CRITICAL ACCOUNTING POLICIES continued

Goodwill and indefinite-lived assets recorded must be reviewed for impairment on an annual basis, as well as on an interim basis if events or changes indicate that the asset might be impaired. An impairment loss must be recognized for any excess of carrying value over fair value of the goodwill or the indefinite-lived intangible with subsequent reversal of the impairment loss being prohibited. The tests for impairment fair values are based on internal valuations using management's assumptions of future growth rates, future attrition, discount rates, multiples of earnings or other relevant factors. The resulting estimated fair values could have a significant impact on the carrying values of goodwill or intangibles and could result in impairment losses being recorded in future periods.

RESULTS OF OPERATIONS

As of December 31, 2003 total assets totaled $3,076,812,000, an increase of $398,125,000. Of this amount, loans increased $349,126,000, investments increased $14,735,000, intangibles, including goodwill, increased $35,506,000 and cash value of life insurance increased by $23,618,000. The addition of Commerce National Bank on March 1, 2003 accounted for $298,702,000 in loan growth, $12,500,000 in investment growth and most of the increase in intangibles.

Absent Commerce National Bank, total loans increased by $50,424,000. Positive growth of commercial and commercial real estate loans of $73,436,000 was significantly mitigated by declines in installment loans and residential real estate loans of $12,166,000 and $9,776,000, respectively.

The Corporation also completed the purchase of $23 million in Bank Owned Life Insurance (BOLI) during May, 2003. The BOLI yield is 8.34 percent on a fully tax equivalent basis, adjustable annually. The tax-free investment was used to offset the cost of current employee benefit programs, as detailed in Note 16.

Net income for 2003 totaled $27,571,000, down from $27,836,000 in 2002. The $265,000 decrease is attributable to several factors, including compression of the net interest margin, increased provision for loan losses and increased noninterest expenses. These factors and others are discussed within the respective sections of Management's Discussion & Analysis of Financial Condition and Results of Operations. Diluted earnings per share totaled $1.50, a 11.2 percent decrease from $1.69 reported for 2002.

Net income for the year 2002 reached $27,836,000 up from $22,209,000 in 2001. The $5,627,000 increase is attributable to several factors, including the April 1, 2002 acquisition of Lafayette Bank and Trust Company, improved net interest margin and the elimination of goodwill amortization. However, these factors were mitigated by increased provisions for loan losses and increased other expenses. These factors and others are discussed within the respective sections of Management's Discussion & Analysis of Financial Condition and