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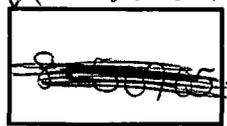
AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

04003561

V# 3-10-04

**ANNUAL AUDITED REPORT
FORM X-17A-5
PART III**

...ING PAGE
Information Required of Brokers and Dealers
Pursuant to Section 17 of the Securities Exchange Act of 1934
and Rule 17a-5 Thereunder

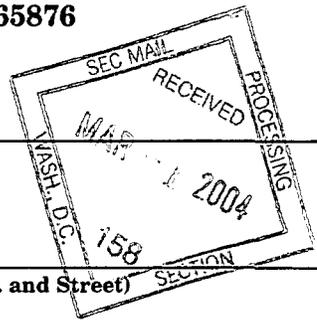


8-65876

REPORT FOR THE PERIOD BEGINNING 07/01/03 AND ENDING 12/31/03
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: **Wachovia Capital Markets, LLC** **8-65876**



ADDRESS OF PRINCIPAL PLACE OF BUSINESS:
(Do not use P.O. Box No.)
301 South College Street, 8th Floor

Charlotte **NC** **28288-0602**
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT
Alan L. Maxwell **(704) 715-5320**
(Area Code -- Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*
(Name -- if individual, state last, first, middle name)

KPMG LLP
2300 Three Wachovia Center **Charlotte** **NC** **28202**
(ADDRESS) Number and Street City State Zip Code

CHECK ONE:

- Certified Public Accountant
- Public Accountant
- Accountant not resident in United States or any of its possessions.

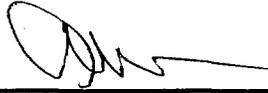
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THOMSON FINANCIAL

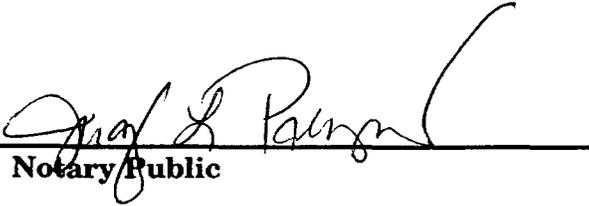
*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

OATH OR AFFIRMATION

I, Alan L. Maxwell, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statements and supporting schedules pertaining to the firm of Wachovia Capital Markets, LLC as of December 31, 2003, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer .



Name Alan L. Maxwell
Title Chief Financial Officer


Notary Public

This report ** contains (check all applicable boxes):

- (a) Facing Page
- (b) Statement of Financial Condition
- (c) Statement of Income
- (d) Statement of Cash Flows
- (e) Statement of Changes in Stockholder's Equity of Partners' or Sole Proprietor's Capital
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors
- (g) Computation of Net Capital
- (h) Computation for Determination of Reserve Requirement Pursuant to Rule 15c3-3
- (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3
- (j) A Reconciliation, including appropriate explanation, of the computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A Rule 15c3-3
- Schedule of Segregation Requirements and Funds in Segregation Pursuant to Commodity Exchange Act
- (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation
- (l) An Oath or Affirmation
- (m) A Copy of the SIPC Supplemental Report
- (n) A Report describing any material inadequacies found to exist or found to have existed since the date of the previous audit

** For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3)



WACHOVIA CAPITAL MARKETS, LLC
(A Subsidiary of Wachovia Corporation)

Statement of Financial Condition

December 31, 2003

(With Independent Auditors' Report Thereon)



KPMG LLP
Suite 2300
401 South Tryon Street
Three First Union Center
Charlotte, NC 28202-1911

Independent Auditors' Report

Board of Directors
Wachovia Capital Markets, LLC:

We have audited the accompanying statement of financial condition of Wachovia Capital Markets, LLC (the Company), a subsidiary of Wachovia Corporation, as of December 31, 2003 that you are filing pursuant to Rule 17a-5 of the Securities Exchange Act of 1934. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of financial condition is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of financial condition. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement of financial condition presentation. We believe that our audit of the statement of financial condition provides a reasonable basis for our opinion.

In our opinion, the statement of financial condition referred to above present fairly, in all material respects, the financial position of Wachovia Capital Markets, LLC as of December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

February 19, 2004



KPMG LLP, a U.S. limited liability partnership, is the U.S. member firm of KPMG International, a Swiss cooperative.

