POPULAR, Inc.

Informe Anual 2002

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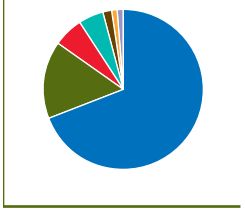
POPULAR, INC.

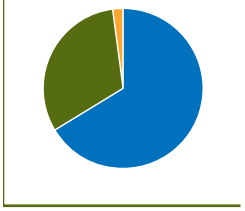
Popular, Inc., una compañía tenedora de acciones financieras con $33,660 millones en activos, es un proveedor de servicios financieros completos con operaciones en Puerto Rico, los Estados Unidos, el Caribe y América Latina. Como la institución financiera líder en Puerto Rico, la Corporación ofrece servicios bancarios completos a clientes individuales y comerciales a través de su subsidiaria principal, Banco Popular, así como banca de inversión, arrendamiento y financiamiento de vehículos y equipo, préstamos hipotecarios, financiamiento individual, seguros y procesamiento de información a través de subsidiarias especializadas. En los Estados Unidos, la Corporación ha establecido la franquicia hispana de servicios financieros más grande, proveyendo soluciones financieras completas a todas las comunidades que sirve. La Corporación continúa usando su experiencia en tecnología y en banca electrónica como una ventaja competitiva para su expansión en el Caribe y América Latina, y está exportando a la región su experiencia de 109 años. Popular, Inc. siempre ha estado comprometido con satisfacer las necesidades de clientes individuales y comerciales por medio de la innovación, y con fomentar el crecimiento en las comunidades donde se desenvuelve.

INGRESOS POR LÍNEA DE NEGOCIO
porcentaje



- Banca Individual y Comercial: 69.11%
- Hipotecas y Financiamiento Individual: 15.66%
- Procesamiento: 6.04%
- Financiamiento y Arrendamiento de Autos y Equipo: 5.05%
- Servicios de Inversión: 1.78%
- Seguros: 1.11%
- Otros: 1.25%

ACTIVOS POR REGIÓN GEOGRÁFICA
porcentaje



- Puerto Rico: 66.27%
- Estados Unidos: 31.60%
- Caribe y América Latina: 2.13%

RESUMEN FINANCIERO

(Dólares en millones, excepto información por acción)	**2002**	2001	2000
Ingreso neto por intereses	**$ 1,180.3**	$ 1,077.0	$ 982.8
Ingreso operacional	**523.7**	471.6	464.1
Ingreso neto	**351.9**	304.5	276.1
Activos	**$33,660.4**	$ 30,744.7	$ 28,057.1
Préstamos netos	**19,582.1**	18,168.6	16,057.1
Depósitos	**17,614.7**	16,370.0	14,804.9
Capital de Accionistas	**2,410.9**	2,272.8	1,993.6
Valor agregado en el mercado	**$ 4,476.4**	$ 3,965.4	$ 3,578.1
Rendimiento sobre activos (ROA)	**1.11%**	1.09%	1.04%
Rendimiento sobre capital (ROE)	**16.29%**	14.84%	15.00%
Por Acción Común			
Ingreso neto	**$ 2.61**	$ 2.17	$ 1.97
Valor en los libros	**18.20**	15.93	13.92
Precio en el mercado	**33.80**	29.08	26.31

NUESTRO CREDO

El Banco Popular es una institución genuinamente nativa dedicada exclusivamente a trabajar por el bienestar social y económico de Puerto Rico e inspirada en los principios más sanos y fundamentales de una buena práctica bancaria.

El Popular tiene empeñados sus esfuerzos y voluntad al desarrollo de un servicio bancario para Puerto Rico dentro de normas estrictamente comerciales y tan eficiente como pueda requerir la comunidad más progresista del mundo.

Estas palabras, escritas en 1928 por don Rafael Carrión Pacheco, Vicepresidente Ejecutivo y Presidente (1927–1956), representan el pensamiento que rige a Popular, Inc. en todos sus mercados.

NUESTRA GENTE

Los hombres y mujeres que laboran para nuestra institución, desde los más altos ejecutivos hasta los empleados que llevan a cabo las tareas más rutinarias, sienten un orgullo especial al servir a nuestra clientela con esmero y dedicación. Todos sienten la íntima satisfacción de pertenecer a la Gran Familia del Banco Popular, en la que se fomenta el cariño y la comprensión entre todos sus miembros, y en la que a la vez se cumple firmemente con las más estrictas reglas de conducta y de moral.

Estas palabras fueron escritas en 1988 por don Rafael Carrión, Jr., Presidente y Presidente de la Junta de Directores, (1956 –1991), con motivo del 95 aniversario del Banco Popular de Puerto Rico y son muestra de nuestro compromiso con nuestros recursos humanos.

OBJETIVOS ESTRATÉGICOS

Fortaleza Puerto Rico
Afianzar nuestra posición competitiva en nuestro mercado principal, ofreciendo los servicios financieros mejores y más completos de la forma más eficiente y conveniente. Nuestros servicios responderán a las necesidades de todos los segmentos del mercado para ser merecedores de su confianza, satisfacción y lealtad.

Banco Panamericano
Expandir nuestra franquicia en los Estados Unidos ofreciendo los servicios financieros más completos en las comunidades que servimos, a la vez que aprovechamos nuestras ventajas en el mercado hispano, y en el Caribe, utilizando nuestra ventaja tecnológica.

Procesamiento
Proveer valor añadido a nuestros clientes ofreciendo soluciones integradas de tecnología y procesamiento de transacciones financieras.

VALORES INSTITUCIONALES

Compromiso Social
Estamos comprometidos a trabajar activamente para promover el bienestar social y económico de las comunidades que servimos.

Cliente
Logramos la satisfacción y lealtad de nuestros clientes añadiéndole valor a cada interacción. La relación con nuestro cliente está por encima de una transacción particular.

Integridad
Nos desempeñamos bajo las normas más estrictas de ética, integridad y moral. La confianza que nuestros clientes nos depositan es lo más importante.

Excelencia
Creemos que sólo hay una forma de hacer las cosas: bien hechas.

Innovación
Fomentamos la búsqueda incesante de nuevas soluciones como estrategia para realzar nuestra ventaja competitiva.

Nuestra Gente
Nos esforzamos por atraer, desarrollar, recompensar y retener al mejor talento dentro de un ambiente de trabajo que se caracteriza por el cariño y la disciplina.

Rendimiento
Nuestra meta es obtener resultados financieros altos y consistentes para nuestros accionistas fundamentados en una visión a largo plazo.

CARTA A LOS ACCIONISTAS

El año 2002 se caracterizó por decisiones difíciles y un ambiente económico incierto. Presenciamos una intensa campaña por parte de la Reserva Federal para reducir las tasas de interés, que resultó en una tasa de 1.25% en préstamos a un día, la más baja en más de 40 años. Durante el año también hubo un crecimiento económico desequilibrado, debilidad en varios sectores de la economía, competencia agresiva, los efectos adversos del terrorismo y una incertidumbre generalizada en los mercados de valores. A pesar del difícil ambiente económico y los retos específicos que enfrentamos, a fin de año Popular reportó ingreso neto de $351.9 millones, un aumento de 16% sobre el 2001. El ingreso por acción común (EPS) alcanzó $2.61, comparado con $2.17 para el año anterior. El total de activos de la Corporación aumentó 9% a $33,660 millones a fin de año. En términos de rentabilidad, los resultados reflejaron un rendimiento sobre activos (ROA) de 1.11% y un rendimiento sobre capital (ROE) de 16.29%.

En mayo de 2002, la Corporación adquirió 4.3 millones de acciones comunes del Plan de Retiro de Banco Popular. La retención de ingresos y un cambio favorable en los valores disponibles para la venta compensaron las reducciones en capital.

Richard L. Carrión
Presidente Junta de Directores
Presidente
Principal Oficial Ejecutivo

Al 31 de diciembre de 2002, la acción de Popular (BPOP) cerró en $33.80, un aumento de 16% sobre el precio de cierre en el 2001. En un período de 10 años, el rendimiento promedio de nuestra acción ha sido de un 18.89% anual, sobrepasando otros índices del mercado, tanto generales como específicos de la industria.

Cliente

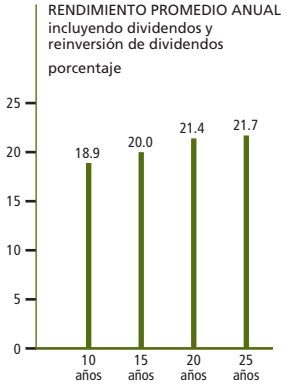
Fortalecer y añadir valor a cada relación de nuestros clientes con Popular es esencial para lograr nuestra estrategia de crecimiento. Con este propósito en mente, en Puerto Rico lanzamos con éxito PREMIA, un programa de lealtad mediante el cual nuestros clientes acumulan puntos por adquirir, mantener y usar los productos y servicios de la marca Popular, a la vez que se les recompensa por toda una gama de relaciones financieras. El programa ha gozado de gran aceptación entre nuestros clientes y excedió su meta para el primer año en sólo seis meses. Para finales del año ya teníamos sobre 145,000 miembros activos inscritos. Estamos convencidos del continuo éxito del programa PREMIA por ser un elemento que añade valor a la relación con nuestros clientes en Puerto Rico. De igual manera, nos provee una herramienta para aumentar la participación en la cartera de nuestros clientes, así como para fomentar la retención entre nuestra extensa base de clientes.

En los Estados Unidos continentales, recientemente lanzamos la iniciativa de imagen "Popularity" con el fin de expandir la marca Banco Popular. Banco Popular North America (BPNA) busca servir y expandir su base de clientes, no sólo en las comunidades hispanas, sino también a otros clientes individuales y comerciales de diversos grupos culturales, a la vez que retiene la atención personalizada, el asesoramiento profesional y los valores corporativos.

Compromiso Social

Como reflejo de uno de nuestros valores institucionales, Popular siempre ha tenido como prioridad hacer accesible sus servicios financieros a todos. Comenzando con nuestra iniciativa del Banco Rodante en 1951, cuando

llevamos el Banco a comunidades rurales no bancarizadas a través de todo Puerto Rico, Banco Popular de Puerto Rico (BPPR) siempre ha estado comprometido con promover el ahorro. Hoy, nos enorgullece informar que la iniciativa El Banco en la Comunidad ha producido resultados positivos por segundo año consecutivo. Como parte de estos esfuerzos para llevar servicios financieros básicos y educar al sector no bancarizado sobre los beneficios de ahorrar para el futuro, nuestros empleados visitaron 480 comunidades de escasos recursos en Puerto Rico y abrieron aproximadamente 100,000 cuentas Acceso Popular, una cuenta diseñada para llenar las necesidades de este sector. Más importante aún, el 75% de estos clientes ha activado la sección de ahorros de sus cuentas. Estamos sumamente orgullosos de estos logros y reafirmamos nuestra dedicación a promover el acceso financiero y a servir a los menos atendidos.



Innovación

Popular está a la vanguardia de los avances en la industria de servicios financieros. Hemos empleado nuestra creatividad para evolucionar con nuestra comunidad y juntos aprovechar los beneficios de la innovación. También hemos aplicado la innovación tecnológica para diversificar nuestro negocio y ofrecer más y mejores servicios a nuestros clientes.

Un área importante de innovación tecnológica es nuestra iniciativa de banca por Internet, Mi Banco Popular, que a fin de año tenía 150,000 clientes inscritos. Durante el 2002 mejoramos su ejecución y navegación, lo que provee a nuestros clientes una experiencia de banca por Internet de primera. También expandimos este servicio para apoyar a pequeños y medianos negocios, al igual que a clientes de hipotecas y tarjetas de crédito. Luego de implantar estas mejoras, estamos muy complacidos por la respuesta positiva y el alto nivel de satisfacción de nuestros clientes que utilizan el Internet.

Más aún, implantamos mejoras a Mi Banco Popular al añadir el primer grupo de comerciantes externos al sistema electrónico de facturación y pagos introducido por primera vez en el 2001. En el 2003, continuaremos expandiendo el número de comerciantes suscritos al servicio para que nuestros clientes puedan recibir, revisar y pagar convenientemente sus facturas a través del Internet.

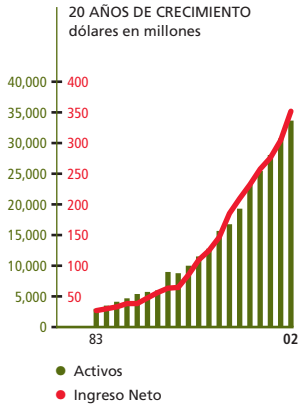
Este año marcó el lanzamiento de otro proyecto innovador: ticketpop, un servicio para procesar boletos. Durante el primer trimestre de 2002 completamos el desarrollo interno de este sistema de distribución y venta de boletos que apoya ventas en persona, por teléfono y por Internet. Ticketpop ha estado operando desde septiembre de 2002 y para fin de año había vendido cerca de 90,000 boletos. Esto demuestra cómo nuestra experiencia en procesamiento se puede extender para generar nuevas fuentes de ingresos, a la vez que ofrecemos más conveniencia a nuestros clientes.

Rendimiento

Buscamos constantemente maximizar nuestros recursos y el rendimiento para nuestros accionistas. Por ello, decidimos reestructurar Popular Finance, nuestra subsidiaria de préstamos pequeños en Puerto Rico. Este proceso resultó en sistemas, procesos y ambiente operacional mejorados, y una nueva estrategia de negocio, al igual que una reducción en el número de sucursales. Aprovechando los sistemas de BPPR de originación de préstamos, cobros, contabilidad y comunicaciones, Popular Finance ahora está posicionado para absorber volúmenes más altos de originación de préstamos, ofrecer nuevos productos y servicios, y mejorar la calidad de sus préstamos.

Nuestra expansión en los Estados Unidos continentales está en el centro de nuestra estrategia de crecimiento y de nuestra visión a largo plazo. Durante el año lanzamos una nueva iniciativa estratégica para BPNA, “A New Day”, mediante la cual comunicamos a los empleados de BPNA la visión, nueva estructura organizacional y estrategia de negocio del Banco, como parte de los esfuerzos por convertirnos en el principal banco de la comunidad en todos los mercados que servimos en los Estados Unidos.

Luego de consolidar y fortalecer nuestra plataforma operacional y ofrecimiento de productos en 1999, en el 2002 centralizamos las áreas de apoyo en las nuevas oficinas centrales de BPNA



en Rosemont, Illinois. Como parte de estos esfuerzos, tomamos la decisión difícil pero necesaria de reducir el personal en un 20%. Estos cambios organizacionales y operacionales, unido a los esfuerzos de todo el equipo de trabajo en los Estados Unidos, produjeron resultados muy positivos, ya que el ingreso neto de nuestras operaciones estadounidenses aumentó por $41 millones sobre el 2001.

Excelencia

Buscamos la excelencia en todo lo que hacemos. Siguiendo esa tradición, durante el 2002 comenzamos una iniciativa para medir el nivel de satisfacción del cliente en todos los negocios de Popular en Puerto Rico. La medición y el monitoreo constante de los niveles de satisfacción de nuestros clientes será una herramienta esencial para enfocar nuestros esfuerzos en nuestra meta primordial de exceder las expectativas de nuestros clientes.

En Banco Popular North America cambiamos el enfoque de nuestro negocio de banca individual y comercial de precio, productos y operaciones a cliente, ventas, servicio y rentabilidad. Por medio de nuestro programa "Quest for Success" desarrollamos adiestramientos de ventas y servicios, un programa de manejo de desempeño, y programas de incentivos y reconocimiento para estimular una cultura de ventas y servicios. Estas iniciativas han producido un aumento de 178% en ventas por oficial bancario. Creemos que estos esfuerzos brindan a nuestra institución las herramientas correctas para continuar nuestra búsqueda de la excelencia.

Nuestra Gente

El éxito continuo de nuestra institución deriva de los esfuerzos de casi 11,000 empleados que trabajan día a día compartiendo la misma visión, valores y compromiso. Estamos particularmente agradecidos a quienes dedican su carrera a nuestra institución y cuya contribución deja una huella indeleble en la familia Popular.

En el 2002, Larry B. Kesler anunció su retiro como Vicepresidente Ejecutivo del Grupo de Crédito a Individuos luego de 16 años de servicio. Estamos muy agradecidos por su contribución y sus valiosos logros durante estos años. Larry continuará colaborando en nuestra Corporación como asesor de Popular Insurance, Equity One y las operaciones de Banco Popular en Islas Vírgenes.

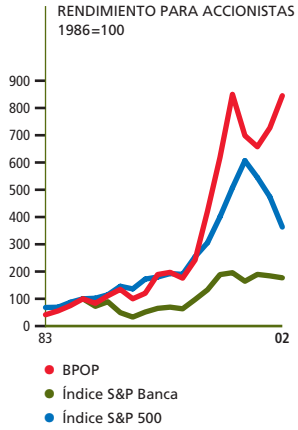
Guillermo Martínez, fundador, Principal Oficial Ejecutivo y Presidente de la Junta de Directores de GM Group, también anunció su retiro efectivo el 30 de noviembre de 2002. Estaremos eternamente agradecidos a Guillermo por su tesón y visión que ayudaron a posicionar a GM Group como líder de la industria de procesamiento en Puerto Rico, el Caribe y América Latina. Guillermo continuará como miembro de la Junta de Directores de Banco Popular.

Carlos Colino, anteriormente Principal Oficial Ejecutivo de Servicios Electrónicos Globales (E-GLOBAL), una compañía de sistemas de pago y banca electrónica en México, asume el cargo de Principal Oficial Ejecutivo y Presidente de la Junta de Directores de GM Group. Carlos también fue nombrado Vicepresidente Ejecutivo de Popular y miembro de nuestro Consejo Gerencial. Walter Cervoni, anteriormente Primer Vicepresidente de GM Group, asumió la presidencia de dicha organización.

Integridad

Desde nuestros comienzos hace 109 años, Popular ha estado comprometido con la prosperidad de las comunidades donde hacemos negocio. En el logro de nuestros objetivos, hemos llevado a cabo nuestros negocios bajo un código de ética construido sobre los cimientos establecidos por nuestros predecesores. La integridad de nuestro negocio es y siempre será uno de nuestros valores institucionales más preciados. Estos valores se mantienen constantes y nos han guiado por los ciclos del ambiente comercial. Nuestros valores y tradiciones nos han provisto una plataforma sólida, desde la cual hemos podido sobrellevar retos significativos durante este año.

A principios del 2003, Banco Popular de Puerto Rico llegó a un Acuerdo de Encausamiento Diferido (Deferred Prosecution Agreement) con el Departamento de Justicia Federal, el Sistema de Reserva Federal y la Red de Investigaciones de Crímenes Financieros del Departamento del Tesoro Federal (FINCEN). Según este Acuerdo,



el Gobierno radicó una información de un solo caso por no radicar Informes de Actividad Sospechosa (SARs) de manera oportuna y completa, relacionados principalmente a las actividades de un pasado cliente y unos otros. Por lo anterior, el Banco acordó entregar $21.6 millones, cantidad relacionada con las transacciones de esos pasados clientes. Este Acuerdo finaliza una investigación de tres años sobre asuntos relacionados con el control de lavado de dinero en nuestra organización y resuelve todos los reclamos en este asunto contra BPPR. El Acuerdo de Encausamiento Diferido también pone fin a un Acuerdo Escrito previo firmado en el 2000 con el Banco de la Reserva Federal de Nueva York, el cual requería mejoras a nuestros programas contra el lavado de dinero y de la Ley de Secretividad Bancaria. El 26 de noviembre de 2001 la Reserva Federal encontró que estábamos en total cumplimiento con este Acuerdo Escrito. Reconociendo que el Banco aceptó responsabilidad y tomó las medidas correctivas necesarias, el Gobierno ha pospuesto cualquier acción por los próximos 12 meses, luego de los cuales se desestimarán todos los cargos, siempre y cuando el Banco cumpla con sus compromisos bajo el Acuerdo de Encausamiento Diferido.

La tercera cláusula del Acuerdo de Encausamiento Diferido estipula que "el Banco Popular acuerda expresamente no hacer ninguna expresión pública, ya sea a través de sus abogados, junta de directores, agentes, oficiales o empleados, que contradiga cualquiera de las declaraciones de hecho contenidas en la Declaración de Hechos. Cualquier declaración pública contradictoria por parte de Banco Popular, sus abogados, junta de directores, agentes, oficiales o empleados, se considerará una violación a este Acuerdo, como se indica en el Párrafo 12 de este Acuerdo, y Banco Popular estará, en adelante, sujeto a ser procesado conforme a los términos de este Acuerdo. La decisión de que si alguna de las declaraciones de esas personas contradiciendo los hechos de la Declaración de Hechos se le imputará a Banco Popular con el propósito de determinar si Banco Popular ha violentado este Acuerdo estará a la entera discreción de los Estados Unidos. Al momento en que Estados Unidos notifique a Banco Popular que las declaraciones públicas de alguna persona contradicen en parte o en su totalidad una declaración de hecho en la Declaración de Hechos, Banco Popular puede evitar una violación al Acuerdo repudiando públicamente dicha declaración dentro de las 48 horas luego de haber sido notificado por los Estados Unidos". Por esta razón, creemos que no es prudente hacer ningún comentario público que pueda ser malinterpretado como una violación al Acuerdo de Encausamiento Diferido.

Quisiera recalcar que, a través de esta investigación larga y exhaustiva, ninguna de las agencias federales encontró que algún oficial, director o empleado, actual o pasado, de BPPR se benefició económicamente de la situación descrita en el Acuerdo. Este Acuerdo concluye un período difícil de nuestra historia como institución y es otro ejemplo de las decisiones difíciles que enfrentamos durante el 2002. El llegar a este Acuerdo con las autoridades federales ha sido un paso doloroso, pero decidimos que la alternativa de llevar el caso a los tribunales sometería al Banco a largos meses de publicidad negativa y continuaría drenando recursos administrativos y financieros.

Ha sido un año difícil y el 2003 promete estar igualmente lleno de retos. Nos sentimos bendecidos pues contamos con gente comprometida con nuestra Visión y nuestros Valores. Confiamos en que continuaremos prosperando.

Richard L. Carrión
Presidente de la Junta de Directores
Presidente
Principal Oficial Ejecutivo

Como resultado del esfuerzo conjunto de 11,000 personas en Popular, aumentamos las ganancias por un 16% y los activos por un 9% para un total de **$33,660 millones** en 2002. Sin embargo, el éxito que tuvimos en maximizar las relaciones con nuestros clientes existentes y establecer relaciones con clientes potenciales no se puede medir solo con resultados financieros. Este **compromiso con la gente** ha fomentado la innovación de productos y servicios, y un mayor alcance en Puerto Rico, Estados Unidos, el Caribe y América Latina. Creemos que mientras nuestros negocios en Puerto Rico, Estados Unidos y de Procesamiento estén orientados hacia el cliente, sus comunidades y sus necesidades, continuaremos alcanzando nuestras metas.

SISTEMA DE DISTRIBUCIÓN	
Banco Popular	**Popular Finance**
• 195 sucursales en Puerto Rico • 8 sucursales en las Islas Vírgenes • 10 centros de banca comercial • Mi Banco Popular (Banca por Internet) • TeleBanco Popular (24 horas) • 551 cajeros automáticos • 27,263 terminales de punto de venta	• 30 oficinas • 7 centros hipotecarios
	Popular Mortgage
	• 29 centros hipotecarios • 22 localizaciones en sucursales de BPPR
	Popular Auto
	• 8 oficinas • 10 centros de renta diaria
Popular Securities	**Popular Insurance**
• 5 centros de inversiones • 47 localizaciones en sucursales de BPPR	• 2 oficinas • 15 localizaciones en sucursales de BPPR

La base de nuestra Corporación son las operaciones en **Puerto Rico**. Estamos comprometidos firmemente con proveer los servicios financieros más modernos y sofisticados a todos los clientes, desde el cliente individual no bancarizado hasta la institución más grande. A través de la innovación continua en tecnología y productos, proveemos los mejores productos y servicios a nuestros clientes. Creemos que cada relación con el cliente añade valor a nuestra Corporación y nos esforzamos diariamente por hacer que esas relaciones con Popular sean más estrechas y más beneficiosas para cada cliente.

PUERTO RICO

La principal subsidiaria de Popular, Banco Popular de Puerto Rico, es el banco comercial más grande de Puerto Rico con $12,800 millones en depósitos y $10,300 millones en préstamos. Ofrece a clientes individuales y comerciales una gama completa de servicios financieros a través de su extensa red de múltiples canales de distribución, que incluye 195 sucursales, 551 cajeros automáticos, un centro de llamadas las 24 horas del día y banca por Internet en su página Mi Banco Popular.

Banco Popular continuó firme en su compromiso de proveer asesoramiento financiero al sector no bancarizado llevando a cabo 480 actividades de El Banco en la Comunidad alrededor de la isla. Acceso Popular, una cuenta de transacción de bajo costo, diseñada para llenar las necesidades del sector no bancarizado, terminó el año con aproximadamente 100,000 cuentas nuevas, un incremento del 69% sobre el nivel de cuentas nuevas abiertas en el 2001.

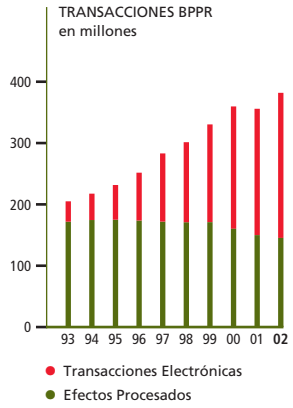
Banco Popular lanzó PREMIA, un programa corporativo innovador de recompensa, que permite a los clientes acumular puntos por adquirir y utilizar una variedad de productos y servicios financieros de Popular. Este programa añade valor a la diversidad de ofrecimientos de la Corporación. Además, PREMIA está alineado con la iniciativa de migrar los clientes a canales electrónicos. El programa fomenta este cambio ya que recompensa a los clientes por el uso. Los puntos acumulados se pueden redimir por pasajes aéreos, mercancía y tarjetas ATH prepagadas, entre otras muchas alternativas. A fin de año, PREMIA contaba con más de 145,000 clientes inscritos y había otorgado más de 500 millones de puntos.

Mi Banco Popular (www.bancopopular.com) alcanzó 150,000 clientes registrados en el 2002. Durante el año se mejoró el desempeño y la navegación de la página cibernética, y se expandió para apoyar a pequeños y medianos negocios, como también a clientes de tarjetas de crédito y de hipotecas. Mi Banco Popular continuó ampliándose al añadir el primer grupo de comerciantes externos al servicio electrónico de facturación y pagos, el cual se introdujo en el 2001. Este servicio seguirá creciendo en el 2003 cuando se incluyan comerciantes adicionales.

Además, el grupo de Banca Comercial de Banco Popular continuó ofreciendo la variedad de servicios financieros más amplia del mercado local. Durante el 2002, la institución promovió el uso de servicios por Internet al lanzar una tarjeta de débito comercial (ATH) rediseñada y Pagos de Estaciones Remotas (PER), una aplicación

"PREMIA es único en su clase. Como miembro de otros programas, reconozco las cualidades insuperables del programa PREMIA. El ser cliente de Banco Popular siempre ha sido una experiencia beneficiosa. Ahora, disfruto todos los beneficios que el programa ofrece por lo que hago todos los días".

Ilsa López



especial que permite a clientes pagar sus servicios básicos de agua y electricidad usando la red del Banco. Banco Popular es la única institución local que provee actualmente este servicio. Es también líder en préstamos otorgados bajo el programa de la Administración de Pequeños Negocios, colaborando así con el desarrollo de la inversión local en negocios pequeños y en crecimiento.

Popular lleva a cabo operaciones bancarias en otras islas del Caribe a través de Banco Popular Virgin Islands. Con ocho sucursales en las Islas Vírgenes Estadounidenses y Británicas, un equipo de más de 220 empleados, depósitos que suman $800 millones y aproximadamente $700 millones en activos a fin de año, Banco Popular se ha establecido como la principal institución financiera de la región.

Popular Mortgage, uno de los bancos hipotecarios líderes de Puerto Rico, tuvo otro año extraordinario. Como resultado de la baja continua en las tasas de interés, una estrategia agresiva de mercadeo centrada en el cliente y el crecimiento continuo de su red de distribución, Popular Mortgage originó más de $1,400 millones en préstamos hipotecarios.

Como parte de su estrategia orientada a la tecnología y el cliente, durante el 2002 Popular Mortgage lanzó "Preaprobación Inmediata", una aplicación en el Internet que ofrece preaprobaciones en cinco pasos sencillos. Popular también introdujo Pago Flexible, una hipoteca con un itinerario de pago que se adapta a la situación del cliente. Con estos dos nuevos productos, Popular Mortgage sigue expandiendo sus servicios y ofreciendo más conveniencia, flexibilidad y valor a sus clientes. Popular Mortgage también abrió cuatro nuevos centros hipotecarios para un total de 29.

Popular Auto completó su primer año de operaciones consolidadas luego de la fusión entre la División de Préstamos de Auto de Banco Popular con Popular Leasing. Esta subsidiaria con un equipo de trabajo de más de 340 empleados ofrece a clientes individuales y comerciales una amplia selección de opciones de arrendamiento y financiamiento de autos y equipo, al igual que opciones de alquiler diario de autos y camiones. A fin de año, la cartera de Popular Auto sobrepasó los $1,000 millones en activos. Actualmente cuenta con ocho centros de ventas y servicio donde ofrece a sus clientes soluciones completas de financiamiento y arrendamiento de autos y equipo. Sus 11 oficinas de alquiler diario, con una flota de más de 1,100 vehículos y unidades comerciales, complementan sus servicios de préstamos y arrendamiento de autos.

"Nuestra experiencia con Popular Mortgage fue bien fácil y directa. Pudimos hacer todas las transacciones por teléfono. El servicio que nos ofrecieron fue excelente y hasta nos ayudaron ofreciéndonos distintas opciones de financiamiento. Éstas alternativas resultaron en costos de hipoteca más bajos para nosotros".

Frances Pedraza e Irán Rivera

Los esfuerzos de todos sus empleados y unas estrategias de mercadeo efectivas fueron instrumentales en lograr el éxito de la fusión, en alcanzar los $610.9 millones en volumen de originación de préstamos y arrendamientos, y en reafirmar la posición de liderato de Popular Auto en este mercado.

Popular Securities ofrece servicios de corretaje de valores e inversiones, tanto para clientes individuales como institucionales. En total, los activos manejados sobrepasaron los $3,000 millones a fin de año. Popular Securities ofrece asesoramiento financiero y servicios completos de inversión para clientes individuales, incluyendo la venta de valores, a través de sus más de 80 consultores financieros disponibles en casi todas las sucursales de Banco Popular, en cinco centros de inversiones y en su página de Internet, www.popularsecurities.com.

En el mercado institucional, Popular Securities respalda emisiones de acciones y bonos, y brinda servicios de asesoramiento a entidades públicas y privadas, proveyendo su experiencia en inversiones a instituciones financieras locales, fondos mutuos, fondos de pensiones y grandes compañías. Sus clientes incluyen al Gobierno de Puerto Rico, junto a una larga lista de compañías locales, nacionales e internacionales. A fin de año, Popular Securities había participado en el respaldo y distribución de emisiones de bonos y acciones que sumaron $11,100 millones, un incremento de 35% sobre los $8,200 millones en el 2001.

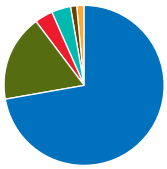
En el mes de octubre de 2002, Popular Securities lanzó el Popular High Grade Fixed-Income Fund, un fondo mutuo de alta calidad diseñado específicamente para inversionistas residentes en Puerto Rico. El Fondo, que ofrece una combinación singular de ventajas contributivas, superó los $150 millones en activos al 31 de diciembre de 2002.

Popular Asset Management, una división de Banco Popular, ofrece servicios profesionales de inversiones y administración de fondos para clientes institucionales. Sirve como asesor de inversiones para 11 fondos mutuos incluyendo el nuevo Popular High Grade Fixed-Income Fund y dos fondos de IRA. Igualmente, administra inversiones para fondos de pensiones públicos y privados, fideicomisos académicos, fundaciones caritativas, sindicatos y corporaciones privadas. A finales del 2002, manejaba más de $2,500 millones en activos.

"Popular Auto ayuda a nuestro concesionario de autos Gómez Hermanos Kennedy, Inc. de dos maneras. Nos proveen financiamiento de inventario y le proveen a nuestros clientes préstamos de auto con un excelente nivel de servicio y a las mejores tasas. Como resultado, Popular Auto hace de la experiencia de comprar una unidad con nosotros una muy placentera. Ambos nos beneficiamos de la relación".

Víctor M. Gómez III

ACTIVOS POR LÍNEA DE NEGOCIO
porcentaje



- Banca Individual y Comercial: 73.94%
- Hipotecas y Financiamiento Individual: 17.48%
- Inversiones: 3.86%
- Financiamiento y Arrendamiento de Autos y Equipo: 3.67%
- Seguros: 0.09%
- Otros: 0.96%

Popular Insurance, una agencia general establecida en el año 2000, ofrece productos y servicios de seguros para clientes individuales y comerciales y representa a más de 80 compañías de seguro como agente corporativo en Puerto Rico y las Islas Vírgenes Estadounidenses. A finales del 2002, la agencia había suscrito más de $125 millones en primas.

Durante el 2002, Popular Insurance continuó expandiéndose colocando más representantes en las sucursales de la red de Banco Popular, aumentando a 15 las sucursales donde tiene presencia permanente. Además, Popular Insurance anunció la adquisición de dos agencias en Puerto Rico – Del Nido & Associates y Life Insurance Services, Inc. – aumentando así el ofrecimiento de servicios, la base de clientes y los recursos disponibles de Popular Insurance. Con la adquisición y lanzamiento de la agencia de seguros de vida para complementar el negocio establecido, Popular Insurance está posicionado como una de las organizaciones líderes del mercadeo de seguros de Puerto Rico.

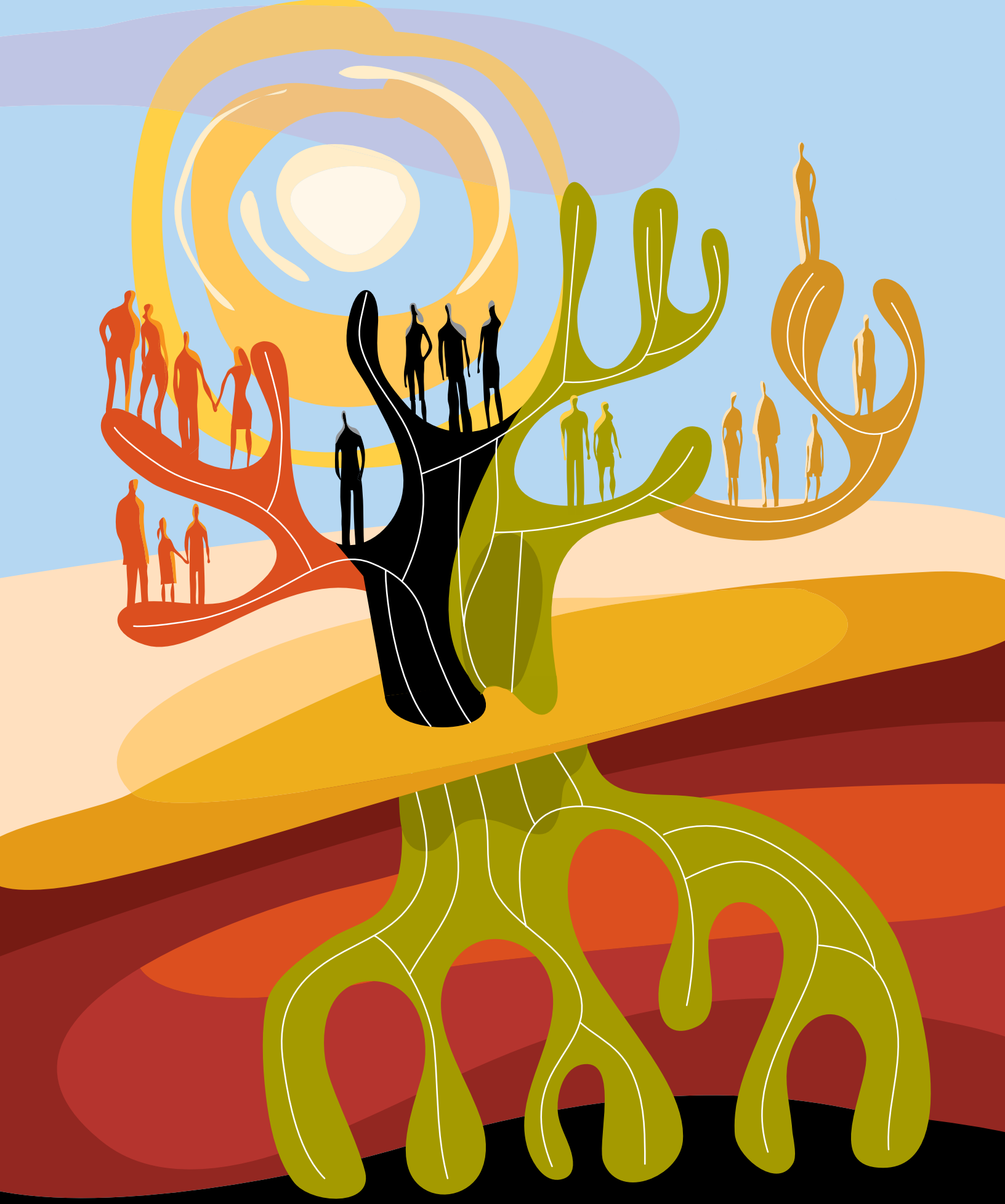
Popular Finance, que ofrece préstamos personales pequeños e hipotecas, reestructuró sus operaciones. Como resultado, su red cuenta ahora con 30 oficinas y siete centros hipotecarios en 25 municipios de la isla.

