2001 associated with the Corporation s supervisory goodwill lawsuit against the United States and (iv) $1.1 million in contributions of which $ 1.0 million was funded into the Corporation s charitable trust.

Total general and administrative expenses totaled $147.6 million and $127.2 million for the six months ended December 31, 2000 and 1999, respectively. The net increase of $20.4 million in general and administrative expenses for the six months ended December 31, 2000, compared to the six months ended December 31, 1999, was primarily due to net increases in exit costs and termination benefits of $21.5 million, outside services of $1.7

million and other operating expenses of $1.3 million. These increases were partially offset by decreases of $2.1 million in compensation, $1.4 million in communication expense and $958,000 in occupancy and equipment. Excluding exit costs and termination benefits, general and administrative expenses decreased $1.1 million from $122.9 million to $121.8 million comparing the six months ended December 31, 2000, to the prior year period. This decrease was primarily due to a lower number of full-time equivalent employees comparing the respective periods, management s emphasis on tighter cost controls and the effect of certain initiatives starting with the November 1999 branch divestitures and employee outplacement. The increase in exit costs and termination benefits is due to the implementation of key strategic initiatives announced August 2000. Exit costs and termination benefits totaling $25.8 million resulting from these key strategic initiatives relate to the sale and consolidation of branches ($14.5 million, net of gains on sales of branches totaling $2.5 million), costs to exit leasing operations ($4.6 million), strategic consulting fees ($2.9 million), management restructuring ($2.1 million) and other various initiatives ($1.7 million).

Intangible Assets Amortization

During the year ended December 31, 2002, the amortization of core value of deposits totaled $6.4 million compared to $7.2 million for the year ended December 31, 2001. The decrease in amortization expense for 2002 compared to 2001 is primarily due to core value of deposits amortizing on an accelerated basis.

Effective January 1, 2002, the Corporation adopted the provisions of SFAS No. 142. Beginning in 2002, goodwill is no longer subject to amortization, but is evaluated for impairment at least on an annual basis. During the quarter ended June 30, 2002, the Corporation completed the transitional impairment test on its goodwill as of January 1, 2002, as required by SFAS No. 142. No impairment loss was recognized as a result of this test. See Note 10 Intangible Assets to the Consolidated Financial Statements under Item 8 of this Report for additional information. Amortization expense for goodwill totaling $8.1 million for the year ended December 31, 2001, decreased compared to prior periods due to the write-off of a portion of intangible assets associated with the August 2000 branch divestiture initiatives.

Total amortization expense of intangible assets for the six months ended December 31, 2000, was $8.2 million compared to $9.3 million for the six months ended December 31, 1999. The amortization expense is lower due to core value of deposits amortized on an accelerated basis and from the write-off of a portion of intangible assets from the November 1999 branch sales and closings, and the finalization of a March 1999 acquisition for purchase accounting adjustments and core value study.

Income Tax Provision (Benefit)

The provision for income taxes totaled $43.7 million for the year ended December 31, 2002, compared to $43.4 million for the year ended December 31, 2001. The effective tax rate was 28.7% for 2002 compared to 30.7% for 2001. The effective tax rate for 2002 is lower than the rate for 2001 due to the cessation of goodwill amortization effective January 1, 2002, and to increases in tax-exempt interest income, life insurance proceeds and tax credits. The effective tax rates for 2002 and 2001 were lower than the statutory rate of 35.0% primarily due to tax benefits from the BOLI, tax-exempt interest income and tax credits.

For the six months ended December 31, 2000, the Corporation recorded an income tax benefit totaling $19.7 million, or an effective tax benefit rate of 28.1%. This compares to a provision for income taxes for the six months ended December 31, 1999, of $29.2 million, or an effective tax rate of 34.7%. The effective tax benefit rate of 28.1% differs from the statutory rate of 35.0% primarily due to nondeductible goodwill, the establishment of valuation allowances on deferred state taxes, tax exempt interest income and low income housing tax credits. For the fiscal year ended June 30, 2000, the provision for income taxes totaled $55.3 million, resulting in an effective income tax rate of 34.3%. The effective tax rate varied from the statutory rate of 35.0% for this fiscal year due to the tax benefits generated from the creation of a real estate investment trust and to increases in tax-exempt securities.