WACHOVIA CAPITAL MARKETS, LLC
(A Subsidiary of Wachovia Corporation)

Statement of Financial Condition

December 31, 2003

(In thousands)

Assets

Cash	\$ 176
Cash segregated pursuant to federal regulations	75,000
Securities purchased under agreements to resell	7,944,113
Securities owned, at market value (\$8,769,300 pledged as collateral)	9,075,170
Receivable from broker-dealers and clearing organizations	4,049,708
Receivable from customers	51,246
Accrued interest receivable	44,457
Property, equipment, and leasehold improvements, net	11,067
Goodwill, net	6,112
Other assets	252,738
Total assets	<u>21,509,787</u>

Liabilities and Member's Equity

Liabilities:

Securities sold under agreements to repurchase	13,602,472
Securities sold, not yet purchased, at market value	3,686,980
Payable to broker-dealers and clearing organizations	1,886,438
Payable to customers	44,984
Accrued interest payable	27,595
Other liabilities	466,901
Total liabilities	<u>19,715,370</u>
Subordinated borrowings	<u>538,500</u>
Member's equity:	
Member's contributions	1,216,068
Accumulated earnings	39,849
Total member's equity	<u>1,255,917</u>
Total liabilities and member's equity	<u>\$ 21,509,787</u>

See accompanying notes to statement of financial condition

WACHOVIA CAPITAL MARKETS, LLC
(A Subsidiary of Wachovia Corporation)

Notes to Statement of Financial Condition

December 31, 2003

(In thousands)

(1) **Summary of Significant Accounting Policies**

(a) **Organization**

Wachovia Capital Markets, LLC (the Company) was formed on March 11, 2003 to contain the institutional fixed income and equity businesses conducted in its affiliate, Wachovia Securities, LLC (formerly Wachovia Securities, Inc). The Company began operations effective July 1, 2003 with the purchase of the net assets related to this business from Wachovia Securities, LLC as summarized below (in thousands):

Assets:

Securities purchased under agreements to resell	\$ 8,237,625
Securities owned, at market value	12,445,429
Receivable from broker-dealers and clearing organizations	5,267,594
Other assets	524,054

Liabilities:

Securities sold under agreements to repurchase	16,240,080
Securities sold, not yet purchased, at market value	3,651,181
Payable to broker-dealers and clearing organizations	4,358,344
Other liabilities	<u>1,011,029</u>

Net assets \$ 1,214,068

The Company is organized as a Limited Liability Company. The Company is a wholly owned subsidiary of Everen Capital Corporation (Everen, the Member). Everen is a wholly owned subsidiary of Wachovia Corporation (the Holding Company). The Holding Company is registered with the Federal Reserve Board as a financial holding company in accordance with the Gramm-Leach-Bliley Act of 1999 (GLBA).

The Company is registered as a broker-dealer with the Securities and Exchange Commission (SEC) and is a member of the New York Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. The Company engages in a wide variety of securities activities in accordance with its status as an affiliate of a financial holding company under the provisions of the GLBA. In general, securities sold by the Company are not bank deposits and are not insured by the Federal Deposit Insurance Corporation.

The company clears some of its customer's transactions through its affiliate, First Clearing, LLC (FCLLC), on a fully-disclosed basis. FCLLC is a part of a joint venture owned 38% by Prudential Financial Inc. and 62% owned by the Holding Company. The Company self clears the remainder of its institutional and proprietary transactions except options and futures, which are carried and cleared by unaffiliated broker dealers.

WACHOVIA CAPITAL MARKETS, LLC
(A Subsidiary of Wachovia Corporation)

Notes to Statement of Financial Condition

December 31, 2003

(In thousands)

(b) *Securities Purchased/Sold Under Agreements to Resell/Repurchase*

Transactions involving purchases of securities under agreements to resell (reverse repurchase agreements) or sales of securities under agreements to repurchase (repurchase agreements) are treated as collateralized financing transactions and are recorded at their contracted resale or repurchase amounts. The carrying value of repurchase and reverse repurchase agreement approximates their fair value. These transactions are primarily repurchase agreements of United States Government and agency securities and corporate bonds. The Company's exposure to credit risk associated with the nonperformance of customers in fulfilling these contractual obligations can be directly affected by volatile trading markets, which may impair the customers' ability to satisfy their obligations to the Company.