Como parte de los esfuerzos de reorganización, Popular Finance optimizó sus sistemas operacionales para mejorar el servicio al cliente y expandir su capacidad de originación de préstamos.

En mayo, Popular Finance estableció Popular Sales Credit, un servicio indirecto de financiamiento ofrecido a través de concesionarios autorizados. Este nuevo producto de crédito provee una nueva fuente de ingresos que complementa los ingresos generados por los productos de préstamos y los ingresos de cargos por servicios, tales como el pago de facturas y la venta de giros.

"Laboratorio Borinquen fue fundado hace 31 años. Comenzamos con sólo un laboratorio clínico y ahora somos dueños de 17. Sin el Banco Popular, no estuviésemos donde estamos. Al principio, cuando la asistencia financiera nos era más necesaria, nos brindaron su confianza. Desde entonces, siempre han estado dispuestos a ayudarnos".

Delia Manrique de Whitlock



SISTEMA DE DISTRIBUCIÓN	
Banco Popular North America	**Equity One**
• 96 sucursales en 6 estados • Banca Telefónica • Popular Net Banking (Banca por Internet) • 131 cajeros automáticos • 542 terminales de punto de venta	• 153 oficinas en 26 estados
	Popular Leasing, U.S.A.
	• 13 oficinas en 11 estados
	Popular Insurance, U.S.A.
	• 1 oficina
Popular Cash Express	
• 136 tiendas • 59 unidades móviles	

Nuestro negocio en los **Estados Unidos** continentales se hace más fuerte y extenso cada año. Lo que comenzó como un esfuerzo para capitalizar en el potencial del mercado hispano, se ha expandido más allá de esta comunidad. Nos hemos establecido como una fuente confiable de servicios financieros para todo el mercado por nuestro servicio superior, nuestra línea completa de productos y la conveniencia de nuestras localizaciones. Nuestro éxito continuo en los Estados Unidos contribuirá significativamente al crecimiento futuro de nuestra Corporación.

ESTADOS UNIDOS

Banco Popular North America (BPNA) es el banco hispano más grande de los Estados Unidos con activos de $5,700 millones y más de 350,000 clientes con depósitos que ascienden a $4,800 millones. BPNA es un banco de servicios comerciales completos y orientado hacia las relaciones con clientes. Ofrece toda una gama de productos de crédito y depósito, tanto para clientes individuales como comerciales, a través de 96 sucursales en Nueva York, Nueva Jersey, Florida, Texas, Illinois y California. BPNA es uno de los participantes principales en el programa de préstamos a pequeños negocios y se encuentra entre los primeros 10 prestatarios en los Estados Unidos de la Administración de Pequeños Negocios (SBA).

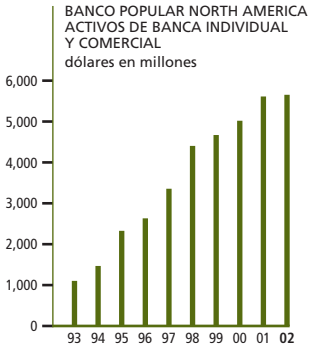
El 2002 fue un año clave para la organización. Durante el primer semestre, BPNA anunció una serie de iniciativas estratégicas bajo el tema "A New Day". El objetivo principal fue comunicar a sus empleados una organización gerencial revisada, un plan estratégico de tres años y las guías para alcanzar su nueva visión: convertirse en el banco comunitario por excelencia en los mercados que sirve a la vez que maximiza sus oportunidades en el mercado hispano.

Como parte de sus esfuerzos del "New Day", BPNA centralizó las áreas operacionales y de apoyo en sus nuevas oficinas centrales de Rosemont, Illinois. Una revisión exhaustiva de los procesos operacionales y de sucursales resultó en una reorganización dirigida a crear las bases para apoyar un crecimiento significativo y más eficiencia en los procesos del negocio. Estos esfuerzos redujeron los costos asociados con los procesos operacionales y de sucursales, resultaron en amplias mejoras en la productividad, y ayudaron a aumentar los ingresos netos por más de un 100%.

BPNA también lanzó "Popularity", una campaña publicitaria institucional que reseña clientes reales. La campaña presenta la base de clientes diversa del Banco y se enfoca en expandir el atractivo de la marca Popular a todos los segmentos de sus mercados. El tema de la campaña "Convierta Sueños en Realidad" (Make Dreams Happen) es consistente con la nueva estrategia de enfocarse en la clase trabajadora y su compromiso con las necesidades individuales de sus clientes.

"Aspire es una agencia sin fines de lucro que provee servicios a individuos con problemas en el desarrollo. Para nosotros, el contar con un Banco que tiene la capacidad de satisfacer nuestras necesidades de crecimiento es un componente crítico de nuestra interacción de trabajo. Banco Popular absorbe gran parte del peso de manejar una agencia grande".

Ann M. Shannon



Popular Cash Express (PCE) complementa la red de distribución de BPNA enfocándose en el creciente segmento no bancarizado. Ofrece toda una gama de servicios financieros a individuos, incluyendo cambio de cheques, transferencias cablegráficas, pago de servicios básicos y giros. En el 2002, PCE continuó con su estrategia agresiva de crecimiento, y cerró el año con 136 tiendas en California, Florida, Arizona, Texas, Nueva York y Washington, D.C., y operando 59 unidades móviles en el área metropolitana de Los Angeles. PCE se convirtió así en la tercera compañía más grande de cambios de cheques en los Estados Unidos. PCE generó ingresos de $27.3 millones en el 2002, un aumento de 18% comparado con $23.2 millones en el 2001, terminando el año con aproximadamente 500,000 clientes.

Equity One es una compañía diversificada de financiamiento individual que ofrece una línea completa de préstamos hipotecarios asegurados y no asegurados, y para mejoras al hogar. Opera una red de 153 sucursales localizadas en 26 estados. Durante el 2002, Equity One propulsó su crecimiento al desarrollar una unidad para préstamos a hispanos y dar énfasis continuo al servicio al cliente. A fin de año, su base de clientes había aumentado a 150,000 y sus cuentas por cobrar alcanzaron los $4,900 millones.

Popular Leasing, U.S.A., con oficinas centrales en Ellisville, Missouri, ofrece arrendamiento de equipo liviano y provee arrendamiento de equipo médico a través de suplidores médicos. Con 13 sucursales en 11 estados, sus clientes pueden tener acceso a información y someter solicitudes a través del Internet en la página de Popular Leasing, www.popularleasingusa.com. El total de activos aumentó un 8%, alcanzando $149 millones a fin de año.

Popular Insurance U.S.A., la subsidiaria de seguros en los Estados Unidos, ofrece productos de seguro e inversión a través de la red nacional de sucursales de BPNA. Tiene licencia para operar como agente de seguro en 23 estados. En sus primeros nueve meses de operaciones, la fuerza de venta de Popular Insurance, U.S.A. creció a 20 representantes. Cinco de las seis regiones de BPNA ahora cuentan con representantes autorizados.

"Somos los dueños de Don Pepe's Cuban Café y Pepito's Cuban Café. El apoyo de Banco Popular en nuestros primeros días nos proveyó oportunidades fenomenales. El Banco cuenta con un ambiente familiar que no deja de ser completamente profesional. Cuando entro, me conocen por mi nombre, y eso hace toda la diferencia del mundo".

Rubén Pérez

SISTEMA DE DISTRIBUCIÓN	
Puerto Rico	**Caribe**
• 1,261 cajeros automáticos • 46,383 terminales de punto de venta	• CONTADO, S.A. – 1,143 cajeros automáticos – 15,867 terminales de punto de venta • Banco Popular Virgin Islands – 12 cajeros automáticos – 1,006 terminales de punto de venta
América Latina	
• ATH Costa Rica – 530 cajeros automáticos – 4,750 terminales de punto de venta	

Nuestro negocio de **Procesamiento** refleja el carácter dinámico e innovador de Popular. La Corporación continuamente maximiza su experiencia tecnológica para diversificar sus negocios y ofrecer los mejores productos y servicios a clientes. Estamos fuertemente posicionados para ofrecer los servicios de procesamiento más completos exportando nuestras capacidades a los mercados que servimos incluyendo Puerto Rico, el Caribe y América Latina. Nuestros esfuerzos incesantes para innovar y crear oportunidades nuevas de negocio contribuirán a nuestra solidificación en éstos y otros mercados potenciales.

PROCESAMIENTO

GM Group es el proveedor líder de servicios de banca electrónica y sistemas de información en toda la región del Caribe. Ofrece una amplia cartera de servicios a través de sus cinco oficinas en San Juan, Caracas, Santo Domingo y Miami, con presencia en 10 mercados: Costa Rica, República Dominicana, Venezuela, Haití, El Salvador, Honduras, Dominica, Belice, Nicaragua y Puerto Rico. Sus servicios incluyen el manejo de redes de cajeros automáticos ATH, procesamiento de datos, asesoramiento, venta de "software" y "hardware," diseño e implantación de sistemas y servicios de recuperación de información para negocios.

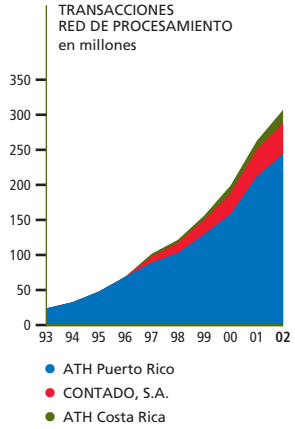
El negocio de manejo de redes ATH de GM tiene operaciones en Puerto Rico, la República Dominicana y Costa Rica bajo la marca ATH. Red ATH continúa siendo la red de cajeros automáticos más grande de Puerto Rico, con un 16% de aumento en el volumen total de transacciones. Durante el 2002, la red reportó un aumento de 9% en cajeros ATH, para un total de 1,261, y otro aumento de 9% en terminales de punto de venta (POS), para un total de 46,383 terminales manejados por la red.

GM Group aprovechó las nuevas oportunidades de negocio que se le presentaron en Puerto Rico durante el 2002. Entre las principales oportunidades están el haber convertido a la red ATH tres importantes bancos locales anteriormente afiliados a una red competidora, y el lanzamiento de una tarjeta de regalos de marca privada para el centro comercial más grande del Caribe, la cual se acepta en más de 100 tiendas. El negocio de Transferencia Electrónica de Beneficios (EBT) de GM Group siguió solidificándose en el mercado local. Como parte de sus iniciativas de EBT, GM Group continuó trabajando con entidades del Gobierno para desarrollar soluciones tecnológicas, incluyendo el desarrollo de un sistema electrónico de pago de peajes, la creación de redes automáticas de información y tarjetas de débito para beneficios gubernamentales.

Durante el 2002, el Consorcio de Tarjetas Dominicanas (CONTADO, S.A.), la inversión de Popular en redes en la República Dominicana, aumentó su penetración por medio de varias iniciativas estratégicas. Estas iniciativas incluyen la venta de tarjetas de llamadas telefónicas prepagadas a través de cajeros automáticos,

"Cuando regresé del servicio militar en 1962, compré un camión y empecé a comprar y vender vegetales para diferentes supermercados alrededor de la isla. Banco Popular estuvo presente desde un principio y mientras Empacadora Hill Brothers fue prosperando Banco Popular nos brindó su confianza cuando más la necesitábamos. Hoy contamos con más de 150 empleados y continuamos teniendo todas nuestras relaciones financieras con Popular."

Cecilio Massanet y Emma Rosario



la automatización de un sistema interno de contabilidad y la conexión a la red del Banco de Reservas, el único banco gubernamental de la República Dominicana. Además, CONTADO se convertirá en el primer proveedor en América Latina y el Caribe en participar en el programa piloto de Visa chip, a ser lanzado durante la primera mitad de 2003. La red conectó 1,143 cajeros ATH y 15,867 terminales POS, lo que refleja un aumento de 17% y 37%, respectivamente, sobre el año anterior. El volumen total de transacciones aumentó en 14%, para un total de aproximadamente 44 millones de transacciones.

ATH Costa Rica continuó su rápido crecimiento en el 2002. El número de cajeros automáticos en la red aumentó un 89%, para un total de 530, a la vez que los terminales POS crecieron un 7% a 4,750. El volumen de transacciones POS alcanzó 6 millones, un incremento de 33% sobre el año anterior. Como parte de sus esfuerzos en el negocio de procesamiento de tarjetas de crédito, la red se convirtió en un proveedor regional de servicios para miembros emisores de MasterCard (MasterCard Issuer Member Service Provider), lo que le permitió entrar a los mercados de Belice y Nicaragua.

Banco Popular también lanzó ticketpop, un servicio de procesamiento de boletos. Este sistema de distribución y venta de boletos apoya ventas en persona, por teléfono y por Internet. Ticketpop comenzó inicialmente como una alianza estratégica con Caribbean Cinemas, la red de cines más grande del Caribe, permitiéndole vender boletos en nueve salas de cine a través de máquinas dispensadoras de boletos. En los primeros ocho meses de operaciones, ticketpop vendió aproximadamente 50,000 boletos. En septiembre de 2002, se añadieron nuevas funciones a la página de Internet www.ticketpop.com para que los clientes pudiesen comprar boletos para conciertos, eventos deportivos, artísticos y otros. Ticketpop vendió más de 40,000 de estos boletos.

"Banco Popular y GM Group han sobrepasado nuestras expectativas en múltiples ocasiones. Nos ayudaron a instalar terminales de POS directamente a las cajas registradoras, haciendo que Mr. Special sea el primer establecimiento en Puerto Rico en utilizar este tipo de tecnología. Esta iniciativa nos ha provisto con ahorros substanciales. Estamos completamente satisfechos con el servicio que nos han brindado."

Edwin Alonso


ABC

NUESTRA COMUNIDAD

Popular es mucho más que una institución financiera. Desde su fundación hace más de 109 años, Popular ha estado comprometido con el bienestar social de las comunidades que sirve. Apoya las expresiones culturales y educativas de nuestra gente y la promoción del deporte como vehículo de superación para niños y jóvenes. Además, Popular se ha distinguido por la implantación de iniciativas y programas de desarrollo comunitario, que estimulan la autogestión y la integración de todos los sectores poblacionales a la corriente bancaria.

Este compromiso social se complementa con un robusto programa de auspicios y donativos y con una participación activa de los empleados en contribuir económicamente y con su labor voluntaria a entidades benéficas de nuestra comunidad.

Durante el 2002, Popular realizó donaciones por $6.6 millones a más de 350 organizaciones comunitarias. Ha realizado una inversión consistente en la formación y el desarrollo académico de estudiantes a través de donaciones a programas educativos y universidades. BPNA, por su parte, renovó su relación con el Fondo de Becas Hispano y estableció una sociedad con el FDIC para desarrollar conjuntamente la versión en español de MoneySmart, un programa diseñado para educar a la comunidad hispana sobre la importancia de la planificación financiera.

Además, Popular mantiene un firme compromiso de patrocinar las artes, apoyando las salas de expresión artística más importantes de nuestras comunidades y contribuyendo a ofrecer actividades culturales para el enriquecimiento de todos. Como legado a la tradición musical la producción del 2002, *Encuentro*, fue dedicada a tres destacados cantautores hispanos: Rubén Blades, Juan Luis Guerra y Robi Dräco Rosa. A través de este especial se logra un tributo a la obra de composición y a la interpretación artística de estos tres pilares de la música contemporánea. Parte de los recaudos de las ventas están destinados a la Fundación Banco Popular para respaldar proyectos educativos y comunitarios.

Fundación Banco Popular estimula proyectos innovadores en la Escuela Juan Ponce de León.

POPULAR, INC.
DONACIONES Y AUSPICIOS
porcentaje

- Cultural: 50%
- Cívico–Comunitario: 38%
- Educativo: 6%
- Deportes: 6%

De igual forma, durante más de 23 años la Fundación Banco Popular ha mantenido su objetivo de participar activa y efectivamente en el mejoramiento de la calidad de vida de las comunidades en Puerto Rico. Promueve el bienestar social a través de proyectos dirigidos a mejorar la educación, el arte, el desarrollo de comunidades y la condición de vida de personas menos privilegiadas. Su enfoque principal es la educación y la promoción de proyectos innovadores de desarrollo comunitario que permitan aspirar a la excelencia.

Durante el 2002 Fundación Banco Popular concedió fondos por la cantidad de $771,000 a 49 entidades benéficas. Además, participó en programas dirigidos a la transformación comunitaria como Iniciativa Comunitaria, aportando recursos legales y financieros. De igual forma, inauguró el centro musical del Instituto Loaíza Cordero, dedicado a fortalecer la educación musical de estudiantes no videntes.

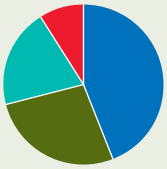
Este proyecto se sufragó con el producto de las ventas del especial musical *Guitarra Mía*. Varios empleados colaboraron en maximizar la inversión, y ofrecieron servicios de planificación de espacios y compra de equipos, logrando así unas instalaciones sobresalientes para estudiantes con necesidades especiales. La Fundación también participó en la creación de un fondo dotal para el Conservatorio de Música de Puerto Rico, institución principal dedicada a fomentar la educación musical.

A través del Programa de Voluntariado de Fundación Banco Popular, los empleados continúan comprometidos con las comunidades que servimos. Mensualmente más del 51% de los empleados de Popular aporta una contribución voluntaria mediante deducción de nómina a la Fundación. En el 2002, la contribución voluntaria ascendió a $231,284. Además, se estableció un Pareo de Fondos, mediante el cual los empleados de siete unidades de Popular otorgaron su contribución voluntaria a entidades sin fines de lucro. Esos empleados aportaron un total de $71,235 y la Fundación hizo un pareo por la misma cantidad. Asimismo, en el 2002 nuestros empleados participaron en una variedad de actividades de labor voluntaria como la protección del medio ambiente, la construcción de nuevas viviendas para personas necesitadas, la recaudación de fondos para diversas causas benéficas y la participación en escuelas como mentores.

A través del Fondo de Becas Rafael Carrión, Jr., se distribuyeron $267,100 en 175 becas para hijos de empleados y jubilados de Popular. Además, 15 estudiantes puertorriqueños cursando estudios de bachillerato en la Wharton School de la Universidad de Pensilvania han recibido becas a través de otro fondo establecido en 1994, cuyo balance asciende a $531,294.

Popular y sus empleados mantienen el compromiso de trabajar activamente para mejorar el bienestar social, económico y educativo de sus comunidades. Nuestra contribución al desarrollo social y al mejoramiento de la calidad de vida de las comunidades que servimos refleja los valores que nos han definido como institución desde nuestros comienzos.

FUNDACIÓN BANCO POPULAR DONACIONES
porcentaje



- Desarrollo Comunitario: 42%
- Educación: 29%
- Necesidades Especiales: 20%
- Artes: 9%

El centro musical del Instituto Loaíza Cordero para la educación de estudiantes no videntes se sufragó con el producto de la venta del especial musical *Guitarra Mía*.

A través del Programa de Voluntariado empleados de Popular dedican sus recursos y tiempo a la limpieza y reforestación de la Playa Esperanza.

CONSEJO GERENCIAL

Richard L. Carrión
Presidente de la Junta de Directores
Presidente
Principal Oficial Ejecutivo

David H. Chafey, Jr.
Primer Vicepresidente Ejecutivo
Banca Individual

Jorge A. Junquera
Primer Vicepresidente Ejecutivo
Principal Oficial Financiero

María Isabel Burckhart
Vicepresidente Ejecutivo
Administración

Carlos Colino
Vicepresidente Ejecutivo
GM Group

Roberto R. Herencia
Vicepresidente Ejecutivo
Norteamérica

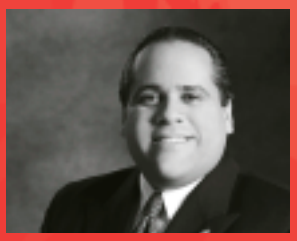
Larry B. Kesler
Vicepresidente Ejecutivo
Crédito a Individuos

Tere Loubriel
Vicepresidente Ejecutivo
Recursos Humanos

Lcdo. Emilio E. Piñero Ferrer
Vicepresidente Ejecutivo
Banca Comercial

Lcda. Brunilda Santos de Álvarez
Vicepresidente Ejecutivo
Legal

Carlos J. Vázquez
Vicepresidente Ejecutivo
Manejo de Riesgo



Félix M. Villamil
Vicepresidente Ejecutivo
Operaciones

GRUPO GERENCIAL POPULAR, INC.

PUERTO RICO

Banco Popular de Puerto Rico
Richard L. Carrión
Presidente de la Junta de Directores
Presidente
Principal Oficial Ejecutivo

Grupo de Banca Individual
David H. Chafey, Jr.

Orlando Berges
Región Bayamón

Jorge Biaggi[1]
Denise Draper[2]
Región Hato Rey

Félix León
Región Este

Carlos J. Mangual
Región Caguas

Maritza Méndez
Región Río Piedras

Miguel Ripoll
Región San Juan

Carlos Rodríguez
Región Oeste

Edgar Roig
Región Ponce

Elí Sepúlveda, Jr.
Región Arecibo/Manatí

Juan Guerrero
Servicios Financieros y de Inversión

Néstor O. Rivera
Banca Individual

Lizzie Rosso
Sistemas Alternativos de Distribución

Grupo de Crédito a Individuos
Larry B. Kesler[3]
David H. Chafey, Jr.[4]

Linda C. Colón
Servicios y Subsidiarias de Crédito a Individuos

Popular Auto, Inc.
Andrés Morrell
Presidente

Popular Finance, Inc.
Rafael Negrón
Presidente

Fabio García
Crédito a Individuos

Popular Mortgage, Inc.
Silvio López
Presidente

Raúl Colón
Servicios de Hipotecas

Valentino I. McBean
Región Islas Vírgenes

Grupo Banca Comercial
Lcdo. Emilio E. Piñero Ferrer

Financiamiento Estructurado

Yamil Castillo
Préstamos de Construcción

Cynthia Toro
Banca de Negocio

Ricardo Toro
Banca Corporativa

Grupo de Finanzas
Jorge A. Junquera

Richard Barrios
Tesorería e Inversiones

Lcdo. Luis R. Cintrón
Fideicomiso

Lcdo. Amílcar L. Jordán
Contralor

Iván Pagán
Adquisiciones e Inversiones Corporativas

Popular Securities, Inc.
Kenneth W. McGrath
Presidente

Grupo de Administración
María Isabel Burckhart

Ginoris López-Lay
Planificación Estratégica y Mercadeo

Olga Mayoral Wilson
Relaciones Públicas y Comunicaciones

Jaime L. Nazario Yordán
Bienes Raíces Corporativos

Grupo de Recursos Humanos
Tere Loubriel

Grupo Legal
Lcda. Brunilda Santos de Álvarez

Lcdo. Eduardo J. Negrón
Legal

Grupo de Operaciones
Félix M. Villamil

Luis O. Abreu
Apoyo Financiero y Operacional

José L. Casas
Servicios de Computadoras y Redes

Ramón L. Meléndez
Programación

Roberto Negrón
Operaciones

Otto Rosario
Procesamiento de Transacciones

Héctor Torres
Seguridad

Grupo Manejo de Riesgo
Carlos J. Vázquez

Jesús Aldarondo
Manejo de Riesgo Operacional

Ana Carmen Alemañy
Manejo de Riesgo de Crédito

Lcda. María de Lourdes Jiménez
Cumplimiento Corporativo

José A. Méndez
Auditor General

GM Group, Inc.
Carlos Colino
Presidente de la Junta de Directores
Principal Oficial Ejecutivo

Walter Cervoni
Presidente

Popular Insurance, Inc.
Angela Weyne
Presidente

ESTADOS UNIDOS

Banco Popular North America, Inc.
Richard L. Carrión
Presidente de la Junta de Directores
Principal Oficial Ejecutivo

Roberto R. Herencia
Presidente

Manuel Chinea
Mercadeo y Desarrollo de Productos

Jeannette Frett
Mari Pat Varga
Gente y Liderazgo

Chris McFadden
Contralor

César Medina
Manejo de Riesgo

James Norini
Administración

Alberto Paracchini
Finanzas y Tesorería

Richard Peterson
Banco de la Comunidad

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Región Sur de California

Mike Carr
Región Houston

Michele Imbasciani
Región Nueva York Metro

Mercedes F. McCall
Región Orlando

Javier Ubarri
Región Chicago

Richard Stiles
Banca Comercial

Popular Cash Express, Inc.
Chris McFadden
Presidente Interino

Popular Leasing, U.S.A.
Bruce D. Horton
Presidente

Banco Popular, National Association
Jorge A. Junquera
Presidente

Equity One, Inc.
C.E. (Bill) Williams
Presidente

[1] Hasta el 1ro de enero de 2003
[2] Desde el 16 de enero de 2003
[3] Hasta el 31 de diciembre de 2002
[4] Desde el 1ro de enero de 2003

JUNTAS DE DIRECTORES

POPULAR, INC.

Richard L. Carrión
Presidente de la Junta de Directores
Presidente
Principal Oficial Ejecutivo

Antonio Luis Ferré
Vicepresidente de la Junta de Directores
Presidente de la Junta de Directores
El Nuevo Día

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Socio
Bermúdez & Longo, S.E.

José B. Carrión, Jr.
Inversionista Privado

David H. Chafey, Jr.
Primer Vicepresidente Ejecutivo
Popular, Inc.

Héctor R. González
Presidente
Principal Oficial Ejecutivo
Ventek Group, Inc.

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Primer Vicepresidente Ejecutivo
Popular, Inc.

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Parkview Realty, Inc.

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Presidente
Capital Assets, Inc.

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Junta de Directores

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Secretario Auxiliar
Junta de Directores

Lcdo. Ernesto N. Mayoral
Secretario Auxiliar
Junta de Directores

Lcdo. Eduardo J. Negrón
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Junta de Directores

BANCO POPULAR DE PUERTO RICO

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Grupo Ferré Rangel

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Principal Oficial Ejecutivo
GM Capital

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Puerto Rico Telephone Co.
Verizon Wireless Puerto Rico

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Junta de Directores

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Secretario Auxiliar
Junta de Directores

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Secretario Auxiliar
Junta de Directores

Lcdo. Eduardo J. Negrón
Secretario Auxiliar
Junta de Directores

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Presidente

Alfonso F. Ballester
Presidente
Ballester Hermanos, Inc.

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Popular, Inc.

Francisco M. Rexach, Jr.
Presidente
Capital Assets, Inc.

Félix J. Serrallés Nevares
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Principal Oficial Ejecutivo
Speer & Associates, Inc.

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Principal Oficial Ejecutivo
Desarrollos Metropolitanos, S.E.

Lcda. Brunilda Santos de Álvarez
Secretario
Junta de Directores

Lcdo. Eduardo J. Negrón
Secretario Auxiliar
Junta de Directores

PRICEWATERHOUSECOOPERS

INFORME DE LOS AUDITORES INDEPENDIENTES

A la Junta de Directores y Accionistas de Popular, Inc.:

Hemos auditado, de acuerdo a las normas de auditoría generalmente aceptadas en los Estados Unidos de América, el estado de situación consolidado de Popular, Inc. y sus subsidiarias al 31 de diciembre de 2002 y 2001, y los correspondientes estados consolidados de ingreso, de utilidad integral, de cambios en el patrimonio de los accionistas y de flujos de efectivo para cada uno de los tres años en el período terminado el 31 de diciembre de 2002, (los cuales no se presentan aquí) que aparecen en la Información Suplementaria y Revisión Financiera del año 2002 a los accionistas de Popular, Inc. y la cual se incorpora por referencia en el Informe Anual de Popular, Inc. en la Forma 10-K para el año terminado el 31 de diciembre de 2002; y nuestro informe con fecha del 28 de febrero de 2003, expresa una opinión sin salvedades sobre esos estados financieros consolidados con un párrafo sobre la adopción del SFAS Núm. 142 "Plusvalía y Otros Activos Intangibles".

En nuestra opinión, la información presentada en los estados condensados que se acompañan de situación consolidada y de ingresos y gastos consolidados, cuando se toma en conjunto con los estados financieros consolidados de los cuales se derivan, está presentada razonablemente, en todos los aspectos significativos, con relación a estos.

San Juan, Puerto Rico
28 de febrero de 2003

Estampilla 1838468 del Colegio de Contadores Públicos Autorizados de Puerto Rico fue adherida a la copia de récord de este informe.

ESTADOS CONDENSADOS DE SITUACIÓN CONSOLIDADA

(En miles)	Al 31 de diciembre de 2002	2001
Activos		
Efectivo en caja y bancos	$ 652,556	$ 606,142
Inversiones en el mercado monetario	1,094,646	823,790
Inversiones en valores a la venta, al valor en el mercado	510,346	270,186
Inversiones en valores disponibles para la venta, al valor en el mercado	10,531,903	9,284,401
Inversiones en valores para mantenerse hasta su vencimiento, al costo amortizado	180,751	592,360
Préstamos retenidos para la venta, al menor de su costo o valor en el mercado	1,092,927	939,488
Préstamos	18,775,847	17,556,029
Menos – Ingresos no devengados	286,655	326,966
Reserva para pérdidas en préstamos	372,797	336,632
	18,116,395	16,892,431
Locales y equipo	461,177	405,705
Otros bienes raíces	39,399	31,533
Ingresos por recibir	184,549	186,143
Otros activos	578,091	496,855
Plusvalía	182,965	177,842
Otros activos intangibles	34,647	37,800
	$ 33,660,352	$ 30,744,676
Pasivos y Capital		
Pasivos:		
Depósitos:		
Que no conllevan intereses	$ 3,367,385	$ 3,281,841
Que conllevan intereses	14,247,355	13,088,201
	17,614,740	16,370,042
Fondos federales comprados y valores vendidos bajo convenios de recompra	6,684,551	5,751,768
Dinero tomado a préstamo a corto plazo	1,703,562	1,827,242
Obligaciones por pagar	4,298,853	3,735,131
Otros pasivos	677,605	512,686
	30,979,311	28,196,869
Obligaciones subordinadas	125,000	125,000
Interés beneficiario preferencial en las obligaciones subordinadas con interés diferible de Popular North America garantizadas por la Corporación	144,000	149,080
Interés minoritario en subsidiarias consolidadas	1,162	909
Capital:		
Acciones preferidas	—	100,000
Acciones comunes	834,799	832,498
Fondo de reserva	278,366	268,544
Beneficios acumulados	1,300,437	1,057,724
Acciones en cartera, al costo	(205,210)	(66,136)
Otra utilidad integral acumulada, neta de contribuciones	202,487	80,188
	2,410,879	2,272,818
	$ 33,660,352	$ 30,744,676

ESTADOS CONDENSADOS DE INGRESOS Y GASTOS CONSOLIDADOS

(En miles, excepto la información por acción)	Para el año terminado el 31 diciembre de 2002	2001	2000
Ingresos Por Intereses			
Préstamos	**$ 1,528,903**	$ 1,559,890	$ 1,586,832
Inversiones en el mercado monetario	**32,505**	47,610	62,356
Inversiones en valores	**445,925**	473,344	486,198
Valores a la venta	**16,464**	15,018	14,771
	2,023,797	2,095,862	2,150,157
Gastos De Intereses			
Depósitos	**431,128**	518,168	529,373
Dinero tomado a préstamo a corto plazo	**185,250**	329,648	508,029
Obligaciones a largo plazo	**227,090**	171,061	129,994
	843,468	1,018,877	1,167,396
Ingreso neto por intereses	**1,180,329**	1,076,985	982,761
Provisión para pérdidas en préstamos	**205,570**	213,250	194,640
Ingreso neto por intereses después de provisión para pérdidas en préstamos	**974,759**	863,735	788,121
Cargos por servicio a cuentas de depósitos	**157,713**	146,994	125,519
Otros cargos por servicio	**258,543**	242,547	215,995
(Pérdida) ganancia en venta de valores de inversión	**(3,342)**	27	11,201
Pérdida en derivados	**(20,085)**	(20,228)	—
(Pérdida) ganancia en valores a la venta	**(804)**	(1,781)	1,991
Ganancia en venta de préstamos	**59,340**	45,633	39,673
Otros ingresos de operación	**72,313**	58,396	69,681
	1,498,437	1,335,323	1,252,181
Gastos De Operación			
Costos de personal	**488,741**	425,142	394,176
Gastos de locales – netos	**78,503**	72,100	67,720
Gastos de equipo	**99,099**	97,383	98,022
Otros impuestos	**37,144**	38,756	34,125
Honorarios profesionales	**84,660**	73,735	64,851
Comunicaciones	**53,892**	48,883	45,689
Promoción de negocios	**61,451**	50,783	46,791
Impresión y suministros	**19,918**	17,804	20,828
Otros gastos de operación	**96,490**	74,185	69,673
Amortización de intangibles	**9,104**	27,438	34,558
	1,029,002	926,209	876,433
Ingreso antes de contribución sobre ingresos e interés minoritario	**469,435**	409,114	375,748
Contribución sobre ingresos	**117,255**	105,280	100,797
(Ganancia) pérdida neta del interés minoritario	**(248)**	18	1,152
Ingreso antes del efecto acumulativo de cambio en principios de contabilidad	**351,932**	303,852	276,103
Efecto acumulativo de cambio en principios de contabilidad, neto de contribuciones	**—**	686	—
Ingreso Neto	**$ 351,932**	$ 304,538	$ 276,103
Ingreso Neto Aplicable a Los Accionistas Comunes	**$ 349,422**	$ 296,188	$ 267,753
Ingreso Neto Por Acción Común (Básico y Diluído) (Antes y Después del Efecto Acumulativo de Cambio en Principios de Contabilidad)	**$ 2.61**	$ 2.17	$ 1.97

Para un conjunto completo de estados financieros consolidados auditados en conformidad con los principios de contabilidad generalmente aceptados en los Estados Unidos de América, favor de referirse a la Información Suplementaria y Revisión Financiera de 2002 a los accionistas de Popular, Inc. incorporada por referencia en el Informe Anual de Popular, Inc. en la Forma 10-K para el año terminado el 31 de diciembre de 2002.

