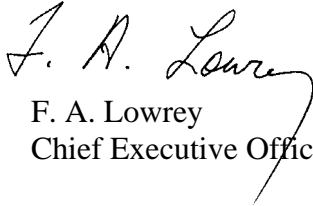



# ***SECOND QUARTER 2004***

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F. A. Lowrey  
Chief Executive Officer

  
E. McDonald Berryman  
Chairman of the Board

July 29, 2004

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# Management's Discussion and Analysis of Financial Condition and Results of Operations

*(dollars in thousands, except as noted)*

The following discussion reviews the combined financial condition and results of operations of AgFirst Farm Credit Bank (AgFirst) and the District Agricultural Credit Associations (ACAs or District Associations), collectively referred to as the District, for the three and six months ended June 30, 2004. These comments should be read in conjunction with the accompanying financial statements and the 2003 Annual Report of AgFirst Farm Credit Bank and District Associations.

As of January 1, 2004, the District consisted of AgFirst, its subsidiary (the Farm Credit Finance Corporation of Puerto Rico) and twenty-three Agricultural Credit Associations.

Key ratios and data reported below, and in the accompanying financial statements, address the financial performance of the District in more detail. The six months' results of operations may not be indicative of an entire year due to the seasonal nature of a portion of the District's assets.

## FINANCIAL CONDITION

### *Loan Portfolio*

Gross loan volume at June 30, 2004 was \$14,450,308, an increase of \$80,618, or .56 percent as compared to December 31, 2003, and an increase of \$392,252 or 2.79 percent compared to June 30, 2003. The increases for the first six months of 2004, compared to the year ended December 31, 2003, were \$226,966 in loans originated and notes receivable, offset by decreases in net participation loans purchased of \$138,052 and secondary mortgage market loans of \$8,185.

The increase in loans originated and notes receivable since December 31, 2003 is primarily attributed to normal seasonal lending activity at the Associations. The decrease in participations/syndications outstanding is attributed to lower demand by borrowers whose borrowing needs have moderated due to strong cash flows resulting from favorable commodity prices coupled with good yields. Additionally, capital expenditures have been somewhat depressed due to economic uncertainty. These two factors, coupled with an abundant supply of available capital, have resulted in intense competition among lenders. It is anticipated that loan demand among corporate borrowers will increase as the general economy recovers.

Loan volume classified as Acceptable (which includes Other Assets Especially Mentioned) as of June 30, 2004, remained relatively stable compared to December 31, 2003 and June 30, 2003. Loan volume classified as Other Assets Especially Mentioned is considered fully collectible but has potential weaknesses. Nonaccrual loan assets for the combined District at June 30, 2004 were 0.81 percent of total loans outstanding as compared to 0.84 percent at December 31, 2003 and 0.73 percent at June 30, 2003.

The allowance for loan losses at June 30, 2004 of \$313,598, or 2.17 percent of gross loan volume, is considered by management to be adequate to absorb potential losses on existing loans. By comparison, the allowance for losses at December 31, 2003 was \$316,735, or 2.20 percent of gross loan volume.

In June 2003, the American Institute of Certified Public Accountants' (AICPA) Accounting Standards Executive Committee (AcSEC) issued a proposed Statement of Position — Allowance for Credit Losses, which was intended to clarify the methodology for estimating the allowance for credit losses and to enhance financial statement disclosures related to the allowance for credit losses. In January 2004, AcSEC abandoned its proposed Statement of Position and announced that it would focus instead on improving financial statement disclosures regarding the allowance for loan losses.

System institutions have initiated studies to further refine methodologies for calculating their respective allowances for loan losses, taking into account generally accepted accounting principles and applicable Farm Credit Administration requirements, as well as the Securities and Exchange Commission and Federal Financial Institutions Examination Council guidelines. These studies are likely to be completed by the fourth quarter of 2004 with any appropriate reductions to the allowance for loan losses implemented at that time. The resulting reductions in the allowance for loan losses may be significant.

In April 2004, the Farm Credit Administration, the System's regulator, issued an "Informational Memorandum" to System institutions regarding the allowance for loan losses. The memorandum addresses the status of the AICPA's project and the Securities and Exchange Commission and the Federal Financial Institutions Examination Council guidance on the subject. The objective of the Farm Credit Administration's memorandum was to clarify its expectations regarding the analysis and related documentation for the allowance for loan losses. The Farm Credit Administration endorsed the direction provided by these other regulatory agencies and will include the conceptual framework addressed in this guidance in their examination process. Refer to Note 2, *Allowance for Loan Losses*, in the notes to the combined financial statements of this report for further information.