It is the Company's policy to obtain possession of securities purchased under agreements to resell. The Company manages the credit risk associated with these transactions by monitoring the market value of the collateral obtained, including accrued interest, and by requesting additional collateral when deemed appropriate.

(c) *Securities Transactions*

Customers' securities transactions are recorded on a settlement date basis.

Securities owned and securities sold, not yet purchased are carried at market value on a trade date basis.

(d) *Securities Lending Activity*

Securities borrowed and securities loaned are generally reported as collateralized financing transactions. Securities borrowed transactions require the Company to deposit cash or other collateral with the lender. Securities loaned are recorded at the amount of collateral received. The Company receives collateral in the form of cash in an amount generally in excess of the market value of securities loaned. The Company monitors the market value of securities borrowed and loaned on a daily basis, with additional collateral obtained or refunded as necessary.

(e) *Futures, Forwards, Option Contracts, and Other Financial Instruments*

Derivative financial instruments are used for trading purposes, including economic hedges of trading instruments, and are recorded at fair value. Fair values for exchange-traded derivatives, principally futures and certain options, are based on quoted market prices. Fair values for over-the-counter derivative financial instruments, principally interest rate, credit default or total return swaps, forwards, and options, are based on quoted market prices for similar instruments, pricing models and discounted cash flow analyses.

WACHOVIA CAPITAL MARKETS, LLC
(A Subsidiary of Wachovia Corporation)

Notes to Statement of Financial Condition

December 31, 2003

(In thousands)

(f) Benefit Plans

Substantially all employees with one year of service are eligible for participation in the noncontributory defined benefit pension plan and the matched savings plan of the Holding Company. In addition, the Holding Company provides postretirement benefits, principally healthcare, to employees and their beneficiaries and dependents. The Holding Company allocates expense to the Company for the defined benefit pension plan, matching savings plan, and postretirement benefits based on employee compensation of the Company and the total cost incurred with respect to the plans on a consolidated basis. The actuarial and plan asset information pertaining to the employees of the Company is not segregated in the Holding Company's retirement and postretirement plan calculations and is therefore not available.

(g) Income Taxes

The Company is a single-member Limited Liability Company and is treated as a disregarded entity pursuant to Treasury Regulation 301.7701-3 for federal income tax purposes. Generally, disregarded entities are not subject to entity-level federal or state income taxation and, as such, the Company is not required to provide for income taxes under Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes. The Company's taxable income is primarily reported in the tax return of its member, however certain state jurisdictions will subject the Company to entity-level taxation as a SMLLC, therefore, state taxes will be incurred on a small portion of the company's taxable income.

(h) Property, Equipment, and Leasehold Improvements

Property, equipment, and leasehold improvements are stated at cost, less accumulated depreciation and amortization

(i) Goodwill and Other Intangible Assets

In July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141, *Business Combinations*, and SFAS No. 142, *Goodwill and Other Intangible Assets*. SFAS 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. Also under SFAS 141, identified intangible assets acquired in a purchase business combination must be separately valued and recognized on the statement of financial condition if they meet certain requirements.

Under the provisions of SFAS 142, goodwill and identified intangible assets with indefinite useful lives are not subject to amortization but are subject to impairment testing on an annual basis, or more often if events or circumstances indicate possible impairment. The Company has adopted the provisions of SFAS 141 and 142 and does not amortize goodwill.

The Company's impairment evaluations for the period ended December 31, 2003, indicated that none of the Company's goodwill is impaired.

WACHOVIA CAPITAL MARKETS, LLC
(A Subsidiary of Wachovia Corporation)

Notes to Statement of Financial Condition

December 31, 2003

(In thousands)

(j) *Other*

The Company's financial instruments are either carried at fair value or are considered to be stated at fair value due to their short-term nature.

The preparation of the statement of financial condition in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statement of financial condition. Actual results could differ from those estimates.

(2) **Cash and Securities Segregated Pursuant to Federal Regulations**

Under the provisions of Rule 15C3-3 of the Securities Exchange Commission (SEC), cash of \$75,000,000 has been segregated for the exclusive benefit of clients at December 31, 2003.

(3) **Receivable from and Payable to Customers**

The balances represent the net amounts receivable from and payable to customers in connection with normal cash securities transactions. The amounts receivable from customers are generally collateralized by securities, the value of which is not reflected in the accompanying statement of financial condition. At December 31, 2003, all customer receivables were secured.

