

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15 (d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended March 31, 1996      Commission file number 0 - 13818  
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BANPONCE CORPORATION

-----  
(Exact name of registrant as specified in its charter)

Puerto Rico

66-041-6582

-----  
(State of incorporation)

-----  
(I.R.S. Employer  
Identification No.)

Popular Center Building  
209 Munoz Rivera Avenue, Hato Rey  
San Juan, Puerto Rico 00918

-----  
(Address of principal executive offices)  
(Zip Code)

Registrant's telephone number, including area code (809) 765-9800  
-----

Not Applicable  
-----

(Former name, former address and former fiscal year, if changed since last report) 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 the number of shares outstanding of each of the issuer's classes of common stock, as of the close of the period covered by this report.

Common Stock \$6.00 Par value                      32,974,936  
-----                      -----  
(Title of Class)                      (Shares Outstanding as of March 31, 1996)

BANPONCE CORPORATION  
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BANPONCE CORPORATION  
 CONSOLIDATED STATEMENTS OF CONDITION  
 (UNAUDITED)

(In thousands)	March 31, 1996	December 31, 1995
<b>ASSETS</b>		
Cash and due from banks	\$ 405,890	\$ 458,173
Money market investments:		
Federal funds sold and securities and mortgages purchased under agreements to resell	632,527	796,417
Time deposits with other banks	26,993	100
Banker's acceptances	1,837	2,202
	661,357	798,719
Investment securities held-to-maturity, at cost	1,657,059	1,651,344
Investment securities available-for-sale, at market	3,337,217	3,209,974
Trading account securities, at market value	295,573	330,674
Loans held-for-sale	87,486	112,806
Loans	9,088,593	8,883,963
Less - Unearned income	326,001	319,285
Allowance for loan losses	174,724	168,393
	8,587,868	8,396,285
Premises and equipment	335,279	325,203
Other real estate	7,353	7,807
Customer's liabilities on acceptances	1,867	2,208
Accrued income receivable	134,247	113,539
Other assets	155,707	125,742
Intangible assets	138,180	142,977
	\$15,805,083	\$15,675,451
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Liabilities:		
Deposits:		
Non-interest bearing	\$ 1,931,168	\$ 2,021,658
Interest bearing	8,251,914	7,855,004
	10,183,082	9,876,662
Federal funds purchased and securities sold under agreements to repurchase	2,552,831	3,000,878
Other short-term borrowings	740,088	454,707
Notes payable	684,589	730,428
Senior debentures	30,000	30,000
Acceptances outstanding	1,867	2,208
Other liabilities	278,056	263,871
	14,470,513	14,358,754
Subordinated notes	175,000	175,000
Stockholders' equity :		
Preferred stock	100,000	100,000
Common stock	197,850	197,692
Surplus	428,098	427,282
Retained earnings	383,641	350,480
Unrealized gains(losses) on securities available-for-sale, net of deferred taxes	(19)	16,243
Capital reserves	50,000	50,000
	1,159,570	1,141,697
	\$15,805,083	\$15,675,451

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

BANPONCE CORPORATION  
CONSOLIDATED STATEMENTS OF INCOME  
(UNAUDITED)

(Dollars in thousands, except per common share information)	1996	Quarter ended March 31,	1995
<b>INTEREST INCOME:</b>			
Loans	\$217,247		\$190,550
Money market investments	8,673		986
Investment securities	71,945		58,568
Trading account securities	5,062		115
	302,927		250,219
<b>INTEREST EXPENSE:</b>			
Deposits	82,996		77,065
Short-term borrowings	42,930		25,374
Long-term debt	14,541		10,252
	140,467		112,691
Net interest income	162,460		137,528
Provision for loan losses	21,273		11,698
Net interest income after provision for loan losses	141,187		125,830
Service charges on deposit accounts	21,076		18,090
Other service fees	17,380		13,811
Gain on sale of securities	729		46
Trading account profit (loss)	938		(50)
Other operating income	11,869		5,656
	193,179		163,383
<b>OPERATING EXPENSES:</b>			
Personnel costs:			
Salaries	44,752		41,530
Profit sharing	6,070		3,327
Pension and other benefits	16,981		15,561
	67,803		60,418
Net occupancy expense	9,318		7,769
Equipment expenses	11,774		9,383
Other taxes	5,963		5,631
Professional fees	9,916		7,554
Communications	6,316		5,603
Business promotion	5,392		3,792
Printing and supplies	2,923		2,781
Other operating expenses	6,740		10,451
Amortization of intangibles	4,554		4,936
	130,699		118,318
Income before tax	62,480		45,065
Income tax	17,338		11,324
<b>NET INCOME</b>	<b>\$ 45,142</b>		<b>\$ 33,741</b>
Net income applicable to common stock	\$ 43,055		\$ 31,654
<b>EARNINGS PER COMMON SHARE:</b>	<b>\$ 1.31</b>		<b>\$ 0.96</b>

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

BANPONCE CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)

(In thousands)	For the quarter ended	
	1996	March 31, 1995
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 45,142	\$ 33,741
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization of premises and equipment	12,355	10,288
Provision for loan losses	21,273	11,698
Amortization of intangibles	4,554	4,936
Gain on sale of investment securities available-for-sale	(729)	(46)
Gain on dispositions of premises and equipment	(10)	(771)
Amortization of premiums and accretion of discounts on investments	755	(700)
Decrease in loans held-for-sale	25,319	5,796
Amortization of deferred loan fees and costs	(45)	142
Net increase in postretirement benefit obligation	2,253	1,831
Net decrease(increase) in trading securities	35,101	(5,499)
Net increase in interest receivable	(20,708)	(943)
Net (increase)decrease in other assets	(13,032)	8,465
Net decrease in interest payable	(1,418)	(2,191)
Net increase in current and deferred taxes	6,208	7,051
Net decrease in other liabilities	(5,791)	(19,202)
Total adjustments	66,085	20,855
Net cash provided by operating activities	111,227	54,596
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Net decrease in money market investments	137,362	213,859
Purchases of investment securities held-to-maturity	(1,366,623)	(8,174,307)
Maturities of investment securities held-to-maturity	1,354,385	8,127,681
Purchases of investment securities available-for-sale	(1,717,071)	(327,377)
Maturities of investment securities available-for-sale	474,048	1,894
Sales of investment securities available-for-sale	1,101,095	143,244
Net disbursements on loans	(266,068)	(282,941)
Proceeds from sale of loans	90,066	61,692
Acquisition of loan portfolios	(35,198)	
Assets acquired, net of cash		(16,661)
Acquisition of premises and equipment	(24,452)	(18,434)
Proceeds from sale of premises and equipment	2,031	5,850
Net cash used in investing activities	(250,425)	(265,500)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net increase in deposits	306,419	184,618
Net deposits acquired		163,636
Net decrease in federal funds purchased and securities sold under agreements to repurchase	(448,047)	(287,290)
Net increase(decrease) in other short-term borrowings	285,381	(39,157)
Proceeds from issuance of notes payable	116,117	145,923
Payments of notes payable	(161,957)	(20,003)
Dividends paid	(11,972)	(10,297)
Proceeds from issuance of common stock	974	763
Net cash provided by financing activities	86,915	138,193
Net decrease in cash and due from banks	(52,283)	(72,711)
Cash and due from banks at beginning of period	458,173	442,316
Cash and due from banks at end of period	\$405,890	\$369,605

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share information)

## NOTE 1 - CONSOLIDATION

The consolidated financial statements of BanPonce Corporation include the balance sheet of the Corporation and its wholly-owned subsidiaries, Vehicle Equipment Leasing Company, Inc. (Velco); BP Capital Markets, Inc.; Popular International Bank, Inc. and its wholly-owned subsidiary BanPonce Financial Corp., including Banco Popular, FSB, Pioneer Bancorp, Inc. (second tier subsidiaries) and Equity One, Inc.; and Banco Popular de Puerto Rico and its wholly-owned subsidiaries, Popular Leasing and Rental, Inc., Popular Consumer Services, Inc. and Popular Mortgage, Inc., as of March 31, 1996 and December 31, 1995, and their related statements of income and cash flows for the quarters ended March 31, 1996 and 1995. These statements are, in the opinion of management, a fair statement of the results of the periods presented. These results are unaudited, but include all necessary adjustments, of a normal recurring nature, for a fair presentation of such results. Certain reclassifications have been made to the prior year consolidated financial statements to conform to the 1996 presentation.

## NOTE 2 - ACCOUNTING CHANGES

Effective January 1, 1996, the Corporation adopted Statement of Financial Accounting Standards (SFAS) 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." This statement requires that long-lived assets and certain identifiable intangibles to be held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For the first quarter of 1996, no impairment recognition was necessary based on this pronouncement.

Effective January 1, 1996, the Corporation adopted SFAS 122, "Accounting for Mortgage Servicing Rights." This statement requires that mortgage banking enterprises recognize as separate assets the rights to service mortgage loans for others, whether those servicing rights are originated or purchased. Also, it requires mortgage banking enterprises to assess capitalized mortgage servicing rights for impairment based on the fair value of those rights. Pursuant to the provisions of SFAS 122, the total cost of mortgage loans to be sold with servicing rights retained is allocated to the mortgage servicing rights and the loans (without the mortgage servicing rights) based on their relative fair values. These mortgage servicing rights are amortized in proportion to and over the period of estimated net servicing income.

To estimate the fair value of mortgage servicing rights the Corporation considers prices for similar assets and the present value of expected future cash flows associated with the servicing rights calculated using assumptions that market participants would use in estimating future servicing income and expense. For purposes of evaluating and measuring impairment of capitalized mortgage servicing rights, the Corporation stratifies such rights based on predominant risk characteristics of underlying loans, such as loan type, note rate and term. The amount of impairment recognized if any, is the amount by which the capitalized mortgage

servicing rights per stratum exceed estimated fair value. Impairment is recognized through a valuation allowance. As of March 31, 1996, the carrying value, estimated fair value and valuation allowance of capitalized mortgage servicing rights were \$23,898, \$26,469 and \$212, respectively. During this quarter the Corporation realized additional income of \$495 as a result of the adoption of this pronouncement.

Effective January 1, 1996, the Corporation adopted SFAS 123 "Accounting for Stock-Based Compensation." This statement establishes a fair value-based method of accounting for stock-based employee compensation plans. It encourages entities to adopt this method in lieu of the provisions of APB Opinion No. 25, "Accounting for Stock Issued to Employees", for all arrangements under which employees receive shares of stock or other equity instruments of the employer or the employer incurs liabilities to employees in amounts based on the price of its stock.

The Corporation provides a stock-based compensation plan for senior management. This is a three-year incentive plan which provides incentive compensation linked to long-term corporate performance and objectives. For the quarter ended March 31, 1996, the Corporation recognized \$103 related to this plan.

Effective January 1, 1995, the Corporation adopted SFAS 114, "Accounting by Creditors for Impairment of a Loan" as amended by SFAS 118, "Accounting by Creditors for Impairment of a Loan - Income Recognition and Disclosures." These statements address the accounting by creditors for impairment of certain loans and require that impaired loans as defined, be measured based on the present value of expected future cash flows discounted at the loan's effective rate, at the loan's observable market price or, on the fair value of the collateral if the loan is collateral dependent. As of March 31, 1996, the recorded investment in loans that are considered to be impaired under SFAS 114 was \$79,774 (1995 - \$87,393) of which \$38,365 (1995 - \$43,004) had a related allowance for possible loan losses of \$8,555 (1995 - \$8,449). Average impaired loans during the first quarter of 1996 were \$83,043. The Corporation recognized interest income on impaired loans of \$901 for the quarter ended March 31, 1996.

#### NOTE 3 - INVESTMENT SECURITIES

The average maturities as of March 31, 1996 and market value for the following investment securities are:

## Investment securities held-to-maturity:

	1996		March 31,		1995	
	Amortized Cost	Market Value	Amortized Cost	Market Value	Amortized Cost	Market Value
U.S. Treasury (average maturity of 1 year and 1 month)	\$ 924,137	\$ 927,247	\$1,912,231		\$1,901,025	
Obligations of other U.S. Government agencies and corporations (average maturity of 11 months)	132,271	130,950	249,509		244,949	
Obligations of Puerto Rico, States and political subdivisions (average maturity of 2 years and 5 months)	218,222	220,124	217,037		220,211	
Collateralized mortgage obligations (average maturity of 1 year and 5 months)	262,655	260,900	439,613		427,884	
Mortgage-backed securities (average maturity of 4 years and 4 months)	59,706	60,395	146,015		141,573	
Equity securities (without contractual maturity)	47,674	47,674	43,558		43,558	
Others (average maturity of 6 years and 6 months)	12,394	12,430	12,142		12,175	
	<u>\$1,657,059</u>	<u>\$1,659,720</u>	<u>\$3,020,105</u>		<u>\$2,991,375</u>	

## Investment securities available-for-sale:

	1996		March 31,		1995	
	Amortized Cost	Market Value	Amortized Cost	Market Value	Amortized Cost	Market Value
U.S. Treasury (average maturity of 1 year and 1 month)	\$2,454,152	\$2,453,291	\$ 597,602		\$ 588,337	
Obligations of other U.S. Government agencies and corporations (average maturity of 8 months)	440,015	439,624	100,559		99,573	
Obligations of Puerto Rico, States and political subdivisions (average maturity of 2 years and 9 months)	26,468	26,564	28,430		27,872	
Collateralized mortgage obligations (average maturity of 2 years and 6 months)	109,047	108,342	61,356		60,789	
Mortgage-backed securities (average maturity of 16 years and 7 months)	260,168	256,910	250,765		250,015	
Equity securities (without contractual maturity)	27,703	34,436	27,989		29,645	
Others (average maturity of 14 years and 1 month)	18,050	18,050	50,000		50,000	
	<u>\$3,335,603</u>	<u>\$3,337,217</u>	<u>\$ 1,116,701</u>		<u>\$1,106,231</u>	

## NOTE 4 - PLEDGED ASSETS

Securities and insured mortgage loans of the Corporation of \$2,774,689 (1995 - \$1,963,134) are pledged to secure public and trust deposits and securities and mortgages sold under repurchase agreements.