#### *Liquidity and Funding Sources*

As of June 30, 2004, AgFirst and all District Associations exceeded all applicable liquidity requirements. Cash, cash equivalents and investment securities totaled \$3,670,662 or 20.24 percent of total assets at June 30, 2004, compared to \$3,327,055 or 18.80 percent as of December 31, 2003. At June 30, 2004, AgFirst had 176 days of coverage as defined by the System's common liquidity policy.

Interest-bearing liabilities, consisting of bonds and notes, increased by \$424,682, or 2.93 percent, compared to bonds and notes outstanding at December 31, 2003. Interest-bearing liabilities increased primarily due to the increase in loan and investment volume previously mentioned.

#### *Capital Resources*

Total District shareholders' equity increased \$93,465 from December 31, 2003 to June 30, 2004. The increase was primarily the result of \$166,046 in net income, offset by a net reduction in stock and participation certificates of \$4,032, retirements of surplus of \$54,327, dividends paid of \$5,620, and patronage distribution of \$8,013.

**Key financial condition comparisons:**

	<b>June 30, 2004</b>	<b>December 31, 2003</b>
Shareholders' Equity to Assets	14.64%	14.48%
Total Liabilities to Shareholders' Equity	5.83:1	5.91:1
Allowance for Loan Losses to Loans	2.17%	2.20%

**RESULTS OF OPERATIONS**

*Net Interest Income*

Net interest income for the three months ended June 30, 2004 was \$141,788, a decrease of \$7,071 or 4.75 percent compared to the three months ended June 30, 2003. Net interest income for the six months ended June 30, 2004 was \$281,341, a decrease of \$11,100 or 3.80 percent compared to the same period ended June 30, 2003. The quarter and year-to-date decrease is primarily attributed to the reclassification of preferred stock dividends as interest expense and a lessening of the positive impact derived from debt called during prior periods (discussed below).

The decreases in net interest income for the three months and six months can be attributed, in part, to the inclusion of the term preferred stock dividend in interest expense. Effective July 1, 2003, AgFirst adopted SFAS No. 150, *Accounting for Certain Financial Instruments with Similar Characteristics of Both Liabilities and Equity*, which requires that the Series 1 Preferred Stock be classified as a liability rather than as a component of equity, and that the related dividends incurred subsequent to June 30, 2003 be classified as a component of interest expense. Accrued dividends for the six-month period ended June 30, 2004 totaled \$9,442.

Additionally, AgFirst executed call options (trend began in 2001) on a significant volume of fixed-rate debt through July 2003, replacing the called debt with lower-cost, fixed-rate debt. Loan prepayment activity somewhat offset a portion of the benefit achieved by calling debt, but the efficiency of calling large blocks of debt resulted in significant improvement in net interest margin. The decline in net interest income in 2004 reflects the anticipated return toward normal profitability levels following the extraordinary improvement achieved by exercising call options.

*Provision for Loan Losses*

The provision for loan losses for the six months ended June 30, 2004, was \$262, as compared to \$9,084 for the same period of the prior year. See Note 2, *Allowance for Loan Losses* in the notes to the combined financial statements for further information. This variance was due to AgFirst and the ACAs recording provisions of \$2,500 and \$6,584, respectively, for the six months ended June 30, 2003, compared to the ACAs only recording a provision of \$262 for the comparable period in 2004.

*Noninterest Income*

Noninterest income for the three and six months ended June 30, 2004, was \$12,377 and \$28,491, respectively, a decrease of \$955 for the quarter, and a decrease of \$2,555 for year-to-date, as compared to the same periods in 2003. The three-month and six-month decreases were primarily attributed to increased losses on AgFirst's sale of rural home loans and decreases in fee income. The six-month decrease was partially offset by a \$3,757 gain on AgFirst's sale of Farm Credit Leasing Corporation stock.