(4) **Receivable from and Payable to Broker-Dealers and Clearing Organizations**

Receivable from and payable to broker-dealers and clearing organizations consist of the following at December 31, 2003 (in thousands):

Receivable from broker-dealers and clearing organizations:	
Deposits paid for securities borrowed	\$ 3,446,105
Securities failed to deliver	378,891
Unsettled regular way transactions, net	87,214
Syndicate receivable	58,591
Federal funds sold	53,879
Clearing fund deposits	24,607
Other	421
	<hr/>
	\$ 4,049,708
	<hr/>

WACHOVIA CAPITAL MARKETS, LLC
(A Subsidiary of Wachovia Corporation)

Notes to Statement of Financial Condition

December 31, 2003

(In thousands)

Payable to broker-dealers and clearing organizations:		
Deposits received for securities loaned	\$	1,567,315
Securities failed to receive		280,024
Syndicate payable		35,177
Payable to clearing brokers related to open transactions		3,922
	\$	<u>1,886,438</u>

(5) **Securities Owned and Securities Sold, Not Yet Purchased**

At December 31, 2003, securities owned and securities sold, not yet purchased consist of trading securities at market value, as follows:

	<u>Securities owned</u>	<u>Securities sold, not yet purchased</u>
	(In thousands)	
Bankers' acceptances, commercial paper, and certificates of deposit	\$ 24	-
U.S. Government and agency obligations	3,645,094	1,087,567
State and municipal government obligations	9,472	400
Corporate obligations	2,184,377	762,091
Collateralized mortgage obligations and asset-backed securities	2,199,980	29,155
Equity securities	758,256	1,582,649
Other	277,967	225,118
Total	\$ <u>9,075,170</u>	<u>3,686,980</u>

U.S. government and agency obligations with a market value of \$164,715,034 at December 31, 2003, have been pledged to secure margin requirements with respect to futures and options transactions, and \$116,953,760 have been pledged to clearing corporations. Securities owned at December 31, 2003, included debt securities issued by the Holding Company with a market value of \$80,150,129.

WACHOVIA CAPITAL MARKETS, LLC
(A Subsidiary of Wachovia Corporation)

Notes to Statement of Financial Condition

December 31, 2003

(In thousands)

(6) Collateral Arrangements

The Company has accepted securities, which it is permitted to repledge or sell, as collateral for securities borrowed transactions and for securities purchased with agreements to resell transactions. At December 31, 2003 the fair value of this collateral was \$8,250,995,000, all of which had been repledged or sold by the Company. The collateral is received primarily from other broker-dealers or institutional customers and is used by the Company to enter into securities lending agreements for securities sold with agreements to repurchase transactions and settlements related to securities sold short, not yet purchased.

(7) Property, Equipment, and Leasehold Improvements

Property, equipment, and leasehold improvements consist of the following at December 31, 2003 (in thousands):

Furniture and equipment	\$	3,519
Communications and computer equipment		1,962
Property and leasehold improvements		<u>6,765</u>
		12,246
Less accumulated depreciation and amortization		<u>1,179</u>
	\$	<u><u>11,067</u></u>

(8) Payable to Banks

In the normal course of business, the Company borrows funds to finance securities owned and securities not yet delivered. At December 31, 2003, the Company had available \$715,000,000 in secured and unsecured lines of credit with various unaffiliated banks and \$500,000,000 with an affiliated bank. Of these amounts, none was outstanding at December 31, 2003.

WACHOVIA CAPITAL MARKETS, LLC
(A Subsidiary of Wachovia Corporation)

Notes to Statement of Financial Condition

December 31, 2003

(In thousands)

(9) **Subordinated Borrowings**

At December 31, 2003, the Company was indebted to the following (in thousands):

Holding Company:

Subordinated note due January 31, 2008; variable rate of 1.57% at
December 31, 2003 \$ 100,000

Subordinated note due January 31, 2008; variable rate of 1.57% at
December 31, 2003 97,500

Subordinated note due March 22, 2011; variable rate of 1.89% at
December 31, 2003 86,000

Revolving subordinated note facility of \$200,000 due January 31, 2008;
variable rate of 1.57% at December 31, 2003 200,000

Everen:

Revolving subordinated note facility of \$50,000 due June 30, 2007;
variable rate of 1.25% at December 31, 2003 50,000

Unaffiliated lender:

Subordinated note due January 26, 2004; 7.18% fixed rate 5,000
\$ 538,500

All subordinated borrowings are available in computing net capital under the SEC's Uniform Net Capital Rule. To the extent that such borrowings are required for the Company's continued compliance with minimum net capital requirements, they may not be repaid.