## NOTE 5- COMMITMENTS

In the normal course of business there are letters of credit outstanding and stand-by letters of credit which at March 31, 1996 amounted to \$17,591 and \$118,805. There are also outstanding other commitments and contingent liabilities, such as guarantees and commitments to extend credit, which are not reflected in the accompanying financial statements. No losses are anticipated as a result of these transactions.

## NOTE 6- SUBORDINATED NOTES

Subordinated notes consist of the following:

	March 31,	
	1996	1995
	-----	
Subordinated notes issued by the Corporation on December 12, 1995, maturing on December 15, 2005, with interest payable semi-annually at 6.75%	\$125,000	
	-----	
Subordinated notes issued by the Banco Popular on March 29, 1989, maturing on June 15, 1996, with interest payable quarterly and consisting of:		
8.875% Fixed Rate Notes series A	15,000	\$15,000
8.6875% Fixed Rate Notes series B	15,000	15,000
Floating Rate Notes series A with interest payable at 88% of LIBID rate	19,000	19,000
Floating Rate Notes series B with interest payable at 86% of LIBID rate	1,000	1,000
	-----	-----
	50,000	50,000
	-----	-----
	\$175,000	\$50,000
	=====	

## NOTE 7 - STOCKHOLDERS' EQUITY

Authorized common stock is 90,000,000 shares with a par value of \$6 per share of which 32,974,936 are issued and outstanding at March 31, 1996. Authorized preferred stock is 10,000,000 shares without par value of which 4,000,000 non-cumulative with a dividend rate of 8.35% and a liquidation preference value of \$25 per share are issued and outstanding at March 31, 1996.

## NOTE 8 - EARNINGS PER COMMON SHARE

Earnings per common share (EPS) are calculated based on net income applicable to common stockholders which amounted to \$43,055 and \$31,654 for the quarters ended March 31, 1996 and 1995, respectively, after deducting the dividends on preferred stock. EPS are based on 32,974,936 and 32,866,623 average shares outstanding for the first quarter of 1996 and 1995, respectively.

## NOTE 9 - SUPPLEMENTAL DISCLOSURE ON THE CONSOLIDATED STATEMENTS OF CASH FLOWS

During the quarter ended March 31, 1996, the Corporation paid interest and income taxes amounting to \$148,341 and \$5,564, respectively (1995 - \$117,421 and \$1,392). In addition,

the loans receivable transferred to other real estate and other property for the quarter ended March 31, 1996, amounted to \$468 and \$1,142, respectively (1995 - \$1,963 and \$859). The Corporation's stockholders' equity at March 31, 1996 and 1995 includes \$19 and \$7,670, respectively, in unrealized holding losses on securities available-for-sale, net of deferred taxes.

NOTE 10 - POPULAR INTERNATIONAL BANK, INC. (A WHOLLY-OWNED SUBSIDIARY OF BANPONCE CORPORATION) FINANCIAL INFORMATION:

The following summarized financial information presents the unaudited consolidated financial position of Popular International Bank, Inc. and its wholly-owned subsidiary BanPonce Financial Corp, including its wholly owned subsidiaries: Pioneer Bancorp, Inc. and Banco Popular, FSB (second tier subsidiaries) and Equity One, Inc., as of March 31, 1996, and 1995 and the results of their operations for the quarters then ended.

POPULAR INTERNATIONAL BANK, INC.  
STATEMENT OF CONDITION  
(In thousands)

	1996	March 31, -----	1995
	----		----
Assets:			
Cash	\$ 34,292		\$ 29,748
Money market investments	86,866		32,281
Investment securities	224,632		314,366
	-----		-----
Loans	1,222,111		907,460
Less: Unearned income	43,430		35,297
Allowance for loan losses	17,416		12,768
	-----		-----
	1,161,265		859,395
Other assets, consisting principally of intangible assets, including goodwill, net of amortization	67,585		56,503
	-----		-----
Total assets	\$1,574,640		\$1,292,293
	=====		=====
Liabilities and Stockholder's Equity:			
Deposits	\$ 568,158		\$ 526,757
Short-term borrowings	264,781		142,005
Notes payable	564,685		479,380
Other liabilities	34,204		23,957
Stockholder's equity	142,812		120,194
	-----		-----
Total liabilities and stockholder's equity	\$1,574,640		\$1,292,293
	=====		=====

POPULAR INTERNATIONAL BANK, INC.  
STATEMENT OF INCOME  
(In thousands)

	Quarter ended March 31,	
	1996	1995
	-----	
Income:		
Interest and fees	\$35,341	\$25,951
Other service fees	4,194	2,899
	-----	
Total income	39,535	28,850
	-----	
Expenses:		
Interest expense	19,819	14,625
Provision for loan losses	2,810	1,554
Operating expenses	10,252	8,044
	-----	
Total expenses	32,881	24,223
	-----	
Income before income tax	6,654	4,627
Income tax	2,670	1,886
	-----	
Net income	\$ 3,984	\$ 2,741
	=====	=====

NOTE 11 - BANPONCE FINANCIAL CORP (A SECOND TIER SUBSIDIARY OF BANPONCE CORPORATION) FINANCIAL INFORMATION:

The following summarized financial information presents the unaudited consolidated financial position of BanPonce Financial Corp and its wholly-owned subsidiaries Pioneer Bancorp, Inc., Banco Popular, FSB and Equity One, Inc. (second tier subsidiary) as of March 31, 1996, and 1995 and the results of their operations for the quarters then ended.

BANPONCE FINANCIAL CORP  
STATEMENT OF CONDITION  
(In thousands)

	March 31,	
	1996	1995
	-----	-----
Assets:		
Cash	\$ 34,268	\$ 29,713
Money market investments	85,803	31,237
Investment securities	224,632	314,366
	-----	-----
Loans	1,222,111	907,460
Less: Unearned income	43,430	35,297
Allowance for loan losses	17,416	12,768
	-----	-----
	1,161,265	859,395
Other assets, consisting principally of intangible assets, including goodwill, net of amortization	67,468	56,494
	-----	-----
Total Assets	\$1,573,436	\$1,291,205
	=====	=====
Liabilities and Stockholder's Equity:		
Deposits	\$ 568,158	\$ 526,757
Other short-term borrowings	264,781	142,005
Notes payable	564,685	479,380
Other liabilities	34,195	23,957
Stockholder's equity	141,617	119,106
	-----	-----
Total Liabilities and Stockholder's Equity	\$1,573,436	\$1,291,205
	=====	=====

BANPONCE FINANCIAL CORP  
STATEMENT OF INCOME  
(In thousands)

	Quarter ended March 31,	
	1996	1995
Income:		
Interest and fees	\$35,324	\$25,938
Other service fees	4,194	2,899
	-----	-----
Total income	39,518	28,837
	-----	-----
Expenses:		
Interest expense	19,819	14,625
Provision for loan losses	2,810	1,554
Operating expenses	10,276	8,020
	-----	-----
Total expenses	32,905	24,199
	-----	-----
Income before income tax	6,613	4,638
Income tax	2,670	1,886
	-----	-----
Net income	\$ 3,943	\$ 2,752
	=====	=====

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This financial review contains an analysis of the consolidated financial condition and performance of BanPonce Corporation and its wholly-owned subsidiaries (the Corporation). BanPonce Corporation is a regional diversified, bank holding company engaged in the following businesses through its subsidiaries.

- - COMMERCIAL BANKING/SAVINGS AND LOANS - BANCO POPULAR DE PUERTO RICO (BANCO POPULAR), PIONEER BANK, INC. AND BANCO POPULAR, FSB
- - LEASE FINANCING - POPULAR LEASING AND RENTAL, INC. AND VEHICLE EQUIPMENT LEASING COMPANY, INC. (VELCO)
- - MORTGAGE BANKING/CONSUMER FINANCE - POPULAR MORTGAGE, INC. (D/B/A PUERTO RICO HOME MORTGAGE), EQUITY ONE, INC. (EQUITY ONE) AND POPULAR CONSUMER SERVICES, INC.
- - INVESTMENT BANKING - BP CAPITAL MARKETS, INC. (BP CAPITAL)

THIS FINANCIAL REVIEW SHOULD BE READ TOGETHER WITH THE CONSOLIDATED FINANCIAL STATEMENTS, SUPPLEMENTAL FINANCIAL DATA AND TABLES CONTAINED IN THIS QUARTERLY REPORT.

NET INCOME

The Corporation's net income for the first quarter of 1996 was \$45.1 million, an increase of 33.8% when compared with \$33.7 million reported for the same period in 1995. Net income for the last quarter of 1995 was \$40.3 million. Earnings per common share (EPS) for the quarter were \$1.31, based on 32,974,936 average shares outstanding, compared with EPS of \$0.96 for the first quarter of 1995, based on 32,866,623 average shares outstanding and EPS of \$1.15 for the last quarter of 1995, based on 32,948,636 average shares outstanding. Return on assets (ROA) and return on common equity (ROE) for the quarter ended March 31, 1996 were 1.17% and 16.39%, respectively, compared with 1.06% and 13.96% attained during the first quarter of 1995 and 1.05% and 14.82% for the quarter ended December 31, 1995.

The increase of \$11.4 million in net income for the first quarter of 1996 resulted from a higher net interest income by \$24.9 million plus higher non-interest revenues by \$14.4 million, partially offset by increases of \$12.4 million in operating expenses, \$9.5 million in the provision for loan losses and \$6.0 million in income tax expense.

NET INTEREST INCOME

Net interest income for the first quarter of 1996 increased to \$162.4 million, or 18.1% higher than the \$137.5 million reported for the same period in 1995. On a taxable equivalent basis, net interest income increased to \$174.5 million from \$147.1 million in the first quarter of 1995 and \$168.5 million in the fourth quarter of 1995. This increase was mainly due to a rise of \$2.6 billion in the average volume of earning assets. The net interest yield on a taxable

equivalent basis for the first quarter of 1996 was 4.77% compared with 4.88% for the same quarter in 1995 and 4.72% in the last quarter of 1995. For analytical purposes, the interest earned on tax-exempt assets is adjusted to a taxable equivalent basis assuming the applicable statutory income tax rates.

Average earning assets reached \$14.6 billion for the quarter ended March 31, 1996, compared with \$12.1 billion for the same quarter of 1995. The rise was mainly the result of a higher average volume of investment, money market and trading securities which taken all together rose by \$1.7 billion and an increase in the average volume of loans of \$885 million.

Average money market investments reached \$657 million for the first quarter of 1996, compared with \$41 million for the same period of 1995. The acquisition of the investment banking operation of BP Capital during the second quarter of 1995 was the main reason for this increase. Average investment securities reached \$4.9 billion compared with \$4.2 billion reported for the same quarter in 1995. Banco Popular was the principal contributor for this increase with a rise of \$686 million.

The average balance of trading account securities for the three-month period ended March 31, 1996, totaled \$330 million compared with \$12 million reported for the same quarter last year. This increase relates mostly to the new subsidiaries, BP Capital, with \$223 million in average balance, and Popular Mortgage, acquired on March 31, 1995, with an average of \$96 million. Both balances are comprised mostly of mortgage-backed securities.

The increase of \$390 million in average commercial loans was principally attained at Banco Popular. Average mortgage loans grew \$230 million. In this category, Equity One had a 27.9% growth accounting for \$145 million of the total increase in mortgage loans. This increase relates to its continuous expansion in the United States.

The yield on earning assets, on a taxable equivalent basis, for the first quarter of 1996 and 1995 averaged 8.61%. Although the average yield did not change, fluctuations among the various earning asset categories were experienced.