RESUMEN FINANCIERO HISTÓRICO – 25 AÑOS

(Dólares en millones, excepto información por acción)	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
Información Financiera Seleccionada											
Ingreso neto por intereses	$ 89.8	$ 110.6	$ 130.0	$ 135.9	$ 151.7	$ 144.9	$ 156.8	$ 174.9	$ 184.2	$ 207.7	$ 232.5
Ingreso operacional	9.8	13.5	14.2	15.8	15.9	19.6	19.0	26.8	41.4	41.0	54.9
Gastos operacionales	72.1	88.8	101.3	109.4	121.2	127.3	137.2	156.0	168.4	185.7	195.6
Ingreso neto	12.6	18.2	23.5	24.3	27.3	26.8	29.8	32.9	38.3	38.3	47.4
Activos	$2,105.5	$2,472.0	$2,630.1	$2,677.9	$2,727.0	$2,974.1	$3,526.7	$4,141.7	$4,531.8	$5,389.6	$5,706.5
Préstamos netos	904.2	974.1	988.4	1,007.6	976.8	1,075.7	1,373.9	1,715.7	2,271.0	2,768.5	3,096.3
Depósitos	1,792.4	2,045.8	2,060.5	2,111.7	2,208.2	2,347.5	2,870.7	3,365.3	3,820.2	4,491.6	4,715.8
Capital de Accionistas	98.5	112.4	122.1	142.3	163.5	182.2	203.5	226.4	283.1	308.2	341.9
Valor agregado en el mercado	$ 62.5	$ 70.3	$ 45.0	$ 66.4	$ 99.0	$ 119.3	$ 159.8	$ 216.0	$ 304.0	$ 260.0	$ 355.0
Rendimiento sobre activos (ROA)	0.65%	0.79%	0.92%	0.90%	0.96%	0.95%	0.94%	0.89%	0.88%	0.76%	0.85%
Rendimiento sobre capital (ROE)	13.64%	17.56%	19.96%	18.36%	17.99%	15.86%	15.83%	15.59%	15.12%	13.09%	14.87%
Por Acción Común[1]											
Ingreso neto	$ 0.17	$ 0.25	$ 0.34	$ 0.34	$ 0.38	$ 0.37	$ 0.41	$ 0.46	$ 0.50	$ 0.48	$ 0.59
Dividendos declarados	0.05	0.06	0.07	0.06	0.08	0.11	0.12	0.14	0.15	0.17	0.17
Valor en los libros	1.05	1.53	1.66	1.93	2.22	2.47	2.76	3.07	3.46	3.77	4.19
Precio en el mercado	0.87	0.98	1.01	0.92	1.38	1.66	2.22	3.00	4.00	3.34	4.44
Activos por Área Geográfica											
Puerto Rico	96.59%	96.54%	95.53%	94.65%	94.63%	93.70%	91.31%	92.42%	91.67%	94.22%	93.45%
Estados Unidos	3.41%	3.46%	4.47%	5.14%	5.01%	5.23%	7.52%	6.47%	7.23%	5.01%	5.50%
Caribe y América Latina				0.21%	0.36%	1.07%	1.17%	1.11%	1.10%	0.77%	1.05%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Sistema de Distribución Tradicional											
Sucursales Bancarias											
Puerto Rico	110	110	110	110	110	112	113	115	124	126	126
Islas Vírgenes				1	2	3	3	3	3	3	3
Estados Unidos	8	8	7	7	7	6	9	9	9	9	10
Subtotal	118	118	117	118	119	121	125	127	136	138	139
Oficinas No Bancarias											
Equity One											
Popular Cash Express											
Popular Finance										14	17
Popular Auto											
Popular Leasing, U.S.A.											
Popular Mortgage											
Popular Securities											
Popular Insurance											
Popular Insurance, U.S.A.											
Popular Insurance, V.I.											
Levitt Mortgage											
GM Group											
Subtotal										14	17
Total	118	118	117	118	119	121	125	127	136	152	156
Sistema de Distribución Electrónico											
Cajeros Automáticos											
Propios											
Puerto Rico						30	78	94	113	136	153
Caribe										3	3
Estados Unidos											
Subtotal						30	78	94	113	139	156
Administrados											
Puerto Rico							6	36	51	55	68
Caribe											
Subtotal							6	36	51	55	68
Total						30	84	130	164	194	224
Transacciones BPPR (en millones)											
Transacciones electrónicas						0.6	4.4	7.0	8.3	12.7	14.9
Efectos procesados	N/A	88.9	94.8	96.9	98.5	102.1	110.3	123.8	134.0	139.1	159.8
Empleados (equivalente a tiempo completo)	3,215	3,659	3,838	3,891	3,816	3,832	4,110	4,314	4,400	4,699	5,131

[1] *Datos ajustados por las divisiones en acciones.*

1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
$ 260.9	$ 284.2	$ 407.8	$ 440.2	$ 492.1	$ 535.5	$ 584.2	$ 681.3	$ 784.0	$ 873.0	$ 953.7	$ 982.8	$ 1,077.0	$ 1,180.3
63.3	70.9	131.8	124.5	125.2	141.3	173.3	205.5	247.6	291.2	372.9	464.1	471.6	523.7
212.4	229.6	345.7	366.9	412.3	447.8	486.8	541.9	636.9	720.4	837.5	876.4	926.2	1,029.0
56.3	63.4	64.6	85.1	109.4	124.7	146.4	185.2	209.6	232.3	257.6	276.1	304.5	351.9
$5,972.7	$8,983.6	$8,780.3	$10,002.3	$11,513.4	$12,778.4	$15,675.5	$16,764.1	$19,300.5	$23,160.4	$25,460.5	$28,057.1	$30,744.7	$33,660.4
3,320.6	5,373.3	5,195.6	5,252.1	6,346.9	7,781.3	8,677.5	9,779.0	11,376.6	13,077.8	14,907.8	16,057.1	18,168.6	19,582.1
4,926.3	7,422.7	7,207.1	8,038.7	8,522.7	9,012.4	9,876.7	10,763.3	11,749.6	13,672.2	14,173.7	14,804.9	16,370.0	17,614.7
383.0	588.9	631.8	752.1	834.2	1,002.4	1,141.7	1,262.5	1,503.1	1,709.1	1,661.0	1,993.6	2,272.8	2,410.9
$ 430.1	$ 479.1	$ 579.0	$ 987.8	$ 1,014.7	$ 923.7	$ 1,276.8	$ 2,230.5	$ 3,350.3	$ 4,602.4	$ 3,790.2	$ 3,578.1	$ 3,965.4	$ 4,476.4
0.99%	1.09%	0.72%	0.89%	1.02%	1.02%	1.04%	1.14%	1.14%	1.14%	1.08%	1.04%	1.09%	1.11%
15.87%	15.55%	10.57%	12.72%	13.80%	13.80%	14.22%	16.17%	15.83%	15.41%	15.45%	15.00%	14.84%	16.29%
$ 0.70	$ 0.79	$ 0.54	$ 0.70	$ 0.84	$ 0.92	$ 1.05	$ 1.34	$ 1.50	$ 1.65	$ 1.84	$ 1.97	$ 2.17	$ 2.61
0.20	0.20	0.20	0.20	0.23	0.25	0.29	0.35	0.40	0.50	0.60	0.64	0.76	0.80
4.69	4.92	5.25	5.76	6.38	6.87	7.91	8.80	10.37	11.86	11.51	13.92	15.93	18.20
5.38	4.00	4.81	7.56	7.75	7.03	9.69	16.88	24.75	34.00	27.94	26.31	29.08	33.80
92.18%	88.59%	86.67%	87.33%	79.42%	75.86%	75.49%	73.88%	74.10%	71.32%	70.95%	71.80%	67.66%	66.27%
6.28%	9.28%	10.92%	10.27%	16.03%	19.65%	20.76%	22.41%	23.34%	24.44%	25.17%	25.83%	29.84%	31.60%
1.54%	2.13%	2.41%	2.40%	4.55%	4.49%	3.75%	3.71%	2.56%	4.24%	3.88%	2.37%	2.50%	2.13%
100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
128	173	161	162	165	166	166	178	201	198	199	199	196	195
3	3	3	3	8	8	8	8	8	8	8	8	8	8
10	24	24	30	32	34	40	44	63	89	91	95	96	96
141	200	188	195	205	208	214	230	272	295	298	302	300	299
		27	41	58	73	91	102	117	128	137	136	149	153
									51	102	132	154	195
18	26	26	26	26	28	31	39	44	48	47	61	55	37
4	9	9	9	8	10	9	8	10	10	12	12	20	18
								7	8	10	11	13	13
						3	3	3	11	13	21	25	29
							1	2	2	2	3	3	5
											2	2	2
												1	1
													1
										2	2	1	2
										4	4	4	5
22	35	62	76	92	111	134	153	183	258	329	384	427	461
163	235	250	271	297	319	348	383	455	553	627	686	727	760
151	211	206	211	234	262	281	327	391	421	442	478	524	551
3	3	3	3	8	8	8	9	17	59	68	37	39	53
			6	11	26	38	53	71	94	99	109	118	131
154	214	209	220	253	296	327	389	479	574	609	624	681	735
65	54	73	81	86	88	120	162	170	187	102	118	155	174
							97	192	265	851	920	823	926
65	54	73	81	86	88	120	259	362	452	953	1,038	978	1,100
219	268	282	301	339	384	447	648	841	1,026	1,562	1,662	1,659	1,835
16.1	18.0	23.9	28.6	33.2	43.0	56.6	78.0	111.2	130.5	159.4	199.5	206.0	236.6
161.9	164.0	166.1	170.4	171.8	174.5	175.0	173.7	171.9	170.9	171.0	160.2	149.9	145.3
5,213	**7,023**	**7,006**	**7,024**	**7,533**	**7,606**	**7,815**	**7,996**	**8,854**	**10,549**	**11,501**	**10,651**	**11,334**	**10,960**

SUBSIDIARIAS

Banco Popular de Puerto Rico
Popular Auto, Inc.
Popular Finance, Inc.
Popular Insurance, Inc.
Popular Mortgage, Inc.
Levitt Mortgage
Popular Securities, Inc.
Banco Popular North America
Banco Popular, National Association
Popular Cash Express, Inc.
Popular Insurance, U.S.A.
Popular Leasing, U.S.A.
Equity One, Inc.
GM Group, Inc.
ATH Costa Rica/CreST, S.A.
ATH Dominicana/CONTADO, S.A.

INFORMACIÓN PARA LOS ACCIONISTAS

Contadores Públicos Autorizados
PricewaterhouseCoopers LLP

Reunión Anual
La reunión anual de accionistas de Popular, Inc. de 2003 se celebrará el miércoles, 30 de abril, a las 9:00 a.m. en el Edificio Centro Europa en San Juan, Puerto Rico.

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Correo electrónico: popular-stck-transfer@bppr.com

Información Adicional
Copias del Informe Anual en la Forma 10-K radicado con la Comisión de Valores e Intercambio e información financiera adicional se pueden conseguir dirigiendo sus solicitudes por escrito a:

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Primer Vicepresidente y Contralor
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MANAGEMENT'S DISCUSSION AND ANALYSIS
of Financial Condition and Results of Operations

This section provides a discussion and analysis of the consolidated financial position and financial performance of Popular, Inc. and its subsidiaries (the Corporation). All accompanying tables, financial statements and notes included elsewhere in this report should be considered an integral part of this analysis. The Corporation is a financial holding company, which offers a broad range of products and services to consumer and corporate customers in Puerto Rico, the United States, the Caribbean and Central America. The Corporation's subsidiaries are engaged in the following businesses:

- Commercial Banking – Banco Popular de Puerto Rico (BPPR), Banco Popular North America (BPNA), and Banco Popular, National Association (BP, N.A.)
- Auto Loans and Lease Financing – Popular Auto, Inc. and Popular Leasing, U.S.A.
- Mortgage and Consumer Lending – Popular Mortgage, Inc., Equity One, Inc., Popular Finance, Inc. and Levitt Mortgage Corporation.
- Broker/Dealer – Popular Securities, Inc.
- Processing and Information Technology Services and Products – GM Group, ATH Costa Rica and CreST, S.A.
- Retail Financial Services – Popular Cash Express, Inc.
- Insurance Agency – Popular Insurance, Inc., Popular Insurance Agency U.S.A., Inc. and Popular Insurance V.I., Inc.

OVERVIEW

The year 2002 was challenging for the markets and investors alike. It was characterized by significant corporate scandals, the continued fight against terrorism and heightened geopolitical risks, such as a U.S. war against Iraq. Sluggish economic data and weaker than expected corporate profits dampened any chance of a quick bounce back from the poor economic conditions that prevailed throughout the year. The Federal Reserve intervened only once by reducing its federal funds target rate by a larger than expected 50 basis points to 1.25% in November. They felt the economy still needed the lowest borrowing costs in four decades in order to sustain the recovery and support consumption. Consumers took advantage of the low interest rate environment to finance and purchase homes at a record setting pace, reaffirming that housing activity remained as one of the strongest areas of the economy.

Early during the year, BPPR, the Corporation's principal subsidiary, acquired three branches of Banco Bilbao Vizcaya Argentaria in Puerto Rico with deposits approximating $40 million.

In April 2002, BPPR launched the new PREMIA rewards program. This is a unique customer-loyalty program designed to compensate its customers for their banking relationships. The program allows customers of BPPR and of the Corporation's subsidiaries in Puerto Rico to enroll and accumulate points for everyday financial transactions and from a variety of products and services, including deposit accounts, credit cards, mortgage and auto loans, and electronic services transactions, among others. The points accumulated are redeemable for airline tickets, merchandise and pre-paid ATM cards, among other alternatives. At the end of 2002, the PREMIA rewards program had more than 145,000 registered clients.

In 2002, the Corporation acquired the general insurance agencies of Del Nido & Associates and Life Insurance Services, Inc., and established insurance subsidiaries in the U.S. Virgin Islands and in the mainland U.S. These initiatives provide the building blocks to enhance revenue growth by allowing the Corporation to offer a wider variety of insurance products and services to more customers.

During 2002, BPNA, the leading U.S. Hispanic-owned bank, celebrated more than 40 years of community banking services in the United States and launched an institutional advertising campaign, "Popularity", created to expand the Bank's brand. The campaign's theme "Make Dreams Happen" reflects BPNA's aim to know its customers and help them achieve their dreams. BPNA also launched the new *Programa Acceso Popular*, which offers tailored financial products and services to Hispanic customers in the U.S. mainland, allowing BPNA to convey its financial expertise directly into the communities.

Table A

Components of Net Income as a Percentage of Average Total Assets

	For the Year				
	2002	2001	2000	1999	1998
Net interest income	**3.71%**	3.85%	3.70%	4.01%	4.27%
Provision for loan losses	**(0.65)**	(0.76)	(0.73)	(0.63)	(0.67)
Securities and trading (losses) gains	**(0.01)**	(0.01)	0.05	-	0.06
Derivative losses	**(0.06)**	(0.07)	-	-	-
Operating income	**1.72**	1.76	1.70	1.57	1.36
	4.71	4.77	4.72	4.95	5.02
Operating expenses	**(3.23)**	(3.31)	(3.30)	(3.52)	(3.52)
Net income before tax and minority interest	**1.48**	1.46	1.42	1.43	1.50
Income tax	**(0.37)**	(0.37)	(0.38)	(0.36)	(0.36)
Net loss of minority interest	**-**	-	-	0.01	-
Net income	**1.11%**	1.09%	1.04%	1.08%	1.14%

Table B
Changes in Net Income and Earnings per Common Share

	2002		2001		2000	
(In thousands, except per common share amounts)	**Dollars**	**Per share**	Dollars	Per share	Dollars	Per share
Net income applicable to common stock for prior year	**$296,188**	**$2.17**	$267,753	$1.97	$249,208	$1.84
Increase (decrease) from changes in:						
Operating income	**54,339**	**0.40**	42,702	0.31	77,807	0.57
Net interest income	**103,344**	**0.76**	94,224	0.69	29,023	0.21
Sales of investment securities	**(3,369)**	**(0.03)**	(11,174)	(0.08)	10,563	0.08
Trading account	**977**	**0.01**	(3,772)	(0.03)	3,812	0.03
Derivative activities	**143**	**-**	(20,228)	(0.15)	-	-
Minority interest	**(266)**	**-**	(1,134)	(0.01)	(1,302)	(0.01)
Income tax	**(11,975)**	**(0.09)**	(4,483)	(0.03)	(15,677)	(0.12)
Operating expenses	**(102,793)**	**(0.76)**	(49,776)	(0.36)	(39,989)	(0.29)
Cumulative effect of accounting change	**(686)**	**-**	686	-	-	-
Provision for loan losses	**7,680**	**0.06**	(18,610)	(0.14)	(45,692)	(0.34)
Net income before preferred stock dividends and change in average common shares	**343,582**	**2.52**	296,188	2.17	267,753	1.97
Decrease in preferred stock dividends	**5,840**	**0.04**	-	-	-	-
Change in average common shares*	-	**0.05**	-	-	-	-
Net income applicable to common stock	**$349,422**	**$2.61**	$296,188	$2.17	$267,753	$1.97

*Reflects the effect of the shares repurchased, plus the shares issued through the Dividend Reinvestment Plan in the years presented.

The Corporation's mortgage operations benefited from the 2002 low interest rate environment that drove refinancing activity. Equity One achieved a record loan origination volume of $3.2 billion in 2002, representing an increase of approximately 19% over the previous year. Also, the volume of originations of Popular Mortgage for 2002 reached $1.4 billion, for a record second year in a row.

Popular, Inc. reported net earnings of $351.9 million for the year ended December 31, 2002, compared with $304.5 million a year before, an increase of $47.4 million or 16%. Earnings per common share (EPS), basic and diluted, totaled $2.61 in 2002, compared with $2.17 in 2001. The Corporation's return on assets (ROA) for 2002 was 1.11% compared with 1.09% in 2001, while the return on common equity (ROE) was 16.29% in 2002 compared with 14.84% in 2001.

The Corporation's stockholders' equity as of December 31, 2002 reflected the redemption of all the outstanding shares of its 8.35% Non-Cumulative Monthly Income Preferred Stock on January 21, 2002. In addition, in May 2002 the Corporation repurchased 4,300,000 shares of the Corporation's common stock from Banco Popular de Puerto Rico's Retirement Plan at a cost of $139 million.

Table A presents a five-year summary of the components of net income as a percentage of average total assets, whereas Table B presents the changes in net income applicable to common stock and earnings per common share. At December 31, 2002, the market value and book value per share of the Corporation's common stock were $33.80 and $18.20, respectively, compared with $29.08 and $15.93 at the same date in 2001.

Further discussion of operating results and the Corporation's financial condition is presented in the following narrative and tables. In addition, Table C provides selected financial data for the past 10 years.

The information included herein may contain forward-looking statements with respect to the adequacy of the allowance for loan losses, the Corporation's market and liquidity risks and the effect of legal proceedings on the Corporation's financial condition and results of operations, among others. These forward-looking statements involve certain risks and uncertainties that may cause actual results to differ materially from those expressed in forward-looking statements. Factors such as changes in interest rate environment as well as general changes in business and economic conditions may cause actual results to differ from those contemplated by such forward-looking statements.

Settlement of Federal Investigation

On January 16, 2003, the U.S. District Court for the District of Puerto Rico approved a Deferred Prosecution Agreement among BPPR, the U.S. Department of Justice, the Board of Governors of the Federal Reserve System, and the Financial Crimes Enforcement Network of the U.S. Department of the Treasury ("FinCEN"). The Agreement concludes an investigation related principally to the circumstances surrounding the activities of a former customer of BPPR, including BPPR's reporting and compliance efforts, as well as certain other customers. The former customer has pleaded guilty to money

Table C

Selected Financial Data

(In thousands, except per share data)	2002	2001	2000
CONDENSED INCOME STATEMENTS			
Interest income	**$2,023,797**	$2,095,862	$2,150,157
Interest expense	**843,468**	1,018,877	1,167,396
Net interest income	**1,180,329**	1,076,985	982,761
Securities, trading and derivatives (losses) gains	**(24,231)**	(21,982)	13,192
Other income	**547,909**	493,570	450,868
Operating expenses	**1,029,002**	926,209	876,433
Provision for loan losses	**205,570**	213,250	194,640
Net (gain) loss of minority interest	**(248)**	18	1,152
Income tax	**117,255**	105,280	100,797
Dividends on preferred stock of BPPR	**-**	-	-
Cumulative effect of accounting change	**-**	686	-
Net income	**$351,932**	$304,538	$276,103
Net income applicable to common stock	**$349,422**	$296,188	$267,753
PER COMMON SHARE DATA*			
Net income (basic and diluted) (before and after cumulative effect of accounting change)	**$2.61**	$2.17	$1.97
Dividends declared	**0.80**	0.76	0.64
Book value	**18.20**	15.93	13.92
Market price	**33.80**	29.08	26.31
Outstanding shares:			
Average	**133,915,082**	136,238,288	135,907,476
End of period	**132,439,047**	136,362,364	135,998,617
AVERAGE BALANCES			
Net loans**	**$18,729,220**	$17,045,257	$15,801,887
Earning assets	**30,194,914**	26,414,204	24,893,366
Total assets	**31,822,390**	27,957,107	26,569,755
Deposits	**16,984,646**	15,575,791	14,508,482
Subordinated notes	**125,000**	125,000	125,000
Preferred beneficial interest in Popular North America's junior subordinated deferrable interest debentures guaranteed by the Corporation	**145,254**	150,000	150,000
Total stockholders' equity	**2,150,386**	2,096,534	1,884,525
PERIOD END BALANCES			
Net loans**	**$19,582,119**	$18,168,551	$16,057,085
Allowance for loan losses	**372,797**	336,632	290,653
Earning assets	**31,899,765**	29,139,288	26,339,431
Total assets	**33,660,352**	30,744,676	28,057,051
Deposits	**17,614,740**	16,370,042	14,804,907
Subordinated notes	**125,000**	125,000	125,000
Preferred beneficial interest in Popular North America's junior subordinated deferrable interest debentures guaranteed by the Corporation	**144,000**	149,080	150,000
Total stockholders' equity	**2,410,879**	2,272,818	1,993,644
SELECTED RATIOS			
Net interest yield (taxable equivalent basis)	**4.26%**	4.40%	4.23%
Return on average total assets	**1.11**	1.09	1.04
Return on average common stockholders' equity	**16.29**	14.84	15.00
Dividend payout ratio to common stockholders	**30.76**	33.10	32.47
Efficiency ratio	**59.69**	58.97	61.54
Overhead ratio	**42.81**	42.21	41.96
Tier I capital to risk-adjusted assets	**9.85**	9.96	10.44
Total capital to risk-adjusted assets	**11.52**	11.74	12.37

* Per share data is based on the average number of shares outstanding during the periods, except for the book value and market price which are based on the information at the end of the periods. All per share data has been adjusted to reflect two stock splits effected in the form of dividends on July 1, 1998 and July 1, 1996.

** Includes loans held-for-sale.

Year ended December 31,						
1999	1998	1997	1996	1995	1994	1993
$1,851,670	$1,651,703	$1,491,303	$1,272,853	$1,105,807	$887,141	$772,136
897,932	778,691	707,348	591,540	521,624	351,633	280,008
953,738	873,012	783,955	681,313	584,183	535,508	492,128
(944)	12,586	6,202	3,202	7,153	451	1,418
373,860	278,660	241,396	202,270	166,185	140,852	123,762
837,482	720,354	636,920	541,919	486,833	447,846	412,276
148,948	137,213	110,607	88,839	64,558	53,788	72,892
2,454	328	-	-	-	-	-
85,120	74,671	74,461	70,877	59,769	50,043	28,151
-	-	-	-	-	385	770
-	-	-	-	-	-	6,185
$257,558	$232,348	$209,565	$185,150	$146,361	$124,749	$109,404
$249,208	$223,998	$201,215	$176,800	$138,011	$120,504	$109,404
$1.84	$1.65	$1.50	$1.34	$1.05	$0.92	$0.84
0.60	0.50	0.40	0.35	0.29	0.25	0.23
11.51	11.86	10.37	8.80	7.91	6.87	6.38
27.94	34.00	24.75	16.88	9.69	7.04	7.75
135,585,634	135,532,086	134,036,964	132,044,624	131,632,600	131,192,972	130,804,944
135,654,292	135,637,327	135,365,408	132,177,012	131,794,544	131,352,512	130,929,692
$13,901,290	$11,930,621	$10,548,207	$9,210,964	$8,217,834	$7,107,746	$5,700,069
22,244,959	19,261,949	17,409,634	15,306,311	13,244,170	11,389,680	9,894,662
23,806,372	20,432,382	18,419,144	16,301,082	14,118,183	12,225,530	10,683,753
13,791,338	12,270,101	10,991,557	10,461,796	9,582,151	8,837,226	8,124,885
125,000	125,000	125,000	147,951	56,850	56,082	73,967
150,000	150,000	122,877	-	-	-	-
1,712,792	1,553,258	1,370,984	1,193,506	1,070,482	924,869	793,001
$14,907,754	$13,078,795	$11,376,607	$9,779,028	$8,677,484	$7,781,329	$6,346,922
292,010	267,249	211,651	185,574	168,393	153,798	133,437
23,754,620	21,591,950	18,060,998	15,484,454	14,668,195	11,843,806	10,657,994
25,460,539	23,160,357	19,300,507	16,764,103	15,675,451	12,778,358	11,513,368
14,173,715	13,672,214	11,749,586	10,763,275	9,876,662	9,012,435	8,522,658
125,000	125,000	125,000	125,000	175,000	50,000	62,000
150,000	150,000	150,000	-	-	-	-
1,660,986	1,709,113	1,503,092	1,262,532	1,141,697	1,002,423	834,195
4.65%	4.91%	4.84%	4.77%	4.74%	5.06%	5.50%
1.08	1.14	1.14	1.14	1.04	1.02	1.02
15.45	15.41	15.83	16.17	14.22	13.80	13.80
31.56	28.42	25.19	24.63	26.21	27.20	25.39
63.08	62.55	62.12	61.33	64.88	66.21	66.94
48.71	49.15	49.66	49.38	53.66	57.24	58.34
10.17	10.82	12.17	11.63	11.91	12.85	12.29
12.29	13.14	14.56	14.18	14.65	14.25	13.95

laundering, including in connection with transactions made through an account at BPPR. No current or former BPPR officer, director or employee has been charged with a crime or accused of benefitting financially from the transactions described in the Agreement.

Under the Deferred Prosecution Agreement, BPPR agreed to the filing of a one-count information charging it with failure to file suspicious, activity reports in a timely and complete manner. The Agreement provides for BPPR to forfeit $21.6 million to the United States, and resolves all claims the United States, FinCEN or the Federal Reserve may have against BPPR arising from the matters that were subject to investigation. This forfeiture was recognized in the Corporation's consolidated statement of condition and results of operations for the year ended December 31, 2002.

This settlement also terminates the Written Agreement BPPR signed with the Federal Reserve Bank of New York on March 9, 2000, which required enhancements to BPPR's anti-money laundering and Bank Secrecy Act program. The Federal Reserve found BPPR to be fully compliant with the Written Agreement on November 26, 2001. Finally, the Deferred Prosecution Agreement provides that the court will dismiss the information and the Deferred Prosecution Agreement will expire 12 months following the settlement, provided that BPPR complies with its obligations under the Agreement.

Critical Accounting Policies

The Corporation's accounting policies are essential to the understanding of its financial statements. The Corporation's significant accounting policies are described in detail in Note 1 to the consolidated financial statements and should be read in conjunction with this section on critical accounting policies. The following is a summary of the Corporation's critical accounting policies, which involve significant management judgment associated with estimates about the effect of matters that are inherently uncertain and that involve a high degree of subjectivity.

Investment Securities

Management determines the appropriate classification of debt and equity securities at the time of purchase. Debt securities are classified as held-to-maturity when the Corporation has the intent and ability to hold the securities to maturity. Held-to-maturity securities are stated at amortized cost. Debt and equity securities are classified as trading when they are bought and held principally for the purpose of selling them in the near term. Trading securities are reported at fair value, with unrealized gains and losses included in earnings. Debt and equity securities not classified as held-to-maturity or trading are classified as available-for-sale. Securities available-for-sale are reported at fair value, with unrealized gains and losses excluded from earnings and reported net of taxes in accumulated other comprehensive income. At December 31, 2002, unrealized gains on the available-for-sale securities, net of taxes, amounted to $208 million.

Loans and Allowance for Loan Losses

Loans are carried at their principal amount outstanding net of unearned income, if applicable, including net deferred loan fees and costs, except for loans held-for-sale which are carried at the lower of cost or market. The Corporation defers certain nonrefundable loan origination and commitment fees and the direct costs of originating or acquiring loans. Interest on loans is accrued and recorded as interest income based upon the principal amount outstanding. It is the Corporation's policy to discontinue the recognition of interest income when a commercial loan or commercial lease becomes 60 days past due as to principal or interest. For consumer financing leases, conventional mortgages and closed-end consumer loans, interest recognition is discontinued when payments are delinquent by 90 days or four scheduled payments in arrears. Closed-end consumer loans are charged-off when payments are delinquent 120 days. Open-end (revolving credit) consumer loans are charged-off if payments are delinquent 180 days. Certain loans that would be treated as non-accrual loans pursuant to the foregoing policy are treated as accruing loans if they are considered well secured and in the process of collection. When interest accruals are discontinued, the balance of uncollected accrued interest is charged against current earnings and thereafter, income is recorded only to the extent of any interest collected. The Corporation reports its non-performing assets on a more conservative basis than most U.S. Banks. It is the Corporation's policy to place commercial loans on non-accrual status if payments of principal or interest are delinquent 60 days rather than the standard industry practice of 90 days. Refer to the Credit Risk Management and Loan Quality section of this report for further information.

The methodology used to establish the allowance for loan losses is based on SFAS No. 114 "Accounting by Creditors for Impairment of a Loan" and SFAS No. 5 "Accounting for Contingencies." Under SFAS No. 114, certain commercial loans are identified for evaluation on an individual basis, and specific reserves are calculated based on impairment. SFAS No. 5 provides for the recognition of a loss allowance for a group of homogeneous loans when it is probable that a loss will be incurred and an amount can be reasonably estimated. A loan is considered impaired when its interest and/or principal is past due 90 days or more or when, based on current information and events, it is probable that the debtor will be unable to pay all amounts due according to the contractual terms of the loan agreement. The allowance for impaired loans is part of the Corporation's overall allowance for loan losses.

The Corporation's management evaluates the adequacy of the allowance for loan losses on a monthly basis following a systematic methodology in order to provide for known and inherent risks in the loan portfolio. In developing an assessment of the adequacy of the allowance for loan losses, the Corporation must rely on estimates and exercise judgment regarding matters where the ultimate outcome is unknown, such as economic and political developments affecting companies in specific industries and specific issues with respect to single borrowers. Other factors that can affect management's estimates are the years of data to include when estimating losses, changes in underwriting standards, financial accounting standards and loan impairment measurement, among many others. Changes in the financial condition of individual borrowers, in economic conditions, in historical loss experience and in the condition of the various markets in which collateral may be sold, may all affect the required level of the allowance for loan losses.

The provision for loan losses charged to current operations is based on the above-mentioned methodology. Loan losses are charged and recoveries are credited to the allowance for loan losses.

Income Taxes

The Corporation uses an asset and liability approach to the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Corporation's financial statements or tax returns. Valuation allowances are established, when necessary, to reduce the deferred tax assets to the amount expected to be realized. Fluctuations in the actual outcome of these future tax consequences could impact the Corporation's financial position or its results of operations.

SFAS No. 109 "Accounting for Income Taxes" requires the recognition of income taxes on the unremitted earnings of subsidiaries, unless these can be remitted on a tax-free basis or are permanently invested. Certain of the Corporation's foreign subsidiaries have not remitted retained earnings to date since these are necessary to carry out the Corporation's expansion plans in the respective markets of those subsidiaries, thus considered to be permanently invested. In addition, the Corporation has no foreseeable need for the subsidiaries' earnings given its ability to service its dividend program from the earnings of its domestic units. As of December 31, 2002, approximately $171 million of retained earnings held by the subsidiaries have not been subject to deferred taxes. Had the Corporation recorded a deferred tax liability on the unremitted earnings of these subsidiaries, it would have approximated $18 million for the year 2002 and $51 million on a cumulative basis at December 31, 2002. Refer to Note 27 to the consolidated financial statements for further information.

Assessment of Fair Value

The assessment of fair value applies to certain of the Corporation's assets and liabilities, including trading securities, available-for-sale securities, interest-only strips, loans held-for-sale, servicing rights, other real estate owned, as well as derivative financial assets and liabilities. These assets and liabilities are recorded either at fair value or at the lower of cost or fair value. Fair values are volatile and are affected by factors such as market interest rates, prepayment speeds and discount rates.

Fair values for trading securities, most of the Corporation's available-for-sale securities, and derivative financial instruments are based on quoted market prices. If quoted market prices are not available, fair values are based on quoted prices of similar instruments. Tax-exempt Puerto Rico GNMA securities cannot be valued only by reference to market quotations for U.S. GNMA securities with similar characteristics, due to their preferential tax status in Puerto Rico. The Corporation determines the fair value of tax-exempt P.R. GNMA securities from quotations obtained from locally based brokerage firms. Significant changes in factors such as interest rate changes and accelerated prepayment rates could affect the value of the trading and investment securities, to be recognized in the results of operations, thereby adversely affecting results of operations. Management assesses the fair value of its portfolio on a regular basis. Any impairment that is considered other than temporary is recorded directly in the income statement. The fair values of loans held-for-sale are based on anticipated liquidation values or quoted market prices.

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 assets calculated using assumptions that market participants would use in estimating future servicing income and expense, including discount rates, anticipated prepayment and credit loss rates. Servicing rights are assessed for impairment periodically with any impairment recognized in earnings through a valuation allowance. The primary risk of material changes to the value of the servicing rights is the potential volatility of the assumptions used, mainly prepayment speeds and discount rates. Refer to Note 21 to the consolidated financial statements for further information on the Corporation's mortgage servicing rights as of the end of the year.

The fair values of other real estate owned are mostly determined based on appraisals by third parties, less estimated costs to sell.

Notwithstanding the judgment required in fair valuing the Corporation's assets and liabilities, management believes that its estimates of fair value are reasonable given the process of obtaining external prices in many instances, periodic review of internal models and the consistent application of approaches from period to period.

Goodwill and Other Intangible Assets

The Corporation's goodwill and other intangible assets are tested on an annual basis, as prescribed in SFAS No. 142 "Goodwill and Other Intangible Assets." Management has defined reporting units based on legal entity, following the same logic employed when making operating decisions and measuring performance.

The Corporation uses the present value of future cash flows and market price multiples of comparable companies to determine the fair market value of the reporting units. The discount rate employed to estimate the present value of projected cash flows is calculated using the Capital Asset Pricing Model (CAPM). Projected income is adjusted to determine each reporting unit's total cash flow.

The assumptions incorporated into the model are determined by analyzing the financial results of each reporting unit. Assumptions are based on historical financial results, market conditions and comparable companies, among other factors.

Refer to Notes 1 and 10 to the consolidated financial statements for further information on goodwill and other intangible assets.

Stock Options

The Corporation has adopted the fair value method for accounting for the stock options granted to employees and directors, which are valued using a Black-Scholes model. The Black-Scholes option pricing model requires the use of subjective assumptions which can materially affect the fair value estimates. The fair value of each grant of stock options was estimated on the date of the grant using assumptions for expected dividend yields, risk-free interest rates, expected volatility and estimated lives of options. Refer to note 25 to the consolidated financial statements for a description of the assumptions used in determining the prices for the stock options granted by the Corporation.

Among the assumptions that an estimated option price is most sensitive to, is the expected volatility of the underlying security, which in this case is the Corporation's common stock. Volatility refers to the standard deviation of the change in the underlying security's price during a period of time. When estimating the market price of the stock options granted to employees, an assumption regarding the expected volatility of the Corportation's common stock during the life of the options must be made. When pricing options granted to employees or directors, it is assumed that the expected volatility of the Corporation's

shares of common stock during the life of the options is similar to the average actual volatility during the past 260 trading days, which is approximately one calendar year.

Pension and Postretirement Benefit Obligations

The Corporation has a noncontributory defined benefit pension plan and a nonqualified unfunded supplementary pension and profit sharing plan for employees of certain subsidiaries. The Corporation also provides certain health care benefits for retired employees of BPPR. The benefit costs and obligations of these plans are impacted by the use of subjective assumptions which can materially affect recorded amounts, including discount rates, expected returns on plan assets, rate of compensation increase and health care trend rates. Management applies judgment in the determination of these factors, which normally undergo evaluation against industry assumptions, among other factors. The Corporation uses an independent actuarial firm for assistance in the determination of the pension and postretirement benefit costs and obligations. Detailed information on the plans and related valuation assumptions are included in Note 24 to the consolidated financial statements.

The Corporation periodically reviews its assumption for long-term expected return on pension plan assets in the Banco Popular de Puerto Rico Retirement Plan, which is the Corporation's largest pension plan with a market value of assets of $398 million as of December 31, 2002. In developing the assumed long term rate of return for use in determining net periodic pension expense the Corporation considers the asset allocation, historical returns on the types of assets held in the pension trust, and the current economic environment.

As part of the review, the Corporation's independent consulting actuaries performed an analysis of expected returns based on the plan's asset allocation as of January 1, 2003 to develop expected rates of return. This forecast reflects the actuarial firm's expected long-term rates of return for each significant asset class or economic indicator, for example, 9.9% for U.S. equities, 4.7% for fixed income, and 2.4% inflation as of January 1, 2003. The range of returns developed relies both on forecasts and on broad-market historical benchmarks for expected return, correlation, and volatility for each asset class.

Although the expected investment return assumption is long-term in nature, the range of reasonable expected returns has dropped over the past few years as a consequence of lower inflation and lower bond yields. As a consequence of its most recent review, the Corporation reduced its expected return from 8.5% for year 2002 to 8.0% for year 2003.

When calculating expected return on plan assets Popular, Inc. uses the market value of assets, and does not employ any further asset smoothing. As a result, all changes in the fair value of assets prior to January 1, 2003 will be reflected in the results of operations for year 2003.

Pension expense for the Banco Popular de Puerto Rico Retirement Plan in 2002 amounted to ($0.4) million. This included a credit of $35.2 million reflecting the expected return on assets for 2002. There were no contributions made to the Plan during 2002.

Pension expense is sensitive to changes in the expected return on assets. For example, decreasing the expected rate of return for 2003 from 8.50% to 8.00% increased the forecast 2003 expense for the Banco Popular de Puerto Rico Retirement Plan by approximately $1.9 million.

Popular, Inc. considers the Moody's Long-term AA Corporate Bond yield prevailing at the end of the fiscal year as a guide in the selection of the discount rate. At the end of December 2001, the Moody's Long-term AA Corporate Bond compounded annual yield was equal to 7.19% and we chose 7.00% as our discount rate. At the end of December 2002 the Moody's Long-term AA Corporate Bond compounded annual yield was equal to 6.63% and we chose 6.50% as our discount rate.