Management believes that the fair value of the subordinated notes at December 31, 2003, approximate their carrying value.

(10) **Transactions with Affiliated Parties**

The following items present the Company's significant transactions with affiliated parties. These transactions are executed under terms which management believes approximates the fair value of such transactions and services.

(a) ***Securities Purchased Under Agreements to Resell***

The Company enters into securities purchased under agreements to resell transactions with affiliates of which \$713,750,000 is outstanding at December 31, 2003. The agreements are due on demand. Included in accrued interest receivable at December 31, 2003 is \$169,000 due from affiliates.

WACHOVIA CAPITAL MARKETS, LLC
(A Subsidiary of Wachovia Corporation)

Notes to Statement of Financial Condition

December 31, 2003

(In thousands)

(b) *Securities Sold Under Agreements to Repurchase*

The Company enters into securities sold under agreements to repurchase transactions with affiliates of which \$999,780,000 is outstanding at December 31, 2003. The agreements are due on demand. Included in accrued interest payable at December 31, 2003 is \$121,000 due to affiliates.

(c) *Services Provided by Affiliates to the Company*

The Company is charged management fees by various affiliates to cover operations, administrative and other services.

(d) *Services Provided by the Company to Affiliates*

The Company acts as an agent for the Holding Company and its subsidiaries providing various services. Approximately \$27,864,000 of receivables in other assets at December 31, 2003, are related to transactions with affiliates.

(e) *Swap Transactions*

The Company has entered into interest rate, total return, and credit default swap transactions with Wachovia Bank, N.A., a subsidiary of the Holding Company, to hedge securities owned. At December 31, 2003, the notional value of these swaps was \$1,307,264,000, \$4,631,000, and \$1,712,500,000, respectively. The estimated fair value at December 31, 2003, is \$12,717,000, which is included in other liabilities in the accompanying statement of financial condition.

(f) *Clearing Services*

The company has entered into a fully disclosed clearing agreement with FCLLC to clear some of its customers' securities transactions. At December 31, 2003, receivables from broker dealers and clearing organizations includes \$419,000 due from FCLLC in connection with the fully disclosed clearing arrangement. The company clears its proprietary options and futures business through two other unaffiliated broker dealers.

(g) *Fails to Deliver and Fails to Receive*

The Company entered into securities transactions with Wachovia Bank, N.A., an affiliate registered as a Government Securities Dealer. At December 31, 2003, fails to deliver of \$2,955,000 and fails to receive of \$21,588,000 resulting from these transactions are included in receivables from and payable to broker-dealers and clearing organizations, respectively.

WACHOVIA CAPITAL MARKETS, LLC
(A Subsidiary of Wachovia Corporation)

Notes to Statement of Financial Condition

December 31, 2003

(In thousands)

(11) Derivatives, Guarantees, Commitments, and Contingent Liabilities

The Company is a party to derivative financial instruments and commitments in the normal course of business to meet the financing needs of customers, conduct trading activities, and manage market risks. These derivative financial instruments include futures, options, swaps, swaptions, forward commitments to purchase and sell securities, securities purchased and sold on a when-issued basis (when-issued securities), and firm underwriting commitments. These instruments and commitments involve, to varying degrees, elements of credit and market risk. Credit risk is the possibility that a loss may occur because a party to a transaction fails to perform according to the terms of the contract. Market risk is the possibility that a change in interest rates will cause an unfavorable change in the value of a financial instrument.

The Company controls the credit risk arising from these instruments and commitments through its credit approval process and through the use of risk control limits and monitoring procedures. It evaluates each customer's or other broker-dealer's creditworthiness on a case-by-case basis. If collateral is deemed necessary to reduce credit risk, the amount and nature of the collateral obtained is based on management's credit evaluation of the other party. Based on the Company's assessment of each of its counterparties, collateral was not required by the Company at December 31, 2003.

