dividends were increased over 2002 levels. The retained net income of $16.1 million remained in permanent capital to fund future growth and expansion. Long-term debt payments and fair value adjustment to unearned ESOP shares in 2003 increased equity by $1.2 million. The market value adjustment to securities available for sale decreased equity by $10.7 million in 2003. Amounts paid to fund the discount on reinvested dividends reduced equity by $706 thousand. Proceeds from the issuance of treasury shares to provide for stock options exercised increased equity by $5.9 million during 2003, while the tax benefit related to the stock options increased equity by $535 thousand. Equity capital in 2003 was also impacted by the issuance of stock related to acquisitions from 2003 and 2002, which resulted in increases in the amounts of $17.0 million and $203 thousand, respectively.

A capital base can be considered adequate when it enables the Corporation to intermediate funds responsibly and provide related services while protecting against future uncertainties. The evaluation of capital adequacy depends on a variety of factors, including asset quality, liquidity, earnings history and prospects, internal controls and management caliber. In consideration of these factors, management's primary emphasis with respect to the Corporation's capital position is to maintain an adequate and stable ratio of equity to assets. See NOTE 27 to the "Consolidated Financial Statements" for an analysis of regulatory capital guidelines and the Corporation's capital ratios relative to these measurement standards.

Risk Management

In the normal course of business the Corporation assumes various types of risk. The Corporation has identified twenty-six standard risks which have been summarized into seven major risk categories. The seven major risk categories include credit risk, market risk, liquidity risk, compliance/legal risk, operational risk, reputation risk and strategic risk. Credit risk, market risk and liquidity risk are discussed in this Management's Discussion and Analysis of Financial Condition and Results of Operations section. The remaining major risk categories are defined as follows: compliance/legal risk— the risk rising from violations of, or noncompliance with laws, rules, regulations, prescribed practices, or ethical standards; operational risk—threat created by inadequate information systems, operational problems, weak internal control systems, fraud, or any other unforeseen catastrophes; reputation risk—the risk to earnings or capital arising from negative public opinion; and strategic risk—the risk arising from adverse business decisions or improper implementation of those decisions. These factors and others could impact the Corporation's business, financial condition and results of operation.

Corporate management has taken strong and wide-ranging actions to enhance the awareness of and proactively manage risk within the Corporation. In addition to establishing a comprehensive policy and procedure manual that is updated and regularly communicated throughout the Corporation, the Senior Vice President, Risk Management, an executive officer level position, oversees all aspects of the risk process. Our committee structure embraces a risk management culture, which begins with the Risk Committee that provides oversight and monitoring of key risk areas. The Risk Committee, which is chaired by the Senior Vice President, Risk Management, and has representation from all of the disciplines across the organization, meets to discuss and assess current and emerging risks as well as to identify solutions and mitigants. Credit quality and loan loss adequacy issues are addressed by the Credit Quality, Watch List and Loan Loss Reserve committees. Additional committees include Security, which is responsible for coordinating the security program; Privacy, which focuses on safeguarding client information; ALCO, which monitors interest rate and liquidity risks; and Disclosure, which evaluates internal controls regarding information utilized in certain regulatory reports, as well as reviewing those reports and the disclosure process to ensure that disclosures are timely, complete and accurate.

The Risk Department has specific procedures to analyze and quantify risks in the seven major risk categories. Gaps between inherent risks and mitigants are quantified and presented to the Risk Committee for their review. Management continually reviews the mitigants and controls to ensure their continuity. The Internal Audit Department validates the existence and effectiveness of the controls. Risk gaps are compiled to develop a risk rating, which is incorporated into the balanced scorecard measure and is reported to the Board of Directors. An analytical review of key indicators, both monetary and nonmonetary, as well as other current information that may become available through discussions with management serves as an early warning system to detect potential deteriorating internal controls. All significant new initiatives and products are subject to a risk assessment prior to being presented for implementation. An annual assessment of risk is also performed to identify potential threat areas to our computer systems. Our internal audit staff performs routine and consistent information technology reviews of identified risk areas, security measures and control processes.

With these processes in place the Corporation believes that its objective of establishing a risk culture that identifies, measures, controls and monitors events or actions that may adversely affect our organization has been achieved. Our goal is not to eliminate risk but to understand fully the risk the Corporation is assuming and appropriately manage those risks.

Inflation and Changing Prices

Management is aware of the impact inflation has on interest rates and therefore, the impact it can have on a bank's performance. The ability of a financial institution to cope with inflation can only be determined by analyzing and monitoring its asset and liability structure. The Corporation monitors its asset and liability position with particular emphasis on the mix of interest-sensitive assets and liabilities in order to reduce the