A 25 basis point increase / decrease in the assumed discount rate assumption as of the beginning of 2003 would decrease / increase the forecast 2003 expense for the Banco Popular de Puerto Rico Retirement Plan by approximately $0.5 million. The change would not affect the minimum required contribution to the Plan.

Earnings Analysis

Net Interest Income

Net interest income is the difference between interest and fee income earned on earning assets such as loans, leases, securities, and money market investments, and interest expense paid on liabilities such as deposits and borrowings. The variables that affect net interest income are various, including the interest rate scenario, the volumes and mix of earning assets and interest bearing liabilities, and the repricing characteristics of these assets and liabilities.

Following 2001, a very active year for the Federal Reserve, in which the federal funds target rate was decreased eleven times by 475 basis points, during 2002 rates were maintained almost flat until the end of the year. On November 6, 2002 the Federal Reserve decreased the federal funds target rate by 50 basis points. The average key index rates for the years 2000 through 2002 were as follows:

	2002	2001	2000
Prime rate	**4.68%**	6.91%	9.23%
Fed funds rate	**1.67**	3.88	6.26
3-month LIBOR	**1.79**	3.78	6.54
3-month Treasury Bill	**1.63**	3.47	5.98
2-year Treasury	**2.61**	3.81	6.20
FNMA 30-year	**6.74**	7.40	8.14

As further discussed in the Risk Management section, the Corporation has comprehensive policies and procedures that are utilized to monitor and control the risk associated with the composition and repricing of its earning assets and interest-bearing liabilities and to assist management in maintaining stability in the net interest margin under varying interest rate environments.

Net interest income for the year ended December 31, 2002 reached $1,180.3 million, an increase of $103.3 million, or 10%, when compared with $1,077.0 million reported in 2001. For the year ended December 31, 2000, net interest income amounted to $982.8 million.

Table D presents the different components of the Corporation's net interest income segregated by major categories of earning assets and interest-bearing liabilities. Some of the assets, mostly investments in obligations of the U.S. Government and its agencies and the Puerto Rico Commonwealth and its agencies, generate interest, which is exempt for income tax purposes principally in Puerto Rico. Therefore,

to facilitate the comparison of all interest data related to these assets, the interest income has been converted to a taxable equivalent basis, using the applicable statutory income tax rates. Non-accrual loans have been included in the respective average loans and leases categories. Average outstanding securities balances are based upon amortized cost excluding any unrealized gains or losses on securities available-for-sale.

The taxable equivalent adjustment amounted to $103.6 million in the year 2002 compared with $84.7 million in 2001 and $69.5 million in 2000. The increase in the adjustment from 2001 is mostly related to a lower interest expense disallowance required by the Internal Revenue Code of Puerto Rico, partially offset by lower exempt interest income. The decrease in the interest expense disallowance is directly associated with the 131 basis points decrease in the cost of interest bearing liabilities due to the 2002 lower interest rate scenario. The taxable equivalent adjustment increased from 2000 to 2001 mostly due to a significant decrease in the interest expense disallowance resulting from a decrease of 96 basis points in the average cost of interest bearing liabilities.

The increase of $122.2 million in net interest income from 2001 to 2002, on a taxable equivalent basis, was the effect of positive variances of $89.2 million due to a higher volume of average earning assets and $33.0 million due to a higher net interest spread. From 2000 to 2001, net interest income on a taxable equivalent basis increased by $109.4 million, resulting from a favorable variance of $49.1 million due to higher average volume of earning assets and $60.3 million due to a higher net interest margin.

Average earning assets reached $30.2 billion in 2002, a 14% increase from $26.4 billion in the year 2001. The principal growth was attained in investment securities and mortgage loans, which accounted for 51% and 39%, respectively, of the total increase in average earning assets. The rise in investment securities was mostly associated with higher U.S. agency securities and mortgage-backed obligations. Mortgage loan originations benefited from the lower rate scenario, which promoted consumer refinancing. Average commercial and construction loans rose $281 million from 2001, while the consumer loan portfolio declined by $109 million. The latter was mainly related to lower demand for personal loans, a shift of consumer credit to mortgage credit and the sale of approximately $20 million in ending balances of small loans by Popular Finance in the second quarter of 2002.

The average yield on earning assets for 2002, on a taxable equivalent basis, decreased by 121 basis points to 7.05%, compared with 8.26% in 2001.

The yield on average loans decreased by 98 basis points principally related to the lower yield on commercial loans due to the floating rate characteristics of a portion of the Corporation's portfolio and the origination of new loans in a lower rate environment. As of December 31, 2002 approximately 54% of the commercial and construction loan portfolios had floating or adjustable rates.

The average yield on investment securities, on a taxable equivalent basis, declined to 5.34% in 2002 from 6.74% in the previous year, mainly due to the repricing of the investment portfolio runoff in a declining rate environment. The yield on money market investments had a negative variance of 190 basis points, declining from 5.11% in 2001 to 3.21% in 2002. As a result of their short-term nature, the low interest rate environment that prevailed in 2002 directly impacted these investments.

A mix of funding sources supported the increase in the volume of earning assets. See Table L for a complete detail of average deposits by category. For the year ended December 31, 2002, average interest bearing deposits increased by $1.2 billion, or 10%, compared with $12.5 billion in 2001. Average savings, NOW and money market deposits rose $1.0 billion, or 16%, while average time deposits rose $234 million, or 4%, compared with 2001. Within this latter category, brokered deposits increased by $101 million, from an average of $656 million in 2001. The average cost of interest bearing deposits decreased 101 basis points when compared with 2001, due to reductions in deposit rates coupled with the prevailing lower interest rate scenario.

Average short-term borrowings, which are mostly comprised of Fed funds, repurchase agreements and commercial paper, increased by $651 million in 2002, or 9%, from 2001, while longer-term borrowings increased by $1.7 billion, or 65%, when compared with the previous year. The increase in long-term debt, which is debt with an original maturity of more than one year, was principally due to the issuance of secured borrowings arising in securitization transactions.

The net interest margin of the Corporation on a taxable equivalent basis decreased to 4.26% in 2002 from 4.40% reported in 2001. The lower net interest margin by 14 basis points resulted from various primary factors, all related to the low general interest rate environment that has prevailed for the past two years. The factor with the highest monetary impact on the net interest margin was the maturity of high yield investment securities, followed by the repricing of the commercial loan portfolio due to its floating rate characteristics. These negative factors were partially offset by interest rate adjustments made to money market and savings deposits and the repricing of borrowings. In addition, the redemption and repurchase of capital stock since December 31, 2001, also had an impact on the net interest margin, since these funds do not carry an interest cost. This was partially offset by higher average demand deposits for the year 2002. Notwithstanding the above, the Corporation's spread, which is the difference between the yield on earning assets and the cost of interest bearing liabilities, improved slightly by 10 basis points.

As shown in Table D, net interest income on a taxable equivalent basis, amounted to $1.2 billion in 2001, up $109.4 million from 2000. This increase was attributable to a higher level of average earning assets in 2001 and a higher net interest margin. The increase in mortgage loans was the primary contributor to the growth in earning assets in 2001. The net interest margin on a taxable equivalent basis increased by 17 basis points from 4.23% in 2000 to 4.40% in 2001. The Federal Reserve monetary policy positively impacted the net interest margin of the Corporation, due to its liability sensitive structure at the beginning of the year 2001, in which the borrowings and deposits repriced at a faster pace than the earning assets.

Provision for Loan Losses

The provision for loan losses reflects management's assessment of the adequacy of the allowance for loan losses to cover probable losses inherent in the loan portfolio after taking into account loan impairment and net charge-offs for the current period. The Corporation recorded a $205.6 million provision for loan losses for the year ended December 31, 2002, compared with $213.2 million in 2001 and $194.6 million

Table D

Net Interest Income - Taxable Equivalent Basis

Year ended December 31,

(Dollars in millions) (In thousands)

Average Volume			Average Yields / Costs				Interest			Variance Attributable to	
2002	2001	Variance	**2002**	2001	Variance		**2002**	2001	Variance	Rate	Volume
$1,012	$932	$80	**3.21%**	5.11%	(1.90%)	Money market investments	**$32,505**	$47,610	($15,105)	($18,180)	$3,075
10,090	8,170	1,920	**5.34**	6.74	(1.40)	Investment securities	**538,916**	550,250	(11,334)	(118,977)	107,643
364	267	97	**4.66**	5.75	(1.09)	Trading securities	**16,961**	15,358	1,603	(3,286)	4,889
11,466	9,369	2,097	**5.13**	6.55	(1.42)		**588,382**	613,218	(24,836)	(140,443)	115,607
						Loans:					
7,752	7,471	281	**6.68**	8.11	(1.43)	Commercial and construction	**517,899**	606,227	(88,328)	(110,434)	22,106
875	843	32	**11.13**	11.62	(0.49)	Leasing	**97,367**	97,951	(584)	(4,235)	3,651
6,987	5,507	1,480	**7.72**	8.12	(0.40)	Mortgage	**539,758**	447,197	92,561	(22,704)	115,265
3,115	3,224	(109)	**12.33**	12.90	(0.57)	Consumer	**384,008**	416,007	(31,999)	(15,013)	(16,986)
18,729	17,045	1,684	**8.22**	9.20	(0.98)		**1,539,032**	1,567,382	(28,350)	(152,386)	124,036
$30,195	$26,414	$3,781	**7.05%**	8.26%	(1.21%)	**Total earning assets**	**$2,127,414**	$2,180,600	($53,186)	($292,829)	$239,643
						Interest bearing deposits:					
$2,502	$2,102	$400	**2.15%**	3.08%	(0.93%)	NOW and money market	**$53,776**	$64,637	($10,861)	($21,107)	$10,246
4,775	4,170	605	**2.23**	2.79	(0.56)	Savings	**106,538**	116,226	(9,688)	(24,811)	15,123
6,481	6,247	234	**4.18**	5.40	(1.22)	Time deposits	**270,814**	337,305	(66,491)	(80,115)	13,624
13,758	12,519	1,239	**3.13**	4.14	(1.01)		**431,128**	518,168	(87,040)	(126,033)	38,993
7,787	7,136	651	**2.38**	4.62	(2.24)	Short-term borrowings	**185,250**	329,648	(144,398)	(164,694)	20,296
4,403	2,669	1,734	**5.16**	6.41	(1.25)	Medium and long-term debt	**227,090**	171,061	56,029	(35,088)	91,117
25,948	22,324	3,624	**3.25**	4.56	(1.31)	**Total interest bearing liabilities**	**843,468**	1,018,877	(175,409)	(325,815)	150,406
3,227	3,057	170				Demand deposits					
1,020	1,033	(13)				Other sources of funds					
$30,195	$26,414	$3,781	**2.79%**	3.86%	(1.07%)						
			4.26%	4.40%	(0.14%)	**Net interest margin**					
						Net interest income on a taxable equivalent basis	**1,283,946**	1,161,723	122,223	$32,986	$89,237
			3.80%	3.70%	0.10%	**Net interest spread**					
						Taxable equivalent adjustment	**103,617**	84,738	18,879		
						Net interest income	**$1,180,329**	$1,076,985	$103,344		

Note: The changes that are not due solely to volume or rate are allocated to volume and rate based on the proportion of the change in each category.

in 2000. The provision for loan losses for 2002 exceeded net charge-offs by $33.8 million or 20%. While the provision remained at relatively high levels in 2002, it was down $7.6 million or 4% from the previous year. The decrease in the provision for loan losses was mostly associated with the fact that the growth in the Corporation's loan portfolio has been mostly in mortgage loans, which historically represent a lower risk portfolio, and with the decline in the consumer loan portfolio. Also, it relates to lower net charge-offs to average loans and lower non-performing assets in the commercial and consumer loan portfolios. Refer to the Credit Risk Management and Loan Quality section for a more detailed analysis of the allowance for loan losses, net charge-offs, and credit quality statistics.

Operating Income

For purposes of this analysis, operating income excludes securities, trading and derivative transactions, since due to the volatility of these transactions, management believes that their exclusion permits greater comparability for analytical purposes. Operating income has become an increasingly important contributor to the growth in the Corporation's total revenues. The Corporation's business expansion strategies and

(Dollars in millions)

Average Volume			Average Yields / Costs		
2001	2000	Variance	2001	2000	Variance
$932	$933	($1)	5.11%	6.68%	(1.57%)
8,170	7,945	225	6.74	6.85	(0.11)
267	213	54	5.75	7.33	(1.58)
9,369	9,091	278	6.55	6.85	(0.30)
7,471	7,216	255	8.11	9.66	(1.55)
843	770	73	11.62	11.80	(0.18)
5,507	4,405	1,102	8.12	8.27	(0.15)
3,224	3,411	(187)	12.90	13.05	(0.15)
17,045	15,802	1,243	9.20	10.11	(0.91)
$26,414	$24,893	$1,521	8.26%	8.92%	(0.66%)
$2,102	$1,811	$291	3.08%	3.60%	(0.52%)
4,170	4,113	57	2.79	2.89	(0.10)
6,247	5,549	698	5.40	6.22	(0.82)
12,519	11,473	1,046	4.14	4.61	(0.47)
7,136	7,781	(645)	4.62	6.53	(1.91)
2,669	1,894	775	6.41	6.87	(0.46)
22,324	21,148	1,176	4.56	5.52	(0.96)
3,057	3,035	22			
1,033	710	323			
$26,414	$24,893	$1,521	3.86%	4.69%	(0.83%)
			4.40%	4.23%	0.17%
			3.70%	3.40%	0.30%

(In thousands)

	Interest			Variance Attributable to	
	2001	2000	Variance	Rate	Volume
Money market investments	$47,610	$62,356	($14,746)	($14,562)	($184)
Investment securities	550,250	544,608	5,642	(8,730)	14,372
Trading securities	15,358	15,624	(266)	(3,749)	3,483
	613,218	622,588	(9,370)	(27,041)	17,671
Loans:					
Commercial and construction	606,227	696,903	(90,676)	(114,574)	23,898
Leasing	97,951	90,906	7,045	(1,456)	8,501
Mortgage	447,197	364,269	82,928	(6,662)	89,590
Consumer	416,007	445,038	(29,031)	(1,923)	(27,108)
	1,567,382	1,597,116	(29,734)	(124,615)	94,881
Total earning assets	$2,180,600	$2,219,704	($39,104)	($151,656)	$112,552
Interest bearing deposits:					
NOW and money market	$64,637	$65,195	($558)	($10,196)	$9,638
Savings	116,226	118,823	(2,597)	(5,024)	2,427
Time deposits	337,305	345,355	(8,050)	(45,652)	37,602
	518,168	529,373	(11,205)	(60,872)	49,667
Short-term borrowings	329,648	508,029	(178,381)	(143,245)	(35,136)
Medium and long-term debt	171,061	129,994	41,067	(7,835)	48,902
Total interest bearing liabilities	1,018,877	1,167,396	(148,519)	(211,952)	63,433
Demand deposits					
Other sources of funds					
Net interest margin					
Net interest income on a taxable equivalent basis	1,161,723	1,052,308	109,415	$60,296	$49,119
Net interest spread					
Taxable equivalent adjustment	84,738	69,547	15,191		
Net interest income	$1,076,985	$982,761	$94,224		

its technological leadership in Puerto Rico have been key factors for fee revenue growth in services beyond traditional banking activities. Operating income, excluding securities, trading and derivatives transactions, totaled $547.9 million for the year 2002, an increase of $54.3 million or 11% compared with $493.6 million in 2001. In 2000, these revenues totaled $450.9 million. Operating income by major categories for the past five years is presented in Table E. As a percentage of average assets, operating income, as defined above, represented 1.72% in 2002, compared with 1.77% in 2001 and 1.70% in 2000. The ratio of operating income, excluding securities, trading and derivatives transactions, to operating expenses for the year 2002 was 53.25%, compared with 53.29% in 2001 and 51.44% in 2000.

Service charges on deposit accounts increased $10.7 million or 7% from 2001, reaching $157.7 million in 2002. This rise is mostly related to certain commercial accounts, on which fees have been favorably impacted by a lower earnings credit on compensatory balances in the low interest rate scenario, and higher transaction volume. Also, the increase in service charges is related to fees on deposit accounts, including charges for daily overdrafts and electronic transaction fees, among others, which commenced in mid or late

Table E
Operating Income

(Dollars in thousands)	2002	2001	2000	1999	1998	Five-Year C.G.R.*
	Year ended December 31,					
Service charges on deposit accounts	**$157,713**	$146,994	$125,519	$118,187	$103,732	10.87%
Other service fees:						
Credit card fees and discounts	**59,199**	55,776	60,652	49,233	36,038	15.00
Debit card fees	**42,461**	37,156	30,513	22,785	17,702	21.91
Processing fees	**36,545**	37,521	28,528	8,312	-	-
Other fees	**32,245**	31,825	33,072	31,815	21,620	12.36
Insurance fees	**24,380**	18,718	9,385	6,903	8,690	20.65
Sale and administration of investment products	**21,590**	21,633	17,298	17,452	11,890	17.70
Check cashing fees	**21,128**	18,187	14,505	11,999	2,631	119.57
Mortgage servicing fees, net of amortization	**11,924**	12,183	12,561	11,300	9,131	5.49
Trust fees	**9,071**	9,548	9,481	9,928	8,873	5.94
Total other service fees	**258,543**	242,547	215,995	169,727	116,575	21.25
Other income	**72,313**	58,396	69,681	51,056	35,317	23.38
Gain on sale of loans	**59,340**	45,633	39,673	34,890	23,036	20.54
Total operating income	**$547,909**	$493,570	$450,868	$373,860	$278,660	17.81%
Operating income to average assets	**1.72%**	1.77%	1.70%	1.57%	1.36%	
Operating income to operating expenses	**53.25**	53.29	51.44	44.64	38.68	

Note: For purposes of this Management's Discussion and Analysis, operating income excludes securities, trading and derivative gains or losses.
* C.G.R. refers to compound growth rate.

2001. Service charges on deposit accounts were 0.93% of average deposits in 2002, 0.94% in 2001 and 0.87% in 2000.

Other service fees, which experienced a compounded growth rate of 21% over the last five years, amounted to $258.5 million in 2002, an increase of $16.0 million or 7% from 2001. This increase was mostly attributed to higher credit and debit card fees, insurance agency commissions and check cashing fees. Credit and debit card fees increased $8.7 million or 9% compared with 2001, mainly due to higher volume of transactions and business growth. Average debit card monthly transactions increased by approximately 2.3 million or 31%, since December 31, 2001. Insurance fees rose $5.7 million or 30% from 2001, derived from business expansion, the launching of new products and services and capitalizing on the Corporation's broad delivery channels and client base. Check cashing fees rose $2.9 million from 2001 driven by the continuous expansion of Popular Cash Express, the Corporation's retail financial services subsidiary in the United States, which added 36 new stores and mobile units during 2002 to its delivery network.

As shown in Table E, gain on sales of loans, including loans held-for-sale, totaled $59.3 million for the year ended December 31, 2002, an increase of $13.7 million or 30% compared with 2001. This increase derived in part from higher mortgage loan origination volume and subsequent sale of these loans. The results for 2002 also included a $2.2 million gain on the sale of loans guaranteed by the Small Business Administration. Other income amounted to $72.3 million in 2002, an increase of $13.9 million compared with 2001. Contributing to the increase in other income were higher investment banking fees derived by the Corporation's broker/dealer subsidiary, gains on the sale of software and equipment, consulting and network services fees, higher revenues from the Corporation's investment in Telecomunicaciones de Puerto Rico, Inc. (TELPRI) and higher revenues derived from the Corporation's equity investments. Also, during 2002, the Corporation recognized non-recurring gains of $3.1 million on the sale of BPNA's trust operations in Chicago, Illinois, and $0.6 million on the sale of 15 branches of Popular Finance, both sold as part of strategic initiatives at these subsidiaries. These increases were partially offset by write-downs in the value of interest-only strips of approximately $3.1 million during 2002, impacted by the effects of the prevailing interest scenario, since these impairments were considered other than temporary.

In 2001, operating income, excluding securities, trading and derivatives transactions, increased $42.7 million or 9% from 2000, reaching $493.6 million in 2001. This growth was partly attributed to service charges on deposit accounts, which grew by $21.5 million, or 17%, mostly related to commercial accounts and new fees on deposit accounts implemented during the latter part of 2000 and mid-2001. In 2001, other service fees were $26.6 million or 12% higher than in the previous year. As shown in Table E, most categories exhibited growth in 2001, mostly as a result of higher customer activity, business

expansion and continued growth of the Corporation's electronic delivery services, with considerable increases recorded in insurance agency commissions, processing, debit card and investment banking fees. These variances were partially offset by a decrease in credit card fees and discounts of $4.9 million or 8% as a result of the sale of the U.S. credit card operations in 2000. These operations contributed approximately $13 million in service fees during 2000. Gains on sale of loans rose by $6.0 million or 15%. Other income decreased by $11.3 million from 2000 mostly as a result of pretax gains realized in 2000 on the sales of the Corporation's U.S. credit card operations and of the participation in Banco Fiduciario (BF), which combined resulted in pre-tax gains of $9.3 million.

Securities and Trading Gains/Losses

In 2002, losses on the sale of investment securities amounted to $3.3 million, compared with slight gains of $27 thousand in 2001. The losses in 2002 were mainly attributed to the sale of $710 million in U.S. Agency Securities, as part of the asset/liability management strategies followed by the Corporation due to the interest rate environment. Proceeds from these sales were reinvested at higher yields. Also, the Corporation recorded approximately $2.8 million in write-downs of certain investment securities which impairment in value was considered other than temporary. Trading losses amounted to $0.8 million in 2002, compared with trading losses of $1.8 million the previous year.

In 2000, the Corporation recorded $11.2 million in gains on sale of investment securities and $2.0 million in trading account profit. The gains on sale of securites were mostly related to a $13.4 million pre-tax gain recognized during the year 2000 in the conversion of preferred stock of a financial corporation in Puerto Rico to common stock of the same entity.

Derivatives

During 2002 and 2001, the Corporation recognized derivative losses of $20.1 million and $20.2 million, respectively, principally attributed to the changes in fair value of $500 million in notional amount of interest rate swaps that the Corporation uses to convert floating rate debt to fixed rate debt in order to cap the future cost of short-term borrowings. These swaps did not qualify as hedges in accordance with SFAS No. 133, as amended, and therefore changes in fair value of these derivatives are recorded in the statement of income. Since the Corporation pays a fixed rate, as interest rates fall so does the fair value of the swaps. Refer to the Market Risk section of this report and Note 30 to the consolidated financial statements for further information on the Corporation's derivative activities.

Operating Expenses

Operating expenses totaled $1,029.0 million in 2002, an increase of $102.8 million, or 11%, compared with $926.2 million in 2001. Table F presents a detail of operating expenses and various related ratios for the last five years. As a percentage of average assets, operating expenses decreased to 3.23% in 2002, compared with 3.31% in 2001 and 3.30% in 2000. The Corporation's efficiency ratio increased from 58.97% in 2001 to 59.69% in 2002. In 2000 this ratio was 61.54%. These performance ratios for 2002 were impacted by the $21.6 million forfeiture related to the settlement of the federal investigation previously mentioned in the Overview section of this Management's Discussion and Analysis. Excluding this particular charge, operating expenses were $1,007.4 million in 2002, or 3.17% of average assets, while the efficiency ratio would have been 58.43%.

Personnel costs, the largest category of operating expenses, amounted to $488.7 million in 2002, an increase of $63.6 million, or 15%, compared with $425.1 million in 2001, mostly due to annual merit increases, incentives, profit sharing and higher pension and post-retirement costs, among other fringe benefits. At December 31, 2002 full-time equivalent employees (FTE's) totaled 10,960, reflecting a decrease of 374 employees from 11,334 employees at December 31, 2001, mainly as part of the reorganization efforts at BPNA. Incentives and commissions rose due to strong performance and business production at various subsidiaries. Also, during 2002, the Corporation opted to adopt the fair value method of recording stock options contained in SFAS No. 123, "Accounting for Stock-Based Compensation," which resulted in approximately $1.0 million in operating expenses in the year. All stock option grants will be expensed over the stock option vesting period based on the fair value at the date the options are granted. Refer to Note 25 to the consolidated financial statements for further information on stock options.

Operating expenses, excluding personnel costs, amounted to $540.3 million for the year ended December 31, 2002, an increase of $39.2 million, or 8%, compared with $501.1 million in 2001. The categories that increased the most were professional fees, business promotion, net occupancy and other operating expenses. Professional fees rose $10.9 million, or 15%, compared with the previous year, mostly attributed to legal expenses, related in part to the federal investigation previously mentioned, collection costs, and consulting services for the strategic initiatives conducted at BPNA during 2002. The increase in business promotion of $10.7 million, or 21%, was mainly associated with higher advertising expenses, resulting mostly from the launching of PREMIA, an innovative rewards program for the Corporation's customers in Puerto Rico, and also to continuous aggressive marketing and direct mailing campaigns at the Corporation's mortgage and consumer lending subsidiaries. Net occupancy expenses rose $6.4 million, or 9%, partly associated with business expansion. Other operating expenses, which grew by $22.3 million, or 30%, included the $21.6 million forfeiture, which resulted from the resolution of the federal investigation previously mentioned. Partially offsetting these rises was a decrease in the amortization of intangibles, mostly goodwill, by $18.3 million, or 67%, due mainly to the adoption of SFAS No. 142 "Goodwill and Other Intangible Assets" during 2002.

Total operating expenses increased $49.8 million, or 6%, from 2000 to 2001. Personnel costs increased $31.0 million, or 8%, over the amounts reported in 2000, mainly due to annual merit increases, higher headcount, higher pension and health insurance costs, among other fringe benefits. Partially offsetting this rise was a lower profit sharing expense due to a lower return on equity at BPPR. Other operating expenses, excluding personnel costs, totaled $501.1 million in 2001, compared with $482.3 million in 2000. This increase was mainly the result of higher professional fees, municipal taxes, net occupancy expenses, business promotion, communications costs and other expenses, the latter mostly associated with higher credit card and ATM transactions volume. Partially offsetting these rises was lower amortization of intangibles due to the full amortization at the end of 2000 of the core deposits intangibles recorded on the merger with

Table F
Operating Expenses

(Dollars in thousands)	2002	2001	2000	1999	1998	Five-Year C.G.R.
	Year ended December 31,					
Salaries	**$361,957**	$321,386	$306,529	$289,995	$247,590	11.32%
Pension and other benefits	**104,549**	87,505	68,734	72,820	67,743	8.52
Profit sharing	**22,235**	16,251	18,913	23,881	22,067	(2.84)
Total personnel costs	**488,741**	425,142	394,176	386,696	337,400	9.75
Equipment expenses	**99,099**	97,383	98,022	88,334	75,302	8.32
Professional fees	**84,660**	73,735	64,851	67,955	58,087	12.60
Net occupancy expense	**78,503**	72,100	67,720	60,814	48,607	14.66
Business promotion	**61,451**	50,783	46,791	45,938	39,376	12.85
Communications	**53,892**	48,883	45,689	43,146	36,941	10.09
Other taxes	**37,144**	38,756	34,125	33,290	32,191	4.17
Printing and supplies	**19,918**	17,804	20,828	20,709	17,604	5.09
Amortization of intangibles	**9,104**	27,438	34,558	31,788	27,860	(16.83)
Other operating expenses:						
Transportation and travel	**13,896**	10,960	10,112	10,426	7,968	14.10
FDIC assessment	**2,805**	2,750	2,846	1,782	1,497	13.35
All other *	**79,789**	60,475	56,715	46,604	37,521	19.37
Subtotal	**540,261**	501,067	482,257	450,786	382,954	10.36
Total	**$1,029,002**	$926,209	$876,433	$837,482	$720,354	10.07%
Efficiency ratio**	**59.69%**	58.97%	61.54%	63.08%	62.55%	
Personnel costs to average assets	**1.54**	1.52	1.48	1.62	1.65	
Operating expenses to average assets	**3.23**	3.31	3.30	3.52	3.53	
Assets per employee (in millions)	**$3.07**	$2.71	$2.63	$2.21	$2.20	

* Includes credit card interchange and processing expenses, insurance, sundry losses, and other real estate expenses, among others.
** Non-interest expense divided by net interest income plus recurring fee income.

BanPonce Corporation in 1990, as well as lower printing and supplies expenses.

Income Tax Expense

Income tax expense for the year ended December 31, 2002 was $117.3 million, compared with $105.3 million in 2001, an increase of $12.0 million or 11%. The increase in 2002 was primarily due to higher pretax earnings for the current year, partially offset by higher net benefits from tax-exempt interest income.

The effective tax rate decreased slightly from 25.7% in 2001 to 25.0% in 2002, mostly as a result of a decrease in the disallowance of interest expense attributed to tax-exempt investments in Puerto Rico due to lower cost of funds. Also, the decline in the effective tax rate resulted from not recognizing amortization of goodwill upon adoption of SFAS 142 in January 2002, since a portion of goodwill is not tax deductible.

The difference between the effective tax rate and the maximum statutory tax rate for the Corporation, which is 39%, is primarily due to the interest income earned on certain investments and loans which is exempt from Puerto Rico income tax, net of the disallowance of related expenses attributable to the exempt income.

In 2001, income tax expense increased $4.5 million, or 4%, from $100.8 million in 2000. The effective tax rate was 26.8% in 2000. The rise in income taxes was mostly due to higher pretax earnings for the year 2001, partially offset by a decrease in the disallowance of interest expense attributed to tax-exempt investments due to lower cost of funds. The decrease in the effective tax rate for 2001 was mostly related to the loss on derivatives recorded during the year in the U.S. due to a higher effective tax rate applicable to the operations in the U.S. mainland.

Refer to Note 27 to the consolidated financial statements for additional information on income taxes.

Fourth Quarter Results

The net income for the last quarter of 2002 was $80.8 million, or $0.61 per common share (basic and diluted), compared with $75.6 million, or $0.54 per common share (basic and diluted), for the same quarter of 2001. The results for the fourth quarter of 2002 represented an annualized return on assets of 0.96% and an annualized return on common equity of 14.64%, compared with 1.03% and 14.08%, respectively, for the same period in 2001.

The net interest margin, on a taxable equivalent basis, decreased to 4.18% for the quarter ended December 31, 2002, from 4.47% in the same period of 2001. The rise of $25.9 million or 8% in net interest income, on a taxable equivalent basis, over the fourth quarter of 2001 was mostly attributed to higher investment activities. The average volume of earning assets rose by $4.4 billion, primarily due to a $2.8 billion increase in the average volume of money market, trading and investment securities, mostly comprised of U.S. Agency securities, which are tax-exempt in Puerto Rico, as well as a $1.6 billion increase in average loans, mainly mortgages. The increase in the volume of earning assets was funded mostly through borrowed funds, which on average rose by $3.4 billion, and by interest bearing deposits, which increased by $0.9 billion. The decrease in the net interest yield was mostly due to a lower yield in earning assets by 88 basis points, primarily related to a reduction in the yields of the investment and commercial loans portfolios. This reduction in yield was partly offset by a reduction in the cost of funds by 59 basis points mainly associated with the lower interest rate scenario during 2002.

The provision for loan losses declined to $50.0 million for the quarter ended December 31, 2002, from $58.5 million in the fourth quarter of 2001. Net charge-offs for the quarter ended December 31, 2002, were $31.9 million or 0.66% of average loans, compared with $48.9 million or 1.10% for the same period in 2001. The decline in net charge-offs in the fourth quarter of 2002 was mainly reflected in the commercial, including construction, and the consumer loan portfolios, which declined by $15.1 million and $3.2 million, respectively. The decline in the provision for loan losses is also influenced by the fact that most of the Corporation's loan growth has been in mortgage loans, a secured portfolio, which historically has experienced minimal losses. Moreover, although non-performing assets rose from December 31, 2001 to the same date in 2002, this rise was mostly in mortgage loans. Refer to Table M for a detail of non-performing loans by category for the past five years. Also, the provision for loan losses in the last quarter of 2001 was evaluated in light of the slowdown of the economy as a result of the September 11th, 2001 events.

Operating income, excluding securities, trading and derivative transactions, amounted to $140.1 million for the quarter ended December 31, 2002, compared with $128.8 million for the same quarter in 2001, an increase of $11.3 million or 9%. The growth in operating income was led by an increase in other service fees of $4.6 million, other operating income of $4.3 million, service charges on deposit accounts of $1.3 million and gain on sales of loans of $1.1 million. The rise in other service fees was mostly associated with higher credit card fees and discounts, debit card and check cashing fees, as well as insurance agency commissions. Other operating income increased mostly due to higher investment banking fees, gains on sales of software and equipment, and consulting and network services. Service charges on deposit accounts increased mainly due to higher commercial account charges.

Sale of securities for the fourth quarter in 2002 resulted in losses of $0.7 million, compared with gains of $0.6 million in the same quarter of 2001. Trading losses totaled $0.7 million and $1.9 million in the quarters ended December 31, 2002 and 2001, respectively. Derivative gains for the fourth quarter in 2002 amounted to $2.0 million, compared with losses of $13.1 million in the same quarter the previous year, resulting mostly from changes in the fair value of the Corporation's interest rate swaps.

Operating expenses for the quarter ended December 31, 2002 increased by $42.4 million, or 18%, from $239.9 million in the fourth quarter of 2001 to $282.3 million in the same quarter in 2002. This rise was principally reflected in other operating expenses and personnel costs. The rise in other operating expenses of $23.1 million was mostly attributed to the forfeiture of $21.6 million previously mentioned. The rise in personnel costs of $16.4 million, or 16%, was primarily due to higher salaries, pension costs and stock option expenses. The remaining categories of operating expenses rose $2.9 million, reflected mostly in higher professional fees and business promotion, partially offset by a decrease in the amortization of intangibles. Income tax expense increased by $7.9 million in the fourth quarter of 2002 compared with the same period in the previous year. The effective tax rate was 27.6% for the quarter ended December 31, 2002, compared with 23.2% in the same period in 2001. The increase is due in part to the impact of higher tax benefits in the last quarter of 2001 related to derivative losses, principally in the U.S. mainland where the effective tax rate for the Corporation is higher.

Statement of Condition Analysis

Assets

At December 31, 2002, the Corporation's total assets were $33.6 billion, an increase of $2.9 billion, or 9%, compared with $30.7 billion a year earlier.

Earning assets increased to $31.9 billion at December 31, 2002, from $29.1 billion at December 31, 2001. Money market investments, investment securities and trading securities amounted to $12.3 billion at December 31, 2002, representing an increase of $1.3 billion, or 12%, compared with $11.0 billion at December 31, 2001. The increase since 2001 was mainly reflected in investment securities, which totaled $10.7 billion at December 31, 2002, $836 million or 8% higher than the $9.9 billion reported a year earlier. The growth resulted mostly from investment opportunities undertaken by the Corporation, especially in securities of U.S. Government agencies and mortgage-backed securities. For a breakdown of the Corporation's investment portfolio, refer to Notes 4 and 5 to the consolidated financial statements.

Table G reflects the Corporation's continued loan portfolio growth for the last five years. Total loans increased $1.4 billion, or 8%, from $18.2 billion at December 31, 2001 to $19.6 billion at the end of 2002. The largest increases in the loan portfolio were in mortgage and commercial (including construction) loans, which increased $969 million and $450 million, respectively. Commercial loan portfolio growth resulted principally from the continued marketing efforts towards the retail and middle market, notwithstanding the slowdown experienced in the economy. Consumer loans, which include personal, auto and boat, credit cards and reserve lines, decreased by $33 million since the end of 2001.

The decrease in the consumer loans portfolio was mostly reflected in personal loans, the largest category of consumer loans, which decreased $160 million, or 10%, from $1.6 billion at December 31, 2001 to $1.4 billion at December 31, 2002. This decline was partly due to a lower demand for personal loans as a result of the low interest rate scenario, which tends to favor the refinancing of mortgage loans and personal debt consolidation. It was also due to the sale of

Table G
Loans Ending Balances

(Dollars in thousands)	2002	2001	2000	1999	1998	Five-Year C.G.R.
	As of December 31,					
Commercial, industrial and agricultural	**$7,883,381**	$7,420,738	$7,013,834	$6,656,411	$5,646,027	11.20%
Construction	**245,926**	258,453	258,197	247,288	257,786	(0.34)
Lease financing	**886,731**	859,119	816,714	728,644	645,280	8.79
Mortgage*	**7,466,531**	6,497,459	4,643,646	3,933,663	3,351,748	21.38
Consumer	**3,099,550**	3,132,782	3,324,694	3,341,748	3,177,954	0.17
Total	**$19,582,119**	$18,168,551	$16,057,085	$14,907,754	$13,078,795	11.47%

*Includes loans held-for-sale.

approximately $20 million in small consumer loans during the second quarter of 2002, as part of the sale of 15 branches of Popular Finance, Inc. Partially offsetting the decrease in personal loans were increases in the other consumer loan categories. Auto and marine secured loans increased $125 million, or 18%, since December 31, 2001, mostly due to sales efforts. Also, credit cards and revolving lines of credit rose less than 1% each, since December 31, 2001, increasing by $1.5 million and $1.1 million, respectively.