*Noninterest Expense*

Noninterest expense for the three and six months ended June 30, 2004 was \$72,494 and \$143,108, respectively, a decrease of \$3,559 and \$5,999 respectively, as compared to the corresponding periods in 2003. The three-month decrease was primarily attributed to the decreases in Intra-System Financial Assistance Corporation (FAC) expenses of \$3,781 and called debt expense of \$5,099, offset by increases in salaries and employee benefits of \$1,481 and ACA restructuring charges of \$2,785. The decrease in FAC expense was due to the retirement of Financial Assistance Corporation bonds. The decrease in called debt expense is the result of increasing interest rates. The six-month decrease was primarily attributed to the decreases in FAC expenses of \$5,986 and called debt expense of \$7,912, offset by increases in salaries and employee benefits of \$3,577 and restructuring charges of \$3,592.

*Provision for Income Taxes*

The provision for income taxes for the three and six months ended June 30, 2004 was \$79 and \$416, respectively, compared to a benefit for income taxes of \$371 and \$58, respectively, for the same periods in 2003. This represents an increase in provision of \$450 for the quarter and an increase in provision of \$474 for year-to-date compared to the same periods in 2003.

***Key results of operations comparisons:***

	<b>Annualized for the six months ended 6/30/04</b>	<b>For the year ended 12/31/03</b>
Return on Average Assets	1.87%	1.88%
Return on Average Shareholders' Equity	12.29%	13.03%
Net Interest Income as a Percentage of Average Earning Assets	3.18%	3.40%
Chargeoffs, Net of (Recoveries), to Average Loans	0.05%	0.02%

## Combined Balance Sheets

<i>(dollars in thousands)</i>	<b>June 30, 2004</b>	<b>December 31, 2003</b>
	<i>(unaudited)</i>	<i>(audited)</i>
<b>Assets</b>		
Cash and cash equivalents	\$ 479,941	\$ 494,339
Investment securities	3,190,721	2,832,716
Loans	14,450,308	14,369,690
Less: allowance for loan losses	313,598	316,735
Net loans	14,136,710	14,052,955
Accrued interest receivable	137,571	122,007
Investments in other Farm Credit System institutions	10,515	19,157
Premises and equipment, net	90,621	86,914
Other property owned	2,651	2,253
Deferred tax assets, net	13,375	13,303
Other assets	74,635	72,273
Total assets	<b>\$ 18,136,740</b>	<b>\$ 17,695,917</b>
<b>Liabilities</b>		
Bonds and notes	\$ 14,931,787	\$ 14,507,105
Mandatorily redeemable preferred stock	225,000	225,000
Accrued interest and dividend payable	50,888	52,025
Dividends and patronage refunds payable	9,523	68,885
Postretirement benefits other than pensions	85,239	79,249
Minimum pension liability	52,519	52,519
Other liabilities	126,588	149,403
Total liabilities	15,481,544	15,134,186
Commitments and contingencies	—	—
<b>Shareholders' Equity</b>		
Perpetual preferred stock	150,000	150,000
Protected borrower equity	10,721	12,453
Capital stock and participation certificates	125,799	128,099
Retained earnings		
Allocated	738,650	792,168
Unallocated	1,739,538	1,587,934
Accumulated other comprehensive income	(109,512)	(108,923)
Total shareholders' equity	2,655,196	2,561,731
Total liabilities and equity	<b>\$ 18,136,740</b>	<b>\$ 17,695,917</b>

The accompanying notes are an integral part of these combined financial statements.

# Combined Statements of Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended June 30,		For the six months ended June 30,	
	2004	2003	2004	2003
<b>Interest Income</b>				
Investment securities	\$ 16,425	\$ 15,369	\$ 31,548	\$ 31,449
Loans	198,251	202,794	394,416	401,368
Total interest income	214,676	218,163	425,964	432,817
<b>Interest Expense</b>				
	72,888	69,304	144,623	140,376
Net interest income	141,788	148,859	281,341	292,441
Provision for loan losses	112	3,628	262	9,084
Net interest income after provision for loan losses	141,676	145,231	281,079	283,357
<b>Noninterest Income</b>				
Loan fees	10,734	7,450	19,186	18,591
Fees for financially related services	1,038	1,239	1,949	2,148
Realized gains (losses) on investments, net	79	86	92	200
Gain on sale of rural home loans	(1,936)	2,870	(1,499)	6,318
Interest related to IRS refunds	—	51	—	67
Other noninterest income	2,462	1,636	8,763	3,722
Total noninterest income	12,377	13,332	28,491	31,046
<b>Noninterest Expenses</b>				
Salaries and employee benefits	43,686	42,205	87,034	83,457
Occupancy and equipment	6,113	5,628	12,415	11,372
Insurance Fund premium	3,440	4,045	6,889	8,043
Other operating expenses	14,015	13,223	26,519	26,078
Intra-System financial assistance expenses	1,666	5,447	3,320	9,306
Called debt expense	102	5,201	2,252	10,164
Restructuring charge	2,785	—	3,592	—
Other noninterest expense	687	304	1,087	687
Total noninterest expenses	72,494	76,053	143,108	149,107
Income before income taxes	81,559	82,510	166,462	165,296
Provision (benefit) for income taxes	79	(371)	416	(58)
Net income	\$ 81,480	\$ 82,881	\$ 166,046	\$ 165,354