The average yield on loans for the first quarter of 1996 and 1995, on a taxable equivalent basis, was 10.01% and 9.79%, respectively. The taxable equivalent yield of the commercial loan portfolio decreased by 19 basis points averaging 8.84% compared with 9.03% in the same quarter in 1995. The reduction of 25 basis points in the prime rate during the latter part of 1995 and a further decrease of 25 basis points during the quarter ended on March 31, 1996, were the main reasons for this decrease. The average yield on consumer loans increased to 12.77% from 11.83% achieved during the first quarter of 1995. The average yields on mortgage loans on a taxable equivalent basis for the first quarter of 1996 and 1995 were 8.42% and 8.33%, respectively.

The average yield on investment securities, on a taxable equivalent basis, was 6.73% or 34 basis points higher than the 6.39% in the first quarter of 1995. The increase mostly relates to the maturity of investment securities whose proceeds were reinvested at higher rates. The average yield on money market investments decreased from 9.54% during the first quarter of 1995 to 5.28% in the same period of 1996. The latter, although appears significant, affected

interest income only by \$600 thousand due to the small average volume of \$41 million for 1995 as compared with \$657 million in 1996. The average yield, on a taxable equivalent basis, of the trading portfolio improved to 6.07% from 3.63% in the first quarter of 1995.

Average interest bearing liabilities of the Corporation were \$12.2 billion for the three-month period ended March 31, 1996, compared with \$9.9 billion for the same period of 1995, an increase of \$2.3 billion. Average interest bearing deposits increased \$662 million, mostly in certificates of deposits which grew \$398 million, reaching \$3.3 billion for the first quarter of 1996. Saving accounts also increased during the quarter averaging \$133 million more than in the first quarter of 1995. Average demand deposits grew by \$148 million from \$1.81 billion to \$1.95 billion.

The average cost of interest bearing deposits for the quarter ended March 31, 1996 and 1995 was 4.10% and 4.14%, respectively. The decrease of four basis points was attributed to lower costs on certificates of deposit and NOW and money market deposits. The average cost on certificates of deposit for the first quarter of 1996 was 5.07%, down from 5.29% reported for the same quarter of 1995. The average cost of NOW and money market deposits declined 55 basis points, reaching 3.23% in the first quarter of 1996. Conversely, the average cost of saving accounts increased 9 basis points and the average cost of other time deposits increased 37 basis points.

Average short-term borrowings increased \$1.5 billion this quarter compared with the quarter ended on March 31, 1995. The operation of BP Capital, with an average volume of short-term borrowings of \$848 million for the three-month period ended March 31, 1996, accounted for most of the increase. Banco Popular also had an increase in short-term borrowings, reaching an average level of \$1.7 billion compared with \$1.5 billion in the same quarter of 1995. The average cost of short-term borrowings for the quarter ended March 31, 1996, decreased by 43 basis points, from 5.63% to 5.20% in 1996.

Although the average cost of most interest bearing liabilities showed decreases, about 86% of the growth in average earning assets was funded through time deposits, short-term borrowings and long-term debt, which carry a higher cost. As a result, the average cost of interest bearing liabilities increased slightly, reaching 4.60% for the first quarter of 1996, from 4.57% reported for the same period of 1995.

The net interest yield, on a taxable equivalent basis, decreased to 4.77%, from 4.88% reported for the first quarter of 1995. The decline results mainly from the net interest margin of 0.50% earned at BP Capital due to its significant volume of arbitrage activities. This relatively low net interest margin had the effect of diluting the margins earned at all the other entities within the consolidated group by approximately 27 basis points during the quarter ended on March 31, 1996.

Table A summarizes the results previously explained.

TABLE A

NET INTEREST INCOME (TAXABLE EQUIVALENT BASIS)

(Dollars in millions)

	First Quarter			
	1996 Average		1995 Average	
	Balance	Rate	Balance	Rate
Earning assets	\$14,631 =====	8.61%	\$12,068 =====	8.61%
Financed by:				
Interest bearing funds	\$12,210	4.60%	9,871	4.57%
Non-interest bearing funds	2,421 -----		2,197 -----	
TOTAL	\$14,631 =====	3.84%	\$12,068 =====	3.73%
Net interest income per books	\$ 162.4		\$ 137.5	
Taxable equivalent adjustment	12.1 -----		9.6 -----	
Net interest income on a taxable equivalent basis	\$ 174.5 =====		\$ 147.1 =====	
Spread		4.01%		4.04%
Net interest yield		4.77%		4.88%

PROVISION AND ALLOWANCE FOR LOAN LOSSES

The provision for loan losses for the first quarter of 1996 was \$21.3 million, exceeding by \$9.5 million the amount recorded for the same period of 1995. During the fourth quarter of 1995 the provision amounted to \$21.2 million. Among the factors considered for this increase are the growth of \$856 million in the Corporation's loan portfolio from March 31, 1995 to the same date this year and increases in net charge-offs and non-performing assets. The provision for loan losses for the first quarter of 1996 represented 142% of net charge-offs compared with 146% for the same period of 1995 and 123% for the last quarter of 1995.

Net charge-offs for the quarter ended March 31, 1996, totaled \$14.9 million or 0.68% of average loans, compared with \$8.0 million or 0.41% reported for the same quarter in 1995, and \$17.3 million or 0.81% for the quarter ended on December 31, 1995. Consumer loans net charge-offs increased \$2.8 million when compared with the first quarter of 1995 and

commercial loans net charge-offs increased \$2.3 million. Consumer loans net charge-offs totaled \$6.0 million for the quarter ended March 31, 1996, while net credit losses on the commercial portfolio amounted to \$5.4 million. Total lease financing net charge-offs increased \$1.9 million, from \$0.5 million in the first quarter of 1995 to \$2.4 million this quarter. Mortgage loans net charge-offs increased \$0.2 million, while there was a reduction of \$0.3 million in the construction loans net credit losses.

TABLE B

Quarter Ended	Provision for Loan Losses	Net Charge-offs	Allowance for Loan Losses
-----	-----	-----	-----
(In millions)			
March 31, 1996	\$21.3	\$14.9	\$175
December 31, 1995	21.2	17.3	168
September 30, 1995	19.0	13.3	164
June 30, 1995	12.6	11.4	159
March 31, 1995	11.7	8.0	157

As of March 31, 1996, the allowance for loan losses reached \$175 million, maintaining the same ratio as a percentage of loans than the one at the same date in 1995, when the allowance was \$157 million or 1.97% of loans. Comparable figures at the end of 1995 were \$168 million and 1.94%, respectively. Management considers that the allowance for loan losses is adequate to absorb the potential write-offs in the loan portfolio based on the methodology established for its evaluation, which includes portfolio risk characteristics, prior loss experience, results of periodic credit reviews and current and anticipated economic conditions.

At March 31, 1996, the Corporation had \$80 million in loans considered impaired, of which \$38 million had a related allowance for possible loan losses of \$9 million. As of the same date last year, loans considered impaired amounted to \$87 million, of which \$43 million had a related allowance of \$8 million. No increase in the provision for loan losses was necessary for either quarter as a result of the impairment measurement required by SFAS 114 and 118.

TABLE C

## ALLOWANCE FOR LOAN LOSSES AND SELECTED LOAN LOSSES STATISTICS

(Dollars in thousands)	First Quarter	
	1996	1995
Balance at beginning of period	\$168,393	\$153,798
Provision for loan losses	21,273	11,698
	-----	-----
	189,666	165,496
Losses charged to the allowance		
Commercial	9,215	4,855
Construction	693	1,000
Lease financing	3,325	1,195
Mortgage	597	336
Consumer	9,513	6,958
	-----	-----
	23,343	14,344
Recoveries		
Commercial	3,859	1,755
Construction	1	54
Lease financing	947	713
Mortgage	112	79
Consumer	3,482	3,714
	-----	-----
	8,401	6,315
Net loans charged-off	14,942	8,029
	-----	-----
Balance at end of period	\$174,724	\$157,467
	=====	=====
Ratios:		
Allowance for losses to loans	1.97%	1.97%
Allowance to non-performing assets	116.00	126.85
Allowance to non-performing loans	124.30	139.36
Non-performing assets to loans	1.70	1.55
Non-performing assets to total assets	0.95	0.95
Net charge-offs to average loans	0.68	0.41
Provision to net charge-offs	1.42X	1.46X
Net charge-offs earnings coverage	5.61	7.07

## CREDIT QUALITY

As presented on Table D, non-performing assets (NPA) as of March 31, 1996, which consist of past-due loans on which no interest income is being accrued, renegotiated loans and other real estate amounted to \$151 million or 1.70% of loans, compared with \$124 million or 1.55% at March 31, 1995. NPA were \$155 million or 1.79% of loans at December 31, 1995.

Table D

	NPA	NPA as a % Of Loans	Allowance as a % Of NPA
(Dollars in millions)			
March 31, 1996	\$151	1.70%	116.0%
December 31, 1995	155	1.79	108.6
September, 30, 1995	156	1.84	105.5
June 30, 1995	148	1.81	107.1
March 31, 1995	124	1.55	126.9

Non-performing loans totaled \$141 million as of March 31, 1996, from \$113 million at the end of the first quarter of 1995. As of December 31, 1995, these loans amounted to \$144 million. Most of the increase was reflected in non-performing commercial and construction loans, which accounted for approximately 61% of the increase. The major reason for the increase in non-performing commercial and construction loans was the continued growth in these portfolios. Non-performing mortgage loans increased \$9 million, while non-performing consumer loans increased \$2.9 million, mainly at Equity One. Non-performing lease financing loans decreased \$1 million. Non-performing mortgage loans increased \$5.1 million at Equity One due mainly to the growth in the portfolio. In addition, Banco Popular's non-performing mortgage loans increased \$3.9 million. Other real estate and renegotiated loans decreased \$0.8 million and \$0.2 million, respectively.

The standard industry practice is to place non-performing commercial loans on non-accrual status when payments of principal or interest are delinquent 90 days. The Corporation, however, reports its non-performing assets on a more conservative basis than most U.S. banks. The Corporation's policy is to place commercial loans on non-accrual status when payments of principal or interest are delinquent 60 days. Lease financing, conventional mortgage and closed-end consumer loans are placed on non-accrual status when payments are delinquent 90 days. Closed-end consumer loans are charged-off against the allowance when delinquent 120 days. Open-end (revolving credit) consumer loans are charged-off when payments are delinquent 180 days. Certain loans which would be treated as non-accrual loans pursuant to the foregoing policy, are treated as accruing loans when they are considered well secured and in the process of collection. Under the standard industry practice, closed-end consumer loans are charged-off when delinquent 120 days, but these consumer loans are not customarily placed on non-accrual status prior to being charged-off.

Assuming standard industry practice of placing commercial loans on non-accrual status when payments are past due 90 days or more and excluding the closed-end consumer loans from non-accruing loans, non-performing assets as of March 31, 1996, amounted to \$111 million or 1.26% of loans, and the allowance for loan losses would be 156.9% of non-performing assets. At March 31, 1995 and December 31, 1995, adjusted non-performing assets were \$95 million and \$121 million, respectively, or 1.19% and 1.39% of loans.

Accruing loans that are contractually past-due 90 days or more as to principal or interest as of March 31, 1996, amounted to \$11.5 million compared with \$9.5 million at March 31, 1995, and \$11.7 million at December 31, 1995.

#### OTHER OPERATING INCOME

Other operating income, including securities and trading gains, amounted to \$52.0 million for the first quarter of 1996 compared with \$37.6 million for the same quarter in 1995, an increase of \$14.4 million or 38.4%. This rise in other income was principally driven by an increase of \$6.2 million in other operating income and \$3.6 million in other service fees.

Services charges on deposit accounts totaled \$21.1 million for the quarter ended March 31, 1996, compared with \$18.1 million for the same quarter of 1995. Growth in the activity of commercial accounts together with a revised fee structure accounted for \$2.3 million of the increase.

Other services fees rose \$3.6 million for the first three months of 1996, amounting to \$17.4 million compared with \$13.8 million for the same quarter of 1995. Mortgage servicing fees were \$1.0 million higher, largely as a result of the servicing portfolio acquired from Puerto Rico Home Mortgage. Letter of credit fees, credit card fees and fees related to the sale and administration of investment products added \$1.6 million to this revenue category. Also, fees collected on the growing volume of transactions at point-of-sale (POS) terminals and other electronic banking services contributed additional income.

Other operating income increased \$6.2 million, from \$5.7 million for the first quarter of 1995 to \$11.9 million for the same period in 1996. A portion of this increase is due to higher gains realized on the sale of rental units and daily rental income by the Corporation's leasing subsidiaries. Also, the investment banking services of BP Capital, acquired in April 1995, contributed \$1.8 million to this revenue category. Equity One and Puerto Rico Home Mortgage accounted for additional income of \$1.7 million from the sale of loans.

During the first three months of 1996, the Corporation realized gains on sale of securities and trading transactions amounting to \$1.6 million, of which \$0.7 million were in trading activities and \$0.9 million from the sale of securities from the portfolio available-for-sale. The Corporation had a net loss of \$4 thousand in these activities for the first three months of 1995.