At December 31, 2002, the Corporation's lease financing portfolio increased by $28 million, or 3%, since the end of 2001. The Corporation's leasing subsidiary in Puerto Rico contributed with $25 million of the rise, while the Corporation's leasing subsidiary in the U.S. mainland contributed with $18 million of the rise since the end of 2001. These increases were partially offset by reductions in the leasing portfolio at the banking subsidiaries.

Premises and equipment totaled $461 million at December 31, 2002, compared with $406 million at December 31, 2001. The increase since 2001 is mostly associated with the acquisition the Centro Europa building in Puerto Rico, after the Bank exercised its option to buy it. Certain BPPR departments as well as other independent tenants occupy the office building. The increase is also related to office remodeling and acquisitions and premises under construction for business expansion.

Other assets totaled $578 million at the end of 2002, an increase of $81 million, or 16%, compared with $497 million at December 31, 2001. This growth was mostly associated with advances on securitizations.

At December 31, 2002, goodwill totaled $183 million compared with $178 million at the end of 2001. The increase was mostly associated with the acquisitions performed during 2002 and the end of 2001 by Equity One, Popular Cash Express and Popular Insurance. Other intangible assets totaled $35 million at December 31, 2002, a decline of $3 million, compared with the same date in the previous year, due to the annual amortization of these intangibles. Refer to Note 10 to the consolidated financial statements for the composition of other intangible assets.

Deposits and Other Interest and Non-Interest Bearing Liabilities

Total deposits at December 31, 2002 amounted to $17.6 billion, compared with $16.4 billion at the end of 2001, an increase of $1.2 billion or 8%. Interest bearing deposits amounted to $14.2 billion at December 31, 2002, compared with $13.1 billion the previous year, an increase of $1.1 billion or 9%. Non-interest bearing deposits were $3.4 billion at December 31, 2002, compared with $3.3 billion at the end of 2001.

Savings deposits, which include NOW and money markets, accounted for 76% of the increase in total deposits since the end of 2001, rising $947 million or 14%. This growth was attained in both retail and commercial accounts. Meanwhile, time deposits increased by $210 million, or 3%, from December 31, 2001. Brokered certificates of deposit, which are included as part of time deposits, totaled $856 million at December 31, 2002, a rise of $104 million, or 14%, since December 31, 2001. Also, contributing to the rise in time deposits were higher individual retirement account deposits, among other products. Demand deposits increased $87 million when compared with December 31, 2001. This rise was reflected in most categories, including commercial and individual deposit accounts, deposits in trust and others.

Borrowed funds, including subordinated notes and capital securities, increased $1.4 billion, from $11.6 billion at December 31, 2001 to $13.0 billion at the end of 2002. The increase in borrowed funds was used primarily to fund the Corporation's loan and investment portfolio growth.

Short-term borrowings, including federal funds purchased and securities sold under agreements to repurchase, amounted to $8.4 billion at December 31, 2002, compared with $7.6 billion in 2001. Long-term borrowed funds totaled $4.6 billion at December 31, 2002, compared with $4.0 billion at the same date the previous year.

During 2002, as well as in the previous year, the Corporation continued extending the duration of its borrowings as part of its asset/liability management strategies. The strategies that were followed in 2001 included issuing medium-term notes and asset-backed securities, extending repurchase agreements, raising longer-term time deposits and entering into an interest rate swap, where the Corporation

Table H
Capital Adequacy Data

(Dollars in thousands)	2002	2001	2000	1999	1998
	As of December 31,				
Risk-based capital:					
Tier I capital	**$2,054,027**	$1,849,305	$1,741,004	$1,557,096	$1,450,187
Supplementary (Tier II) capital	**346,531**	330,213	321,627	324,519	310,091
Total capital	**$2,400,558**	$2,179,518	$2,062,631	$1,881,615	$1,760,278
Risk-weighted assets:					
Balance sheet items	**$19,487,339**	$18,087,672	$16,173,005	$14,878,731	$12,955,995
Off-balance sheet items	**1,355,430**	479,691	496,735	428,780	443,926
Total risk-weighted assets	**$20,842,769**	$18,567,363	$16,669,740	$15,307,511	$13,399,921
Ratios:					
Tier I capital (minimum required - 4.00%)	**9.85%**	9.96%	10.44%	10.17%	10.82%
Total capital (minimum required - 8.00%)	**11.52**	11.74	12.37	12.29	13.14
Leverage ratio (minimum required - 3.00%)	**6.19**	6.46	6.40	6.40	6.72
Equity to assets	**6.76**	7.50	7.09	7.19	7.60
Tangible equity to assets	**6.12**	6.74	6.18	6.21	6.64
Equity to loans	**11.48**	12.30	11.93	12.32	13.02
Internal capital generation rate	**11.29**	9.19	9.59	9.80	10.06

pays a fixed rate. This same strategy was followed during 2002, mainly through issuing asset-backed securities.

Refer to Notes 12 through 17 to the consolidated financial statements for information on the Corporation's borrowings as of December 31, 2002 and 2001.

In 2001, the Corporation filed a shelf registration with the Securities and Exchange Commission, allowing Popular, Inc., Popular North America, Inc. and Popular International Bank, Inc. to issue medium-term notes, debt securities and preferred stock in an aggregate amount of up to $2 billion. These securities are fully and unconditionally guaranteed by the Corporation. As of December 31, 2002, the Corporation had available $1.9 billion under this shelf registration.

Other liabilities were $678 million at December 31, 2002, an increase of $165 million compared with December 31, 2001. This increase is mainly associated with derivative instruments, payables to broker/dealer and counterparties related to transactions accounted at trade date, the forfeiture payable under the Deferred Prosecution Agreement, taxes payable and accrued interest, among many others.

Stockholders' Equity

The Corporation's stockholders' equity at December 31, 2002 was $2.4 billion, compared with $2.3 billion at the same date in 2001. Earnings retention and higher accumulated other comprehensive income, mostly associated with a favorable change in the value of securities available-for-sale, contributed to the increase in stockholders' equity since 2001. Unrealized gains on securities available-for-sale, net of deferred taxes, totaled $208 million at December 31, 2002, compared with $81 million at the end of the previous year. The consolidated statement of condition for 2002 also included $3 million in unrealized losses on derivatives instruments, compared with unrealized gains of $78 thousand at the end of 2001.

Partially offsetting the capital increases explained above was the redemption of $100 million of the Corporation's preferred stock in January 2002. The redemption consisted of the repurchase of shares at the liquidation preference value of $25.50 per share plus accrued dividends, for a total repurchase price of $25.6276 per share. Also, in May 2002 the Corporation repurchased 4.3 million shares of its common stock from the Banco Popular Retirement Plan, at a total cost of $139 million, which is included as treasury stock in the consolidated statement of condition.

Dividends declared on common stock during 2002 amounted to $106.7 million, compared with $103.5 million in 2001. Cash dividends declared per common share for 2002 increased to $0.80, which is 5% higher than the 2001 cash dividend of $0.76 per common share, and 25% higher than the 2000 cash dividend of $0.64 per common share. The dividend payout ratios for 2002, 2001 and 2000 were 30.76%, 33.10% and 32.47%, respectively.

The Corporation has a Dividend Reinvestment Plan for its stockholders that offers the opportunity of automatically reinvesting dividends in shares of common stock at a 5% discount from the average market price at the time of the issuance. During 2002, a total of 383,301 shares, equivalent to $11.2 million in additional capital, were issued under the Plan. In 2001, 356,831 shares representing $9.7 million in additional capital were issued under this Plan.

Table H presents the Corporation's capital adequacy information for the years 1998 to 2002. The Corporation continues to exceed the well-capitalized guidelines under the federal banking regulations. Note 20 to the consolidated financial statements presents further information on the Corporation's regulatory capital requirements. Effective on January 1, 2002, a final rule revising the regulatory capital treatment of recourse arrangements and direct credit substitutes, including residual interests and credit-enhancing interest-only strips, as well as asset-backed and mortgage-backed securities, took effect.

Table I

Common Stock Performance

	Market Price		Cash Dividends Declared Per Share	Book Value Per Share	Dividend Payout Ratio	Dividend Yield *	Price/ Earnings Ratio	Market/ Book Ratio
	High	Low						
2002				**$18.20**	**30.76%**	**2.58%**	**12.95x**	**185.71%**
4th quarter	**$34 1/4**	**$ 28 5/7**	**$0.20**					
3rd quarter	**35 6/7**	**30 1/9**	**0.20**					
2nd quarter	**33 2/3**	**28 3/5**	**0.20**					
1st quarter	**30**	**27 1/2**	**0.20**					
2001				15.93	33.10	2.43	13.40	182.60
4th quarter	$ 30 1/6	$ 27 1/3	$0.20					
3rd quarter	36 1/4	27 3/7	0.20					
2nd quarter	32 15/16	28 4/9	0.20					
1st quarter	29 4/9	25 1/4	0.16					
2000				13.92	32.47	2.75	13.36	188.95
4th quarter	$ 27 7/8	$ 23 1/2	$ 0.16					
3rd quarter	27 1/16	19 5/8	0.16					
2nd quarter	23 9/16	19 1/16	0.16					
1st quarter	26 7/8	18 5/8	0.16					
1999				11.51	31.56	1.90	15.18	242.72
4th quarter	$ 32	$ 25 7/16	$ 0.16					
3rd quarter	31	25 13/16	0.16					
2nd quarter	32 7/8	28 13/16	0.14					
1st quarter	37 7/8	30 7/8	0.14					
1998				11.86	28.42	1.55	20.61	286.68
4th quarter	$ 34	$ 25 3/8	$ 0.14					
3rd quarter	36 3/4	28	0.14					
2nd quarter	36 5/32	29 7/32	0.11					
1st quarter	29 11/32	23 1/32	0.11					

* Based on the average high and low market price for the four quarters.
Note: All per share data has been adjusted to reflect the stock split effected in the form of a dividend of one share for each share outstanding on July 1, 1998.

As a result of the adoption of this rule, off-balance sheet items included in the computation of regulatory capital of the Corporation increased by $792 million.

The average tangible equity amounted to $1.9 billion for the year ended December 31, 2001 and 2002. Total tangible equity at December 31, 2002 was $2.2 billion compared with $2.0 billion at the end of the previous year. The average tangible equity to average assets ratio for 2002 was 6.12% compared with 6.74% in 2001. The reduction resulted from the redemption of preferred stock and the repurchase of common stock mentioned above, together with the growth in assets.

Book value per common share was $18.20 at December 31, 2002, compared with $15.93 at December 31, 2001. The market value of the Corporation's common stock at the end of 2002 was $33.80 per share compared with $29.08 a year earlier. Total market capitalization was $4.5 billion at December 31, 2002 and $4.0 billion at December 31, 2001.

The Corporation's common stock is traded on the National Association of Securities Dealers Automated Quotation (NASDAQ) National Market System under the symbol BPOP. Table I shows the Corporation's common stock performance on a quarterly basis during the last five years, including market prices and cash dividends declared. As of February 28, 2003, the Corporation had 11,117 stockholders of record of its common stock, not including the beneficial owners whose shares are held in record names of brokers or other nominees.

The Corporation has a stock option plan, which permits the granting of incentive awards in the form of qualified stock options, incentive stock options, or non-statutory stock options of the Corporation. Any employee or director of the Corporation or any of its subsidiaries is eligible to participate in the plan. During 2001 and 2002, options for 26,416 and 423,647 common shares, respectively, were awarded

under the plan. Refer to Note 25 to the consolidated financial statements for further information.

Risk Management

A Risk Management Committee composed of members of the Board of Directors of the Corporation monitors and approves policies and procedures and evaluates the Corporation's activities affected by credit, market, operational, legal, liquidity, reputation and strategic risks.

The Corporation has specific policies and procedures which structure and delineate the management of risks, particularly those related to interest rate exposure, liquidity and credit, all of which are discussed below.

Market Risk

Market risk refers to the impact of changes in interest rates on the Corporation's net interest income, market value of equity and trading operations. It also arises from fluctuations in the value of some foreign currencies against the U.S. dollar. Despite the varied nature of market risks, the primary source of this risk to the Corporation is the impact of changes in interest rates.

The stability and level of the Corporation's net interest income, as well as its market value of equity, are subject to interest rate volatility. Changes in interest rates affect both the rates at which the Corporation's assets and liabilities reprice over time, and the market values of most of its assets and liabilities. Since net interest income is the main source of earnings for the Corporation, the constant measurement and control of market risk is a major priority.

The Corporation's Board of Directors (the Board) is responsible for establishing policies regarding the assumption and management of market risk, and delegates their implementation to the Market Risk Committee (the Committee) of Popular, Inc. The Committee's primary goal is to ensure that the market risk assumed by the Corporation remains within the parameters of the Board's policies.

Interest Rate Risk

Interest rate risk (IRR) refers to the impact of changes in interest rates on the Corporation's net interest income. Depending on the duration and repricing characteristics of the Corporation's assets, liabilities and off-balance sheet items, changes in interest rates could either increase or decrease the level of net interest income. In limiting interest rate risk to an acceptable level, management may alter the mix of floating and fixed rate assets and liabilities, change pricing schedules, adjust maturities through sales and purchases of investment securities, and enter into derivative contracts, among other alternatives.

The Committee implements the market risk policies approved by the Board as well as the risk management strategies reviewed and adopted in Committee meetings. The Committee measures and monitors the level of short and long-term IRR assumed by the Corporation and its subsidiaries. It uses simulation analysis and static gap estimates for measuring short-term IRR. Duration analysis is used to quantify the level of long-term IRR assumed, and focuses on the estimated economic value of the Corporation, that is, the difference between the estimated market value of financial assets less the estimated value of financial liabilities.

Static gap analysis measures the volume of assets and liabilities at a point in time and their repricing during future time periods. The repricing volumes typically include adjustments for anticipated future asset prepayments and for differences in sensitivity to market rates. The volume of assets and liabilities repricing during future periods, particularly within one year, is used as one short-term indicator of IRR. Table J presents the static gap estimate for the Corporation as of December 31, 2002. These static measurements do not reflect the results of any projected activity and are best used as early indicators of potential interest rate exposures.

The interest rate sensitivity gap is defined as the difference between earning assets and interest-bearing liabilities maturing or repricing within a given time period. At December 31, 2002, the Corporation's one-year cumulative gap was $3.5 billion or 11.07% of total earning assets, compared with a one-year cumulative positive gap of $0.7 billion or 2.24% of total earning assets at the end of 2001. During 2002, the Corporation continued extending the maturity dates of certain borrowings into long-term maturities to take advantage of the low interest rate environment.

At December 31, 2002, the Corporation was a participant in interest rate swap agreements with an aggregate notional amount of $525 million. In such agreements, the Corporation converted floating rate debt to fixed rate debt, reducing its exposure to increases in interest rates that may occur in the future.

Simulation analysis is another measurement used by the Corporation for short-term IRR, and it addresses some of the deficiencies of gap analysis. It involves estimating the effect on net interest income of one or more future interest rate scenarios as applied to the repricing of the Corporation's current assets and liabilities and the assumption of new balances. The simulation analyses reviewed by the Committee are based on various interest rate scenarios, and include assumptions made related to the prepayment of the amortizing loans and securities, and the sensitivity of the Corporation's cost of retail deposits to changes in market rates. The computations do not contemplate actions management could take to respond to changes in interest rates. Computations of the prospective effects of hypothetical interest rate changes should not be relied upon as indicative of actual results. By their nature, these forward-looking statements are only estimates and may be different from what actually occurs in the future. As of December 31, 2002, the difference in projected net interest income under a rising and declining rate scenario, which assumes interest rates gradually change by 100 basis points up and down during the twelve-month period from the prevailing rates at year end, was a decrease of $2.2 million and an increase of $2.4 million, respectively, which represented changes of 0.2% in net interest income. These estimated changes are within the policy guidelines established by the Board.

Duration analysis measures longer-term IRR, in particular the duration of market value of equity. It expresses in general terms the sensitivity of the market value of equity to changes in interest rates. The estimated market value of equity is obtained from the market value of the cash flows from the Corporation's financial assets and liabilities, which are primarily payments of interest and repayments of principal. Thus, the market value of equity incorporates most future cash flows from net interest income, whereas other measures of IRR focus primarily on short-term net interest income.

The duration of the market value of portfolio equity ("MVPE") is a measure of its riskiness. The MVPE is equal to the estimated market value of the Corporation's assets minus the estimated market value of

Table J

Interest Rate Sensitivity

	As of December 31, 2002							
	By Repricing Dates							
(Dollars in thousands)	0-30 days	Within 31-90 days	After three months but within six months	After six months but within nine months	After nine months but within one year	After one year	Non-interest bearing funds	Total
Assets:								
Money market investments	$790,237	$302,064	$1,418	$927				$1,094,646
Investment and trading securities	2,811,690	685,105	1,216,971	718,347	$1,140,357	$4,650,530		11,223,000
Loans	5,559,491	1,061,357	857,062	797,865	859,616	10,446,728		19,582,119
Other assets							$1,760,587	1,760,587
Total	9,161,418	2,048,526	2,075,451	1,517,139	1,999,973	15,097,258	1,760,587	33,660,352
Liabilities and stockholders' equity:								
Savings, NOW and money market accounts	872,078					6,740,778		7,612,856
Other time deposits	1,198,764	1,090,294	798,235	424,944	361,433	2,760,829		6,634,499
Federal funds purchased and securities sold under agreements to repurchase	4,425,603	1,251,112	55,545	1,980		950,311		6,684,551
Other short-term borrowings	972,523	579,207	13,304	60,000	78,528			1,703,562
Notes payable	657,611	764,632	4,999	149,542	34,918	2,687,151		4,298,853
Capital securities						144,000		144,000
Subordinated notes						125,000		125,000
Non-interest bearing deposits							3,367,385	3,367,385
Other non-interest bearing liabilities and minority interest							678,767	678,767
Stockholders' equity							2,410,879	2,410,879
Total	$8,126,579	$3,685,245	$872,083	$636,466	$474,879	$13,408,069	$6,457,031	$33,660,352
Interest rate swaps	525,000					(525,000)		
Interest rate sensitive gap	1,559,839	(1,636,719)	1,203,368	880,673	1,525,094	1,164,189		
Cumulative interest rate sensitive gap	1,559,839	(76,880)	1,126,488	2,007,161	3,532,255	4,696,444		
Cumulative sensitive gap to earning assets	4.89%	(0.24%)	3.53%	6.29%	11.07%	14.72%		

the liabilities. The duration of MVPE is equal to the product of the market value of assets times its duration, minus the product of the market value of liabilities times its duration, divided by the market value of equity. In general, the longer the duration of MVPE, the more sensitive is its market value to changes in interest rates. As of December 31, 2002, the estimated duration of the market value of equity of the Corporation was 7.03 years compared with 3.62 years as of the same date a year earlier. The increase in the duration of equity is related to an increase in the duration of the investment securities.

Duration measures the average length of a financial asset or liability. In particular it equals the weighted average maturity of all the cash flows of a financial asset or liability where the weights are equal to the present value of each cash flow. The present value of cash flows occurring in the future is the estimated market value as of a certain date. The sensitivity of the market value of a financial asset or liability to changes in interest rates is primarily a function of its duration. In general terms, the longer the duration of an asset or liability, the greater is the sensitivity of its market value to interest rate changes. Since duration measures the length of a financial asset or liability, it is usually expressed in terms of years or months.

The Corporation maintains an overall interest rate risk management strategy that incorporates the use of derivative instruments to minimize significant unplanned fluctuations in net interest income and cash flows that are caused by interest rate volatility. The Corporation's goal is to manage interest rate sensitivity by modifying the repricing or maturity characteristics of certain balance sheet assets and liabilities so that the net interest margin is not, on a material basis, adversely affected by movements in interest rates. Derivative instruments that are used, to a limited extent, as part of the Corporation's interest rate risk management strategy include interest rate swaps, interest rate forwards and future contracts, interest rate swaptions, foreign exchange contracts, and interest rate caps, floors and put options embedded in interest rate contracts.

As a matter of policy, the Corporation does not use highly leveraged derivative instruments for interest rate risk management. The

Table K

Maturity Distribution of Earning Assets

	As of December 31, 2002					
	Maturities					
		After one year through five years		After five years		
(In thousands)	One year or less	Fixed interest rates	Variable interest rates	Fixed interest rates	Variable interest rates	Total
Money market securities	$1,094,646					$1,094,646
Investment and trading securities	2,257,964	$4,103,269	$858,542	$2,983,481	$678,747	10,882,003
Loans:						
Commercial	3,287,321	1,289,327	1,190,782	1,129,982	985,969	7,883,381
Construction	49,636	7,742	34,847	23,126	130,575	245,926
Lease financing	248,370	638,353		8		886,731
Mortgage	1,922,875	2,661,022	360,106	1,287,065	1,235,463	7,466,531
Consumer	943,797	1,320,810		834,943		3,099,550
Total	$9,804,609	$10,020,523	$2,444,277	$6,258,605	$3,030,754	$31,558,768

Note: Federal Reserve Bank stock, Federal Home Loan Bank stock, and other equity securities held by the Corporation are not included in this table.

Corporation's derivative activities are monitored by the Committee, which is responsible for approving hedging strategies that are developed through the analysis of data derived from financial simulation models and other internal and industry sources. The resulting hedging strategies are then incorporated into the Corporation's overall interest rate risk management and trading strategies. Several derivative contracts that the Corporation has entered into do not qualify for accounting as hedges as defined in SFAS No. 133, and their changes in market value are recognized in current earnings.

Refer to Note 30 to the consolidated financial statements for further information on the Corporation's involvement in derivative instruments and hedging activities.

Trading

The Corporation's trading activities are another source of market risk and are subject to strict guidelines approved by the Board of Directors and included in the investment policy. Most of the Corporation's trading activities are limited to mortgage banking activities, the purchase of debt securities for the purpose of selling them in the near term and positioning securities for resale to retail customers. In anticipation of customer demand, the Corporation carries an inventory of capital market instruments and maintains market liquidity by quoting bid and offer prices to and trading with other market makers. Positions are also taken in interest rate sensitive instruments, based on expectations of future market conditions. These activities constitute the proprietary trading business and are conducted by the Corporation to provide customers with financial products at competitive prices. As the trading instruments are recognized at market value, the changes resulting from fluctuations in market prices, interest rates or exchange rates directly affect reported income. Further information on the Corporation's risk management and trading activities is included in Note 30 to the consolidated financial statements.

In the opinion of management, the size and composition of the trading portfolio does not represent a potentially significant source of market risk for the Corporation.

As of December 31, 2002 the trading portfolio of the Corporation amounted to $510 million and represented 1.5% of total assets, compared with $270 million and 0.9% a year earlier. This portfolio was composed of the following as of December 31, 2002:

(Dollars in thousands)	Amount	Weighted Average Yield
Mortgage-backed securities	$377,135	6.40%
Commercial paper	114,958	1.90
U.S. Treasury and agencies	9,105	3.00
Puerto Rico Government obligations	3,991	5.60
Other	5,157	6.07
	$510,346	5.31%

As of December 31, 2002, the trading portfolio of the Corporation had an estimated duration of 0.6 years and a one-month value at risk (VAR) of approximately $1.0 million, assuming a confidence level of 95%. VAR is a key measure of market risk for the Corporation. VAR represents the maximum amount that the Corporation has placed at risk of loss with a 95% degree of confidence, in the course of its risk taking activities. Its purpose is to describe the amount of capital requirement to absorb potential losses from adverse market movements. There are numerous assumptions and estimates associated with VAR modeling, and actual results could differ from these assumptions and estimates.

The Corporation does not participate in any trading activities involving commodity contracts.

Table L

Average Total Deposits

(Dollars in thousands)	2002	2001	2000	1999	1998	Five-Year C.G.R.
	For the Year					
Demand	**$3,226,758**	$3,052,270	$3,030,307	$3,032,001	$2,607,525	7.11%
Other non-interest bearing accounts	**-**	4,277	4,976	6,881	4,251	-
Non-interest bearing	**3,226,758**	3,056,547	3,035,283	3,038,882	2,611,776	7.06
Savings accounts	**4,775,115**	4,170,202	4,113,338	4,132,397	3,761,160	7.07
NOW and money market accounts	**2,502,272**	2,101,892	1,811,352	1,745,579	1,459,972	14.32
Savings deposits	**7,277,387**	6,272,094	5,924,690	5,877,976	5,221,132	9.26
Certificates of deposit:						
Under $100,000	**2,809,305**	2,751,490	2,766,905	2,664,174	2,155,391	18.22
$100,000 and over	**2,797,085**	2,721,716	2,030,067	1,601,861	1,421,456	8.44
936	**121,290**	111,251	259,203	297,122	369,530	(24.93)
Certificates of deposit	**5,727,680**	5,584,457	5,056,175	4,563,157	3,946,377	9.79
Other time deposits	**752,821**	662,693	492,334	311,323	490,816	11.74
Interest bearing	**13,757,888**	12,519,244	11,473,199	10,752,456	9,658,325	9.60
Total	**$16,984,646**	$15,575,791	$14,508,482	$13 ,791,338	$12,270,101	9.09%

Foreign Exchange

The Corporation conducts business in certain Latin American markets through several of its processing and information technology services and products subsidiaries. Also, it holds an interest in Consorcio de Tarjetas Dominicanas, S.A. (Contado) and Centro Financiero BHD, S.A. in the Dominican Republic. Although not significant, some of these businesses are conducted in the country's particular foreign currency. However, management does not expect future exchange volatility between the U.S. dollar and the particular foreign currency to affect significantly the value of the Corporation's investment in these companies.

Liquidity

Liquidity refers to the ability to fund current operations, including the cash flow requirements of depositors and borrowers as well as future growth. The Corporation utilizes various sources of funding to help ensure that adequate levels of liquidity are always available. Diversification of funding sources is a major priority, as it helps protect the liquidity of the Corporation from market disruptions. Since the duration and repricing characteristics of the Corporation's borrowings determine, to a major extent, the overall interest rate risk of the Corporation, they are actively managed.

Deposits tend to be less volatile than institutional borrowings and their cost is less sensitive to changes in market rates. The extensive branch network of the Corporation in the Puerto Rico market and its expanding network in major U.S. markets, have enabled it to maintain a significant and stable base of deposits. Deposits are the primary source of funding, although wholesale borrowings are an increasingly important source. At December 31, 2002, the Corporation's core deposits amounted to $14.3 billion or 81% of total deposits, an increase of $985 million or 7% from the same date a year ago. Certificates of deposits with denominations of $100,000 and over as of December 31, 2002 totaled $3.3 billion, or 19% of total deposits. Their distribution by maturity was as follows:

(Dollars in thousands)	
3 months or less	$1,404,407
3 to 6 months	309,565
6 to 12 months	377,000
over 12 months	1,250,612
	$3,341,584

For further detail on average deposits for the last five years, please refer to Table L.

Another important liquidity source for the Corporation is its assets, particularly the investment portfolio. This portfolio consists primarily of liquid U.S. Treasury and Agency securities that can be used to raise funds in the repo markets. As of December 31, 2002, the entire investment portfolio, excluding trading securities, totaled $10.7 billion, of which $1.7 billion or 16% has maturities of one year or less. The maturity distribution of the investment and trading portfolio is presented in Table K. Mortgage-related investments in Table K are presented based on expected maturities, which may differ from contractual maturities, since they could be subject to prepayments.

The Corporation's loan portfolio is another important source of liquidity since it generates substantial cash flow resulting from principal and interest payments and principal prepayments. The loan portfolio can also be used to obtain funding in the capital markets. In particular, mortgage loans and some types of consumer loans, and to a lesser extent commercial loans, have highly developed secondary markets, which the Corporation uses on a regular basis. The maturity distribution of the loan portfolio as of December 31, 2002 is presented in Table K. As of that date $6.5 billion or 33% of the loan portfolio is expected to mature within one year. The contractual maturities of loans have been

adjusted to include prepayments based on historical data and prepayment trends.

Various forms of both short and long-term borrowings provide additional funding sources. Wholesale or institutional sources of funding include the repo, federal funds and Eurodollar markets, commercial paper, medium term notes, senior debentures and asset securitizations. A more detailed description of these sources is included in the Statement of Condition analysis in this Management's Discussion and Analysis and in notes 12 through 17 to the consolidated financial statements.

At December 31, 2002, the Corporation had outstanding $253 million in commercial paper. At that date, the Corporation had a committed liquidity facility in the amount of $315 million, which also serves as a back-up for the commercial paper program. The facility has never been drawn and management does not anticipate doing so in the future. At the end of 2002, the Corporation had $815 million in approved lines of credit with the Federal Home Loan Bank, of which approximately $485 million remained unused. These FHLB advances are secured by securities and mortgages under a collateral agreement. Other approved short and long term credit facilities are warehouse, repos and fed funds lines, banks notes program, and other. Of these facilities, $18.2 billion were approved and $12.2 billion remained unused as of the end of 2002. In addition, BPPR has established a borrowing facility at the discount window of the Federal Reserve Bank of New York. As of December 31, 2002, BPPR has a borrowing capacity at the discount window of approximately $2.0 billion, which remained unused. These facilities are collateralized sources of credit that are highly reliable even under difficult market conditions.

Also, the Corporation obtains liquidity in the capital markets through the sale of its debt and equity securities. The Corporation has a shelf registration filed with the Securities and Exchange Commission, which is intended to permit the Corporation to raise funds through sales of preferred stock or medium-term notes with a relatively short lead-time. On February 26, 2003, the Corporation announced the offering of its 6.375% Noncumulative Monthly Income Preferred Stock, 2003 Series A, at a price of $25 per share. The new proceeds to the Corporation, after the underwriting discounts and expenses, are estimated at approximately $157 million, or a maximum of approximately $181 million if an over-allotment option is exercised in full by the underwriters. The Corporation intends to use the net proceeds for general corporate purposes.

Risks to Liquidity

The Corporation's ability to compete successfully in the marketplace for deposits depends on various factors, including service, convenience and financial stability as reflected by operating results and credit ratings (by nationally recognized credit rating agencies). Although a downgrade in the credit rating of the Corporation may impact its ability to raise deposits, management does not believe that the impact should be material. Deposits at all of the Corporation's banking subsidiaries are federally insured and this is expected to mitigate the effect of a downgrade in credit ratings. In addition, as mentioned above, the Corporation's banking subsidiaries maintain borrowing facilities at the Discount Window of the Federal Reserve Bank of New York, and have a considerable amount of collateral that can be used to raise funds under these facilities.

Although the Corporation raises the majority of its financing from retail deposits, it still borrows a material amount of funds from institutional sources. Institutional lenders tend to be sensitive to the perceived credit risk of the entities to which they lend, and this exposes the Corporation to the possibility of having its access to funding affected by how the market perceives its credit quality; this, in part, may be due to factors beyond its control.

Changes in the credit rating of the Corporation or any of its subsidiaries to a level below "investment grade" may affect the Corporation's access to the capital markets. The Corporation's counterparties are sensitive to the risk of a rating downgrade. In the event of a downgrade, it may be expected that the cost of borrowing funds in the institutional market would increase. In addition, the ability of the Corporation to raise new funds or renew maturing debt may be more difficult. During 2002, Fitch, a nationally recognized credit rating agency, changed the Corporation's rating outlook from "stable" to "negative". In the opinion of management, this does not necessarily imply that a change in the actual rating of the Corporation is imminent, but does suggest that the agency has identified financial trends, which if left unchanged, may result in a rating change. Management does not anticipate changes in the credit ratings of the Corporation based on its expected outlook for the P.R./U.S. economy, interest rates and expected financial results of the Corporation. Also, management anticipates that all concerns raised by the credit rating agency will be fully addressed.

The Corporation and BPPR's debt ratings as of December 31, 2002 were as follows:

	Popular, Inc.		BPPR	
	Short-term debt	Long-term debt	Short-term debt	Long-term debt
Fitch	F-1	A	F-1	A
Moody's	P-2	A3	P-1	A2
S&P	A-2	BBB+	A-2	A-

Some of the Corporation's borrowings are subject to "rating triggers", contractual provisions that accelerate the maturity of the underlying borrowing in the case of a change in rating. Therefore, the need for the Corporation to raise funding in the marketplace could increase more than usual in the case of a rating downgrade. The amount of obligations subject to rating triggers was $0.3 billion as of December 31, 2002, of which $200 million were in Popular North America and $73 million in BPPR.

In the course of borrowing from institutional lenders, the Corporation has entered into contractual agreements to maintain certain levels of debt, capital and non-performing loans, among other financial covenants. If the Corporation were to fail to comply with those agreements, it may result in an event of default. Such failure may accelerate the repayment of the related borrowings. An event of default could also affect the ability of the Corporation to raise new funds or renew maturing borrowings. The Corporation is currently in full compliance with all financial covenants in effect and expects to remain so in the foreseeable future. As of December 31, 2002, the Corporation had outstanding $0.9 billion in obligations subject to covenants, including those which are subject to "rating triggers" and those

outstanding under the commercial paper program and the warehouse lines of credit.

The Corporation's non-banking subsidiaries may be subject to a higher degree of liquidity risk than the banking subsidiaries, due to the latter's access to federally insured deposits and the Federal Reserve Discount Window. A higher proportion of the funding of the non-banking subsidiaries is from institutional sources, as compared to the banking subsidiaries, and these are more sensitive to the perceived credit risk of the Corporation than providers of deposits. In the event of a downgrade in the credit ratings of the Corporation, the non-banking subsidiaries may experience an increase in their cost of funds and reduced availability of financing. Management does not anticipate such a scenario developing in the foreseeable future.

The importance of the Puerto Rico market for the Corporation is an additional risk factor that could affect its financing activities. In the case of an extended economic slowdown in Puerto Rico, the credit quality of the Corporation could be affected, and as a result of higher credit costs, profitability may decrease. The substantial integration of Puerto Rico with the U.S. economy should limit the probability of a prolonged recession in Puerto Rico (except if there is a U.S. national recession) and its related risks to the Corporation.

Management intends to finance the future operations of the Corporation with a combination of retail and commercial deposits, and to a lesser extent, short and long-term borrowed funds. The sources and the maturities of these borrowings will be diversified to avoid undue reliance on any single source and maintain an orderly volume of borrowings maturing in the future.

Factors that the Corporation does not control, such as the economic outlook of its principal markets, could affect its ability to obtain funding. In order to prepare for the possibility of such a scenario, management has adopted contingency plans for raising financing under stress scenarios, where important sources of funds that are usually fully available are temporarily not willing to lend to the Corporation.

These plans call for using alternate funding mechanisms such as the pledging or securitization of certain asset classes, committed credit lines, and loan facilities implemented with the Federal Home Loan Bank of New York and the Federal Reserve Bank of New York. The Corporation has a substantial amount of assets available for raising funds through non-traditional channels and is confident that it has adequate alternatives to rely on, under a scenario where some primary funding sources are temporarily unavailable.

Off-Balance Sheet Activities

In past years, in the ordinary course of business, the Corporation conducted asset securitizations involving the transfer of mortgage loans to a qualifying special purpose entity (QSPE), which in turn transferred the assets, including their titles, to different trusts, thus isolating those loans from the Corporation's assets. The transactions qualified for sale accounting based on the provisions of SFAS No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities," and as such, these trusts are not consolidated in the Corporation's financial statements. As of December 31, 2002, these trusts held approximately $248 million in assets in the form of mortgage loans. Their liabilities in the form of debt principal due to investors approximated $240 million at the end of 2002. In these securitizations, the Corporation retained servicing responsibilities and certain subordinated interests in the form of interest-only securities. The investors and the securitization trusts have no recourse to the Corporation's assets. The servicing rights and interest-only securities retained by the Corporation are recorded in the statement of condition at the lower of cost or market, or fair value, respectively. During the year ended December 31, 2002 the Corporation recorded approximately $3.1 million of write-downs related to interest-only strips, in which the decline in the fair value was considered other than temporary.

Contractual Obligations and Commercial Commitments

As disclosed in the notes to the consolidated financial statements, Popular, Inc. has certain obligations and commitments to make future payments under contracts. At December 31, 2002, the aggregate contractual obligations were:

(In millions)	Payments Due by Period				
	Less than 1 year	1 to 3 years	4 to 5 years	After 5 years	Total
Long-term debt	$1,313	$1,320	$1,241	$694	$4,568
Annual rental commitments under operating leases	35	55	39	96	225
Total contractual cash obligations	$1,348	$1,375	$1,280	$790	$4,793

The operating lease agreements do not impose any restrictions on Popular, Inc.'s ability to pay dividends or engage in debt or equity financing transactions.