The accompanying notes are an integral part of these combined financial statements

# Combined Statements of Changes in Shareholders' Equity

(unaudited)

(dollars in thousands)	Perpetual Preferred Stock	Protected Borrower Equity	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income	Total Shareholders' Equity
				Allocated	Unallocated		
Balance at December 31, 2002	\$ —	\$ 15,486	\$ 124,541	\$ 756,525	\$ 1,494,659	\$(110,655)	\$ 2,280,556
Comprehensive income							
Net income					165,354		165,354
Unrealized gains (losses) on investments available for sale, net of reclassification adjustments						(847)	(847)
Change in fair value of derivative instruments						(3,192)	(3,192)
Total comprehensive income							161,315
Protected borrower equity retired		(2,342)					(2,342)
Capital stock/participation certificates issued/retired, net			299				299
Dividends declared/paid			42		(198)		(156)
Mandatorily redeemable preferred stock dividends accrued					(9,443)		(9,443)
Patronage distribution							
Cash					(6,366)		(6,366)
Retained earnings retired				(57,575)			(57,575)
Patronage distribution adjustment				6,137	(7,909)		(1,772)
Balance at June 30, 2003	\$ —	\$ 13,144	\$ 124,882	\$ 705,087	\$ 1,636,097	\$(114,694)	\$ 2,364,516
Balance at December 31, 2003	\$ 150,000	\$ 12,453	\$ 128,099	\$ 792,168	\$ 1,587,934	\$(108,923)	\$ 2,561,731
Comprehensive income							
Net income					166,046		166,046
Unrealized gains (losses) on investments available for sale, net of reclassification adjustments						(6,457)	(6,457)
Change in fair value of derivative instruments						5,881	5,881
Minimum pension liability adjustment						(13)	(13)
Total comprehensive income							165,457
Protected borrower equity retired		(1,732)					(1,732)
Capital stock/participation certificates issued/retired, net			(2,331)				(2,331)
Dividends declared/paid			31		(145)		(114)
Perpetual preferred stock dividends paid					(5,475)		(5,475)
Patronage distribution							
Cash					(6,659)		(6,659)
Allocated retained earnings				1,230	(1,230)		
Retained earnings retired				(54,327)			(54,327)
Patronage distribution adjustment				(421)	(933)		(1,354)
Balance at June 30, 2004	\$ 150,000	\$ 10,721	\$ 125,799	\$ 738,650	\$ 1,739,538	\$(109,512)	\$ 2,655,196

The accompanying notes are an integral part of these combined financial statements.

# Combined Statements of Cash Flows

(unaudited)