The notional principal or contractual amounts of derivative financial instruments exceed the probable loss that could arise from counterparty default or changes in interest rates. The fair value of derivative financial instruments represents principally the estimated unrealized gain (asset) or loss (liability) and is recorded in other assets or other liabilities in the statement of financial condition. The market risk associated with trading financial instruments, including derivatives, the prices of which are constantly fluctuating, is managed by imposing limits as to the type, amounts, and degree of risk that traders may undertake. These limits are approved by senior management, and the risk positions of traders are reviewed on a daily basis to monitor compliance with the limits. As of December 31, 2003, derivative financial instruments and their related fair values are as follows:

	Estimated fair value asset (liability)	Contract or notional amount
	<u>(In thousands)</u>	
Forward and futures contracts	\$ (2,050)	(2,353,259)
Swaps	(12,717)	1,357,682
Purchased options	227,140	6,875,673
Written options	(229,301)	(6,718,323)

WACHOVIA CAPITAL MARKETS, LLC
(A Subsidiary of Wachovia Corporation)

Notes to Statement of Financial Condition

December 31, 2003

(In thousands)

Forward and futures contracts are contracts for delayed delivery of securities or money market instruments in which the seller agrees to make delivery at a specified future date of a specified instrument, at a specified price or yield. Options are contracts that allow the holder of the option to purchase or sell a financial instrument at a specified price and within a specified period of time from the seller or writer of the option. As a writer of options, the Company receives a premium at the outset and then bears the risk of an unfavorable change in the price of the financial instrument underlying the option.

In the normal course of business, the Company enters into debt and equity underwriting commitments. Transactions relating to such underwriting commitments that were open at December 31, 2003, and were subsequently settled had no material impact on the Company's financial condition.

During the period from July 1, 2003 through December 31, 2003, the Company securitized approximately \$1,292,000,000 of debt securities. The Company did not retain any interests in the securitizations, and has no continuing involvement with the securitized assets.

The Company introduces certain of its customer transactions to an affiliated clearing broker, FCLLC, with whom it has a correspondent relationship for clearance and depository services in accordance with the terms of the clearance agreement. In connection therewith, the Company has agreed to indemnify FCLLC for losses that FCLLC may sustain as a result of the failure of the Company's customers to satisfy their obligations in connection with their securities transactions. As of December 31, 2003, substantially all customer obligations were collateralized by securities with a market value in excess of the obligations.

The Company has been named as a defendant in various legal actions arising from its normal business activities in which damages in various amounts are claimed. Although the amount of any ultimate liability with respect to such matters cannot be determined, in the opinion of management, based on the opinions of counsel, any such liability will not have a material impact on the Company's financial position.

WACHOVIA CAPITAL MARKETS, LLC
(A Subsidiary of Wachovia Corporation)

Notes to Statement of Financial Condition

December 31, 2003

(In thousands)

The Company leases office space primarily related to its branch network and offices under operating leases expiring at various dates through 2011. Minimum future rental payments required under such leases, that have initial or remaining noncancelable lease terms in excess of one year at December 31, 2003 are as follows:

	<u>Operating leases</u>
	(In thousands)
Years ending December 31:	
2004	\$ 9,169
2005	9,324
2006	9,425
2007	9,425
2008	9,507
After 2009	23,509

Minimum future rental commitments do not include operating leases entered into by the Holding Company for which the Company shares rent expense.

Some contracts that the Company enters into in the normal course of business include indemnification provisions that obligate the Company to make payments to the counterparty or others in the event certain events occur. The contingencies generally relate to the changes in the value of underlying assets, liabilities, or equity securities or upon the occurrence of events, such as an adverse litigation judgment or an adverse interpretation of the tax law. The indemnification clauses are often standard contractual terms and were entered into in the normal course of business based on an assessment that the risk of loss would be remote. Since there are no stated or notional amounts included in the indemnification clauses and the contingencies triggering the obligation to indemnify have not occurred and are not expected to occur, the Company is not able to estimate the maximum potential amount of future payments under these indemnification clauses. There are no amounts reflected on the statement of financial condition as of December 31, 2003, related to these indemnifications.

(12) Net Capital

The Company is subject to the SEC's Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital. The Company has elected to use the alternative method, permitted by the rule, which requires that the Company maintain minimum net capital, as defined, or 2% of combined aggregate debit balances arising from customer transactions. At December 31, 2003, the Company had net capital of \$525,375, which was 834.43% of aggregate debit balances and \$523,878 in excess of required net capital.

(13) Subsequent Event

The \$5,000,000 fixed rate subordinated note, due to an unaffiliated lender as of December 31, 2003, was repaid on January 26, 2004.