Popular, Inc. also utilizes lending-related financial instruments in the normal course of business to meet the financial needs of its customers. The Corporation's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit, standby letters of credit and commercial letters of credit is represented by the contractual notional amount of those instruments. The Corporation uses the same credit policies in making those commitments and conditional obligations as it does for those reflected on the statements of condition. Many of the commitments may expire without being drawn upon. As a result, total contractual amounts are not representative of the Corporation's actual future credit exposure or liquidity requirements for these commitments. At December 31, 2002 the contractual amounts related to the Corporation's off-balance sheet lending activities were:

	Amount of Commitment – Expiration Period				
(In millions)	Less than 1 year	1 to 3 years	4 to 5 years	After 5 years	Total
Commitments to extend credit	$4,212	$378	$225	$30	$4,845
Commercial letters of credit	20	-	-	-	20
Standby letters of credit	53	69	3	1	126
Commitments to originate mortgage loans	471	76	-	-	547
Total	$4,756	$523	$228	$31	$5,538

During 2002, the Corporation also entered into a commitment to purchase $100 million of mortgage loans from another institution with the option of purchasing $75 million in additional loans. The

commitment expires on June 30, 2004. As of December 31, 2002, no loans have been purchased under this agreement.

Refer to Notes 14, 15, 16, 26 and 28 to the consolidated financial statements for further information on the Corporation's contractual obligations and commercial commitments.

Credit Risk Management and Loan Quality

One of the Corporation's primary risk exposures is its credit risk, which represents the possibility of loss from the failure of a borrower or counterparty to perform according to the terms of a credit-related contract.

The Corporation manages credit risk by maintaining sound underwriting standards, monitoring and evaluating the quality of the loan portfolio, its trends and collectibility, assessing reserves and loan concentrations, recruiting qualified and highly skilled credit officers, implementing and monitoring lending policies and collateral requirements, and instituting procedures to ensure appropriate actions to comply with laws and regulations. Included in the policies, primarily determined by the amount, type of loan and risk characteristics of the credit facility, are various approval levels, ranging from the branch or department level to those that are more centralized. When considered necessary, the Corporation receives collateral to support credit extensions and commitments, which is generally in the form of real and personal property, cash on deposit and other highly liquid instruments.

The Corporation has a Credit Strategy Committee (CRESCO) that oversees all credit-related activities. It is the CRESCO's responsibility to manage the Corporation's overall credit exposure and to develop credit policies, standards and guidelines that define, quantify, and monitor credit risk. Through the CRESCO, Senior Management reviews asset quality ratios, trends and forecasts, problem loans, establishes the provision for loan losses and assesses the methodology and adequacy of the allowance for loan losses on a monthly basis. The analysis of the allowance adequacy is presented to the Board of Directors for review, consideration and ratification on a quarterly basis.

The Corporation also has an independent Credit Risk Management Division (CRMD), which is centralized and independent of the lending function. It manages the credit rating system and estimates the adequacy of the allowance for loan losses in accordance with generally accepted accounting principles (GAAP) and regulatory standards. To manage and control the Corporation's credit risk the CRMD utilizes various techniques through the different stages of the credit process. A CRMD representative, who is a permanent non-voting member of the Executive Credit Committee, oversees the adherence to policies and procedures established for the initial underwriting of the credit portfolio. Also, the CRMD performs ongoing monitoring of the portfolio, including potential areas of concern for specific borrowers and/or geographic regions. Specialized workout officers, who are independent of the originating unit, handle substantially all commercial loans which are past due over 90 days, have filed bankruptcy, or based on their risk profile are considered problem loans.

The Corporation also has an independent Credit Process Review Group within the CRMD, which performs annual comprehensive credit process reviews of several middle market, construction and corporate banking lending groups. It also reviews the work performed by outside loan review firms providing services to the Corporation on the U.S. mainland. This group evaluates the risk profile of each originating unit along with each unit's credit administration effectiveness and the quality of the credit and collateral documentation.

At December 31, 2002, the Corporation's credit exposure was centered in its $19.6 billion loan portfolio, which represented 61% of its earning assets. The portfolio composition for the last five years is presented in Table G.

The Corporation issues certain credit-related off-balance sheet financial instruments, including commitments to extend credit, stand-by letters of credit and commercial letters of credit to meet the financing needs of its customers. For these financial instruments, the contract amount represents the credit risk associated with failure of the counterparty to perform in accordance with the terms and conditions of the contract, and the decline in value of the underlying collateral. The credit risk associated with these financial instruments varies depending on the counterparty's creditworthiness and the value of any collateral held. Since many of these commitments expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Refer to Note 28 to the consolidated financial statements for the Corporation's involvement in these credit-related activities and to the Contractual Obligations and Commercial Commitments sections of this Management's Discussion and Analysis.

The Corporation is also exposed to credit risk by using derivative instruments, but manages the level of risk by only dealing with counterparties of good credit standing, entering into master netting agreements whenever possible and, when appropriate, obtaining collateral. Refer to Note 30 to the consolidated financial statements for further information on the Corporation's limited involvement in derivative instruments and hedging activities.

The Corporation also manages exposures to a single borrower, industry or product type through participations and loan sales. The Corporation maintains a diversified portfolio intended to spread its risk and reduce its exposure to economic downturns, which may occur in different segments of the economy or in particular industries. Industry and loan type diversification is reviewed quarterly.

The Corporation's credit risk exposure is spread among individual consumers, small commercial loans and a diverse base of borrowers engaged in a wide variety of businesses. The Corporation has over 700,000 consumer loans and over 42,000 commercial lending relationships. Only 91 of these relationships have loans outstanding of $10 million or more. Highly leveraged transactions and credit facilities to finance speculative real estate ventures are minimal, and there are no loans to less developed countries. The Corporation limits its exposure to concentrations of credit risk by the nature of its lending limits. Approximately 26% of total commercial loans outstanding, including construction, are secured by real estate or cash collateral. In addition, the secured consumer loan portfolio was $1.2 billion or 40% of the total consumer portfolio at December 31, 2002.

The Corporation continues diversifying its geographical risk as a result of its expansion strategy throughout various markets in the United States and the Caribbean. Puerto Rico's share of the Corporation's total loan portfolio has decreased from 64% in 1997, to 54% in 2001 and 51% in 2002. The Corporation's assets and revenue composition by geographical area and by business line segments is further presented in Note 32 to the consolidated financial statements.

Table M

Non-Performing Assets

(Dollars in thousands)	2002	2001	2000	1999	1998
	As of December 31,				
Non-accrual loans:					
Commercial, industrial and agricultural	**$170,039**	$195,169	$169,535	$163,968	$142,371
Construction	**-**	3,387	2,867	1,504	144
Lease financing	**10,648**	10,297	7,152	3,820	4,937
Mortgage*	**279,150**	176,967	99,861	70,038	68,527
Consumer	**40,019**	40,946	43,814	57,515	46,626
Renegotiated accruing loans	**-**	-	-	-	578
Other real estate	**39,399**	31,532	23,518	29,268	32,693
Total	**$539,255**	$458,298	$346,747	$326,113	$295,876
Accruing loans past-due 90 days or more	**$26,178**	$24,613	$21,599	$28,731	$24,426
Non-performing assets to loans	**2.75%**	2.52%	2.16%	2.19%	2.26%
Non-performing loans to loans	**2.55**	2.35	2.01	1.99	2.01
Non-performing assets to assets	**1.60**	1.49	1.24	1.28	1.28
Interest lost*	**$35,820**	$27,866	$23,129	$20,428	$15,258

*Includes loans held-for-sale.

Note: The Corporation's policy is to place commercial and construction loans, as well as commercial leases, on non-accrual status if payments of principal or interest are past-due 60 days or more. Consumer lease financing receivables and conventional residential mortgage loans are placed on non-accrual status if payments are delinquent 90 days or four scheduled payments in arrears. Closed-end consumer loans are placed on non-accrual when they become 90 days or more past-due and are charged-off when they are 120 days past-due. Open-end consumer loans are not placed on non-accrual status and are charged-off when they are 180 days past-due. Loans past-due 90 days or more and still accruing are not considered as non-performing loans.

Puerto Rico's economic outlook is generally similar to that of the U.S. mainland, and its Government and its instrumentalities are all investment-grade rated borrowers in the U.S. capital markets.

The Corporation is also exposed to government risk. As further detailed in Notes 4 and 5 to the consolidated financial statements, a substantial portion of the Corporation's investment securities represented exposure to the U.S. Government in the form of U.S. Treasury securities and obligations of U.S. Government agencies and corporations. In addition, $19 million of residential mortgages and $382 million in commercial loans were insured or guaranteed by the U.S. Government or its agencies at December 31, 2002. The Corporation continues to be one of the largest Small Business Administration lenders in the United States. Furthermore, there were $334 million of loans issued to or guaranteed by the Puerto Rico Government and its political subdivisions and $43 million of loans issued to or guaranteed by the U.S. Virgin Islands Government.

Non-Performing Assets

Non-performing assets consist of past-due loans that are no longer accruing interest, renegotiated loans and real estate property acquired through foreclosure. A summary of non-performing assets by loan categories and related ratios is presented in Table M.

The Corporation reports its non-performing assets on a more conservative basis than most U.S. banks. It is the Corporation's policy to place commercial loans and commercial leases on non-accrual status if payments of principal or interest are delinquent 60 days rather than the standard industry practice of 90 days. Consumer financing leases, conventional mortgages and closed-end consumer loans are placed on non-accrual status if payments are delinquent 90 days or four scheduled payments in arrears. Closed-end consumer loans are charged-off when payments are delinquent 120 days. Open-end (revolving credit) consumer loans are charged-off if 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 if 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 are not customarily placed on non-accrual status prior to being charged-off. Unsecured retail loans to borrowers who declare bankruptcy are charged-off within 60 days of receipt of notification of filing from the bankruptcy court.

Non-performing assets were $539 million or 2.75% of loans as of December 31, 2002, compared with $458 million or 2.52% at the end of 2001. The increase in non-performing assets since December 31, 2001 was mostly reflected in mortgage loans, which rose by $102 million or 58%. Non-performing mortgage loans amounted to $279 million or 52% of non-performing assets and 3.74% of total mortgage loans at December 31, 2002, compared with $177 million or 39% and 2.72%, respectively, as of the end of 2001. Mortgage loans comprised 69% of total loan growth since December 31, 2001. The increase in non-performing mortgage loans was mostly attributable to Equity One's non-performing mortgage loans, which rose by $86 million, or 86%, since December 31, 2001, and was mainly concentrated in the late stage (90 days past due and over) delinquency category. Equity One's total mortgage portfolio rose by $1.2 billion, or 42%, since December 31, 2001. A 69% of Equity One's total mortgage loan portfolio is considered sub-prime as per the industry's definition

of a FICO score of 660 or less (FICO Credit Scores stem from statistical models developed by the Fair Isaac Company in conjunction with the nation's credit bureaus and are used to assess borrowers credit worthiness and risk profile based on their credit history and current credit accounts). Nevertheless, as of December 31, 2002, Equity One's sub-prime portfolio performed 139 basis points below industry indicators for serious delinquency (90 days past due and over plus foreclosures) and 206 basis points below industry indicators for total delinquency (30 days past due and over), a better performance than the sub-prime mortgage loan industry, as reported by the company Loan Performance. The Corporation has experienced a low level of losses in its mortgage portfolio, historically, both in the U.S. mainland and Puerto Rico. Mortgage loans net charge-offs as a percentage of the mortgage loan portfolio averaged 0.20% and 0.15% in 2002 and 2001, respectively.

Non-performing commercial loans, including construction loans, decreased by $29 million, or 14%, since December 31, 2001. These non-performing loans represented 2.09% of the commercial and construction loan portfolio at December 31, 2002, compared with 2.59% in 2001. The decrease was principally due to aggressive identification of potential problem loans and effective portfolio monitoring.

Non-performing consumer loans represented 1.29% and 1.31% of total consumer loans for the years ended December 31, 2002 and 2001, respectively. Non-performing consumer loans totaled $40 million as of the end of 2002, maintaining almost the same level when compared with 2001, due in part to the Corporation's tightening of its credit criteria for consumer loans in the current economic environment.

Non-performing financing leases represented 1.20% of the lease financing portfolio for the years ended December 31, 2002 and 2001. Non-performing financing leases were $11 million at December 31, 2002, increasing slightly by $0.4 million compared with December 31, 2001.

Other real estate assets, which are recorded at fair value less estimated selling costs, reached $39 million at December 31, 2002, an increase of $7 million, or 25%, from the $32 million reported at the end of 2001. The increase was related to the growth in the mortgage loan portfolio and higher delinquencies in the housing sector loan portfolio prompted by the economic slowdown.

Assuming the standard industry practice of placing commercial loans on non-accrual status when payments of principal and interest are past due 90 days or more and excluding the closed-end consumer loans from non-accruing, the Corporation's non-performing assets at December 31, 2002, would have been $478 million or 2.44% of loans, and the allowance for loan losses would have been 78% of non-performing assets. At December 31, 2001 and 2000, adjusted non-performing assets would have been $389 million or 2.14% of loans, and $273 million or 1.70% of loans, respectively. The allowance for loan losses as a percentage of non-performing assets as of December 31, 2001 and 2000 would have been 86.57% and 106.49%, respectively.

Once a loan is placed in non-accrual status, the interest previously accrued and uncollected is charged against current earnings and thereafter income is recorded only to the extent of any interest collected. The interest income that would have been realized had these loans been performing in accordance with their original terms amounted to $35.8 million in 2002, compared with $27.9 million in 2001 and $23.1 million in 2000.

In addition to the non-performing loans discussed earlier, there were $36 million of loans at December 31, 2002, which in management's opinion are currently subject to potential future classification as non-performing, and therefore are considered impaired for our calculation of SFAS No. 114. At December 31, 2001, these potential problem loans approximated $29 million.

Allowance for Loan Losses

The allowance for loan losses is maintained at a level sufficient to provide for estimated loan losses based on evaluations of inherent risks in the loan portfolio. The Corporation's management evaluates the adequacy of the allowance for loan losses on a monthly basis. In determining the allowance, management considers current economic conditions, loan portfolio risk characteristics, prior loss experience, results of periodic credit reviews of individual loans, regulatory requirements and loan impairment measurement, among other factors.

The methodology used to establish and test the allowance for loan losses for the Corporation is based on SFAS No. 114 "Accounting by Creditors for Impairment of a Loan," and SFAS No. 5 "Accounting for Contingencies." Under SFAS No. 114 certain commercial loans are identified for evaluation on an individual basis and specific reserves are calculated based on impairment. SFAS No. 5 provides for the recognition of a loss contingency for a group of homogenous loans, which are not individually evaluated under SFAS No. 114, when it is probable that a loss has been incurred and the amount can be reasonably estimated. To calculate the allowance for loan losses under SFAS No. 5, the Credit Risk Management Division calculates the Corporation's loan losses based on historical net charge-off experience segregated by type of loan.

The result of the exercise described above is compared to stress-related levels of historic losses over a period of time, recent tendencies of losses and industry trends. Management considers all indicators derived from the process described herein, along with qualitative factors that may cause estimated credit losses associated with the loan portfolios to differ from historical loss experience. The final outcome of the provision for loan losses and the appropriate level of allowance for loan losses for each subsidiary and the Corporation is a determination made by the CRESCO, which actively reviews the Corporation's consolidated allowance for loan losses.

A loan is considered impaired when interest and/or principal is past due 90 days or more or, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. Please refer to Notes 1 and 7 to the consolidated financial statements for further information related to impaired loans and the methodology used by the Corporation for their measurement.

The allowance for loan losses calculation under SFAS No. 5 for the Corporation is based on historical net charge-offs experience segregated by loan type and legal entity.

Management's judgment of the quantitative factors (historical net charge-offs, statistical loss estimates, etc.) as well as qualitative factors (current economic conditions, portfolio composition, delinquency trends, etc.) results in the final determination of the provision for loan

Table N

Allowance for Loan Losses and Selected Loan Losses Statistics

(Dollars in thousands)	**2002**	2001	2000	1999	1998
Balance at beginning of year	**$336,632**	$290,653	$292,010	$267,249	$211,651
Allowances acquired (sold)	**2,327**	1,675	(15,869)	515	31,296
Provision for loan losses	**205,570**	213,250	194,640	148,948	137,213
	544,529	505,578	470,781	416,712	380,160
Losses charged to the allowance:					
Commercial	**85,588**	76,140	73,585	51,011	45,643
Construction	**3,838**	6,394	145	651	190
Lease financing	**32,037**	41,702	32,256	23,009	23,484
Mortgage	**14,701**	8,577	5,615	3,977	2,718
Consumer	**103,056**	102,236	129,430	104,062	92,646
	239,220	235,049	241,031	182,710	164,681
Recoveries:					
Commercial	**18,515**	14,636	17,352	18,589	17,844
Construction	**5,376**	960	9	169	337
Lease financing	**18,084**	26,008	17,797	15,839	14,998
Mortgage	**714**	500	717	771	323
Consumer	**24,799**	23,999	25,028	22,640	18,268
	67,488	66,103	60,903	58,008	51,770
Net loans charged-off (recovered):					
Commercial	**67,073**	61,504	56,233	32,422	27,799
Construction	**(1,538)**	5,434	136	482	(147)
Lease financing	**13,953**	15,694	14,459	7,170	8,486
Mortgage	**13,987**	8,077	4,898	3,206	2,395
Consumer	**78,257**	78,237	104,402	81,422	74,378
	171,732	168,946	180,128	124,702	112,911
Balance at end of year	**$372,797**	$336,632	$290,653	$292,010	$267,249
Loans:					
Outstanding at year end	**$19,582,119**	$18,168,551	$16,057,085	$14,907,754	$13,078,795
Average	**18,729,220**	17,045,257	15,801,887	13,901,290	11,930,621
Ratios:					
Allowance for loan losses to year end loans	**1.90%**	1.85%	1.81%	1.96%	2.04%
Recoveries to charge-offs	**28.21**	28.12	25.27	31.75	31.44
Net charge-offs to average loans	**0.92**	0.99	1.14	0.90	0.95
Net charge-offs earnings coverage	**3.93x**	3.68x	3.17x	3.92x	3.93x
Allowance for loan losses to net charge-offs	**2.17**	1.99	1.61	2.34	2.37
Provision for loan losses to:					
Net charge-offs	**1.20**	1.26	1.08	1.19	1.22
Average loans	**1.10%**	1.25%	1.23%	1.07%	1.15%
Allowance to non-performing assets	**69.13**	73.45	83.82	89.54	90.32

losses to maintain a level of allowance for loan losses which is deemed to be adequate.

At December 31, 2002, the allowance for loan losses was $373 million or 1.90% of total loans, compared with $337 million or 1.85% at the same date in 2001. At December 31, 2000, the allowance was $291 million or 1.81% of loans. Based on current economic conditions, the expected level of net loan losses and the methodology established to evaluate the adequacy of the allowance for loan losses, management considers that the level of the Corporation's allowance for loan losses is adequate.

Table O details the breakdown of the allowance for loan losses by loan categories. The breakdown is made for analytical purposes, and it is not necessarily indicative of the categories in which future loan losses may occur.

At December 31, 2002, the allowance for loan losses as a percentage of non-performing loans was 74.58%, compared with 78.88% at

Table O

Allocation of the Allowance for Loan Losses

	As of December,									
(Dollars in millions)	**2002**		2001		2000		1999		1998	
	Allowance for Loan Losses	**Percentage of Loans in Each Category to Total Loans**	Allowance for Loan Losses	Percentage of Loans in Each Category to Total Loans	Allowance for Loan Losses	Percentage of Loans in Each Category to Total Loans	Allowance for Loan Losses	Percentage of Loans in Each Category to Total Loans	Allowance for Loan Losses	Percentage of Loans in Each Category to Total Loans
Commercial	**$155.5**	**40.3%**	$140.3	40.9%	$120.6	43.7%	$140.5	44.6%	$130.2	43.2%
Construction	**8.4**	**1.3**	8.2	1.4	8.1	1.6	8.7	1.7	11.6	2.0
Lease Financing	**29.6**	**4.5**	22.7	4.7	18.6	5.1	9.2	4.9	8.3	4.9
Mortgage	**34.6**	**38.1**	19.9	35.8	12.0	28.9	14.6	26.4	14.0	25.6
Consumer	**144.7**	**15.8**	145.5	17.2	131.4	20.7	119.0	22.4	103.1	24.3
Total	**$372.8**	**100.0%**	$336.6	100.0%	$290.7	100.0%	$292.0	100.0%	$267.2	100.0%

December 31, 2001. The lower allowance to non-performing loans ratio reflects the changing composition of the loan portfolio, as most of its growth was realized in mortgage loans, which historically has represented a low-risk portfolio with minimal losses. Excluding non-performing mortgage loans and their related reserve, the allowance for loan losses to non-performing loans was 153% as of December 31, 2002, compared with 127% as of December 31, 2001 and 125% at December 31, 2000.

Table N summarizes the movement in the allowance for loan losses and presents selected loan losses statistics for the past five years. As shown in this table, net loan losses for the year 2002 totaled $171.7 million, an increase of $2.8 million, or 2%, compared with the previous year. However, net charge-offs as a percentage of average loans decreased during the year from 0.99% in 2001 to 0.92% in 2002.

Commercial loans net charge-offs, including construction loans, amounted to $65.5 million in 2002, compared with $66.9 million a year earlier. As a percentage of average commercial loans, they were 0.85% in 2002 and 0.90% in 2001. The allowance for loan losses corresponding to commercial and construction loans represented 2.02% of this portfolio at December 31, 2002, compared with 1.93% in 2001. The ratio of allowance to non-performing loans in the commercial and construction loan category was 96.4% at the end of 2002, compared with 74.8% in 2001. At December 31, 2002 and 2001, the portion of the allowance for loan losses related to impaired loans was $34.9 million and $36.8 million, respectively. Further disclosures with respect to impaired loans are included in Note 7 to the consolidated financial statements.

Consumer loans net charge-offs amounted to $78.3 million in 2002, compared with $78.2 million in 2001. Consumer loans net charge-offs represented 2.51% of the average consumer loan portfolio in 2002, compared with 2.43% for 2001. The credit environment has prompted the Corporation to tighten its credit criteria for consumer borrowings. The allowance for loan losses for consumer loans represented 4.67% of that portfolio as of December 31, 2002, compared with 4.64% in 2001.

Lease financing net charge-offs were $14.0 million or 1.59% of the average lease financing portfolio for the year ended December 31, 2002, compared with $15.7 million or 1.86% for the prior year, a reduction of $1.7 million or 11%. The reduction was the result of the tightening of credit criteria, coupled with improved collection strategies. The allowance for loan losses for the lease financing portfolio increased to 3.34% at December 31, 2002, from 2.64% at the end of 2001.

Mortgage loans net charge-offs increased to $14.0 million in 2002 from $8.1 million in 2001, an increase of $5.9 million or 73%. The rise in mortgage loans net charge-offs was related to the growth in the portfolio, as well as the increase in non-performing loans due to slowdown in the economy. The allowance for loan losses assigned to the mortgage loan portfolio has remained at relatively low levels since these loans historically represent a low-risk portfolio with minimal losses. Based on historical experience and current economic conditions, the Corporation does not foresee significant losses in the mortgage portfolio. The allowance for loan losses for mortgage loans represented 0.46% of that portfolio as of December 31, 2002, compared with 0.31% at the end of 2001.

Notwithstanding the slight increase in net charge-offs during 2002 and the allowance for loan losses level resulting from the Corporation's methodology, the Corporation continued increasing its allowance for loan losses as a result of the expectation of higher than anticipated losses deriving from (1) the continued overall stagnation of economic growth, as evidenced by (a) the rising trend in non-performing assets, and (b) the higher unemployment figures; (2) the broad negative effect on the Puerto Rico economy of the increased price of oil and oil-related products that could extend well into 2003; and (3) the negative collateral economic effect of a potential war with Iraq or additional terrorist attacks, both of which add material risk to the economy and curtail economic recovery.

Statistical Summary 1998-2002
Statements of Condition

(In thousands)	2002	2001	2000	1999	1998
		As of December 31,			
ASSETS					
Cash and due from banks	**$652,556**	$606,142	$726,051	$663,696	$667,707
Money market investments:					
Federal funds sold and securities purchased under agreements to resell	**1,091,435**	820,332	1,057,320	931,123	910,430
Time deposits with other banks	**3,057**	3,056	10,908	54,354	37,206
Bankers' acceptances	**154**	402	390	517	262
	1,094,646	823,790	1,068,618	985,994	947,898
Trading securities	**510,346**	270,186	153,073	236,610	318,727
Investment securities available-for-sale, at market value	**10,531,903**	9,284,401	8,795,924	7,324,950	7,020,396
Investment securities held-to-maturity, at amortized cost	**180,751**	592,360	264,731	299,312	226,134
Loans held-for-sale, at lower of cost or market	**1,092,927**	939,488	823,901	619,298	644,159
Loans	**18,775,847**	17,556,029	15,580,379	14,659,400	12,783,609
Less -Unearned income	**286,655**	326,966	347,195	370,944	348,973
Allowance for loan losses	**372,797**	336,632	290,653	292,010	267,249
	18,116,395	16,892,431	14,942,531	13,996,446	12,167,387
Premises and equipment	**461,177**	405,705	405,772	440,971	424,721
Other real estate	**39,399**	31,533	23,518	29,268	32,693
Accrued income receivable	**184,549**	186,143	202,540	175,746	156,314
Other assets	**578,091**	496,855	368,797	383,462	279,929
Goodwill	**182,965**	177,842	212,756	214,674	172,330
Other intangible assets	**34,647**	37,800	68,839	90,112	101,962
	$33,660,352	$30,744,676	$28,057,051	$25,460,539	$23,160,357
LIABILITIES AND STOCKHOLDERS' EQUITY					
Liabilities:					
Deposits:					
Non-interest bearing	**$3,367,385**	$3,281,841	$3,109,885	$3,284,949	$3,176,309
Interest bearing	**14,247,355**	13,088,201	11,695,022	10,888,766	10,495,905
	17,614,740	16,370,042	14,804,907	14,173,715	13,672,214
Federal funds purchased and securities sold under agreements to repurchase	**6,684,551**	5,751,768	4,964,115	4,414,480	4,076,500
Other short-term borrowings	**1,703,562**	1,827,242	4,369,212	2,612,389	1,639,082
Notes payable	**4,298,853**	3,735,131	1,176,912	1,852,599	1,307,160
Other liabilities	**677,605**	512,686	472,334	448,759	453,697
	30,979,311	28,196,869	25,787,480	23,501,942	21,148,653
Subordinated notes	**125,000**	125,000	125,000	125,000	125,000
Preferred beneficial interest in Popular North America's junior subordinated deferrable interest debentures guaranteed by the Corporation	**144,000**	149,080	150,000	150,000	150,000
Minority interest in consolidated subsidiaries	**1,162**	909	927	22,611	27,591
Stockholders' equity:					
Preferred stock	**-**	100,000	100,000	100,000	100,000
Common stock	**834,799**	832,498	830,356	827,662	825,690
Surplus	**278,366**	268,544	260,984	243,855	216,795
Retained earnings	**1,300,437**	1,057,724	865,082	694,301	530,481
Treasury stock - at cost	**(205,210)**	(66,136)	(66,214)	(64,123)	(39,559)
Accumulated other comprehensive income (loss), net of tax	**202,487**	80,188	3,436	(140,709)	75,706
	2,410,879	2,272,818	1,993,644	1,660,986	1,709,113
	$33,660,352	$30,744,676	$28,057,051	$25,460,539	$23,160,357

Statistical Summary 1998-2002
Statements of Income

(In thousands, except per common share information)	2002	2001	2000	1999	1998
	For the year ended December 31,				
INTEREST INCOME:					
Loans	**$1,528,903**	$1,559,890	$1,586,832	$1,373,158	$1,211,850
Money market investments	**32,505**	47,610	62,356	33,434	36,781
Investment securities	**445,925**	473,344	486,198	425,907	385,473
Trading account securities	**16,464**	15,018	14,771	19,171	17,599
Total interest income	**2,023,797**	2,095,862	2,150,157	1,851,670	1,651,703
Less - Interest expense	**843,468**	1,018,877	1,167,396	897,932	778,691
Net interest income	**1,180,329**	1,076,985	982,761	953,738	873,012
Provision for loan losses	**205,570**	213,250	194,640	148,948	137,213
Net interest income after provision for loan losses	**974,759**	863,735	788,121	804,790	735,799
(Loss) gain on sale of investment securities	**(3,342)**	27	11,201	638	8,933
Trading account (loss) profit	**(804)**	(1,781)	1,991	(1,582)	3,653
Derivative losses	**(20,085)**	(20,228)	-	-	-
Gain on sale of loans	**59,340**	45,633	39,673	34,890	23,036
All other operating income	**488,569**	447,937	411,195	338,970	255,624
	1,498,437	1,335,323	1,252,181	1,177,706	1,027,045
OPERATING EXPENSES:					
Personnel costs	**488,741**	425,142	394,176	386,696	337,400
All other operating expenses	**540,261**	501,067	482,257	450,786	382,954
	1,029,002	926,209	876,433	837,482	720,354
Income before tax, minority interest and cumulative effect of accounting change	**469,435**	409,114	375,748	340,224	306,691
Income tax	**117,255**	105,280	100,797	85,120	74,671
Net (gain) loss of minority interest	**(248)**	18	1,152	2,454	328
Income before cumulative effect of accounting change	**351,932**	303,852	276,103	257,558	232,348
Cumulative effect of accounting change, net of tax	**-**	686	-	-	-
NET INCOME	**$351,932**	$304,538	$276,103	$257,558	$232,348
NET INCOME APPLICABLE TO COMMON STOCK	**$349,422**	$296,188	$267,753	$249,208	$223,998
NET INCOME PER COMMON SHARE (BASIC AND DILUTED) (BEFORE AND AFTER CUMULATIVE EFFECT OF ACCOUNTING CHANGE)*	**$2.61**	$2.17	$1.97	$1.84	$1.65
DIVIDENDS DECLARED PER COMMON SHARE	**$0.80**	$0.76	$0.64	$0.60	$0.50

**The average common shares used in the computation of basic earnings per common share were 133,915,082 for 2002; 136,238,288 for 2001; 135,907,476 for 2000; 135,585,634 for 1999 and 135,532,086 for 1998. The average common shares used in the computation of diluted earnings per common share were 133,922,302 for 2002 and 136,238,470 for 2001. There were no dilutive common shares in 2000, 1999 and 1998.*

Statistical Summary 1998-2002
Average Balance Sheet and Summary of Net Interest Income

On a Taxable Equivalent Basis*

(Dollars in thousands)	2002			2001		
	Average Balance	**Interest**	**Average Rate**	Average Balance	Interest	Average Rate
ASSETS						
Interest earning assets:						
Federal funds sold and securities purchased under agreements to resell	**$1,008,776**	**$31,714**	**3.14%**	$923,569	$46,477	5.03%
Time deposits with other banks	**3,056**	**766**	**25.07**	8,286	1,083	13.07
Bankers' acceptances	**525**	**25**	**4.76**	567	50	8.82
Total money market investments	**1,012,357**	**32,505**	**3.21**	932,422	47,610	5.11
U.S. Treasury securities	**467,517**	**34,055**	**7.28**	748,337	51,637	6.90
Obligations of other U.S. Government agencies and corporations	**6,050,693**	**361,014**	**5.97**	4,750,786	349,750	7.36
Obligations of Puerto Rico, States and political subdivisions	**188,883**	**11,911**	**6.31**	131,797	8,416	6.39
Collateralized mortgage obligations and mortgage-backed securities	**2,942,480**	**112,908**	**3.84**	2,060,685	115,333	5.60
Other	**439,801**	**19,028**	**4.33**	478,043	25,114	5.25
Total investment securities	**10,089,374**	**538,916**	**5.34**	8,169,648	550,250	6.74
Trading account securities	**363,963**	**16,961**	**4.66**	266,877	15,358	5.75
Loans (net of unearned income)	**18,729,220**	**1,539,032**	**8.22**	17,045,257	1,567,382	9.20
Total interest earning assets/ Interest income	**30,194,914**	**$2,127,414**	**7.05%**	26,414,204	$2,180,600	8.26%
Total non-interest earning assets	**1,627,476**			1,542,903		
Total assets	**$31,822,390**			$27,957,107		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Interest bearing liabilities:						
Savings, NOW and money market accounts	**$7,277,387**	**$160,314**	**2.20%**	$6,272,094	$180,863	2.88%
Time deposits	**6,480,501**	**270,814**	**4.18**	6,247,150	337,305	5.40
Short-term borrowings	**7,787,011**	**185,250**	**2.38**	7,136,358	329,648	4.62
Mortgages and notes payable	**4,132,811**	**206,095**	**4.99**	2,393,642	149,657	6.25
Subordinated notes	**125,000**	**8,536**	**6.83**	125,000	8,527	6.82
Guaranteed preferred beneficial interest in Popular North America's subordinated debentures	**145,254**	**12,459**	**8.58**	150,000	12,877	8.58
Total interest bearing liabilities/ Interest expense	**25,947,964**	**843,468**	**3.25**	22,324,244	1,018,877	4.56
Total non-interest bearing liabilities	**3,724,040**			3,536,329		
Total liabilities	**29,672,004**			25,860,573		
Stockholders' equity	**2,150,386**			2,096,534		
Total liabilities and stockholders' equity	**$31,822,390**			$27,957,107		
Net interest income on a taxable equivalent basis		**$1,283,946**			$1,161,723	
Cost of funding earning assets			**2.79%**			3.86%
Net interest yield			**4.26%**			4.40%
Effect of the taxable equivalent adjustment		**103,617**			84,738	
Net interest income per books		**$1,180,329**			$1,076,985	

* *Shows the effect of the tax exempt status of some loans and investments on their yield, using the applicable statutory income tax rates. The computation considers the interest expense disallowance as required by the Puerto Rico Internal Revenue Code. This adjustment is shown in order to compare the yields of the tax exempt and taxable assets on a taxable basis. Note: Average loan balances include the average balance of non-accruing loans. No interest income is recognized for these loans in accordance with the Corporation's policy.*

2000			1999			1998		
Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
$914,604	$61,238	6.70%	$536,905	$24,470	4.56%	$670,072	$31,814	4.75%
17,723	1,062	5.99	143,685	8,912	6.20	82,935	4,889	5.89
559	56	10.02	516	52	10.08	778	78	10.03
932,886	62,356	6.68	681,106	33,434	4.91	753,785	36,781	4.88
1,762,129	115,801	6.57	2,479,828	169,683	6.84	3,227,375	231,837	7.18
3,958,406	288,214	7.28	3,028,577	200,649	6.63	1,477,168	111,332	7.54
126,768	8,398	6.62	138,184	9,100	6.59	136,824	9,272	6.78
1,838,016	107,959	5.87	1,246,582	92,960	7.46	1,318,097	81,970	6.22
260,143	24,236	9.32	455,488	26,654	5.85	130,861	14,015	10.71
7,945,462	544,608	6.85	7,348,659	499,046	6.79	6,290,325	448,426	7.13
213,131	15,624	7.33	313,904	20,584	6.56	287,218	18,943	6.60
15,801,887	1,597,116	10.11	13,901,290	1,380,330	9.93	11,930,621	1,218,849	10.22
24,893,366	$2,219,704	8.92%	22,244,959	$1,933,394	8.69%	19,261,949	$1,722,999	8.95%
1,676,389			1,561,413			1,170,433		
$26,569,755			$23,806,372			$20,432,382		
$5,924,690	$184,018	3.11%	$5,877,976	$173,946	2.96%	$5,221,132	$163,805	3.14%
5,548,509	345,355	6.22	4,874,480	278,269	5.71	4,437,193	247,687	5.58
7,781,030	508,029	6.53	5,992,445	317,646	5.30	4,622,549	251,724	5.45
1,618,517	108,572	6.71	1,558,410	106,639	6.84	1,371,372	93,846	6.84
125,000	8,545	6.84	125,000	8,555	6.84	125,000	8,555	6.84
150,000	12,877	8.58	150,000	12,877	8.58	150,000	13,074	8.72
21,147,746	1,167,396	5.52	18,578,311	897,932	4.83	15,927,246	778,691	4.89
3,537,484			3,515,269			2,951,878		
24,685,230			22,093,580			18,879,124		
1,884,525			1,712,792			1,553,258		
$26,569,755			$23,806,372			$20,432,382		
	$1,052,308			$1,035,462			$944,308	
		4.69%			4.04%			4.04%
		4.23%			4.65%			4.91%
	69,547			81,724			71,296	
	$982,761			$953,738			$873,012	

Statistical Summary 2001-2002
Quarterly Financial Data

(In thousands, except per common share information)	2002 Fourth Quarter	2002 Third Quarter	2002 Second Quarter	2002 First Quarter	2001 Fourth Quarter	2001 Third Quarter	2001 Second Quarter	2001 First Quarter
SUMMARY OF OPERATIONS								
Interest income	**$513,869**	**$508,110**	**$505,999**	**$495,819**	$505,022	$516,982	$523,407	$550,451
Interest expense	**210,588**	**211,155**	**211,321**	**210,404**	222,692	243,562	257,889	294,734
Net interest income	**303,281**	**296,955**	**294,678**	**285,415**	282,330	273,420	265,518	255,717
Provision for loan losses	**50,049**	**50,992**	**50,075**	**54,454**	58,495	55,259	49,462	50,034
Operating income	**140,100**	**136,755**	**136,117**	**134,937**	128,813	125,025	124,058	115,674
(Loss) gain on sale of investment securities	**(668)**	**1,251**	**85**	**(4,010)**	640	1,249	(2,152)	290
Trading account (loss) profit	**(662)**	**1,247**	**(359)**	**(1,030)**	(1,930)	777	(816)	188
Derivative gains (losses)	**2,018**	**(21,759)**	**(855)**	**511**	(13,109)	(8,140)	1,652	(631)
Non-interest expense	**282,326**	**253,857**	**250,653**	**242,166**	239,855	231,911	233,920	220,523
Income before tax, minority interest and cumulative effect of accounting change	**111,694**	**109,600**	**128,938**	**119,203**	98,394	105,161	104,878	100,681
Income tax	**30,783**	**23,730**	**32,594**	**30,148**	22,840	27,952	27,337	27,151
Net (gain) loss of minority interest	**(82)**	**(116)**	**(39)**	**(11)**	(1)	7	(4)	16
Income before cumulative effect of accounting change	**$80,829**	**$85,754**	**$96,305**	**$89,044**	$75,553	$77,216	$77,537	$73,546
Cumulative effect of accounting change	**-**	**-**	**-**	**-**	-	-	-	686
Net income	**$80,829**	**$85,754**	**$96,305**	**$89,044**	$75,553	$77,216	$77,537	$74,232
Net income applicable to common stock	**$80,829**	**$85,754**	**$96,305**	**$86,534**	$73,464	$75,129	$75,450	$72,145
Net income per common share	**$0.61**	**$0.65**	**$0.72**	**$0.63**	$0.54	$0.55	$0.55	$0.53
SELECTED AVERAGE BALANCES (In millions)								
Total assets	**$33,562**	**$31,863**	**$31,408**	**$30,418**	$29,034	$27,879	$27,185	$27,714
Loans	**19,358**	**19,044**	**18,439**	**18,058**	17,772	17,398	16,774	16,215
Interest earning assets	**31,850**	**30,249**	**29,790**	**28,856**	27,492	26,321	25,660	26,168
Deposits	**17,355**	**16,962**	**17,086**	**16,526**	16,351	15,803	15,340	14,832
Interest bearing liabilities	**27,518**	**26,054**	**25,561**	**24,625**	23,232	22,205	21,649	22,244
SELECTED RATIOS								
Return on assets	**0.96%**	**1.07%**	**1.23%**	**1.19%**	1.03%	1.10%	1.14%	1.09%
Return on equity	**14.64**	**16.03**	**18.14**	**16.83**	14.08	14.71	15.36	15.25

Management's Report on Responsibility for Financial Reporting

To Our Stockholders:

The management of Popular, Inc. is responsible for the preparation, integrity and objectivity of the accompanying consolidated financial statements. These statements were prepared in accordance with accounting principles generally accepted in the United States of America and, in the judgment of management, present fairly Popular, Inc.'s financial position and results of operations. Management also prepared the financial information contained elsewhere in this annual report and is responsible for its accuracy and consistency with the consolidated financial statements. The financial statements and other financial information in this report include amounts that are based on management's best estimates and judgments giving due consideration to materiality.

