COMMERCIAL FEDERAL CORP
Form 10-K
March 01, 2005

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE YEAR ENDED DECEMBER 31, 2004

Commission File Number: 1-11515

COMMERCIAL FEDERAL CORPORATION

(Exact Name of Registrant as Specified in its Charter)

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

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

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

Common Stock, Par Value $.01 Per Share

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

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

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

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE

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

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PART I

ITEM 1. BUSINESS

Forward Looking Statements

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

General

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

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

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

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

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

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

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

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

Principal Products, Services and Business Activities

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

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

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

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

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

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

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

Segment Reporting

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

Subsidiaries

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

Commercial Federal Investment Services, Inc. (CFIS)

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

Commercial Federal Insurance Corporation (CFIC)

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

Commercial Federal Service Corporation (CFSC)

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

REIT Holding Company (REIT)

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

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

Employees

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

Competition

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

Supervision and Regulation

General

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

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

Regulatory Capital Requirements

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

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

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Federal Home Loan Bank System

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

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

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

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

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

Liquidity Requirements

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

Qualified Thrift Lender Test

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

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

Restrictions on Capital Distributions

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

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

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

- it is a subsidiary of a holding company.

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

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

- it would not be adequately-capitalized following the distribution,

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

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

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

Deposit Insurance

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

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

Transactions with Related Parties

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

Loans to Executive Officers, Directors and Principal Stockholders

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

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

Federal Reserve System Reserve Requirements

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

Savings and Loan Holding Company Regulation

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

Activities Restrictions

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

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

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

Restrictions on Acquisitions

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

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

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

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

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

The USA PATRIOT Act

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

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

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

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

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

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

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

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

The Gramm-Leach-Bliley Act

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

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

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

Corporate Governance

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

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

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

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

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

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

Subsidiaries

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

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

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

Taxation

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

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

Available Information

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

Executive Officers of the Registrant

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

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

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

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

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

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

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

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

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

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

ITEM 2. PROPERTIES

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

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

ITEM 3. LEGAL PROCEEDINGS

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

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

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

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

PART II

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

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

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

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

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

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

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

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

ITEM 6. SELECTED FINANCIAL DATA

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

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

(Continued on next page)

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

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

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

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

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

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

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

Executive Management Overview

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

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

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

- 7% in core deposit balances (checking, savings, and money market accounts, excluding custodial escrows),
- 4% in the number of retail checking accounts,
- 33% in the number of commercial and small business checking accounts,
- 47% in commercial operating outstanding loan balances, and
- 16% in home equity outstanding loan balances.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Critical Accounting Estimates

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

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

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

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

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

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

Mortgage Servicing Rights

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

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

Derivative Financial Instruments

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

Segment Reporting

Operating Results by Segment

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

Commercial Banking

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

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

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

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

Retail Banking

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

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

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

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

Mortgage Banking

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

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

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

Treasury and Other

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

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

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

CONSOLIDATED STATEMENT OF INCOME ANALYSIS

Net Interest Income

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

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

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

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

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

TABLE 1

	2004			2003			2002		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
				(Dollars in Thousands)					
Interest-earning assets:									
Loans-(1) (2)									
Residential real estate	$ 3,431,913	$ 172,646	5.03%	$ 4,413,645	$ 242,915	5.50%	$ 4,799,413	$ 304,460	6.34%
Commercial real estate	1,937,102	124,657	6.38	1,870,574	130,495	6.93	1,707,469	136,503	7.94
Construction	578,562	42,037	7.15	492,376	35,571	7.13	519,790	39,469	7.49
Commercial operating and other (3)	548,720	30,751	5.52	433,873	24,298	5.53	283,473	19,363	6.74
Consumer home equity	924,563	58,552	6.32	826,128	56,701	6.86	784,117	60,875	7.76
Consumer other	724,332	45,292	6.24	667,725	47,544	7.12	587,139	48,150	8.20
Total loans (2)	8,145,192	473,935	5.79	8,704,321	537,524	6.16	8,681,401	608,820	6.99
Mortgage-backed securities	1,141,453	45,238	3.96	1,362,145	49,836	3.66	1,799,174	93,047	5.17
Investments (2)	1,285,192	62,922	4.88	1,490,856	70,107	4.69	1,494,011	81,887	5.48