

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS*(Dollar Amounts in Thousands, except per share data)***NOTE 1—Statement of Accounting Policies (continued)****Stock Split (continued)**

stock dividend. Shareholders of record at the close of business November 4, 1999 received one additional share for each share held. The additional shares were distributed on November 18, 1999. Pursuant to the foregoing stock split an additional 31,262,706 common shares were issued, and the sum of \$31,263 (\$1 per share) was transferred to the Corporation's common stock account, and such amount was charged against the Corporation's additional paid-in capital account. Common stock, additional paid-in capital, and share data for prior periods have been restated to reflect the stock split as if it had occurred at the beginning of the earliest period presented.

Employee Stock Ownership Plan

Accounting treatment for the Corporation's Employee Stock Ownership Plan ("ESOP") described in NOTE 21 follows Statement of Position 93-6 ("SOP 93-6") "Employers Accounting for Employee Stock Ownership Plans" for ESOP shares acquired after December 31, 1992 ("new shares"). The Corporation has elected, as permitted under SOP 93-6, not to adopt this statement for ESOP shares acquired on or before December 31, 1992 ("old shares").

ESOP shares purchased subject to debt guaranteed by the Corporation are recorded as a reduction of common shareholders' equity by charging unearned ESOP shares. As shares are committed to be released to the ESOP trust for allocation to plan participants, unearned ESOP shares is credited for the average cost of the shares to the ESOP. Compensation cost recognized for new shares in accordance with the provisions of SOP 93-6 is based upon the fair market value of the shares committed to be released. Additional paid-in capital is charged or credited for the difference between the fair value of the shares committed to be released and the cost of those shares to the ESOP. Compensation cost recognized for old shares committed to be released is recorded at the cost of those shares to the ESOP.

Dividends on both old and new unallocated ESOP shares are used for debt service and are reported as a reduction of debt and accrued interest payable. Dividends on allocated ESOP shares are charged to retained earnings and allocated or paid to the plan participants. The average number of common shares outstanding used in calculating earnings per share excludes all unallocated ESOP shares.

Employee Stock Option Plan

FASB Statement No. 123 "Accounting for Stock Based Compensation" ("FAS No. 123") defines a method of measuring stock based compensation, such as stock options granted, at an estimated fair value. FAS No. 123 also permits the continued measurement of stock based compensation under

provisions of the Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees" ("APB 25").

As permitted under FAS No. 123, the Corporation has elected to use the intrinsic value method to measure stock based compensation under APB 25 and to disclose in a footnote to the financial statements, net income and earnings per share determined as if the fair value methodology of FAS No. 123 was implemented (see NOTE 22).

Derivative Instruments and Hedging Activities

Effective January 1, 2001, the Corporation adopted the Financial Accounting Standards Board ("FASB") Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("FAS No. 133") as amended. FAS No. 133 establishes accounting and reporting standards for derivative instruments and for hedging activities which require that an entity recognize all derivatives as either assets or liabilities on a balance sheet and measure those instruments at fair value. Changes in the fair value of derivatives must be recognized in earnings when they occur unless the derivative qualifies as a hedge. If a derivative qualifies as a hedge, a company can elect to use hedge accounting to eliminate or reduce income statement volatility that would arise from reporting changes in a derivative's fair value in income. FAS No. 133 was amended by FASB Statement No. 137 ("FAS No. 137") which delayed the effective date of FAS No. 133 to the first quarter of fiscal years beginning after June 15, 2000. FAS No. 133 was also amended by FASB Statement No. 138 ("FAS No. 138") which addresses and clarifies issues causing implementation difficulties for numerous entities applying FAS No. 133. FAS No. 138 includes amendments to FAS No. 133 which resulted from decisions made by the FASB related to the Derivatives Implementation Group ("DIG") process. The DIG was created by the FASB to facilitate implementation by identifying issues that arise from applying the requirements of FAS No. 133 and to advise the FASB on how to resolve those issues. The Corporation currently has no freestanding derivative or hedging instruments. Management reviewed contracts from various functional areas of the Corporation to identify potential derivatives embedded within selected contracts. In accordance with the guidance provided in DIG Issue C13, management identified embedded derivatives in some loan commitments for residential mortgages where the Corporation has intent to sell to an investor such as the Federal Home Loan Mortgage Corporation ("Freddie Mac") or the Federal National Mortgage Association ("Fannie Mae").

Due to the short-term nature of these loan commitments (30 days or less) and the historical dollar amount of commitments outstanding at period end, the adoption of FAS No. 133 did not have a material impact on the Corporation's financial condition or results of operations.