#### OPERATING EXPENSES

Operating expenses increased \$12.4 million or 10.5%, reaching \$130.7 million for the first quarter of 1996, from \$118.3 million for the same period in 1995, principally reflecting higher personnel costs, equipment expenses, net occupancy expense and professional fees related to the Corporation's ongoing strategic initiatives.

Personnel costs, the major component of operating expenses, totaled \$67.8 million for the first three months of 1996, compared with \$60.4 million for the same period in 1995, an increase of \$7.4 million or 12.2%. Salary expenses increased \$3.2 million or 7.8% to \$44.7 million,

compared with \$41.5 million in 1995. This increase was due largely to annual merit increases, greater use of incentive payments for sales efforts, and business expansion. The salary expenses of BP Capital and Puerto Rico Home Mortgage accounted for \$1.0 million of the increase. In addition, profit sharing expense rose \$2.7 million primarily due to the improvement in Banco Popular's profitability ratios.

Pension and other benefits totaled \$17.0 million for the quarter ended March 31, 1996, compared with \$15.6 million for the same period a year ago. Most of the increase was experienced in Banco Popular, as a result of an expense of \$1.2 million for staff uniforms in order to emphasize our corporate image at all branches. Pension costs and postretirement benefits rose \$1.2 million while health insurance expense reflected an increase of \$1.0 million. Moreover, the tax qualified savings plan implemented by Banco Popular during the second quarter of 1995 resulted in an additional expense of \$0.2 million for this quarter. Partially offsetting these increases was the effect of a voluntary early retirement plan offered during last year which represented a total cost of \$2.7 million for the first three months of 1995.

Other operating expenses, excluding personnel costs, increased \$5.0 million, reaching \$62.9 million for the first quarter of 1996, compared with \$57.9 million for the same period in 1995. The operations of Puerto Rico Home Mortgage and BP Capital accounted for \$1.1 million of the increase in other operating expenses. Net occupancy expense, equipment expenses, professional fees and business promotion grew a combined \$7.9 million due to the investment needed to support the continuing growth of the Corporation's business activity, including costs related to the expansion of the electronic payment system, the growth in the network of POS terminals and the development of new products and services. Partially offsetting these increases, was a reduction in the FDIC assessment of \$5.0 million, caused by a decrease in the assessment rate during the third quarter of 1995, when the Bank Insurance Fund (BIF) reached its statutory level.

Income tax expense rose \$6.0 million from \$11.3 million in the first quarter of 1995 to \$17.3 million in the same quarter this year, primarily as a result of the growth in pre-tax earnings. The effective tax rate increased to 27.7% from 25.1%.

#### BALANCE SHEET COMMENTS

At March 31, 1996, the Corporation's total assets reached \$15.8 billion, reflecting an increase of 20.9% when compared with \$13.1 billion at March 31, 1995. Total assets at December 31, 1995 were \$15.7 billion. Average assets for the first quarter of 1996 were \$15.6 billion compared with \$12.9 billion for the same period in 1995, an increase of 20.3%. Average assets for the year ended December 31, 1995 were \$14.1 billion.

Earning assets at March 31, 1996 amounted to \$14.8 billion compared with \$12.2 billion at March 31, 1995 and \$14.7 billion at December 31, 1995. Total loans amounted to \$8.9 billion at March 31, 1996 compared with \$8.0 billion a year ago. All loan categories showed increases. Commercial, including construction loans, increased from \$3.1 billion at March 31, 1995 to \$3.5 billion at March 31, 1996, a rise of \$404 million or 13%. Mortgage loans rose \$207 million or 9.2% as compared with March 31, 1995. Most of the increase was in Equity One, which rose \$135 million. Mortgage loans amounted to \$2.4 billion as of March 31, 1996,

compared with \$2.2 billion at March 31, 1995. Consumer loans increased \$210 million or 9.7% and the lease financing portfolio rose \$35.5 million or 7.4% as compared with March 31, 1995. Total loans at December 31, 1995 amounted to \$8.7 billion.

Money market investments amounted to \$661 million at March 31, 1996, compared with \$52 million as of the same date in 1995. BP Capital had \$658 million in money market investments at the end of this quarter. Investment securities as of March 31, 1996, totaled \$5.0 billion compared with \$4.1 billion as of March 31, 1995. Most of this growth was reflected at Banco Popular, where investment securities increased by \$1 billion. These figures include \$3.3 billion in investment securities available-for-sale as of March 31, 1996 and \$1.1 billion as of March 31, 1995. In November 1995, the Financial Accounting Standards Board (FASB) issued a Special Report, "A Guide to Implementation of Statement 115 on Accounting For Certain Investments in Debt and Equity Securities". In conjunction with the issuance of this Special Report the FASB provided for a one-time "window" to reclassify securities from the held-to-maturity portfolio to the available-for-sale or trading portfolios before January 1, 1996, without calling into question the intent to hold other debt securities to maturity in the future. As a result of this window, at the end of 1995 the Corporation transferred \$1.3 billion from

securities held-to-maturity to available-for-sale. The increase of \$288 million in the trading portfolio is mainly related to BP Capital and Puerto Rico Home Mortgage.

Total deposits were \$10.2 billion at March 31, 1996, compared with \$9.4 billion at March 31, 1995, an increase of \$803 million. Most of the increase was attained at Banco Popular, where total deposits increased \$757 million. Total deposits at December 31, 1995 were \$9.9 billion.

Borrowings increased \$1.6 billion, from \$2.4 billion at March 31, 1995 to \$4 billion at the end of the first quarter of 1996. This rise is mainly due to an increase of \$1.3 billion in federal funds purchased and securities sold under agreements to repurchase due mainly to the arbitrage activities of BP Capital, that had \$851 million in that liability category as of March 31, 1996. Also, federal funds purchased and securities sold under agreements to repurchase in Banco Popular showed an increase of \$503 million mainly due to arbitrage opportunities and asset/liability management strategies. In addition, the medium-term notes and the commercial paper issued by BanPonce Financial and the Corporation to finance the growth in the operation of their subsidiaries increased by \$305 million.

Subordinated notes increased to \$175 million, from \$50 million outstanding a year ago, due to the issuance by the Corporation on December 12, 1995, of \$125 million in notes carrying an interest rate of 6.75% and maturing on December 15, 2005. The proceeds obtained from this issuance were utilized to finance the growth and expansion of the Corporation's subsidiaries.

Stockholders' equity at March 31, 1996, amounted to \$1.16 billion, compared with \$1.04 billion at March 31, 1995. The increase is mainly due to earnings retention and to a decrease in unrealized losses on securities available-for-sale. The Corporation's stockholders' equity at March 31, 1996 and 1995 includes \$19 thousand and \$7.7 million, respectively, net of deferred taxes, in unrealized holding losses on securities available-for-sale. Also, the additional shares issued under the Dividend Reinvestment Plan contributed \$3.7 million in additional

capital since March 31, 1995. Stockholders' equity at December 31, 1995 amounted to \$1.14 billion.

The market value of the Corporation's common stock at March 31, 1996 was \$46.25 per share, compared with \$31.50 at March 31, 1995 and \$38.75 at December 31, 1995. The Corporation's total market capitalization at March 31, 1996 was \$1.5 billion. Book value per common share increased to \$32.13 as of March 31, 1996, compared with \$28.55 as of the same date last year. The dividend payout ratio to common stockholders for the quarter ended March 31, 1996 was 22.96%, compared with 25.94% for the same quarter last year.

On April 26, 1996, the Board of Directors of the Corporation authorized a stock split in the form of a stock dividend of one share for each share outstanding of BanPonce common stock, bringing total outstanding shares to 66,001,180. The new shares will be distributed on July 1, 1996 to the shareholders of record on June 14, 1996.

The Board also approved an increase of the quarterly cash dividends to \$0.18 per common share for the third quarter of 1996. This represents an increase of 20 percent over the \$0.15 per share, after adjustment to reflect the split, paid in previous quarterly cash dividends. The dividend is payable on July 1, 1996 to shareholders of record on June 14, 1996.

The market value of the Corporation's preferred stock at March 31, 1996, was \$27.25 per share, compared with \$25.50 at March 31, 1995, and \$27.25 at December 31, 1995.

The Corporation's Tier I, total capital and leverage ratios at March 31, 1996 were 11.96%, 14.68% and 6.65%, respectively, compared with 12.31%, 13.72% and 7.31%, at March 31, 1995.

## Part II - Other Information

## ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a) Exhibit No. -----	Description Exhibit -----	Reference -----
19	Quarterly Report to shareholders for the period ended March 31, 1996	Exhibit "A"
27	Financial Data Schedule (for SEC use only)	Exhibit "B"

b) One report on Form 8-K was filed for the quarter ended March 31, 1996:

Dated: January 11, 1996

Item reported: Item 5 - Other Events  
Item 7 - Financial Statements, Pro-Forma, Financial Information and Exhibits

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be filed on its behalf by the undersigned duly authorized.

BANPONCE CORPORATION  
(Registrant)

Date: 05/08/96

By: /s/ JORGE A. JUNQUERA  
-----  
Jorge A. Junquera  
Senior Executive Vice President

Date: 05/08/96

By: /s/ AMILCAR L. JORDAN  
-----  
Amilcar L. Jordan, Esq.  
Senior Vice President  
& Comptroller

QUARTERLY REPORT/MARCH 31, 1996

[BANPONCE LOGO]

## TO OUR STOCKHOLDERS

BanPonce Corporation reflected a solid performance for the first quarter of 1996, while making progress toward the achievement of its strategic objectives. During 1996 the Corporation will focus on strengthening its competitive position in Puerto Rico, expanding its franchise in the Caribbean and the United States and diversifying its financial services to provide more quality service and alternatives to its customers. The accomplishment of these objectives should build shareholder value.

Net income for the first quarter of 1996 increased 33.8% reaching \$45.1 million compared with \$33.7 million for the same period in 1995. For the last quarter of 1995, the Corporation reported net income of \$40.3 million.

On a per common share basis, net income rose 36.5% to \$1.31 for the first quarter of 1996, based on 32,974,936 average shares outstanding from \$0.96 for the same period in 1995, based on 32,866,623 average shares outstanding. Earnings per common share for the last quarter of 1995 amounted to \$1.15, based on 32,948,636 average shares outstanding.

This increase in earnings contributed to the improvement in the Corporation's profitability ratios for the quarter. Return on assets (ROA) and return on common equity (ROE) for the quarter ended March 31, 1996 were 1.17% and 16.39%, respectively, compared with 1.06% and 13.96% for the first quarter of 1995 and 1.05% and 14.82% for the fourth quarter of 1995.

Among the highlights for the first quarter of 1996 are:

Net interest income rose \$24.9 million, reaching \$162.4 million for the first three months of 1996 compared with \$137.5 million for the same period of 1995. While earning assets rose \$2.6 billion, the net interest yield, on a taxable equivalent basis, decreased to 4.77% for the first quarter of 1996, from 4.88% for the same period a year earlier.

The Corporation's provision for loan losses rose to \$21.3 million for the first quarter of 1996 from \$11.7 million in the same period of 1995, primarily as a result of increases in the loan portfolio, net charge-offs and non-performing assets. Net charge-offs for the quarter ended March 31, 1996, amounted to \$14.9 million or 0.68% of average loans, compared with \$8.0 million or 0.41% for the quarter ended March 31, 1995, and \$17.3 million or 0.81% for the fourth quarter of 1995.

Reflecting the results of the Corporation's strategic objective to diversify revenue, other operating revenue rose to \$52.0 million for the first quarter of 1996 from \$37.6 million for the same period in 1995. The increase of \$14.4 million is principally attributed to an increase of \$6.2 million in other operating income and \$3.6 million in other service fees. The Corporation's leasing subsidiaries reflected a significant increase in this category mainly as a result of higher gains on sale of daily rental units and higher daily rental income. In addition, the corporations acquired during the second quarter of 1995, BP Capital and Puerto Rico Home Mortgage, contributed \$2.5 million to other operating income.

Operating expenses for the three-month period ended March 31, 1996, increased \$12.4 million or 10.5%, compared with \$118.3 million reported for the same period a year earlier primarily due to higher personnel costs. Also, operating expenses reflected the increased spending on net occupancy, equipment, professional fees and business promotion aimed at enhancing future revenue growth. Partially offsetting these increases was a reduction in the FDIC assessment of \$5.0 million, as a result of a reduction in the assessment rate during the third quarter of 1995, when the Bank Insurance Fund (BIF) reached its statutory level.

The Corporation's total assets at March 31, 1996 amounted to \$15.8 billion, compared with \$13.1 billion at the same date in 1995 and \$15.7 billion at December 31, 1995. Most of the increase in assets was related to the sustained growth in Banco Popular and to the acquisition of BP Capital which contributed \$878 million in assets as of March 31, 1996.

Loans amounted to \$8.9 billion at March 31, 1996, compared with \$8.0 billion a year earlier and \$8.7 billion at December 31, 1995. Loan growth was paced by an increase in commercial loans as the company continues to develop relationships with small and middle market companies. The allowance for loan losses increased to \$175 million or 1.97% of loans at March 31, 1996, compared with \$168 million or 1.94% at December 31, 1995 and \$157 million or 1.97% at March 31, 1995.