Management maintains a comprehensive system of internal accounting controls to reasonably assure the proper authorization of transactions, the safeguarding of assets and the reliability of the financial records. Management recognizes that even a highly effective internal control system has inherent risks, including the possibility of human error and the circumvention and overriding of controls, and that the effectiveness of an internal control system can change with circumstances. However, management believes that the internal control system provides reasonable assurance that errors or irregularities that could be material to the consolidated financial statements are prevented or would be detected on a timely basis and corrected through the normal course of business. Management has evaluated the internal control system as of December 31, 2002, and believes that, as of that date, Popular, Inc. maintained an effective system of accounting internal controls.

Popular, Inc. maintains an audit division, which separately assesses the effectiveness of the system of internal control and makes recommendations on possible improvements.

The Audit Committee of the Board of Directors reviews the systems of internal control and financial reporting. The Committee, which is comprised of directors who are independent from Popular, Inc., meets and consults regularly with management, the internal auditors and the independent accountants to review the scope and results of their work.

The accounting firm of PricewaterhouseCoopers LLP has performed an independent audit of Popular, Inc.'s consolidated financial statements. Management has made available to PricewaterhouseCoopers LLP all of Popular, Inc.'s financial records and related data, as well as the minutes of stockholders' and directors' meetings. Furthermore, management believes that all representations made to PricewaterhouseCoopers LLP during its audit were valid and appropriate.

Richard L. Carrión
Chairman of the Board,
President and Chief Executive Officer

Jorge A. Junquera
Senior Executive Vice President
and Chief Financial Officer

Report of Independent Accountants

To the Board of Directors and Stockholders of Popular, Inc.

In our opinion, the accompanying consolidated statements of condition and the related consolidated statements of income, of comprehensive income, of changes in stockholders' equity and of cash flows present fairly, in all material respects, the financial position of Popular, Inc. and its subsidiaries at December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Corporation's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the consolidated financial statements, on January 1, 2002 the Corporation adopted SFAS No. 142 "Goodwill and Other Intangible Assets," which changed the accounting for goodwill and other intangible assets.

PricewaterhouseCoopers LLP
San Juan, Puerto Rico
February 28, 2003

Stamp 1838466 of the P.R.
Society of Certified Public
Accountants has been affixed
to the file copy of this report.

Consolidated Statements of Condition

(In thousands, except share information)	December 31, 2002	2001
ASSETS		
Cash and due from banks	**$652,556**	$606,142
Money market investments:		
Federal funds sold and securities purchased under agreements to resell	**1,091,435**	820,332
Time deposits with other banks	**3,057**	3,056
Bankers' acceptances	**154**	402
	1,094,646	823,790
Trading securities, at market value:		
Pledged securities with creditors' right to repledge	**416,979**	244,916
Other trading securities	**93,367**	25,270
Investment securities available-for-sale, at market value:		
Pledged securities with creditors' right to repledge	**4,397,974**	4,056,655
Other securities available-for-sale	**6,133,929**	5,227,746
Investment securities held-to-maturity, at amortized cost (market value 2002 - $182,183; 2001 - $596,415)	**180,751**	592,360
Loans held-for-sale, at lower of cost or market	**1,092,927**	939,488
Loans:		
Loans pledged with creditors' right to repledge	**420,724**	301,706
Other loans	**18,355,123**	17,254,323
Less - Unearned income	**286,655**	326,966
Allowance for loan losses	**372,797**	336,632
	18,116,395	16,892,431
Premises and equipment	**461,177**	405,705
Other real estate	**39,399**	31,533
Accrued income receivable	**184,549**	186,143
Other assets	**578,091**	496,855
Goodwill	**182,965**	177,842
Other intangible assets	**34,647**	37,800
	$33,660,352	$30,744,676
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Non-interest bearing	**$3,367,385**	$3,281,841
Interest bearing	**14,247,355**	13,088,201
	17,614,740	16,370,042
Federal funds purchased and securities sold under agreements to repurchase	**6,684,551**	5,751,768
Other short-term borrowings	**1,703,562**	1,827,242
Notes payable	**4,298,853**	3,735,131
Other liabilities	**677,605**	512,686
	30,979,311	28,196,869
Subordinated notes	**125,000**	125,000
Preferred beneficial interest in Popular North America's junior subordinated deferrable interest debentures guaranteed by the Corporation	**144,000**	149,080
Commitments and contingencies (See Note 33)		
Minority interest in consolidated subsidiaries	**1,162**	909
Stockholders' equity:		
Preferred stock, $25 liquidation value; 10,000,000 shares authorized; 4,000,000 issued and outstanding in 2001	**-**	100,000
Common stock, $6 par value; 180,000,000 shares authorized; 139,133,156 shares issued (2001 - 138,749,647) and 132,439,047 shares outstanding (2001 - 136,362,364)	**834,799**	832,498
Surplus	**278,366**	268,544
Retained earnings	**1,300,437**	1,057,724
Accumulated other comprehensive income, net of tax of $53,070 (2001 - $27,918)	**202,487**	80,188
Treasury stock - at cost, 6,694,109 shares (2001 - 2,387,283)	**(205,210)**	(66,136)
	2,410,879	2,272,818
	$33,660,352	$30,744,676

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

Consolidated Statements of Income

(In thousands, except per share information)	Year ended December 31, 2002	2001	2000
INTEREST INCOME:			
Loans	**$1,528,903**	$1,559,890	$1,586,832
Money market investments	**32,505**	47,610	62,356
Investment securities	**445,925**	473,344	486,198
Trading securities	**16,464**	15,018	14,771
	2,023,797	2,095,862	2,150,157
INTEREST EXPENSE:			
Deposits	**431,128**	518,168	529,373
Short-term borrowings	**185,250**	329,648	508,029
Long-term debt	**227,090**	171,061	129,994
	843,468	1,018,877	1,167,396
Net interest income	**1,180,329**	1,076,985	982,761
Provision for loan losses	**205,570**	213,250	194,640
Net interest income after provision for loan losses	**974,759**	863,735	788,121
Service charges on deposit accounts	**157,713**	146,994	125,519
Other service fees	**258,543**	242,547	215,995
(Loss) gain on sale of investment securities	**(3,342)**	27	11,201
Derivative losses	**(20,085)**	(20,228)	-
Trading account (loss) profit	**(804)**	(1,781)	1,991
Gain on sale of loans	**59,340**	45,633	39,673
Other operating income	**72,313**	58,396	69,681
	1,498,437	1,335,323	1,252,181
OPERATING EXPENSES:			
Personnel costs:			
Salaries	**361,957**	321,386	306,529
Profit sharing	**22,235**	16,251	18,913
Pension and other benefits	**104,549**	87,505	68,734
	488,741	425,142	394,176
Net occupancy expenses	**78,503**	72,100	67,720
Equipment expenses	**99,099**	97,383	98,022
Other taxes	**37,144**	38,756	34,125
Professional fees	**84,660**	73,735	64,851
Communications	**53,892**	48,883	45,689
Business promotion	**61,451**	50,783	46,791
Printing and supplies	**19,918**	17,804	20,828
Other operating expenses	**96,490**	74,185	69,673
Amortization of intangibles	**9,104**	27,438	34,558
	1,029,002	926,209	876,433
Income before income tax, minority interest and cumulative effect of accounting change	**469,435**	409,114	375,748
Income tax	**117,255**	105,280	100,797
Net (gain) loss of minority interest	**(248)**	18	1,152
Income before cumulative effect of accounting change	**351,932**	303,852	276,103
Cumulative effect of accounting change, net of tax	**-**	686	-
NET INCOME	**$351,932**	$304,538	$276,103
NET INCOME APPLICABLE TO COMMON STOCK	**$349,422**	$296,188	$267,753
NET INCOME PER COMMON SHARE (BASIC AND DILUTED) (BEFORE AND AFTER CUMULATIVE EFFECT OF ACCOUNTING CHANGE)	**$2.61**	$2.17	$1.97
DIVIDENDS DECLARED PER COMMON SHARE	**$0.80**	$0.76	$0.64

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

Consolidated Statements of Cash Flows

(In thousands)	Year ended December 31, 2002	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	**$351,932**	$304,538	$276,103
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of premises and equipment	**74,167**	75,962	76,848
Provision for loan losses	**205,570**	213,250	194,640
Amortization of intangibles	**9,104**	27,438	34,558
Net loss (gain) on sale of investment securities	**3,342**	(27)	(11,201)
Derivatives losses	**20,085**	20,228	-
Net loss on disposition of premises and equipment	**773**	672	210
Net gain on sale of loans, excluding loans held-for-sale	**(6,718)**	(1,173)	(7,935)
Net amortization of premiums and accretion of discounts on investments	**15,980**	6,708	920
Net amortization of deferred loan origination fees and costs	**29,155**	22,881	22,093
Stock options expense	**957**	-	-
Net increase in loans held-for-sale	**(153,439)**	(115,587)	(204,603)
Net (increase) decrease in trading securities	**(240,160)**	(117,113)	83,537
Net decrease (increase) in accrued income receivable	**1,594**	16,397	(32,526)
Net (increase) decrease in other assets	**(10,658)**	10,574	(29,116)
Net increase (decrease) in interest payable	**1,331**	(61,559)	24,901
Net (decrease) increase in current and deferred taxes	**(22,766)**	19,356	(11,234)
Net increase in postretirement benefit obligation	**7,479**	4,052	3,844
Net increase in other liabilities	**96,233**	15,494	18,625
Total adjustments	**32,029**	137,553	163,561
Net cash provided by operating activities	**383,961**	442,091	439,664
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net (increase) decrease in money market investments	**(265,080)**	244,828	(113,403)
Purchases of investment securities held-to-maturity	**(26,588,518)**	(7,973,243)	(5,517,411)
Maturities and redemptions of investment securities held-to-maturity	**27,000,127**	7,635,276	5,458,897
Purchases of investment securities available-for-sale	**(9,390,399)**	(7,335,423)	(4,797,570)
Maturities of investment securities available-for-sale	**7,449,140**	5,785,806	2,784,494
Proceeds from sales of investment securities available-for-sale	**1,266,542**	1,161,097	818,955
Net disbursements on loans	**(1,352,101)**	(2,316,388)	(1,877,934)
Proceeds from sale of loans	**592,992**	887,238	1,024,637
Acquisition of loan portfolios	**(1,220,139)**	(833,035)	(589,178)
Assets acquired, net of cash	**(1,500)**	-	(8,453)
Acquisition of premises and equipment	**(138,074)**	(79,472)	(75,147)
Proceeds from sale of premises and equipment	**7,662**	2,905	11,631
Cash transferred due to sale of investment in subsidiary	**-**	-	(46,899)
Net cash used in investing activities	**(2,639,348)**	(2,820,411)	(2,927,381)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase in deposits	**1,271,967**	1,552,033	926,171
Net increase in federal funds purchased and securities sold under agreements to repurchase	**932,783**	787,653	549,635
Net (decrease) increase in other short-term borrowings	**(123,680)**	(2,541,970)	1,794,575
Net proceeds from (payments of) notes payable and capital securities	**558,642**	2,557,299	(632,744)
Dividends paid	**(108,003)**	(106,384)	(95,297)
Proceeds from issuance of common stock	**11,166**	9,702	9,823
Redemption of preferred stock	**(102,000)**	-	**-**
Treasury stock (acquired) sold	**(139,074)**	78	(2,091)
Net cash provided by financing activities	**2,301,801**	2,258,411	2,550,072
Net increase (decrease) in cash and due from banks	**46,414**	(119,909)	62,355
Cash and due from banks at beginning of year	**606,142**	726,051	663,696
Cash and due from banks at end of year	**$652,556**	$606,142	$726,051

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

Consolidated Statements of Changes in Stockholders' Equity

(In thousands)	Year ended December 31, 2002	2001	2000
PREFERRED STOCK:			
Balance at beginning of year	**$100,000**	$100,000	$100,000
Redemption of preferred stock	**(100,000)**	-	-
Balance at end of year	**-**	100,000	100,000
COMMON STOCK:			
Balance at beginning of year	**832,498**	830,356	827,662
Common stock issued under Dividend Reinvestment Plan	**2,300**	2,142	2,694
Options exercised	**1**	-	-
Balance at end of year	**834,799**	832,498	830,356
SURPLUS:			
Balance at beginning of year	**268,544**	260,984	243,855
Common stock issued under Dividend Reinvestment Plan	**8,857**	7,560	7,129
Options granted	**957**	-	-
Options exercised	**8**	-	-
Transfer from retained earnings	**-**	-	10,000
Balance at end of year	**278,366**	268,544	260,984
RETAINED EARNINGS:			
Balance at beginning of year	**1,057,724**	865,082	694,301
Net income	**351,932**	304,538	276,103
Cash dividends declared on common stock	**(106,709)**	(103,546)	(86,972)
Cash dividends declared on preferred stock	**(510)**	(8,350)	(8,350)
Redemption of preferred stock	**(2,000)**	-	-
Transfer to surplus	**-**	-	(10,000)
Balance at end of year	**1,300,437**	1,057,724	865,082
ACCUMULATED OTHER COMPREHENSIVE INCOME:			
Balance at beginning of year	**80,188**	3,436	(140,709)
Other comprehensive income, net of tax	**122,299**	76,752	144,145
Balance at end of year	**202,487**	80,188	3,436
TREASURY STOCK - AT COST :			
Balance at beginning of year	**(66,136)**	(66,214)	(64,123)
(Purchase) sale of common stock	**(139,074)**	78	(2,091)
Balance at end of year	**(205,210)**	(66,136)	(66,214)
Total stockholders' equity	**$2,410,879**	$2,272,818	$1,993,644

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

Consolidated Statements of Comprehensive Income

(In thousands)	Year ended December 31, 2002	2001	2000
Net income	**$351,932**	$304,538	$276,103
Other comprehensive income, net of tax:			
Foreign currency translation adjustment	**(780)**	(572)	(1,297)
Less: reclassification adjustment for foreign currency translation loss realized upon the sale of investment in a foreign entity	**-**	-	(1,678)
Unrealized gains on securities:			
Unrealized holding gains arising during the period, net of tax of $26,444 (2001 - $26,076; 2000 - $40,042)	**125,485**	75,831	153,280
Less: reclassification adjustment for (losses) gains included in net income, net of tax of ($679) (2001 - ($102); 2000 - $2,366)	**(964)**	(1,025)	9,516
Net loss on cash flow hedges	**(6,999)**	(2,162)	-
Less: reclassification adjustment for losses included in net income, net of tax of ($2,311) (2001- ($1,395))	**(3,635)**	(2,240)	-
Cumulative effect of accounting change	**-**	254	-
Less: reclassification adjustment for gains (losses) included in net income, net of tax of ($77) in 2001	**6**	(136)	-
Total other comprehensive income, net of tax	**122,299**	76,752	144,145
Comprehensive income	**$474,231**	$381,290	$420,248

Disclosure of accumulated other comprehensive income:

(In thousands)	Year ended December 31, 2002	2001	2000
Foreign currency translation adjustment	**($2,236)**	($1,456)	($884)
Unrealized gains on securities	**207,625**	81,176	4,320
Unrealized (losses) gains on cash flow hedges	**(3,286)**	78	-
Cumulative effect of accounting change	**384**	390	-
Accumulated other comprehensive income	**$202,487**	$80,188	$3,436

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

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Notes to Consolidated Financial Statements

Note 1 - Summary of significant accounting policies:
The accounting and reporting policies of Popular, Inc. and its subsidiaries (the Corporation) conform with generally accepted accounting principles and with general practices within the financial services industry. The following is a description of the most significant of these policies:

Nature of operations
Popular, Inc. is a financial holding company offering a full range of financial services through banking offices in Puerto Rico, the United States and the U.S. and British Virgin Islands. The Corporation is also engaged in mortgage and consumer lending, lease financing, broker/dealer activities, retail financial services, insurance agency services and information technology, ATM and data processing services through its non-banking subsidiaries in Puerto Rico, the United States, the Caribbean and Central America. Note 32 to the consolidated financial statements presents further information about the Corporation's business segments.

Principles of consolidation
The consolidated financial statements include the accounts of Popular, Inc. and its subsidiaries. Intercompany accounts and transactions have been eliminated in consolidation.

Certain of the Corporation's non-banking subsidiaries have fiscal years ending on November 30th. Accordingly, their financial information as of that date corresponds to their financial information included in the consolidated financial statements of Popular, Inc. as of December 31st. There are no significant intervening events resulting from the difference in fiscal periods, which management believes may materially affect the financial position or results of operations of the Corporation for the years ended December 31, 2002, 2001 and 2000.

Unconsolidated investments in which there is greater than 20% ownership are accounted for by the equity method, with earnings recorded in other operating inome; those in which there is less than 20% ownership are generally carried at cost, unless significant influence is exercised.

Use of estimates in the preparation of financial statements
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Investment securities
Investment securities are classified in three categories and accounted for as follows:

- Debt securities that the Corporation has the intent and ability to hold to maturity are classified as securities held-to-maturity and reported at amortized cost. The Corporation may not sell or transfer held-to-maturity securities without calling into question its intent to hold other debt securities to maturity, unless a nonrecurring or unusual event that could not have been reasonably anticipated has occurred.

- Debt and equity securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and reported at fair value, with unrealized gains and losses included in earnings.

- Debt and equity securities not classified as either securities held-to-maturity or trading securities are classified as securities available-for-sale and reported at fair value, with unrealized gains and losses excluded from earnings and reported net of taxes in other comprehensive income. Stock that is owned by the Corporation to comply with regulatory requirements, such as Federal Reserve Bank and Federal Home Loan Bank (FHLB) stock, is also included in this category, at cost.

The amortization of premiums is deducted and the accretion of discounts is added to interest income based on a method which approximates the interest method over the outstanding period of the related securities. The cost of securities sold is determined by specific identification. Net realized gains or losses on sales of investment securities and unrealized loss valuation adjustments considered other than temporary, if any, on securities available-for-sale and held-to maturity are reported separately in the consolidated statements of income.

Derivative financial instruments
The Corporation occasionally uses derivative financial instruments as part of its overall interest rate risk management strategy and to minimize significant unplanned fluctuations in earnings and cash flows caused by interest rate volatility.

Effective January 1, 2001, the Corporation adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, which establishes accounting and reporting standards for derivative instruments and hedging activities and requires recognition of all derivatives as either assets or liabilities in the statement of financial condition and measurement of those instruments at fair value. On the date the Corporation enters into a derivative contract, the derivative instrument is designated as either a fair value hedge, cash flow hedge or as a free-standing derivative instrument. For a fair value hedge, changes in the fair value of the derivative instrument and changes in the fair value of the hedged asset or liability or of an unrecognized firm commitment attributable to the hedged risk are recorded in current period net income. For a cash flow hedge, changes in the fair value of the derivative instrument, to the extent that it is effective, are recorded in accumulated other comprehensive income and subsequently reclassified to net income in the same period(s) that the hedged transaction impacts net income. For free-standing derivative instruments, changes in the fair values are reported in current period net income.

Prior to entering a hedge transaction, the Corporation formally documents the relationship between hedging instruments and hedged items, as well as the risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivative instruments that are designated as fair value or cash flow hedges to specific assets and liabilities on the balance sheet or to specific forecasted transactions along with a formal assessment at both, inception of the hedge and on an ongoing basis as to the effectiveness of

the derivative instrument in offsetting changes in fair values or cash flows of the hedged item. If it is determined that the derivative instrument is not highly effective as a hedge, hedge accounting is discontinued and the adjustment to fair value of the derivative instrument is recorded in net income.

In accordance with the transition provisions of SFAS No. 133, the Corporation recorded a $686,000 net of tax cumulative effect adjustment in earnings as of January 1, 2001. In addition, the Corporation recorded a $254,000 net of tax cumulative effect adjustment in other comprehensive income as of January 1, 2001.

As of December 31, 2001, the Corporation had $390,000 in accumulated other comprehensive income pertaining to the cumulative effect of adopting SFAS No. 133. This amount pertains to the reclassification of $29,256,000 of held-to-maturity securities as available-for-sale as permitted by SFAS No. 133.

Loans held-for-sale

Loans held-for-sale are stated at the lower of cost or market, cost being determined based on the outstanding loan balance less unearned income, and fair market value determined on an aggregate basis according to secondary market prices. The amount by which cost exceeds market value, if any, is accounted for as a valuation allowance with changes included in the determination of net income for the period in which the change occurs.

Loans

Loans are stated at the outstanding balance less unearned income and allowance for loan losses. Fees collected and costs incurred in the origination of new loans are deferred and amortized using the interest method over the term of the loan as an adjustment to interest yield.

Recognition of interest income on commercial and construction loans, as well as commercial leases, is discontinued when loans are 60 days or more in arrears on payments of principal or interest or when other factors indicate that collection of principal and interest is doubtful. Interest accrual for consumer lease financing, conventional mortgage loans and closed-end consumer loans is ceased when loans are 90 days or four scheduled payments in arrears. Loans designated as non-accruing are not returned to an accrual status until interest is received on a current basis and those factors indicative of doubtful collection cease to exist. Closed-end consumer loans and leases are charged-off against the allowance for loan losses when 120 days in arrears. Open-end (revolving credit) consumer loans are charged-off when 180 days in arrears. Income is generally recognized on open-end consumer loans until the loans are charged-off.

Lease financing

The Corporation leases passenger and commercial vehicles and equipment to individual and corporate customers. The finance method of accounting is used to recognize revenue on lease contracts that meet the criteria specified in SFAS No. 13, "Accounting for Leases," as amended. Aggregate rentals due over the term of the leases less unearned income are included in finance lease contracts receivable. Unearned income is amortized using a method which results in approximate level rates of return on the principal amounts outstanding. Finance lease origination fees and costs are deferred and amortized over the average life of the portfolio as an adjustment to the yield.

Revenue for other leases is recognized as it becomes due under the terms of the agreement.

Allowance for loan losses

The Corporation follows a systematic methodology to establish and evaluate the adequacy of the allowance for loan losses to provide for inherent losses in the loan portfolio. This methodology includes the consideration of factors such as current economic conditions, portfolio risk characteristics, prior loss experience, results of periodic credit reviews of individual loans and financial accounting standards. The provision for loan losses charged to current operations is based on such methodology. Loan losses are charged and recoveries are credited to the allowance for loan losses.

The Corporation has defined impaired loans as loans with interest and/or principal past due 90 days or more and other specific loans for which, based on current information and events, it is probable that the debtor will be unable to pay all amounts due according to the contractual terms of the loan agreement. Loan impairment is measured based on the present value of expected future cash flows discounted at the loan's effective rate, on the observable market price of the loan or on the fair value of the collateral if the loan is collateral dependent. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment based on past experience adjusted for current economic conditions. Commercial loans exceeding $250,000 are individually evaluated for impairment. Once a specific measurement methodology is chosen, it is consistently applied unless there is a significant change in the financial position of the borrower. Impaired loans for which the discounted cash flows, collateral value or market price is less than the carrying value require an allowance. The allowance for impaired loans is part of the Corporation's overall allowance for loan losses.

Cash payments received on impaired loans are recorded in accordance with the contractual terms of the loan. The principal portion of the payment is used to reduce the principal balance of the loan, whereas the interest portion is recognized as interest income. However, when management believes the ultimate collectibility of principal is in doubt, the interest portion is applied to principal.

Transfers and servicing of financial assets and extinguishment of liabilities

After a transfer of financial assets, the Corporation recognizes the financial and servicing assets it controls and the liabilities it has incurred, derecognizes financial assets when control has been surrendered, and derecognizes liabilities when extinguished.

The Corporation sells mortgage and other loans through secondary market securitizations. Upon consummation of a sale, the securitized loans are removed from the balance sheet and a gain or loss on the sale is recognized.

The transfer of financial assets in which the Corporation surrenders control over the assets, is accounted for as a sale to the extent that consideration other than beneficial interests is received in exchange. SFAS No. 140 "Accounting for Transfer and Servicing of Financial Assets and Liabilities - a Replacement of SFAS No. 125" sets forth the criteria that must be met for control over transferred assets to be considered to have been surrendered. When the Corporation transfers

financial assets and the transfer fails any one of the SFAS No. 140 criteria then the Corporation is prevented from derecognizing the transferred financial assets and the transaction is accounted for as a secured borrowing.

Where the derecognition criteria are met and the transfer is accounted for as a sale, interests in the assets sold may be retained in the form of interest-only strips and servicing rights. Gains or losses on sale depend in part on the previous carrying amount of the loans involved in the transfer and are allocated between the loans sold and the retained interests, based on their relative fair value at the date of the sale. Gains and losses on securitization are recorded as gain on sale of loans.

Servicing assets

Servicing assets represent the costs of acquiring the contractual right to service loans for others. Loan servicing fees, which are based on a percentage of the principal balances of the loans serviced, are credited to income as loan payments are collected.

The Corporation recognizes as separate assets the rights to service loans for others, whether those servicing assets are originated or purchased. The total cost of loans to be sold with servicing assets retained is allocated to the servicing assets and the loans (without the servicing assets), based on their relative fair values. Servicing assets are amortized in proportion to and over the period of estimated net servicing income. In addition, the Corporation assesses capitalized servicing assets for impairment based on the fair value of those assets.

To estimate the fair value of servicing assets the Corporation considers prices for similar assets and the present value of expected future cash flows associated with the servicing assets calculated using assumptions that market participants would use in estimating future servicing income and expense, including discount rates, anticipated prepayment and credit loss rates. For purposes of evaluating and measuring impairment of capitalized servicing assets, the Corporation stratifies such assets based on predominant risk characteristics of underlying loans, such as loan type, rate and term. The amount of impairment recognized, if any, is the amount by which the capitalized servicing assets per stratum exceed their estimated fair value. Impairment is recognized through a valuation allowance with changes included in net income for the period in which the change occurs. Servicing assets are included as part of other assets in the consolidated statements of condition.

Interest-only securities

The Corporation periodically sells residential mortgage loans to a qualifying special-purpose entity (SPE), which in turn issues asset-backed securities to investors. The Corporation retains an interest in the loans sold in the form of a residual or interest-only security and may also retain other subordinated interests in the receivables sold to the SPE. The residual or interest-only security represents the present value of future excess cash flows resulting from the difference between the finance charge income received from the obligors on the loans and the interest paid to the investors in the asset-backed securities, net of credit losses, servicing fees and other expenses. In the normal course of business the Corporation also acquires interest-only securities in the secondary market. The interest-only securities are classified as available-for-sale securities and are measured at fair value. Factors considered in the valuation model for calculating the fair value of these subordinated interests are market discount rates, anticipated prepayment and loss rates on the underlying assets.

Premises and equipment and other long-lived assets

Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed on a straight-line basis over the estimated useful life of each type of asset. Amortization of leasehold improvements is computed over the terms of the respective leases or the estimated useful lives of the improvements, whichever is shorter. Costs of maintenance and repairs which do not improve or extend the life of the respective assets are expensed as incurred. Costs of renewals and betterments are capitalized. When assets are disposed of, their cost and related accumulated depreciation are removed from the accounts and any gain or loss is reflected in earnings as realized or incurred, respectively.

The Corporation evaluates for impairment its long-lived assets to be held and used, and long-lived assets to be disposed of, whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Other real estate

Other real estate comprises properties acquired through foreclosure. Upon foreclosure, the recorded amount of the loan is written-down, if required, to the appraised value less estimated costs of disposal of the real estate acquired, by charging the allowance for loan losses. Subsequent to foreclosure, the properties are carried at the lower of carrying value or fair value less estimated costs of disposal. Gains or losses on the sale of these properties are credited or charged to expense of operating other real estate. The cost of maintaining and operating such properties is expensed as incurred.

Goodwill and other intangible assets

Other identifiable intangible assets, mainly core deposits and customer lists, are amortized using various methods over the periods benefited, which range from 4 to 15 years. Goodwill represents the excess of the Corporation's cost of purchased operations over the fair value of the net assets acquired.

In 2002, the Corporation adopted SFAS No. 142 "Goodwill and Other Intangible Assets," which changed the accounting for goodwill and other intangible assets in the following significant respects:

-Goodwill and other intangible assets that have indefinite useful lives will not be amortized, but will be tested at least annually for impairment.

-SFAS No. 142 requires that goodwill be tested annually for impairment using a two-step process. The first step is to identify if a potential impairment exists. The second step measures the amount of impairment, if any.

-Other intangible assets deemed to have an indefinite life will be tested for impairment using a one-step process which compares the fair value with the carrying amount of the asset as of the beginning of the fiscal year.

The Corporation completed all transitional impairment tests during 2002, and determined that there are no impairment losses to be recognized in the period as a cumulative effect of accounting change.

The following table presents the reconciliation of reported net income and earnings per share (EPS) (basic and diluted) adjusted to exclude the amortization expense recognized in the period prior to the adoption of SFAS No. 142.

(In thousands, except per share information)	Year ended December 31, 2001	2000
Reported Net Income	$304,538	$276,103
Add back: Goodwill amortization, including impact on profit sharing expense and related tax	16,526	18,725
Adjusted Net Income	$321,064	$294,828

	Year ended December 31, 2001	2000
Reported EPS	$2.17	$1.97
Add back: Goodwill amortization, including impact on profit sharing expense and related tax	0.12	0.14
Adjusted EPS	$2.29	$2.11

With the adoption of SFAS No. 142, there were no changes to amortization expense on acquired other intangibles assets with definite lives.

For further disclosures required by SFAS No. 142, refer to Note 10 to the consolidated financial statements.

Securities sold/purchased under agreements to repurchase/ resell

Repurchase and resell agreements are treated as financing transactions and are carried at the amounts at which the securities will be reacquired or resold as specified in the respective agreements.

It is the Corporation's policy to take possession of securities purchased under resell agreements. However, the counterparties to such agreements maintain effective control over such securities, and accordingly are not reflected in the Corporation's consolidated statements of condition. The Corporation monitors the market value of the underlying securities as compared to the related receivable, including accrued interest, and requests additional collateral where deemed appropriate.

It is the Corporation's policy to maintain effective control over securities sold under agreements to repurchase; accordingly, such securities continue to be carried on the consolidated statements of condition.

Treasury stock

Treasury stock acquired is recorded at cost and is carried as a reduction of stockholders' equity in the consolidated statements of condition. At the date of retirement or subsequent reissue, the treasury stock account is reduced by the cost of such stock. The difference between the consideration received upon issuance and the specific cost is charged or credited to surplus.

Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated to U.S. dollars using prevailing rates of exchange at the end of the period. Revenues, expenses, gains and losses are translated using weighted average rates for the period. The resulting foreign currency translation adjustment from operations for which the functional currency is other than the U.S. dollar is reported in other comprehensive income.

Income taxes

The Corporation uses an asset and liability approach to the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Corporation's financial statements or tax returns. Deferred income tax assets and liabilities are determined for differences between financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future. The computation is based on enacted tax laws and rates applicable to periods in which the temporary differences are expected to be recovered or settled. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

Employees' retirement and other postretirement benefit plans

Banco Popular de Puerto Rico (BPPR) and Banco Popular North America (BPNA) have trusteed, noncontributory retirement and other benefit plans covering substantially all full-time employees. Pension costs are computed on the basis of accepted actuarial methods and are charged to current operations. Net pension costs are based on various actuarial assumptions regarding future experience under the plan, which include costs for services rendered during the period, interest costs and return on plan assets, as well as deferral and amortization of certain items such as actuarial gains or losses. The funding policy is to contribute to the plan as necessary to provide for services to date and for those expected to be earned in the future. To the extent that these requirements are fully covered by assets in the plan, a contribution may not be made in a particular year.

BPPR also provides certain health and life insurance benefits for eligible retirees and their dependents. The cost of postretirement benefits, which is determined based on actuarial assumptions and estimates of the costs of providing these benefits in the future, is accrued during the years that the employee renders the required service.

Stock option plan

The Corporation has a stock option plan that permits the granting of incentive awards in the form of qualified stock options, incentive stock options, or non-statutory options of the Corporation. In 2002, the Corporation opted to use the fair value method of recording stock options as described in SFAS No. 123 "Accounting for Stock-Based Compensation," which is considered the preferable accounting method for stock-based compensation. All future stock option grants will be expensed over the stock option vesting period based on the fair value at the date the options are granted.

Previously, as permitted by SFAS No. 123, the Corporation measured compensation cost for this plan based on APB No. 25 "Accounting for Stock Issued to Employees" and disclosed the pro forma net income and net income per share as if the fair value method had been applied in measuring cost. The Corporation recognized $957,000 in operating expenses during 2002 as a result of the aforementioned changed in accounting method.

Comprehensive income

Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances, except those resulting from investments by owners and distributions to owners. The presentation of comprehensive income is included in a separate consolidated statement of comprehensive income.

Earnings per common share

Basic earnings per common share are computed by dividing net income, reduced by dividends on preferred stock, by the weighted average number of common shares of the Corporation outstanding during the year. Diluted earnings per common share take into consideration the weighted average common shares adjusted for the effect of stock options, using the treasury stock method.

Statement of cash flows

For purposes of reporting cash flows, cash and cash equivalents include cash on hand and amounts due from banks.

Reclassifications

Certain reclassifications have been made to the 2001 and 2000 consolidated financial statements to conform with the 2002 presentation.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS AND REGULATIONS

SFAS No. 143 "Accounting for Asset Retirement Obligations"

This Statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the related asset retirement costs. It requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. This statement is effective for financial statements issued for fiscal years beginning after June 15, 2002. Management believes that the adoption of this statement will not have a material effect on the consolidated financial statements of the Corporation.

SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets"

This statement provides a single accounting model for long-lived assets that are to be disposed of by sale, whether previously held and used or newly acquired. This statement is effective for financial statements issued for fiscal years beginning after December 15, 2001. The adoption of this statement during 2002 did not have a material effect on the consolidated financial statements of the Corporation.