(dollars in thousands)	For the six months ended June 30,	
	2004	2003
<b>Cash flows from operating activities:</b>		
Net income	\$ 166,046	\$ 165,354
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	7,005	6,336
Provision for loan losses	262	9,084
(Gains) on sale of Farm Credit Leasing Corporation stock	(3,757)	—
(Gains) losses on other property owned, net	26	(207)
Realized (gains) losses on investments, net	(92)	(200)
Realized (gains) losses on mortgage loans held for sale	1,499	(6,318)
Proceeds from sale of mortgage loans held for sale	210,866	405,639
Purchases of mortgage loans held for sale (net of principal repayment)	(216,847)	(366,188)
Changes in operating assets and liabilities:		
(Increase) decrease in accrued interest receivable	(15,564)	(5,900)
(Increase) decrease in investments in other Farm Credit System institutions	(435)	3
(Increase) decrease in deferred tax assets, net	(72)	2,754
(Increase) decrease in other assets	(2,362)	344
Increase (decrease) in accrued interest payable	(1,137)	(10,734)
Increase (decrease) in postretirement benefits other than pensions	5,990	6,188
Increase (decrease) in other liabilities	(24,299)	(26,179)
Total adjustments	(38,917)	14,622
Net cash provided by (used in) operating activities	127,129	179,976
<b>Cash flows from investing activities:</b>		
Investment securities purchased	(2,498,764)	(2,292,399)
Investment securities sold or matured	2,134,394	1,662,906
Proceeds from sale of Farm Credit Leasing Corporation stock	12,834	—
Net (increase) decrease in loans	(81,266)	(274,267)
Purchase of premises and equipment, net	(10,712)	(10,389)
Proceeds from sale of other property owned	1,282	5,190
Net cash provided by (used in) investing activities	(442,232)	(908,959)
<b>Cash flows from financing activities:</b>		
Bonds and notes issued	24,087,401	31,463,028
Bonds and notes retired	(23,656,838)	(30,667,614)
Protected borrower equity retired	(1,732)	(2,342)
Capital stock and participation certificates issued/retired, net	(2,331)	299
Patronage refunds and dividends paid	(65,993)	(64,208)
Dividends paid on perpetual preferred stock	(5,475)	—
Dividends paid on mandatorily redeemable preferred stock	—	(9,443)
Retained earnings retired	(54,327)	(57,575)
Net cash provided by (used in) financing activities	300,705	662,145
Net increase (decrease) in cash and cash equivalents	(14,398)	(66,838)
Cash and cash equivalents, beginning of period	494,339	444,457
Cash and cash equivalents, end of period	\$ 479,941	\$ 377,619
<b>Supplemental schedule of non-cash investing and financing activities:</b>		
Financed sales of other property owned	\$ 98	\$ 383
Loans transferred to other property owned	1,829	3,482
Patronage refund and dividends payable	6,773	15,965
Change in unrealized gains (losses) on investments, net	(6,457)	(6,522)
Change in fair value of derivative instruments	5,881	(3,192)
<b>Non-cash changes related to hedging activities:</b>		
Decrease (increase) in loans	\$ 112	\$ (2,005)
Increase (decrease) in bonds and notes	(12,146)	4,038
Decrease (increase) in other assets	2,116	(3,872)
Increase (decrease) in other liabilities	9,169	(1,199)
<b>Supplemental information:</b>		
Interest paid	\$ 145,760	\$ 151,110
Taxes paid, net	622	1,257

The accompanying notes are an integral part of these combined financial statements.

# Notes to the Combined Financial Statements

(dollars in thousands, except as noted)

(unaudited)

## NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying combined financial statements include the accounts of AgFirst Farm Credit Bank (AgFirst) and the accounts of the District Agricultural Credit Associations (ACAs or District Associations), collectively referred to as the District, and reflect the investments in and allocated earnings of the service organizations in which AgFirst has a partial ownership interest. All significant transactions and balances between AgFirst and the District Associations have been eliminated in combination.

The significant accounting policies followed, and the financial condition and results of operations of the District as of and for the year ended December 31, 2003, are contained in the 2003 Annual Report to Stockholders. These unaudited second quarter 2004 financial statements should be read in conjunction with the 2003 Annual Report to Stockholders.

In May 2003, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity* (SFAS No. 150 or the Statement). The Statement requires that certain instruments having characteristics of both liabilities and equity be classified as liabilities effective July 1, 2003. The Statement is to be implemented by reporting the cumulative effect of a change in accounting principle for financial instruments created before the issue date of the Statement and still existing at the beginning of the interim period of adoption. Restatement is not permitted.

The accompanying financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with accounting principles generally accepted in the United States of America (GAAP). The results for the six months ended June 30, 2004 are not necessarily indicative of the results to be expected for the year ending December 31, 2004.

The District maintains allowances for loan losses in accordance with GAAP. The loan portfolios are reviewed quarterly to determine the adequacy of the allowances for losses. As of June 30, 2004, the allowances for losses are adequate in management's opinion to provide for possible losses on existing loans.