Regarding credit quality, non performing assets

(NPA) amounted to \$151 million or 1.70% of total loans at March 31, 1996, compared with \$124 million or 1.55% at the same date last year and \$155 million or 1.79% at the end of 1995. When adjusted to conform to standard industry practice, NPA were \$111 million or 1.26% of loans at the end of this quarter, compared with \$95 million or 1.19% at March 31, 1995.

At March 31, 1996, total deposits were \$10.2 billion compared with \$9.4 billion at the same date of 1995 and \$9.9 billion at December 31, 1995. Borrowings increased \$1.6 billion to \$4.0 billion at the end of the first quarter of 1996, from \$2.4 billion a year earlier, primarily reflecting the acquisition of BP Capital which utilizes borrowings as part of its arbitrage activities.

Stockholders' equity increased to \$1.16 billion at March 31, 1996, compared with \$1.04 billion a year ago and \$1.14 billion as of December 31, 1995, principally as a result of the retention of earnings. Book value per common share increased to \$32.13 as of March 31, 1996, from \$28.55 as of the same date last year and \$31.62 at the end of 1995.

At March 31, 1996, the Corporation had solid capital ratios, with a Tier I ratio of 11.96%, a total capital ratio of 14.68% and a leverage ratio of 6.65%.

Please refer to the financial review section of this quarterly report for a more detailed discussion of the Corporation's financial performance and results of operations.

During this quarter, BanPonce Corporation made its first international investment with the purchase of 20% of the common stock of Jamaica's fourth largest financial institution, CitizensBank. The Corporation also acquired preferred stock of CitizensBank, which is convertible at the option of BanPonce into common stock equal to an additional 10% of common equity of said institution.

ATH Dominicana, the first automated teller machine (ATM) network in the Dominican Republic, began operations on March 25, 1996. This network, will facilitate electronic transactions by providing customers of banks in the Dominican Republic with access to ATMs in Puerto Rico and the United States. This joint venture is the first expansion of Banco Popular's technological infrastructure and expertise outside of Puerto Rico.

Mr. Waldemar Del Valle, a director of BanPonce Corporation since 1984, recently passed away. We will certainly miss his sound advice and profoundly appreciate his many years of dedication to our organization.

/s/ Richard L. Carrion  
 -----  
 Richard L. Carrion  
 Chairman, President and  
 Chief Executive Officer

## FINANCIAL REVIEW

BALANCE SHEET HIGHLIGHTS (In thousands)	At March 31,			Average for the quarter		
	1996	1995	Change	1996	1995	Change
Money market investments	\$ 661,357	\$ 51,811	\$ 609,546	\$ 657,034	\$ 41,337	\$ 615,697
Investment and trading securities	5,289,849	4,133,505	1,156,344	5,225,215	4,162,900	1,062,315
Loans	8,850,078	7,993,717	856,361	8,748,657	7,863,742	884,915
All other assets	1,003,799	896,510	107,289	925,924	865,836	60,088
Total assets	15,805,083	13,075,543	2,729,540	15,556,830	12,933,815	2,623,015
Non-interest bearing liabilities	2,211,091	1,981,270	229,821	2,190,371	2,042,543	147,828
Interest bearing liabilities	12,434,422	10,055,955	2,378,467	12,209,571	9,871,081	2,338,490
Stockholders' equity	1,159,570	1,038,318	121,252	1,156,888	1,020,191	136,697

OPERATING HIGHLIGHTS (In thousands, except per share information)	First Quarter		
	1996	1995	Change
Net interest income	\$ 162,460	\$ 137,528	\$ 24,932
Provision for loan losses	21,273	11,698	9,575
Fees and other income	51,992	37,553	14,439
Other expenses	148,037	129,642	18,395
Net income	\$ 45,142	\$ 33,741	\$ 11,401
Net income applicable to common stock	\$ 43,055	\$ 31,654	\$ 11,401
Earnings per common share	1.31	0.96	0.35

SELECTED STATISTICAL INFORMATION	First Quarter	
	1996	1995
PROFITABILITY RATIOS -		
Return on assets	1.17%	1.06%
Return on earning assets	1.24	1.13
Return on common equity	16.39	13.96
Net interest spread (taxable equivalent)	4.01	4.04
Net interest yield (taxable equivalent)	4.77	4.88
Effective tax rate	27.75	25.13
Overhead ratio	48.45	58.73
CAPITALIZATION RATIOS -		
Equity to assets	7.44%	7.89%
Tangible equity to assets	6.59	6.88
Equity to loans	13.22	12.97
Internal capital generation	11.47	9.19
Tier I capital to risk-adjusted assets	11.96	12.31
Total capital to risk-adjusted assets	14.68	13.72
Leverage ratio	6.65	7.31
COMMON STOCK DATA -		
Market price		
High	\$46.25	\$31.75
Low	38.75	28.13
End	46.25	31.50
Book value at period end	32.13	28.55
Dividends declared	0.30	0.25
Dividend payout ratio	22.96%	25.94%
Price/earnings ratio	10.19x	8.40x
SELECTED DATA -		
Common shares outstanding	32,974,936	32,866,623
Full-time equivalent employees	7,729	7,634
Branches (banking operations)	214	212
Automated teller machines	345	304
Stockholders	5,387	5,347

## FINANCIAL REVIEW

This financial review contains an analysis of the consolidated financial condition and performance of BanPonce Corporation and its wholly-owned subsidiaries (the Corporation). BanPonce Corporation is a regional diversified, bank holding company engaged in the following businesses through its subsidiaries.

- Commercial Banking/Savings and Loans - Banco Popular de Puerto Rico (Banco Popular), Pioneer Bank, Inc. and Banco Popular, FSB
- Lease Financing - Popular Leasing and Rental, Inc. and Vehicle Equipment Leasing Company, Inc. (VELCO)
- Mortgage Banking/Consumer Finance - Popular Mortgage, Inc. (d/b/a Puerto Rico Home Mortgage), Equity One, Inc. (Equity One) and Popular Consumer Services, Inc.
- Investment Banking - BP Capital Markets, Inc. (BP Capital)

This financial review should be read together with the consolidated financial statements, supplemental financial data and tables contained in this quarterly report.

## NET INCOME

The Corporation's net income for the first quarter of 1996 was \$45.1 million, an increase of 33.8% when compared with \$33.7 million reported for the same period in 1995. Net income for the last quarter of 1995 was \$40.3 million. Earnings per common share (EPS) for the quarter were \$1.31, based on 32,974,936 average shares outstanding, compared with EPS of \$0.96 for the first quarter of 1995, based on 32,866,623 average shares outstanding and EPS of \$1.15 for the last quarter of 1995, based on 32,948,636 average shares outstanding. Return on assets (ROA) and return on common equity (ROE) for the quarter ended March 31, 1996 were 1.17% and 16.39%, respectively, compared with 1.06% and 13.96% attained during the first quarter of 1995 and 1.05% and 14.82% for the quarter ended December 31, 1995.

The increase of \$11.4 million in net income for the first quarter of 1996 resulted from a higher net interest income by \$24.9 million plus higher non-interest revenues by \$14.4 million, partially offset by increases of \$12.4 million in operating expenses, \$9.5 million in the provision for loan losses and \$6.0 million in income tax expense.

## NET INTEREST INCOME

Net interest income for the first quarter of 1996 increased to \$162.4 million, or 18.1% higher than the \$137.5 million reported for the same period in 1995. On a taxable equivalent basis, net interest income increased to \$174.5 million from \$147.1 million in the first quarter of 1995 and \$168.5 million in the fourth quarter of 1995. This increase was mainly due to a rise of \$2.6 billion in the average volume of earning assets. The net interest yield on a taxable equivalent basis for the first quarter of 1996 was 4.77% compared with 4.88% for the same quarter in 1995 and 4.72% in the last quarter of 1995. For analytical purposes, the interest earned on tax-exempt assets is adjusted to a taxable equivalent basis assuming the applicable statutory income tax rates.

Average earning assets reached \$14.6 billion for the quarter ended March 31, 1996, compared with \$12.1 billion for the same quarter of 1995. The rise was mainly the result of a higher average volume of investment, money market and trading securities which taken all together rose by \$1.7 billion and an increase in the average volume of loans of \$885 million.

Average money market investments reached \$657 million for the first quarter of 1996, compared with \$41 million for the same period of 1995. The acquisition of the investment banking operation of BP Capital during the second quarter of 1995 was the main reason for this increase. Average investment securities reached \$4.9 billion compared with \$4.2 billion reported for the same quarter in 1995. Banco Popular was the principal contributor for this increase with a rise of \$686 million.

The average balance of trading account securities for the three-month period ended March 31, 1996, totaled \$330 million compared with \$12 million reported for the same quarter last year. This increase relates mostly to the new subsidiaries, BP Capital, with \$223 million in average balance, and Popular Mortgage, acquired on March 31, 1995, with an average of \$96 million. Both balances are comprised mostly of mortgage-backed securities.

The increase of \$390 million in average commercial loans was principally attained at Banco Popular. Average mortgage loans grew \$230 million. In this category, Equity One had a 27.9% growth accounting for \$145 million of the total increase in mortgage loans. This increase relates to its continuous expansion in the United States.

The yield on earning assets, on a taxable equivalent basis, for the first quarter of 1996 and 1995 averaged 8.61%. Although the average yield did not change, fluctuations among the various earning asset categories were experienced.

The average yield on loans for the first quarter of 1996 and 1995, on a taxable equivalent basis, was 10.01% and 9.79%, respectively. The taxable equivalent yield of the commercial loan portfolio decreased by 19 basis points averaging 8.84% compared with 9.03% in the same quarter in 1995. The reduction of 25 basis points in the prime rate during the latter part of 1995 and a further decrease of 25 basis points during the quarter ended on March 31, 1996, were the main reasons for this decrease. The average yield on consumer loans increased to 12.77% from 11.83% achieved during the first quarter of 1995. The average yields on mortgage loans on a taxable equivalent basis for the first quarter of 1996 and 1995 were 8.42% and 8.33%, respectively.

The average yield on investment securities, on a taxable equivalent basis, was 6.73% or 34 basis points higher than the 6.39% in the first quarter of 1995. The increase mostly relates to the maturity of investment securities whose proceeds were reinvested at higher rates. The average yield on money market investments decreased from 9.54% during the first quarter of 1995 to 5.28% in the same period of 1996. The latter, although appears significant, affected interest income only by \$600 thousand due to the small average volume of \$41 million for 1995 as compared with \$657 million in 1996. The average yield, on a taxable equivalent basis, of the trading portfolio improved to 6.07% from 3.63% in the first quarter of 1995.

Average interest bearing liabilities of the Corporation were \$12.2 billion for the three-month period ended March 31, 1996, compared with \$9.9 billion for the same period of 1995, an increase of \$2.3 billion. Average interest bearing deposits increased \$662 million, mostly in certificates of deposits which grew \$398 million, reaching \$3.3 billion for the first quarter of 1996. Saving accounts also increased during the quarter averaging \$133 million more than in the first quarter of 1995. Average demand deposits grew by \$148 million from \$1.81 billion to \$1.95 billion.

The average cost of interest bearing deposits for the quarter ended March 31, 1996 and 1995 was 4.10% and 4.14%, respectively. The decrease of four basis points was attributed to lower costs on certificates of deposit and NOW and money market deposits. The average cost on certificates of deposit for the first quarter of 1996 was 5.07%, down from 5.29% reported for the same quarter of 1995. The average cost of NOW and money market deposits declined 55 basis points, reaching 3.23% in the first quarter of 1996. Conversely, the average cost of saving accounts increased 9 basis points and the average cost of other time deposits increased 37 basis points.

Average short-term borrowings increased \$1.5 billion this quarter compared with the quarter ended on March 31, 1995. The operation of BP Capital, with an average volume of short-term borrowings of \$848 million for the three-month period ended March 31, 1996, accounted for most of the increase. Banco Popular also had an increase in short-term borrowings, reaching an average level of \$1.7 billion compared with \$1.5 billion in the same quarter of 1995. The average cost of short-term borrowings for the quarter ended March 31, 1996, decreased by 43 basis points, from 5.63% to 5.20% in 1996.

Although the average cost of most interest bearing liabilities showed decreases, about 86% of the growth in average earning assets was funded through time deposits, short-term borrowings and long-term debt, which carry a higher cost. As a result, the average cost of interest bearing liabilities increased slightly, reaching 4.60% for the first quarter of 1996, from 4.57% reported for the same period of 1995.

The net interest yield, on a taxable equivalent basis, decreased to 4.77%, from 4.88% reported for the first quarter of 1995. The decline results mainly from the net interest margin of 0.50% earned at BP Capital due to its significant volume of arbitrage activities. This relatively low net interest margin had the effect of diluting the margins earned at all the other entities within the consolidated group by ap-

proximately 27 basis points during the quarter ended on March 31, 1996.