Cumulative Effect of Change in Accounting Principle

Effective July 1, 2000, the Corporation adopted the provisions of SFAS No. 133 which required the recognition of all derivative financial instruments as either assets or liabilities in the statement of financial condition and measurement of those instruments at fair value. Since certain of the Corporation s derivatives did not qualify for hedge accounting, this statement required that the fair values of these derivatives be recorded as a charge to operations on July 1, 2000, as a cumulative effect of a change in accounting principle. Also, under the provisions of this statement, the Corporation was permitted to transfer held-to-maturity securities to trading on July 1, 2000. The Corporation transferred held-to-maturity securities to trading with the adjustment to fair value on the transfer also recorded as a charge to operations as a cumulative effect of a change in accounting principle. The net effect of adopting the provisions of SFAS No. 133 was to record a net charge to operations totaling $19.1 million, net of income tax benefits of $10.3 million, or $.35 per share, as a cumulative effect of a change in accounting principle for the six months ended December 31, 2000. See Note 22 Cumulative Effect of Change in Accounting Principle to the Consolidated Financial Statements under Item 8 of this Report for additional information.

Effective July 1, 1999, the Corporation adopted the provisions of Statement of Position 98-5 Reporting the Costs of Start-Up Activities. This statement required that costs of start-up activities and organizational costs be expensed as incurred. Prior to this statement, these costs were capitalized and amortized over periods ranging from five to 25 years. The effect of adopting the provisions of this statement was to record a charge of $1.8 million, net of an income tax benefit of $978,000, or $.03 per diluted share, as a cumulative effect of a change in accounting principle for the fiscal year ended June 30, 2000. These costs consisted of organizational costs primarily associated with the creation of a real estate investment trust subsidiary and start-up costs of the proof of deposit department associated with processing customer transactions following the conversion of the Corporation s deposit system.

Ratios

The table below sets forth certain performance ratios of the Corporation for the periods indicated:

	Year Ended December 31,		Six Months Ended December 31, 2000	Year Ended June 30, 2000
	2002	**2001**		
Return on average assets: net income (loss) divided by average total assets	.82%	.76%	(1.01)%	.77%
Return on average equity: net income (loss) divided by average total stockholders equity	14.30	12.23	(15.30)%	10.85
Equity-to-assets ratio: average total stockholders equity to average total assets	5.76	6.21	6.62	7.10
General and administrative expenses divided by average total assets	1.96	1.81	2.16	1.87

The operating ratio for general and administrative expenses for the year ended December 31, 2002, is 1.96% compared to 1.81% for 2001. The 2001 ratio is favorably impacted by the recognition of net gains from exit costs and termination benefits totaling $15.6 million. The operating ratio for 2002 is higher compared to 2001 due to increased expenses totaling $10.1 million compared to 2001 partly offset by a net increase of $318.4 million in average assets for 2002 compared to 2001. Increases in the general and administrative expenses for 2002 compared to 2001 are due to asset impairment losses, write-off of issuance costs from debt prepayment, adjustments to deferred loan costs and an additional contribution to the Corporation s charitable trust.

The operating ratio for general and administrative expenses of 1.81% for the year ended December 31, 2001, is lower compared to the ratio of 2.16% for the six months ended December 31, 2000. The operating ratio for 2001 is lower due to the recognition of net gains from exit costs and termination benefits of $15.6 million net of increased expenses associated with management incentives, legal costs and the establishment of a charitable trust along with a net decrease of $867.6 million in average assets. The operating ratio for the six months ended December 31, 2000 is unfavorably impacted by exit costs and termination benefits totaling $25.8 million.

Implementation of New Accounting Pronouncements

Effective January 1, 2002, the Corporation adopted the provisions of SFAS No. 142. As of January 1, 2002, goodwill was no longer subject to amortization but is evaluated annually for impairment. For calendar year 2002, goodwill totaling $7.8 million was not amortized against current operations due to the implementation of this statement. The initial adoption of this statement and the annual valuation of goodwill did not result in any impairment. Core value of deposits will continue to be amortized over their useful lives and reviewed for impairment under SFAS No. 144 Accounting for the Impairment or Disposal of Long-Lived Assets. See Note 10 Intangible Assets to the Consolidated Financial Statements under Item 8 of this Report for additional information on this statement.

Also, effective January 1, 2002, the Corporation adopted the provisions of Statement of Financial Accounting Standards No. 144 Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS No. 144) that replaced SFAS No. 121 Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of. SFAS 144 requires that long-lived assets be measured at the lower of carrying amount or fair value less costs to sell, whether reported in continuing operations or in discontinued operations. The adoption of the provisions of this statement had no effect on the Corporation s financial position, liquidity or results of operations. On October 1, 2002, Statement of Financial Accounting Standards No. 147 Acquisitions of Certain Financial Institutions was issued. This statement provides guidance on the accounting for acquisitions of certain financial institutions. This statement had no effect on the Corporation s financial position, liquidity or results of operations.

On November 25, 2002, Interpretation No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others was issued. This Interpretation elaborates on the disclosures to be made by a guarantor about its obligations under certain guarantees issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. This Interpret