## **NOTE 2 — ALLOWANCE FOR LOAN LOSSES**

An analysis of the allowance for loan losses follows:

Balance at December 31, 2002	\$ 311,180
Provision for loan losses	9,084
Loans (charged off), net of recoveries	<u>(21)</u>
Balance at June 30, 2003	<u>\$ 320,243</u>
Balance at December 31, 2003	\$ 316,735
Provision for loan losses	262
Loans (charged off), net of recoveries	<u>(3,399)</u>
Balance at June 30, 2004	<u>\$ 313,598</u>

## **NOTE 3 — COMMITMENTS AND CONTINGENT LIABILITIES**

Under the Farm Credit Act of 1971, each System bank is primarily liable for its portion of Systemwide bond and discount note obligations. Additionally, the banks are jointly and severally liable for the bonds and notes of the other System banks. The total bonds and notes of the System were \$96.3 billion at June 30, 2004.

Actions are pending against AgFirst and/or certain District Associations in which claims for money damages are asserted. On the basis of information presently available, management and legal counsel are of the opinion that the ultimate liability, if any, resulting therefrom, would not be material in relation to the combined financial position of AgFirst and District Associations.

**NOTE 4 — EMPLOYEE BENEFIT PLANS**

The following table summarizes the components of net periodic benefit costs for the six months ended June 30:

	<b>Pension Benefits</b>	
	<u>2004</u>	<u>2003</u>
Service cost	\$ 6,945	\$ 5,579
Interest cost	11,402	10,634
Expected return on plan assets	(11,538)	(9,428)
Amortization of prior service costs	324	324
Recognized net (gain) loss	<u>6,388</u>	<u>4,522</u>
Net periodic benefit cost	<u>\$ 13,521</u>	<u>\$ 11,631</u>

	<b>Other Benefits</b>	
	<u>2004</u>	<u>2003</u>
Service cost	\$ 1,851	\$ 1,816
Interest cost	4,623	4,545
Expected return on plan assets	—	(2)
Amortization of prior service costs	(92)	(47)
Recognized net (gain) loss	<u>2,939</u>	<u>2,275</u>
Net periodic benefit cost	<u>\$ 9,321</u>	<u>\$ 8,587</u>

The District previously disclosed in its financial statements for the year ended December 31, 2003, that it expected to contribute \$19,000 to its pension plans in 2004. As of June 30, 2004, the District had contributed \$14,419 to the defined benefit retirement plans. The District anticipates making additional contributions prior to September 30, 2004 in amounts sufficient to meet its accumulated benefit obligation.

**NOTE 5 — BANK ONLY FINANCIAL DATA**

Condensed financial information of AgFirst follows:

**Balance Sheet Data**

	<b>June 30, 2004</b>	<b>December 31, 2003</b>
	<i>(unaudited)</i>	<i>(audited)</i>
Cash and investment securities	\$ 3,660,314	\$ 3,302,661
Loans	12,451,041	12,375,230
Less: allowance for loan losses	30,973	34,168
Net loans	12,420,068	12,341,062
Other assets	214,530	235,825
Total assets	<b>\$ 16,294,912</b>	<b>\$ 15,879,548</b>
Bonds and notes	\$ 14,931,787	\$ 14,507,105
Mandatorily redeemable preferred stock	225,000	225,000
Other liabilities	99,422	192,911
Total liabilities	15,256,209	14,925,016
Perpetual preferred stock	150,000	150,000
Capital stock and participation certificates	229,296	229,083
Retained earnings	686,233	601,699
Accumulated other comprehensive income (loss)	(26,826)	(26,250)
Total shareholders' equity	1,038,703	954,532
Total liabilities and equity	<b>\$ 16,294,912</b>	<b>\$ 15,879,548</b>

**Statement of Income Data**

*(unaudited)*

	<b>For the three months ended June 30, 2004</b>		<b>For the six months ended June 30, 2004</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
Interest income	\$ 127,658	\$ 134,842	\$ 254,161	\$ 272,210
Interest expense	72,877	69,279	144,579	140,327
Net interest income	54,781	65,563	109,582	131,883
Provision for loan losses	—	—	—	2,500
Net interest income after provision for loan losses	54,781	65,563	109,582	129,383
Noninterest income (expense), net	(11,625)	(19,981)	(19,573)	(32,644)
Net income	<b>\$ 43,156</b>	<b>\$ 45,582</b>	<b>\$ 90,009</b>	<b>\$ 96,739</b>