Table A summarizes the results previously explained.

TABLE A  
NET INTEREST INCOME (TAXABLE EQUIVALENT BASIS)

(DOLLARS IN MILLIONS)	FIRST QUARTER			
	1996 AVERAGE		1995 AVERAGE	
	BALANCE	RATE	BALANCE	RATE
Earning assets	\$14,631 =====	8.61%	\$12,068 =====	8.61%
Financed by:				
Interest bearing funds	\$12,210	4.60%	\$ 9,871	4.57%
Non-interest bearing funds	2,421 -----		2,197 -----	
Total	\$14,631 =====	3.84%	\$12,068 =====	3.73%
Net interest income per books	\$ 162.4		\$ 137.5	
Taxable equivalent adjustment	12.1 -----		9.6 -----	
Net interest income on a taxable equivalent basis	\$ 174.5 =====		\$ 147.1 =====	
Spread		4.01%		4.04%
Net interest yield		4.77%		4.88%

#### PROVISION AND ALLOWANCE FOR LOAN LOSSES

The provision for loan losses for the first quarter of 1996 was \$21.3 million, exceeding by \$9.5 million the amount recorded for the same period of 1995. During the fourth quarter of 1995 the provision amounted to \$21.2 million. Among the factors considered for this increase are the growth of \$856 million in the Corporation's loan portfolio from March 31, 1995 to the same date this year and increases in net charge-offs and non-performing assets. The provision for loan losses for the first quarter of 1996 represented 142% of net charge-offs compared with 146% for the same period of 1995 and 123% for the last quarter of 1995.

Net charge-offs for the quarter ended March 31, 1996, totaled \$14.9 million or 0.68% of average loans, compared with \$8.0 million or 0.41% reported for the same quarter in 1995, and \$17.3 million or 0.81% for the quarter ended on December 31, 1995. Consumer loans net charge-offs increased \$2.8 million when compared with the first quarter of 1995 and commercial loans net charge-offs increased \$2.3 million. Consumer loans net charge-offs totaled \$6.0 million for the quarter ended March 31, 1996, while net credit losses on the commercial portfolio amounted to \$5.4 million. Total lease financing net charge-offs increased \$1.9 million, from \$0.5 million in the first quarter of 1995 to \$2.4 million this quarter. Mortgage loans net charge-offs increased \$0.2 million, while there was a reduction of \$0.3 million in the construction loans net credit losses.

TABLE B

Quarter Ended	Provision for Loan Losses	Net Charge-offs	Allowance for Loan Losses
(In millions)			
March 31, 1996	\$21.3	\$14.9	\$175
December 31, 1995	21.2	17.3	168
September 30, 1995	19.0	13.3	164
June 30, 1995	12.6	11.4	159
March 31, 1995	11.7	8.0	157

As of March 31, 1996, the allowance for loan losses reached \$175 million, maintaining the same ratio as a percentage of loans than the one at the same date in 1995, when the allowance was \$157 million or 1.97% of loans. Comparable figures at the end of 1995 were \$168 million and 1.94%, respectively. Management considers that the allowance for loan losses is adequate to absorb the potential write-offs in the loan portfolio based on the methodology established for its evaluation, which includes portfolio risk characteristics, prior loss experience, results of periodic credit reviews and current and anticipated economic conditions.

At March 31, 1996, the Corporation had \$80 million in loans considered impaired, of which \$38 million had a related allowance for possible loan losses of \$9 million. As of the same date last year, loans considered impaired amounted to \$87 million, of which \$43 million had a related allowance of \$8 million. No increase in the provision for loan losses was necessary for either quarter as a result of the impairment measurement required by SFAS 114 and 118.

#### CREDIT QUALITY

As presented on Table D, non-performing assets (NPA) as of March 31, 1996, which consist of past-due loans on which no interest income is being accrued, renegotiated loans and other real estate amounted to \$151 million or 1.70% of loans, compared with \$124 million or 1.55% at March 31, 1995.

TABLE C  
ALLOWANCE FOR LOAN LOSSES AND SELECTED LOAN LOSSES STATISTICS

(Dollars in thousands)	First Quarter	
	1996	1995
Balance at beginning of period .....	\$168,393	\$153,798
Provision for loan losses .....	21,273	11,698
	189,666	165,496
Losses charged to the allowance		
Commercial .....	9,215	4,855
Construction .....	693	1,000
Lease financing .....	3,325	1,195
Mortgage .....	597	336
Consumer .....	9,513	6,958
	23,343	14,344
Recoveries		
Commercial .....	3,859	1,755
Construction .....	1	54
Lease financing .....	947	713
Mortgage .....	112	79
Consumer .....	3,482	3,714
	8,401	6,315
Net loans charged-off .....	14,942	8,029
Balance at end of period .....	\$174,724	\$157,467
Ratios:		
Allowance for losses to loans .....	1.97%	1.97%
Allowance to non-performing assets .....	116.00	126.85
Allowance to non-performing loans .....	124.30	139.36
Non-performing assets to loans .....	1.70	1.55
Non-performing assets to total assets ..	0.95	0.95
Net charge-offs to average loans .....	0.68	0.41
Provision to net charge-offs .....	1.42x	1.46x
Net charge-offs earnings coverage .....	5.61	7.07

NPA were \$155 million or 1.79% of loans at December 31, 1995.

Non-performing loans totaled \$141 million as of March 31, 1996, from \$113 million at the end of the first quarter of 1995. As of December 31, 1995, these loans amounted to \$144 million. Most of the increase was reflected in non-performing commercial and construction loans, which accounted for approximately 61% of the increase. The major reason for the increase in non-performing commercial and construction loans was the continued growth in these portfolios. Non-performing mortgage loans increased \$9 million, while non-performing consumer loans increased \$2.9 million, mainly at Equity One. Non-performing lease financing loans decreased \$1 million. Non-performing mortgage loans increased \$5.1 million at Equity One due mainly to the growth in the portfolio. In addition, Banco Popular's non-performing mortgage loans increased \$3.9 million. Other real estate and renegotiated loans decreased \$0.8 million and \$0.2 million, respectively.

TABLE D

Date	NPA	NPA as a % of Loans	Allowance as a % of NPA
(Dollars in millions)			
March 31, 1996	\$151	1.70%	116.0%
December 31, 1995	155	1.79	108.6
September 30, 1995	156	1.84	105.5
June 30, 1995	148	1.81	107.1
March 31, 1995	124	1.55	126.9

The standard industry practice is to place non-performing commercial loans on non-accrual status when payments of principal or interest are delinquent 90 days. The Corporation, however, reports its non-performing assets on a more conservative basis than most U.S. banks. The Corporation's policy is to place commercial loans on non-accrual status when payments of principal or interest are delinquent 60 days. Lease financing, conventional mortgage and closed-end consumer loans are placed on non-accrual status when payments are delinquent 90 days. Closed-end consumer loans are charged-off against the allowance when delinquent 120 days. Open-end (revolving credit) consumer loans are charged-off when payments are delinquent 180 days. Certain loans which would be treated as non-accrual loans pursuant to the foregoing policy, are treated as accruing loans when they are considered well secured and in the process of collection. Under the standard industry practice, closed-end consumer loans are charged-off when delinquent 120 days, but these consumer loans are not customarily placed on non-accrual status prior to being charged-off.

Assuming standard industry practice of placing commercial loans on non-accrual status when payments are past due 90 days or more and excluding the closed-end consumer loans from non-accruing loans, non-performing assets as of March 31, 1996, amounted to \$111 million or 1.26% of loans, and the allowance for loan losses would be 156.9% of non-performing assets. At March 31, 1995 and December 31, 1995, adjusted non-performing assets were \$95 million and \$121 million, respectively, or 1.19% and 1.39% of loans.

Accruing loans that are contractually past-due 90 days or more as to principal or interest as of March 31, 1996, amounted to \$11.5 million compared with \$9.5 million at March 31, 1995, and \$11.7 million at December 31, 1995.

#### OTHER OPERATING INCOME

Other operating income, including securities and trading gains, amounted to \$52.0 million for the first quarter of 1996 compared with \$37.6 million for the same quarter in 1995, an increase of \$14.4 million or 38.4%. This rise in other income was principally driven by an increase of \$6.2 million in other operating income and \$3.6 million in other service fees.

Services charges on deposit accounts totaled \$21.1 million for the quarter ended March 31, 1996, compared with \$18.1 million for the same quarter of 1995. Growth in the activity of commercial accounts together with a revised fee structure accounted for \$2.3 million of the increase.

Other services fees rose \$3.6 million for the first three months of 1996, amounting to \$17.4 million compared with \$13.8 million for the same quarter of 1995. Mortgage servicing fees were \$1.0 million higher, largely as a result of the servicing portfolio acquired from Puerto Rico Home Mortgage. Letter of credit fees, credit card fees and fees related to the sale and administration of investment products added \$1.6 million to this revenue category. Also, fees collected on the growing volume of transactions at point-of-sale (POS) terminals and other electronic banking services contributed additional income.

Other operating income increased \$6.2 million, from \$5.7 million for the first quarter of 1995 to \$11.9 million for the same period in 1996. A portion of this increase is due to higher gains realized on the sale of rental units and daily rental income by the Corporation's leasing subsidiaries. Also, the investment banking services of BP Capital, acquired in April 1995, contributed \$1.8 million to this revenue category. Equity One and Puerto Rico Home Mortgage accounted for additional income of \$1.7 million from the sale of loans.

During the first three months of 1996, the Corporation realized gains on sale of securities and trading transactions amounting to \$1.6 million, of which \$0.7 million were in trading activities and \$0.9 million from the sale of securities from the portfolio available-for-sale. The Corporation had a net loss of \$4 thousand in these activities for the first three months of 1995.

#### OPERATING EXPENSES

Operating expenses increased \$12.4 million or 10.5%, reaching \$130.7 million for the first quarter of 1996, from \$118.3 million for the same period in 1995, principally reflecting higher personnel costs, equipment expenses, net occupancy expense and professional fees related to the Corporation's ongoing strategic initiatives.

Personnel costs, the major component of operating expenses, totaled \$67.8 million for the first three

months of 1996, compared with \$60.4 million for the same period in 1995, an increase of \$7.4 million or 12.2%. Salary expenses increased \$3.2 million or 7.8% to \$44.7 million, compared with \$41.5 million in 1995. This increase was due largely to annual merit increases, greater use of incentive payments for sales efforts, and business expansion. The salary expenses of BP Capital and Puerto Rico Home Mortgage accounted for \$1.0 million of the increase. In addition, profit sharing expense rose \$2.7 million primarily due to the improvement in Banco Popular's profitability ratios.

Pension and other benefits totaled \$17.0 million for the quarter ended March 31, 1996, compared with \$15.6 million for the same period a year ago. Most of the increase was experienced in Banco Popular, as a result of an expense of \$1.2 million for staff uniforms in order to emphasize our corporate image at all branches. Pension costs and postretirement benefits rose \$1.2 million while health insurance expense reflected an increase of \$1.0 million. Moreover, the tax qualified savings plan implemented by Banco Popular during the second quarter of 1995 resulted in an additional expense of \$0.2 million for this quarter. Partially offsetting these increases was the effect of a voluntary early retirement plan offered during last year which represented a total cost of \$2.7 million for the first three months of 1995.

Other operating expenses, excluding personnel costs, increased \$5.0 million, reaching \$62.9 million for the first quarter of 1996, compared with \$57.9 million for the same period in 1995. The operations of Puerto Rico Home Mortgage and BP Capital accounted for \$1.1 million of the increase in other operating expenses. Net occupancy expense, equipment expenses, professional fees and business promotion grew a combined \$7.9 million due to the investment needed to support the continuing growth of the Corporation's business activity, including costs related to the expansion of the electronic payment system, the growth in the network of POS terminals and the development of new products and services. Partially offsetting these increases, was a reduction in the FDIC assessment of \$5.0 million, caused by a decrease in the assessment rate during the third quarter of 1995, when the Bank Insurance Fund (BIF) reached its statutory level.

Income tax expense rose \$6.0 million from \$11.3 million in the first quarter of 1995 to \$17.3 million in the same quarter this year, primarily as a result of the growth in pre-tax earnings. The effective tax rate increased to 27.7% from 25.1%.

#### BALANCE SHEET COMMENTS

At March 31, 1996, the Corporation's total assets reached \$15.8 billion, reflecting an increase of 20.9% when compared with \$13.1 billion at March 31, 1995. Total assets at December 31, 1995 were \$15.7 billion. Average assets for the first quarter of 1996 were \$15.6 billion compared with \$12.9 billion for the same period in 1995, an increase of 20.3%. Average assets for the year ended December 31, 1995 were \$14.1 billion.

Earning assets at March 31, 1996 amounted to \$14.8 billion compared with \$12.2 billion at March 31, 1995 and \$14.7 billion at December 31, 1995. Total loans amounted to \$8.9 billion at March 31, 1996 compared with \$8.0 billion a year ago. All loan categories showed increases. Commercial, including construction loans, increased from \$3.1 billion at March 31, 1995 to \$3.5 billion at March 31, 1996, a rise of \$404 million or 13%. Mortgage loans rose \$207 million or 9.2% as compared with March 31, 1995. Most of the increase was in Equity One, which rose \$135 million. Mortgage loans amounted to \$2.4 billion as of March 31, 1996, compared with \$2.2 billion at March 31, 1995. Consumer loans increased \$210 million or 9.7% and the lease financing portfolio rose \$35.5 million or 7.4% as compared with March 31, 1995. Total loans at December 31, 1995 amounted to \$8.7 billion.

Money market investments amounted to \$661 million at March 31, 1996, compared with \$52 million as of the same date in 1995. BP Capital had \$658 million in money market investments at the end of this quarter. Investment securities as of March 31, 1996, totaled \$5.0 billion compared with \$4.1 billion as of March 31, 1995. Most of this growth was reflected at Banco Popular, where investment securities increased by \$1 billion. These figures include \$3.3 billion in investment securities available-for-sale as of March 31, 1996 and \$1.1 billion as of March 31, 1995. In November 1995, the Financial Accounting Standards Board (FASB) issued a Special Report, "A Guide to Implementation of Statement 115 on Accounting For

Certain Investments in Debt and Equity Securities". In conjunction with the issuance of this Special Report the FASB provided for a one-time "window" to reclassify securities from the held-to-maturity portfolio to the available-for-sale or trading portfolios before January 1, 1996, without calling into question the intent to hold other debt securities to maturity in the future. As a result of this window, at the end of 1995 the Corporation transferred \$1.3 billion from securities held-to-maturity to available-for-sale. The increase of \$288 million in the trading portfolio is mainly related to BP Capital and Puerto Rico Home Mortgage.

Total deposits were \$10.2 billion at March 31, 1996, compared with \$9.4 billion at March 31, 1995, an increase of \$803 million. Most of the increase was attained at Banco Popular, where total deposits increased \$757 million. Total deposits at December 31, 1995 were \$9.9 billion.

Borrowings increased \$1.6 billion, from \$2.4 billion at March 31, 1995 to \$4 billion at the end of the first quarter of 1996. This rise is mainly due to an increase of \$1.3 billion in federal funds purchased and securities sold under agreements to repurchase due mainly to the arbitrage activities of BP Capital, that had \$851 million in that liability category as of March 31, 1996. Also, federal funds purchased and securities sold under agreements to repurchase in Banco Popular showed an increase of \$503 million mainly due to arbitrage opportunities and asset/liability management strategies. In addition, the medium-term notes and the commercial paper issued by BanPonce Financial and the Corporation to finance the growth in the operation of their subsidiaries increased by \$305 million.

Subordinated notes increased to \$175 million, from \$50 million outstanding a year ago, due to the issuance by the Corporation on December 12, 1995, of \$125 million in notes carrying an interest rate of 6.75% and maturing on December 15, 2005. The proceeds obtained from this issuance were utilized to finance the growth and expansion of the Corporation's subsidiaries.

Stockholders' equity at March 31, 1996, amounted to \$1.16 billion, compared with \$1.04 billion at March 31, 1995. The increase is mainly due to earnings retention and to a decrease in unrealized losses on securities available-for-sale. The Corporation's stockholders' equity at March 31, 1996 and 1995 includes \$19 thousand and \$7.7 million, respectively, net of deferred taxes, in unrealized holding losses on securities available-for-sale. Also, the additional shares issued under the Dividend Reinvestment Plan contributed \$3.7 million in additional capital since March 31, 1995. Stockholders' equity at December 31, 1995 amounted to \$1.14 billion.

The market value of the Corporation's common stock at March 31, 1996 was \$46.25 per share, compared with \$31.50 at March 31, 1995 and \$38.75 at December 31, 1995. The Corporation's total market capitalization at March 31, 1996 was \$1.5 billion. Book value per common share increased to \$32.13 as of March 31, 1996, compared with \$28.55 as of the same date last year. The dividend payout ratio to common stockholders for the quarter ended March 31, 1996 was 22.96%, compared with 25.94% for the same quarter last year.

The market value of the Corporation's preferred stock at March 31, 1996, was \$27.25 per share, compared with \$25.50 at March 31, 1995, and \$27.25 at December 31, 1995.

The Corporation's Tier I, total capital and leverage ratios at March 31, 1996 were 11.96%, 14.68% and 6.65%, respectively, compared with 12.31%, 13.72% and 7.31%, at March 31, 1995.

## CONSOLIDATED STATEMENTS OF CONDITION

ASSETS		
CASH AND DUE FROM BANKS .....	\$ 405,890	\$ 369,605
-----		
MONEY MARKET INVESTMENTS:		
FEDERAL FUNDS SOLD AND SECURITIES AND MORTGAGES		
PURCHASED UNDER AGREEMENTS TO RESELL .....	632,527	36,030
TIME DEPOSITS WITH OTHER BANKS .....	26,993	15,100
BANKERS' ACCEPTANCES .....	1,837	681
	661,357	51,811
-----		
INVESTMENT SECURITIES HELD-TO-MATURITY,		
AT COST .....	1,657,059	3,020,105
INVESTMENT SECURITIES AVAILABLE-FOR-SALE,		
AT MARKET VALUE .....	3,337,217	1,106,231
TRADING ACCOUNT SECURITIES, AT MARKET VALUE .....	295,573	7,169
LOANS HELD-FOR-SALE .....	87,486	25,646
LOANS .....	9,088,593	8,271,609
LESS UNEARNED INCOME.....	326,001	303,538
ALLOWANCE FOR LOAN LOSSES .....	174,724	157,467
	8,587,868	7,810,604
-----		
PREMISES AND EQUIPMENT .....	335,279	328,459
OTHER REAL ESTATE .....	7,353	8,206
CUSTOMERS' LIABILITIES ON ACCEPTANCES .....	1,867	843
ACCRUED INCOME RECEIVABLE .....	134,247	84,183
OTHER ASSETS .....	155,707	102,209
INTANGIBLE ASSETS .....	138,180	160,472
	\$15,805,083	\$13,075,543
-----		
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
DEPOSITS:		
NON-INTEREST BEARING .....	\$ 1,931,168	\$ 1,778,136
INTEREST BEARING .....	8,251,914	7,602,298
	10,183,082	9,380,434
-----		
FEDERAL FUNDS PURCHASED AND SECURITIES SOLD		
UNDER AGREEMENTS TO REPURCHASE .....	2,552,831	1,223,317
OTHER SHORT-TERM BORROWINGS .....	740,088	557,162
NOTES PAYABLE .....	684,589	593,178
SENIOR DEBENTURES .....	30,000	30,000
ACCEPTANCES OUTSTANDING .....	1,867	843
OTHER LIABILITIES .....	278,056	202,291
	14,470,513	11,987,225
-----		
SUBORDINATED NOTES .....	175,000	50,000
-----		
STOCKHOLDERS' EQUITY:		
PREFERRED STOCK .....	100,000	100,000
COMMON STOCK .....	197,850	197,200
SURPLUS .....	428,098	410,036
RETAINED EARNINGS .....	383,641	295,895
UNREALIZED LOSSES ON SECURITIES AVAILABLE-FOR-SALE, NET OF		
DEFERRED TAXES .....	(19)	(7,670)
CAPITAL RESERVES .....	50,000	42,857
	1,159,570	1,038,318
	\$15,805,083	\$13,075,543
-----		

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

## CONSOLIDATED STATEMENTS OF INCOME

	Quarter ended March 31,	
(Dollars in thousands, except per common share information)	1996	1995
<hr/>		
<b>INTEREST INCOME:</b>		
Loans .....	\$ 217,247	\$ 190,550
Money market investments .....	8,673	986
Investment securities .....	71,945	58,568
Trading account securities .....	5,062	115
	<hr/>	<hr/>
	302,927	250,219
<hr/>		
<b>INTEREST EXPENSE:</b>		
Deposits .....	82,996	77,065
Short-term borrowings .....	42,930	25,374
Long-term debt .....	14,541	10,252
	<hr/>	<hr/>
	140,467	112,691
<hr/>		
Net interest income .....	162,460	137,528
Provision for loan losses .....	21,273	11,698
	<hr/>	<hr/>
Net interest income after provision for loan losses .....	141,187	125,830
Service charges on deposit accounts .....	21,076	18,090
Other service fees .....	17,380	13,811
Gain on sale of securities .....	729	46
Trading account profit (loss) .....	938	(50)
Other operating income .....	11,869	5,656
	<hr/>	<hr/>
	193,179	163,383
<hr/>		
<b>OPERATING EXPENSES:</b>		
Personnel costs:		
Salaries .....	44,752	41,530
Profit sharing .....	6,070	3,327
Pension and other benefits .....	16,981	15,561
	<hr/>	<hr/>
Net occupancy expense .....	67,803	60,418
Equipment expenses .....	9,318	7,769
Other taxes .....	11,774	9,383
Other taxes .....	5,963	5,631
Professional fees .....	9,916	7,554
Communications .....	6,316	5,603
Business promotion .....	5,392	3,792
Printing and supplies .....	2,923	2,781
Other operating expenses .....	6,740	10,451
Amortization of intangibles .....	4,554	4,936
	<hr/>	<hr/>
	130,699	118,318
<hr/>		
Income before tax .....	62,480	45,065
Income tax .....	17,338	11,324
	<hr/>	<hr/>
<b>NET INCOME</b> .....	<b>\$ 45,142</b>	<b>\$ 33,741</b>
	<hr/>	<hr/>
<b>NET INCOME APPLICABLE TO COMMON STOCK</b> .....	<b>\$ 43,055</b>	<b>\$ 31,654</b>
	<hr/>	<hr/>
<b>EARNINGS PER COMMON SHARE:</b> .....	<b>\$ 1.31</b>	<b>\$ 0.96</b>
	<hr/>	<hr/>

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

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	For the quarter ended	
	1996	March 31, 1995
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income .....	\$ 45,142	\$ 33,741
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization of premises and equipment	12,355	10,288
Provision for loan losses .....	21,273	11,698
Amortization of intangibles .....	4,554	4,936
Gain on sale of investment securities available-for-sale .....	(729)	(46)
Gain on disposition of premises and equipment .....	(10)	(771)
Amortization of premiums and accretion of discounts on investments .....	755	(700)
Decrease in loans held-for-sale .....	25,319	5,796
Amortization of deferred loan fees and costs .....	(45)	142
Net increase in postretirement benefit obligation .....	2,253	1,831
Net decrease (increase) in trading securities .....	35,101	(5,499)
Net increase in interest receivable .....	(20,708)	(943)
Net (increase) decrease in other assets .....	(13,032)	8,465
Net decrease in interest payable .....	(1,418)	(2,191)
Net increase in current and deferred taxes .....	6,208	7,051
Net decrease in other liabilities .....	(5,791)	(19,202)
Total adjustments .....	66,085	20,855
Net cash provided by operating activities .....	111,227	54,596
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net decrease in money market investments .....	137,362	213,859
Purchases of investment securities held-to-maturity .....	(1,366,623)	(8,174,307)
Maturities of investment securities held-to-maturity .....	1,354,385	8,127,681
Purchases of investment securities available-for-sale .....	(1,717,071)	(327,377)
Maturities of investment securities available-for-sale .....	474,048	1,894
Sales of investment securities available-for-sale .....	1,101,095	143,244
Net disbursements on loans .....	(266,068)	(282,941)
Proceeds from sale of loans .....	90,066	61,692
Acquisition of loan portfolios .....	(35,198)	
Assets acquired, net of cash .....		(16,661)
Acquisition of premises and equipment .....	(24,452)	(18,434)
Proceeds from sale of premises and equipment .....	2,031	5,850
Net cash used in investing activities .....	(250,425)	(265,500)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in deposits .....	306,419	184,618
Net deposits acquired .....		163,636
Net decrease in federal funds purchased and securities sold under agreements to repurchase .....	(448,047)	(287,290)
Net increase (decrease) in other short-term borrowings .....	285,381	(39,157)
Proceeds from issuance of notes payable .....	116,117	145,923
Payments of notes payable .....	(161,957)	(20,003)
Dividends paid .....	(11,972)	(10,297)
Proceeds from issuance of common stock .....	974	763
Net cash provided by financing activities .....	86,915	138,193
Net decrease in cash and due from banks .....	(52,283)	(72,711)
Cash and due from banks at beginning of period .....	458,173	442,316
Cash and due from banks at end of period .....	\$ 405,890	\$ 369,605

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share information)

## NOTE 1 - CONSOLIDATION

The consolidated financial statements of BanPonce Corporation include the balance sheet of the Corporation and its wholly-owned subsidiaries, Vehicle Equipment Leasing Company, Inc. (Velco); BP Capital Markets, Inc.; Popular International Bank, Inc. and its wholly-owned subsidiary BanPonce Financial Corp., including Banco Popular, FSB, Pioneer Bancorp, Inc. (second tier subsidiaries) and Equity One, Inc.; and Banco Popular de Puerto Rico and its wholly-owned subsidiaries, Popular Leasing and Rental, Inc., Popular Consumer Services, Inc. and Popular Mortgage, Inc., as of March 31, 1996 and 1995, and their related statements of income and cash flows for the quarter then ended. These statements are, in the opinion of management, a fair statement of the results of the periods presented. These results are unaudited, but include all necessary adjustments, of a normal recurring nature, for a fair presentation of such results. Certain reclassifications have been made to the prior year' consolidated financial statements to conform to the 1996 presentation.

## NOTE 2 - ACCOUNTING CHANGES

Effective January 1, 1996, the Corporation adopted Statement of Financial Accounting Standards (SFAS) 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." This statement requires that long-lived assets and certain identifiable intangibles to be held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For the first quarter of 1996, no impairment recognition was necessary based on this pronouncement.

Effective January 1, 1996, the Corporation adopted SFAS 122, "Accounting for Mortgage Servicing Rights." This statement requires that mortgage banking enterprises recognize as separate assets the rights to service mortgage loans for others, whether those servicing rights are originated or purchased. Also, it requires mortgage banking enterprises to assess capitalized mortgage servicing rights for impairment based on the fair value of those rights. Pursuant to the provisions of SFAS 122, the total cost of mortgage loans to be sold with servicing rights retained is allocated to the mortgage servicing rights and the loans (without the mortgage servicing rights) based on their relative fair values. These mortgage servicing rights are amortized in proportion to and over the period of estimated net servicing income.

To estimate the fair value of mortgage servicing rights the Corporation considers prices for similar assets and the present value of expected future cash flows associated with the servicing rights calculated using assumptions that market participants would use in estimating future servicing income and expense. For purposes of evaluating and measuring impairment of capitalized mortgage servicing rights, the Corporation stratifies such rights based on predominant risk characteristics of underlying loans, such as loan type, note rate and term. The amount of impairment recognized if any, is the amount by which the capitalized mortgage servicing rights per stratum exceed estimated fair value. Impairment is recognized through a valuation allowance. As of March 31, 1996, the carrying value, estimated fair value and valuation allowance of capitalized mortgage servicing rights were \$23,898, \$26,469 and \$212, respectively. During this quarter the Corporation realized additional income of \$707 as a result of the adoption of this pronouncement.

Effective January 1, 1996, the Corporation adopted SFAS 123 "Accounting for Stock-Based Compensation." This statement establishes a fair value-based method of accounting for stock-based employee compensation plans. It encourages entities to adopt this method in lieu of the provisions of APB Opinion No. 25, "Accounting for Stock Issued to Employees", for all arrangements under which employees receive shares of stock or other equity instruments of the employer or the employer incurs liabilities to employees in amounts based on the price of its stock.

The Corporation provides a stock-based compensation plan for senior management. This is a three-year incentive plan which provides incentive compensation linked to long-term corporate performance and objectives. For the quarter ended March 31, 1996, the Corporation recognized \$103 related to this plan.

Effective January 1, 1995, the Corporation adopted SFAS 114, "Accounting by Creditors for Impairment of a Loan" as amended by SFAS 118, "Accounting by Creditors for Impairment of a Loan - Income Recognition and Disclosures." These statements address the accounting by creditors for impairment of certain loans and require that impaired loans as defined, be measured based on the present value of expected future cash flows discounted at the loan's effective rate, at the loan's observable market price or, on the fair value of the collateral if the loan is collateral dependent. As of March 31, 1996, the recorded investment in loans that are considered to be impaired under SFAS 114 was \$79,774 (1995 - \$87,393) of which \$38,365 (1995 - \$43,004) had a related allowance for possible loan losses of \$8,555 (1995 - \$8,449). Average impaired loans during the first quarter of 1996 were \$83,043. The Corporation recognized interest income on impaired loans of \$901 for the quarter ended March 31, 1996.

#### NOTE 3 - INVESTMENT SECURITIES

The average maturities as of March 31, 1996 and market value for the following investment securities are:

Investments securities held-to-maturity:

	1996		March 31, 1995	
	Amortized Cost	Market Value	Amortized Cost	Market Value
U.S. Treasury (average maturity of 1 year and 1 month)	\$ 924,137	\$ 927,247	\$1,912,231	\$1,901,025
Obligations of other u.s. government agencies and corporations (average maturity of 11 months)	132,271	130,950	249,509	244,949
Obligations of puerto rico, states and political subdivisions (average maturity of 2 years and 5 months)	218,222	220,124	217,037	220,211
Collateralized mortgage obligations (average maturity of 1 year and 5 months)	262,655	260,900	439,613	427,884
Mortgage-backed securities (average maturity of 4 years and 4 months)	59,706	60,395	146,015	141,573
Equity securities (without contractual maturity)	47,674	47,674	43,558	43,558
Others (average maturity of 6 years and 6 months)	12,394	12,430	12,142	12,175
	<u>\$1,657,059</u>	<u>\$1,659,720</u>	<u>\$3,020,105</u>	<u>\$2,991,375</u>

## Investments securities available-for-sale:

	March 31,			
	1996		1995	
	Amortized Cost	Market Value	Amortized Cost	Market Value
U.S. Treasury (average maturity of 1 year and 1 month)	\$2,454,152	\$2,453,291	\$ 597,602	\$ 588,337
Obligations of other U.S. Government agencies and corporations (average maturity of 8 months)	440,015	439,624	100,559	99,573
Obligations of Puerto Rico, States and political subdivisions (average maturity of 2 years and 9 months)	26,468	26,564	28,430	27,872
Collateralized mortgage obligations (average maturity of 2 years and 6 months)	109,047	108,342	61,356	60,789
Mortgage-backed securities (average maturity of 16 years and 7 months)	260,168	256,910	250,765	250,015
Equity securities (without contractual maturity)	27,703	34,436	27,989	29,645
Others (average maturity of 14 years and 1 month)	18,050	18,050	50,000	50,000
	<u>\$3,335,603</u>	<u>\$3,337,217</u>	<u>\$1,116,701</u>	<u>\$1,106,231</u>

## NOTE 4 - PLEDGED ASSETS

Securities and insured mortgage loans of the Corporation of \$2,774,689 (1995 - \$1,963,134) are pledged to secure public and trust deposits and securities and mortgages sold under repurchase agreements.

## NOTE 5 - COMMITMENTS

In the normal course of business there are letters of credit outstanding and stand-by letters of credit which at March 31, 1996 amounted to \$17,591 and \$118,805. There are also outstanding other commitments and contingent liabilities, such as guarantees and commitments to extend credit, which are not reflected in the accompanying financial statements. No losses are anticipated as a result of these transactions.

## NOTE 6 - SUBORDINATED NOTES

Subordinated notes consist of the following:

	March 31,	
	1996	1995
	-----	
Subordinated notes issued by the Corporation on December 12, 1995, maturing on December 15, 2005, with interest payable semi-annually at 6.75%	\$125,000	
	-----	
Subordinated notes issued by Banco Popular on March 29, 1989, maturing on June 15, 1996, with interest payable quarterly and consisting of:		
8.875% Fixed Rate Notes series A	15,000	\$15,000
8.6875% Fixed Rate Notes series B	15,000	15,000
Floating Rate Notes series A with interest payable at 88% of LIBID rate	19,000	19,000
Floating Rate Notes series B with interest payable at 86% of LIBID rate	1,000	1,000
	-----	-----
	50,000	50,000
	-----	-----
	\$175,000	\$50,000
	=====	

## NOTE 7 - STOCKHOLDERS' EQUITY

Authorized common stock is 90,000,000 shares with a par value of \$6 per share of which 32,974,936 are issued and outstanding at March 31, 1996. Authorized preferred stock is 10,000,000 shares without par value of which 4,000,000 non-cumulative with a dividend rate of 8.35% and a liquidation preference value of \$25 per share are issued and outstanding at March 31, 1996.

## NOTE 8 - EARNINGS PER COMMON SHARE

Earnings per common share (EPS) are calculated based on net income applicable to common stockholders which amounted to \$43,055 and \$31,654 for the quarters ended March 31, 1996 and 1995, respectively, after deducting the dividends on preferred stock. EPS are based on 32,974,936 and 32,866,623 average shares outstanding for the first quarter of 1996 and 1995, respectively.

## NOTE 9 - SUPPLEMENTAL DISCLOSURE ON THE CONSOLIDATED STATEMENTS OF CASH FLOWS

During the quarter ended March 31, 1996, the Corporation paid interest and income taxes amounting to \$148,341 and \$5,564, respectively (1995 - \$117,421 and \$1,392). In addition, the loans receivable transferred to other real estate and other property for the quarter ended March 31, 1996, amounted to \$468 and \$1,142, respectively (1995 - \$1,963 and \$859). The Corporation's stockholders' equity at March 31, 1996 and 1995 includes \$19 and \$7,670, respectively, in unrealized holding losses on securities available-for-sale, net of deferred taxes.

## DIRECTORS AND OFFICERS

## BOARD OF DIRECTORS

Richard L. Carrion, Chairman  
 Alfonso F. Ballester, Vice Chairman  
 Antonio Luis Ferre, Vice Chairman  
 Juan A. Albors Hernandez \*  
 Salustiano Alvarez Mendez \*  
 Jose A. Bechara Bravo \*  
 Juan J. Bermudez  
 Esteban D. Bird \*  
 Francisco J. Carreras  
 David H. Chafey, Jr. \*  
 Luis E. Dubon, Jr.  
 Roberto W. Esteves \*  
 Hector R. Gonzalez  
 Jorge A. Junquera Diez  
 Franklin A. Mathias  
 Manuel Morales, Jr.  
 Alberto M. Paracchini  
 Francisco Perez, Jr. \*\*  
 Francisco M. Rexach, Jr.  
 Jose E. Rossi \*  
 Felix J. Serralles Nevares  
 Emilio Jose Venegas \*\*  
 Julio E. Vizcarrondo, Jr.

Samuel T. Cespedes, Secretary

\* Director of Banco Popular de Puerto Rico only

\*\* Director of Banponce Corporation only

## EXECUTIVE OFFICERS

Richard L. Carrion, Chairman of the Board,  
 President and Chief Executive Officer  
 David H. Chafey, Jr., Senior Executive Vice President  
 Jorge A. Junquera Diez, Senior Executive Vice President  
 Maria Isabel Burckhart, Executive Vice President  
 Larry Kesler, Executive Vice President  
 Humberto Martin, Executive Vice President  
 Emilio E. Pinero, Executive Vice President

## OFFICES

## CENTRAL OFFICE

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## LOS ANGELES OFFICE

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 Telephone: (213) 626-1160

## VIRGIN ISLANDS OFFICE

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 Kronprindsens Quarter  
 Charlotte Amalie, St. Thomas  
 U.S. Virgin Islands 00802  
 Telephone: (809) 774-2300

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## VEHICLE EQUIPMENT LEASING COMPANY, INC.

State Road #2 Km. 6.8  
 Villa Caparra  
 Guaynabo, Puerto Rico 00966  
 Telephone: (787) 792-9292

## POPULAR LEASING AND RENTAL, INC.

M-1046 Federico Costa St.  
 Tres Monjitas Industrial Development  
 San Juan, Puerto Rico 00903  
 Telephone: (787) 751-4848

## POPULAR CONSUMER SERVICES, INC.

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 Ponce, Puerto Rico 00731  
 Telephone: (787) 844-2860

## EQUITY ONE, INC.

523 Fellowship Road, Suite 220  
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 Telephone: (609) 273-1119

## PIONEER BANCORP, INC.

4000 West North Avenue

Chicago, Illinois 60639  
Telephone: (312) 772-8600

BANCO POPULAR, FSB  
500 Bloomfield Avenue  
Newark, New Jersey 07107  
Telephone: (201) 484-6525

POPULAR MORTGAGE, INC.  
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San Juan, Puerto Rico 00918  
Telephone: (787) 753-0245

BP CAPITAL MARKETS, INC.  
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Hato Rey, Puerto Rico 00918  
Telephone: (787) 766-4200

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS OF BANPONCE CORPORATION FOR THE THREE MONTHS ENDED MARCH 31, 1996, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000  
U.S. DOLLARS

3-MOS		
	DEC-31-1996	
	JAN-01-1996	
	MAR-31-1996	
	1,000	405,890
	26,993	
	632,527	
	295,573	
3,337,217		
	1,657,059	
	1,659,720	
		8,850,078
		174,724
	15,805,083	
		10,183,082
		3,292,919
	278,056	
		714,589
	0	
		100,000
		197,850
		861,720
15,805,083		
	217,247	
	71,945	
	13,735	
	302,927	
	82,996	
	140,467	
	162,460	
		21,273
		729
		130,699
		62,480
45,142		
	0	0
		45,142
		\$1.31
		0
		4.77
		140,563
		11,534
		2,704
		122,805
		168,393
		23,343
		8,401
	174,724	
	174,084	
	640	
	0	