SFAS No. 146 "Accounting for Costs Associated with Exit or Disposal Activities"

In July 2002, the FASB issued SFAS No. 146 "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 addresses financial accounting and reporting for a cost associated with exit or disposal activities. SFAS No. 146 requires recognition of a liability for a cost associated with an exit or disposal activity when the liability is incurred, as opposed to when the entity commits to an exit plan under EITF No. 94-3. SFAS No. 146 is effective prospectively for exit or disposal activities initiated after December 31, 2002. Management does not anticipate that SFAS No. 146 will have a material impact on the Corporation's financial condition or results of operations, which will be dependent on the number and size of any exit or disposal activities that are undertaken.

SFAS No. 147 "Acquisitions of Certain Financial Institutions"

This Statement, which is effective for acquisitions on or after October 1, 2002, removes acquisitions of financial institutions from the scope of both SFAS No. 72 "Accounting for Certain Acquisitions of Banking or Thrift Institutions," and FASB Interpretation No. 9 "Applying APB Opinions No. 16 and 17, When a Savings and Loan Association or a Similar Institution is Acquired in a Business Combination Accounted for by the Purchase Method" and requires that those transactions be accounted for in accordance with FASB Statements No. 141 "Business Combinations," and No. 142 "Goodwill and Other Intangible Assets." In addition, SFAS No. 147 amends FASB Statement No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets," to include in its scope long-term customer-relationship intangible assets of financial institutions such as depositor- and borrower-relationship intangible assets and credit cardholder intangible assets. SFAS No. 147's transition provisions require affected institutions to reclassify their SFAS No. 72 goodwill as SFAS No. 142 goodwill as of the date the company initially applied SFAS No. 142 in its entirety. The adoption of SFAS No. 147 did not impact the Corporation's financial condition or results of operations.

SFAS No. 148 "Accounting for Stock-Based Compensation – Transition and Disclosure – an amendment to FASB Statement No. 123, Accounting for Stock-Based Compensation"

SFAS No. 148 amends SFAS No. 123 to provide alternative methods of transition for an entity that voluntarily changes to the fair value-based method of accounting for stock-based compensation. This Statement expands the disclosure requirements with respect to stock-based compensation. The transition guidance and annual disclosure provisions of SFAS No. 148 are effective for fiscal years ending after

December 15, 2002. The Corporation had already opted to use the fair value method of recording stock options.

FIN No. 45 "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtness of Others"

FASB's Interpretation No. 45 (FIN No. 45) requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The expanded disclosure requirements are required for financial statements ending after December 15, 2002, while the liability recognition provisions are applicable to certain guarantee obligations modified or issued after December 31, 2002. Management is currently assessing the impact of FIN No. 45 on the Corporation's financial position and results of operations for the year 2003.

FIN No. 46 "Consolidation of Variable Interest Entities"

FASB's Interpretation No. 46 (FIN No. 46) expands upon and strengthens existing accounting guidance that addresses when a company should include in its financial statements the assets, liabilities and activities of another entity. A variable interest entity is a corporation, partnership, trust, or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. FIN No. 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or is entitled to receive a majority of the entity's residual returns or both. The consolidation requirements of FIN No. 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements apply to older entities in the first fiscal year or interim period beginning after June 15, 2003. This Interpretation is not expected to have a significant impact on the Corporation's financial position or results of operations.

In past years, the Corporation conducted asset securitizations involving the transfer of mortgage loans to a qualifying special purpose entity (QSPE), which in turn transferred the assets, including their titles, to different trusts, thus isolating those loans from the Corporation's assets. The transaction qualified for sale accounting based on the provisions of SFAS No. 140. The investors and the securitization trusts have no recourse to the Corporation's assets. This QSPE is outside the scope of FIN 46.

Note 2 - Cash and due from banks:

The Corporation's subsidiary banks are required by regulatory agencies to maintain average reserve balances with the Federal Reserve Bank. The amount of those required average reserve balances was approximately $447,476,000 at December 31, 2002 (2001 - $448,385,000).

Note 3 - Securities purchased under agreements to resell:

The securities underlying the agreements to resell were delivered to, and are held by, the Corporation. The counterparties to such agreements maintain effective control over such securities. The Corporation is permitted by contract to repledge the securities, and has agreed to resell to the counterparties the same or substantially similar securities at the maturity of the agreements.

The fair value of the collateral securities held by the Corporation on these transactions as of December 31, was as follows:

(In thousands)	2002	2001
Repledged	$853,992	$738,685
Not repledged	18,568	24,094
Total	$872,560	$762,779

The repledged securities were used as underlying securities for repurchase agreement transactions.

Note 4 - Investment securities available-for-sale:

The amortized cost, gross unrealized gains and losses, approximate market value (or fair value for certain investment securities where no market quotations are available), weighted average yield and contractual maturities of investment securities available-for-sale as of December 31, 2002 and 2001 (2000 - only market value is presented) were as follows:

	2002				
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Market value	Weighted average yield
	(Dollars in thousands)				
U.S. Treasury securities (average maturity of 6 months):					
Within 1 year	$300,072	$4,381		$304,453	5.67%
After 1 to 5 years	54,885	881		55,766	2.87
	354,957	5,262		360,219	5.24
Obligations of other U.S. Government agencies and corporations (average maturity of 5 years and 4 months):					
Within 1 year	149,674	2,856		152,530	4.32
After 1 to 5 years	3,402,631	81,787		3,484,418	4.17
After 5 to 10 years	2,290,566	31,327	$388	2,321,505	4.44
After 10 years	350,000	9,705		359,705	5.88
	6,192,871	125,675	388	6,318,158	4.37
Obligations of P.R., States and political subdivisions (average maturity of 7 years and 10 months):					
Within 1 year	6,500	103	12	6,591	5.90
After 1 to 5 years	23,425	1,563	2	24,986	5.32
After 5 to 10 years	26,499	1,161		27,660	5.94
After 10 years	22,580	2,088		24,668	6.34
	79,004	4,915	14	83,905	5.87
Collateralized mortgage obligations (average maturity of 20 years and 6 months):					
After 1 to 5 years	12,904	401		13,305	4.72
After 5 to 10 years	22,372	249		22,621	5.14
After 10 years	2,136,841	11,314	272	2,147,883	2.91
	2,172,117	11,964	272	2,183,809	2.94
Mortgage-backed securities (average maturity of 23 years and 5 months):					
Within 1 year	1			1	6.99
After 1 to 5 years	9,548	2		9,550	6.93
After 5 to 10 years	108,956	1,955		110,911	5.07
After 10 years	975,771	34,599	156	1,010,214	5.89
	1,094,276	36,556	156	1,130,676	5.82
Equity securities (without contractual maturity)	263,342	77,677	22	340,997	0.52
Other (average maturity of 16 years and 8 months):					
After 1 to 5 years	1,046	3	3	1,046	8.22
After 5 to 10 years	369	28		397	11.80
After 10 years	110,927	1,769		112,696	8.52
	112,342	1,800	3	114,139	8.53
	$10,268,909	$263,849	$855	$10,531,903	4.21%

	2001					2000
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Market value	Weighted average yield	Market value
	(Dollars in thousands)					
U.S. Treasury securities (average maturity of 1 year and 1 month):						
Within 1 year	$270,176	$5,615		$275,791	6.13%	$589,621
After 1 to 5 years	380,071	13,007		393,078	5.14	557,123
	650,247	18,622		668,869	5.55	1,146,744
Obligations of other U.S. Government agencies and corporations (average maturity of 4 years and 7 months):						
Within 1 year	1,173,100	22,388		1,195,488	6.42	1,256,262
After 1 to 5 years	2,226,467	9,657	$27,414	2,208,710	4.47	1,841,154
After 5 to 10 years	1,509,001	29,893	7,144	1,531,750	5.46	1,591,645
After 10 years	300,000	2,455		302,455	6.40	288,608
	5,208,568	64,393	34,558	5,238,403	5.31	4,977,669
Obligations of P.R., States and political subdivisions (average maturity of 8 years and 5 months):						
Within 1 year	1,665	22		1,687	5.92	2,880
After 1 to 5 years	6,417	176		6,593	5.89	9,074
After 5 to 10 years	72,433	1,988		74,421	5.95	23,440
After 10 years	21,128	1,734	167	22,695	4.54	35,884
	101,643	3,920	167	105,396	5.65	71,278
Collateralized mortgage obligations (average maturity of 21 years and 10 months):						
After 1 to 5 years	17,335	28		17,363	2.34	28,965
After 5 to 10 years	76,209	1,690		77,899	5.96	81,200
After 10 years	2,148,283	6,443	7,902	2,146,824	3.47	1,443,120
	2,241,827	8,161	7,902	2,242,086	3.55	1,553,285
Mortgage-backed securities (average maturity of 24 years and 10 months):						
Within 1 year						14
After 1 to 5 years	158	2		160	6.54	18,561
After 5 to 10 years	35,183	799	4	35,978	6.78	20,738
After 10 years	600,481	8,459	3,508	605,432	6.17	656,674
	635,822	9,260	3,512	641,570	6.20	695,987
Equity securities (without contractual maturity)	231,721	48,511	10	280,222	2.57	255,651
Other (average maturity of 17 years and 6 months):						
Within 1 year						6,784
After 1 to 5 years	227	6		233	7.75	751
After 5 to 10 years	1,402	43	4	1,441	8.84	7,632
After 10 years	103,517	2,664		106,181	8.49	80,143
	105,146	2,713	4	107,855	8.50	95,310
	$9,174,974	$155,580	$46,153	$9,284,401	4.91%	$8,795,924

The weighted average yield on investment securities available-for-sale is based on amortized cost, therefore it does not give effect to changes in fair value.

The expected maturities of collateralized mortgage obligations, mortgage-backed securities and certain other securities differ from their contractual maturities because they may be subject to prepayments. The allocation by maturities disclosed herein for these types of securities is based on their ultimate contractual maturity date.

The aggregate amortized cost and approximate market value of investment securities available-for-sale at December 31, 2002, by contractual maturity are shown below:

(In thousands)	Amortized cost	Market value
Within 1 year	$456,247	$463,575
After 1 to 5 years	3,504,439	3,589,071
After 5 to 10 years	2,448,762	2,483,094
After 10 years	3,596,119	3,655,166
Total	$10,005,567	$10,190,906
Without contractual maturity	263,342	340,997
Total investment securities available-for-sale	$10,268,909	$10,531,903

Proceeds from the sale of investment securities available-for-sale during 2002 were $1,266,542,000 (2001 - $1,161,097,000; 2000 - $818,955,000). Gross realized gains and losses on these securities during the year were $3,717,000 and $7,059,000, respectively (2001 - $8,505,000 and $8,478,000; 2000 - $17,048,000 and $5,847,000).

As of December 31, 2002 and 2001, the investments in obligations that are payable and secured by the same source of revenue or taxing authority, other than the U.S. Government, did not exceed 10 percent of stockholders' equity.

Note 5 - Investment securities held-to-maturity: The amortized cost, gross unrealized gains and losses, approximate market value (or fair value for certain investment securities where no market quotations are available), weighted average yield and contractual maturities of investment securities held-to-maturity as of December 31, 2002 and 2001 (2000 - only amortized cost is presented) were as follows:

	2002				
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Market value	Weighted average yield
		(Dollars in thousands)			
Obligations of other U.S. Government agencies and corporations (average maturity of 1 month):					
Within 1 year	$28,618	$4		$28,622	1.68%
Obligations of P.R., States and political subdivisions (average maturity of 10 years and 1 month):					
Within 1 year	24,047	4	$8	24,043	1.47
After 1 to 5 years	5,736	57	40	5,753	5.76
After 5 to 10 years	9,496	239	35	9,700	6.25
After 10 years	40,895	633	103	41,425	6.57
	80,174	933	186	80,921	4.94
Collateralized mortgage obligations (average maturity of 21 years and 7 months):					
After 10 years	1,126		112	1,014	5.45
Other (average maturity of 2 years and 9 months):					
Within 1 year	12,748	47		12,795	5.21
After 1 to 5 years	51,203	640		51,843	5.21
After 5 to 10 years	6,882	106		6,988	5.35
	70,833	793		71,626	5.22
	$180,751	$1,730	$298	$182,183	4.54%

	2001					2000
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Market value	Weighted average yield	Amortized cost
	(Dollars in thousands)					
Obligations of other U.S. Government agencies and corporations (average maturity of 1 month):						
Within 1 year	$416,980	$4		$416,984	1.96%	$11,061
Obligations of P.R., States and political subdivisions (average maturity of 13 years and 8 months):						
Within 1 year	20,815		$2	20,813	1.16	35,400
After 1 to 5 years	9,056	281	37	9,300	7.29	13,988
After 5 to 10 years	7,166	257	3	7,420	6.56	5,960
After 10 years	55,485	3,947	6	59,426	4.92	63,247
	92,522	4,485	48	96,959	4.43	118,595
Collateralized mortgage obligations (average maturity of 22 years and 9 months):						
After 1 to 5 years						5,011
After 10 years	1,430		114	1,316	6.45	7,358
						12,369
Mortgage-backed securities:						
After 1 to 5 years						64
After 5 to 10 years						16,679
After 10 years						2,001
						18,744
Other (average maturity of 3 years and 4 months):						
Within 1 year	11,250	52		11,302	5.08	13,276
After 1 to 5 years	60,487	79	551	60,015	5.19	63,357
After 5 to 10 years	9,691	148		9,839	5.64	27,329
	81,428	279	551	81,156	5.23	103,962
	$592,360	$4,768	$713	$596,415	2.81%	$264,731

The expected maturities of collateralized mortgage obligations, mortgage-backed securities and certain other securities differ from their contractual maturities because they may be subject to prepayments. The allocation by maturities disclosed herein for these types of securities is based on their ultimate contractual maturity date.

The aggregate amortized cost and approximate market value of investment securities held-to-maturity at December 31, 2002, by contractual maturity are shown below:

(In thousands)	Amortized cost	Market value
Within 1 year	$65,413	$65,460
After 1 to 5 years	56,939	57,596
After 5 to 10 years	16,378	16,688
After 10 years	42,021	42,439
Total investment securities held-to-maturity	$180,751	$182,183

As of December 31, 2002 and 2001, the investments in obligations that are payable from and secured by the same source of revenue or taxing authority, other than the U.S. Government, did not exceed 10 percent of stockholders' equity.

Note 6 - Pledged assets:

At December 31, 2002 and 2001, securities and loans were pledged to secure public and trust deposits, securities sold under agreements to repurchase and other borrowings.

The classification and carrying amount of pledged assets, which the secured parties are not permitted to sell or repledge the collateral as of December 31, were as follows:

(In thousands)	2002	2001
Investment securities available-for-sale	$2,046,100	$1,973,552
Investment securities held-to-maturity	3,278	5,110
Loans	3,402,042	2,181,383
	$5,451,420	$4,160,045

Securities and loans that the creditor has the right by custom or contract to repledge are presented separately in the consolidated statements of condition.

Note 7 - Loans and allowance for loan losses:

The composition of the loan portfolio at December 31, was as follows:

(In thousands)	2002	2001
Loans secured by real estate:		
Insured or guaranteed by the U.S. Government or its agencies	$19,457	$72,354
Guaranteed by the Commonwealth of Puerto Rico	56,604	64,124
Commercial loans secured by real estate	1,677,033	1,621,566
Residential conventional mortgages	6,290,410	5,384,803
Construction and land development	305,299	311,339
Consumer	347,062	391,532
	8,695,865	7,845,718
Financial institutions	21,777	24,697
Commercial, industrial and agricultural	5,964,338	5,522,018
Lease financing	1,054,189	1,039,829
Consumer for household, credit cards and other consumer expenditures	2,873,234	2,935,207
Other	166,444	188,560
	$18,775,847	$17,556,029

As of December 31, 2002, loans on which the accrual of interest income had been discontinued amounted to $485,193,000 (2001 - $415,052,000; 2000 - $319,188,000). If these loans had been accruing interest, the additional interest income realized would have been approximately $34,132,000 (2001 - $27,042,000; 2000 - $23,129,000). Non-accruing loans as of December 31, 2002 include $40,019,000 (2001 - $40,946,000; 2000 - $43,814,000) in consumer loans.

The recorded investment in loans that were considered impaired at December 31, and the related disclosures follow:

	December 31,	
(In thousands)	2002	2001
Impaired loans with a related allowance	$87,874	$90,914
Impaired loans that do not require allowance	54,175	53,056
Total impaired loans	$142,049	$143,970
Allowance for impaired loans	$34,941	$36,799
Average balance of impaired loans during the year	$142,669	$138,342
Interest income recognized on impaired loans during the year	$3,026	$3,668

The changes in the allowance for loan losses for the year ended December 31, were as follows:

(In thousands)	2002	2001	2000
Balance at beginning of year	$336,632	$290,653	$292,010
Net allowances acquired (sold)	2,327	1,675	(15,869)
Provision for loan losses	205,570	213,250	194,640
Recoveries	67,488	66,103	60,903
Loans charged-off	(239,220)	(235,049)	(241,031)
Balance at end of year	$372,797	$336,632	$290,653

The components of the net financing leases receivable at December 31, were:

(In thousands)	2002	2001
Total minimum lease payments	$872,206	$864,330
Estimated residual value of leased property	177,701	169,728
Deferred origination costs	4,282	5,771
Less - Unearned financing income	(168,192)	(176,636)
Net minimum lease payments	885,997	863,193
Less - Allowance for loan losses	(29,572)	(22,667)
	$856,425	$840,526

Estimated residual value is generally established at amounts expected to be sufficient to cover the Corporation's investment.

At December 31, 2002, future minimum lease payments are expected to be received as follows:

(In thousands)	
2003	$270,509
2004	222,164
2005	175,298
2006	125,781
2007 and thereafter	78,454
	$872,206

Note 8 - Related party transactions:

The Corporation grants loans to its directors, executive officers and certain related individuals or organizations in the ordinary course of business. The movement and balance of these loans were as follows:

(In thousands)	Executive Officers	Directors	Total
Balance at December 31, 2000	$2,979	$108,595	$111,574
New loans	549	358,481	359,030
Payments	(606)	(357,308)	(357,914)
Other changes		(27,975)	(27,975)
Balance at December 31, 2001	$2,922	$81,793	$84,715
New loans	4,304	102,657	106,961
Payments	(2,122)	(90,982)	(93,104)
Other changes	572	147	719
Balance at December 31, 2002	$5,676	$93,615	$99,291

These loans have been consummated on terms no more favorable than those that would have been obtained if the transactions had been with unrelated parties and do not involve more than the normal risk of collectibility.

The amounts reported as "other changes" include changes in the status of those who are considered related parties.

Note 9 - Premises and equipment:

Premises and equipment are stated at cost less accumulated depreciation and amortization as follows:

(In thousands)	Useful life in years	2002	2001
Land		$64,937	$59,490
Buildings	10-50	288,913	243,641
Equipment	1-15	513,691	466,757
Leasehold improvements	Various	82,518	79,339
		885,122	789,737
Less - Accumulated depreciation and amortization		514,327	457,697
		370,795	332,040
Construction in progress		25,445	14,175
		$461,177	$405,705

Depreciation and amortization of premises and equipment for the year 2002 was $74,167,000 (2001 - $75,962,000; 2000 - $76,848,000) of which $19,674,000 (2001 - $18,781,000; 2000 - $13,805,000) was charged to occupancy expense and $54,493,000 (2001 - $57,181,000; 2000 - $63,043,000) was charged to equipment, communications and other operating expenses. Occupancy expense is net of rental income of $12,423,000 (2001 - $10,440,000; 2000 - $9,878,000).

Note 10 - Goodwill and other intangible assets:

SFAS No. 142 requires that goodwill and other indefinite-life intangible assets be tested for impairment at least annually using a two-step process at each reporting unit level. The first step of the goodwill impairment test, used to identify potential impairment, compares the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not considered impaired, thus the second step of the impairment test is unnecessary. If needed, the second step consists of comparing the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. The Corporation uses the expected present value of future cash flows and market price multiples of comparable companies to determine the fair value of each reporting unit. The cost of equity used to discount the cash flows was calculated using the Capital Asset Pricing Model.

The Corporation's management has defined the reporting units based on legal entity, which is the way that operating decisions are made and performance is measured. For presentation purposes, these reporting units have been aggregated by reportable segments based on the provisions of SFAS No. 131 "Segment Reporting." These segments have been defined as follows: Commercial Banking, Mortgage and Consumer Lending, Auto and Lease Financing and Other. All the operating segments and components that constitute reporting units were determined evaluating the nature of the products and services offered, types of customers, methods used to distribute their products and provide their services, and the nature of their regulatory environment, as well as other similar economic characteristics. Goodwill is assigned to each reporting unit at the time of acquisition, since the Corporation records the intangibles originated in the acquisition on the books of the entity acquired by using the practice of push down accounting.

The changes in the carrying amount of goodwill for the year ended December 31, 2002, are as follows:

(In thousands)	Commercial Banking	Mortgage and Consumer Lending	Auto and Lease Financing	Other	Total
Balance as of January 1, 2002	$110,482	$8,349	$6,727	$52,284	$177,842
Goodwill acquired during the year		3,203		2,225	5,428
Goodwill written-off during the year		(305)			(305)
Balance as of December 31, 2002	$110,482	$11,247	$6,727	$54,509	$182,965

As of December 31, 2002 and December 31, 2001, goodwill totaled $182,965,000 and $177,842,000, respectively. Goodwill written-off during 2002 was related to various branches of Popular Finance sold during the year.

The following table reflects the components of other intangible assets subject to amortization as of December 31:

(In thousands)	2002		2001	
	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Core deposits	$87,739	$56,263	$85,033	$48,100
Credit-based customer relationships	2,886	120	7,946	7,205
Other intangibles	509	104	202	76
Total	$91,134	$56,487	$93,181	$55,381

During the year ended December 31, 2002, the Corporation recognized $2,706,000 in core deposits associated with the purchase of various branches from a financial institution in Puerto Rico. This intangible asset has a weighted-average life of 10 years. Also, credit-based customer relationships with a gross amount of $7,946,000 were fully amortized during 2002.

During the year ended December 31, 2002, the Corporation recognized $9,104,000 in amortization expense related to other intangible assets with definite lives, excluding the effect of goodwill amortization. This expense totaled $10,092,000 for the year ended December 31, 2001.

The following table presents the estimated aggregate amortization expense of the intangible assets with definite lives that the Corporation has as of December 31, 2002, for each of the following fiscal years:

(In thousands)	
2003	$7,836
2004	7,145
2005	5,543
2006	5,394
2007	3,693

No significant events or circumstances have occurred that would reduce the fair value of any reporting unit below its carrying amount.

Note 11 - Deposits:

Total interest bearing deposits as of December 31, consisted of:

(In thousands)	2002	2001
Savings deposits:		
Savings accounts	$5,101,026	$4,359,670
NOW and money market accounts	2,511,830	2,305,996
	7,612,856	6,665,666
Certificates of deposit:		
Under $100,000	3,292,915	3,340,259
$100,000 and over	3,341,584	3,082,276
	6,634,499	6,422,535
	$14,247,355	$13,088,201

A summary of certificates of deposit by maturity as of December 31, 2002, follows:

(In thousands)	
2003	$3,877,399
2004	1,106,676
2005	622,448
2006	440,852
2007	508,133
2008 and thereafter	78,991
	$6,634,499

At December 31, 2002, the Corporation had brokered certificates of deposit amounting to $855,834,000 (2001 - $751,661,000).

Note 12 - Federal funds purchased and securities sold under agreements to repurchase:

The following table summarizes certain information on federal funds purchased and securities sold under agreements to repurchase as of December 31:

(In thousands)	2002	2001	2000
Federal funds purchased	$834,338	$651,858	$687,914
Securities sold under agreements to repurchase	5,850,213	5,099,910	4,276,201
Total amount outstanding	$6,684,551	$5,751,768	$4,964,115
Maximum aggregate balance outstanding at any month-end	$7,104,223	$6,015,631	$5,236,644
Average monthly aggregate balance outstanding	$5,763,812	$4,447,708	$4,585,945
Weighted average interest rate:			
For the year	2.62%	4.42%	6.22%
At December 31	2.36	2.41	6.74

The following table presents the liability associated with the repurchase transactions (including accrued interest), their maturities and weighted average interest rates. Also, it includes the amortized cost and approximate market value of the collateral (including accrued interest) as of December 31, 2002 and 2001. The information excludes repurchase agreement transactions which were collateralized with securities or other assets held for trading purposes or which have been obtained under agreements to resell:

2002	Repurchase liability	Amortized cost of collateral	Market value of collateral	Weighted average interest rate
	(Dollars in thousands)			
U.S. Treasury securities				
After 30 to 90 days	$229,773	$228,501	$231,771	1.73%
After 90 days	50,852	52,383	52,383	6.67
	280,625	280,884	284,154	2.61
Obligations of other U.S. Government agencies and corporations				
Within 30 days	1,467,010	1,630,599	1,655,631	1.65
After 30 to 90 days	856,344	877,985	887,242	1.50
After 90 days	363,834	373,647	380,252	4.77
	2,687,188	2,882,231	2,923,125	2.02
Mortgage - backed securities				
Overnight	21,314	26,518	26,596	1.89
Within 30 days	22,606	22,703	23,900	1.54
After 30 to 90 days	30,351	30,568	32,108	1.37
After 90 days	103,684	110,195	115,257	4.12
	177,955	189,984	197,861	3.06
Collateralized mortgage obligations				
Within 30 days	579,705	576,974	578,783	1.46
After 30 to 90 days	44,748	46,223	47,271	4.84
After 90 days	349,485	366,022	369,734	3.90
	973,938	989,219	995,788	2.49
Loans				
Within 30 days	412,512	420,624	437,449	1.71
	$4,532,218	$4,762,942	$4,838,377	2.17%

2001	Repurchase liability	Amortized cost of collateral	Market value of collateral	Weighted average interest rate
	(Dollars in thousands)			
U.S. Treasury securities				
Overnight	$79,123	$79,781	$79,813	0.55%
Within 30 days	420,066	402,198	415,317	1.75
After 90 days	76,313	78,721	81,414	6.32
	575,502	560,700	576,544	2.18
Obligations of other U.S. Government agencies and corporations				
Within 30 days	1,607,223	1,646,909	1,643,437	1.95
After 30 to 90 days	52,014	51,915	53,145	1.88
After 90 days	365,658	373,251	379,789	5.22
	2,024,895	2,072,075	2,076,371	2.54
Mortgage - backed securities				
Overnight	19,492	28,769	28,473	1.00
Within 30 days	64,930	65,691	68,030	2.32
After 90 days	78,602	86,399	88,086	4.96
	163,024	180,859	184,589	3.43
Collateralized mortgage obligations				
Within 30 days	625,130	553,430	653,180	1.90
After 30 to 90 days	40,217	41,452	41,452	1.84
After 90 days	336,782	353,782	352,759	4.18
	1,002,129	948,664	1,047,391	2.66
Loans				
Within 30 days	295,693	304,790	326,074	2.50
	$4,061,243	$4,067,088	$4,210,969	2.55%

Note 13 - Other short-term borrowings:

Other short-term borrowings as of December 31, consisted of:

(Dollars in thousands)	2002	2001
Advances under credit facilities:		
- with fixed interest rates ranging from 1.76% to 1.78% at December 31, 2002 (2001- 1.73% to 2.06%)	$500,000	$350,000
Commercial paper at rates ranging from 1.12% to 2.47% (2001 - 2.00% to 3.85%)	253,041	301,415
Term notes paying interest quarterly at floating interest rates of 0.62% over the 3-month LIBOR rate (3-month LIBOR rate at December 31, 2002 was 1.38%)	25,000	
Term notes paying interest monthly at rates ranging from 1.63% to 2.00%	85,202	
Term funds purchased at rates ranging from 1.36% to 2.88% (2001 - 1.82% to 3.65%)	840,000	1,175,380
Others	319	447
	$1,703,562	$1,827,242

The weighted average interest rate of other short-term borrowings at December 31, 2002 was 1.71% (2001 - 2.24%; 2000 - 6.74%). The maximum aggregate balance outstanding at any month-end was approximately $2,573,355,000 (2001 - $3,164,520,000; 2000 - $4,369,212,000). The average aggregate balance outstanding during the year was approximately $2,023,200,000 (2001 - $2,806,598,000; 2000 - $3,346,151,000). The weighted average interest rate during the year was 1.69% (2001 - 4.73%; 2000 - 6.65%).

At December 31, 2002, the Corporation had $814,768,000 in approved lines of credit with the Federal Home Loan Bank (2001 - $1,568,755,000), of which $484,768,000 remained unused at the end of 2002 (2001 - $743,000,000). The FHLB advances are secured by securities and mortgages under a collateral agreement. The Corporation also had $18,223,590,000 in other credit facilities, which include fed funds lines, Federal Reserve Bank discount window and other financial institutions' regular credit lines with other banks (2001 - $6,248,000,000) of which $12,236,507,000 remained unused at the end of 2002 (2001 - $4,421,362,000).

Note 14 - Notes payable:

Notes payable outstanding at December 31, consisted of the following:

(Dollars in thousands)	2002	2001
Advances under credit facilities:		
- maturities ranging from 2003 through 2004 paying interest monthly at fixed rates ranging from 3.44% to 5.20% (2001 - 3.44% to 6.88%)	$180,000	$230,000
- maturing in 2002, paying interest quarterly at a floating interest rate of 0.10% under the 3-month LIBOR (3-month LIBOR rate at December 31, 2001 was 1.88%)		75,000
Term notes with maturities ranging from 2003 through 2006 paying interest semiannually at fixed rates ranging from 4.80% to 7.43% (2001 - 6.07% to 8.13%)	1,385,663	1,337,140
Term notes with maturities ranging from 2003 through 2004 paying interest quarterly at rates ranging from 0.13% to 1.65% over the 3-month LIBOR rate (3-month LIBOR rate at December 31, 2002 was 1.38%; 2001 - 1.88%)	526,710	1,002,863
Term notes with maturities ranging from 2003 through 2030 paying interest monthly at fixed rates ranging from 5.15% to 7.62% (2001 - 3.00% to 7.62%)	97,066	206,992
Term notes maturing in 2002 paying interest monthly at a floating interest rate of 0.25% under the 1-month LIBOR rate (1-month LIBOR rate at December 31, 2001 was 1.87%)		14,906
Promissory notes with maturities ranging from 2003 through 2005 with floating interest rates ranging from 85% to 92% of the 3-month LIBID rate (3-month LIBID rate at December 31, 2002 was 1.25%; 2001 - 1.75%)	180,000	210,000
Promissory notes with maturities until 2003 paying interest at a fixed rate of 6.35%	8,400	8,400
Secured borrowings with maturities until 2032 paying interest monthly at fixed rates ranging from 3.63% to 7.03% (2001 - 4.20% to 6.68%)	761,398	189,460
Secured borrowings with maturities until 2032 paying interest monthly at floating rates subject to the 1-month LIBOR rate, ranging from 1.96% to 2.15% (1-month LIBOR rate at December 31, 2002 was 1.38%; 2001 - 1.87%)	1,151,532	452,279
Mortgage notes and other debt	8,084	8,091
	$4,298,853	$3,735,131

Note 15 - Subordinated notes:

Subordinated notes at December 31, 2002 and 2001, consisted of $125,000,000 issued by the Corporation on December 12, 1995, maturing on December 15, 2005, with interest payable semiannually at 6.75%. The notes issued by the Corporation are unsecured obligations which are subordinated in right of payment to the prior payment in full of all present and future senior indebtedness of the Corporation. These notes do not provide for any sinking fund.

Note 16 - Preferred beneficial interest in Popular North America's junior subordinated deferrable interest debentures guaranteed by the Corporation:

On February 5, 1997, BanPonce Trust I, a statutory business trust created under the laws of the State of Delaware that is wholly-owned by Popular North America, Inc. (PNA) and indirectly wholly-owned by the Corporation, sold to institutional investors $150,000,000 of BanPonce Trust I's 8.327% Capital Securities Series A (liquidation amount $1,000 per Capital Security) through certain underwriters. The proceeds of the issuance, together with the proceeds of the purchase by PNA of $4,640,000 of BanPonce Trust I's 8.327% common securities (liquidation amount $1,000 per common security) were used to purchase $154,640,000 aggregate principal amount of PNA 8.327% Junior Subordinated Deferrable Interest Debentures, Series A (the "Junior Subordinated Debentures"). As of December 31, 2002, the Corporation had reacquired $6,000,000 of the capital securities. BanPonce Trust I is a 100% owned finance subsidiary of the Corporation. The capital securities qualify as Tier 1 capital, are fully and unconditionally guaranteed by the Corporation, and are presented in the Consolidated Statements of Condition as "Preferred Beneficial Interest in Popular North America's Junior Subordinated Deferrable Interest Debentures Guaranteed by the Corporation." The obligations of PNA under the Junior Subordinated Debentures and its guarantees of the obligations of BanPonce Trust I are fully and unconditionally guaranteed by the Corporation. The assets of BanPonce Trust I consisted of $148,640,000 of Junior Subordinated Debentures at December 31, 2002 (December 31, 2001 - $154,640,000) and a related accrued interest receivable of $4,126,000 (December 31, 2001 - $4,292,000). The Junior Subordinated Debentures mature on February 1, 2027; however, under certain circumstances, the maturity of the Junior Subordinated Debentures may be shortened (which shortening would result in a mandatory redemption of the Capital Securities).

Note 17 - Long-term debt maturity requirements:

The aggregate amounts of maturities of notes payable, capital securities and subordinated notes were as follows:

Year	Notes payable	Capital Securities	Subordinated notes	Total
		(In thousands)		
2003	$1,313,292			$1,313,292
2004	770,176			770,176
2005	424,790		$125,000	549,790
2006	1,090,280			1,090,280
2007	150,793			150,793
Later years	549,522	$144,000		693,522
Total	$4,298,853	$144,000	$125,000	$4,567,853

Note 18 - Earnings per common share:

The following table sets forth the computation of earnings per common share and diluted earnings per common share for the year ended December 31:

(In thousands, except share information)	2002	2001	2000
Net income	$351,932	$304,538	$276,103
Less: Preferred stock dividends	2,510	8,350	8,350
Net income applicable to common stock	$349,422	$296,188	$267,753
Average common shares outstanding	133,915,082	136,238,288	135,907,476
Average potential common shares - stock options		182	
Average common shares outstanding - assuming dilution	133,915,082	136,238,470	135,907,476
Basic earnings per common share	$2.61	$2.17	$1.97
Diluted earnings per common share	$2.61	$2.17	$1.97

Potential common shares consist of common stock issuable under the assumed exercise of stock options granted under the Corporation's stock option plan, using the treasury stock method. This method assumes that the potential common shares are issued and the proceeds from exercise in addition to the amount of compensation cost attributed to future services are used to purchase common stock at the exercise date. The difference between the number of potential shares issued and the shares purchased will be added as incremental shares to the actual number of shares outstanding to compute diluted earnings per share.

Options with an exercise price greater than the average market price of the Corporation's common stock are antidilutive and, therefore, are not included in the computation of diluted earnings per common share. During 2002 there were 433,555 weighted-average antidilutive stock options outstanding (2001 - 8,554). No dilutive potential common shares were outstanding during the years ended December 31, 2001 and 2000.

Note 19 - Stockholders' equity:

The Corporation has 180,000,000 shares of authorized common stock with par value of $6 per share. At December 31, 2002, there were 139,133,156 (2001 - 138,749,647) shares issued and 132,439,047 shares outstanding (2001 - 136,362,364). As of December 31, 2002, the Corporation had 6,694,109 shares (2001 -2,387,283) in treasury stock at a total cost of $205,210,000 (2001 - $66,136,000).

The Corporation has a dividend reinvestment plan under which stockholders may reinvest their quarterly dividends in shares of common stock at a 5% discount from the market price at the time of issuance. During 2002, shares totaling 383,301 (2001 - 356,831; 2000 - 449,203), equivalent to $11,157,000 (2001 - $9,702,000; 2000 - $9,823,000) in additional equity were issued under the plan.

The Corporation has 10,000,000 shares of authorized preferred stock with no par value. This stock may be issued in one or more series, and the shares of each series shall have such rights and preferences as shall be fixed by the Board of Directors when authorizing the issuance of that particular series. The Corporation had 4,000,000 shares issued and outstanding of its 8.35% noncumulative monthly income Series A preferred stock as of December 31, 2001. Effective January 22, 2002,

the Corporation redeemed the outstanding preferred stock at a redemption price of $25.6276 per share, which consisted of the redemption price of $25.50 plus an amount representing accrued and unpaid dividends.

The Corporation's average number of common shares outstanding used in the computation of net income per common share was 133,915,082 in 2002 (2001 - 136,238,288; 2000 -135,907,476). During the year 2002, cash dividends of $0.80 (2001 - $0.76; 2000 - $0.64) per common share outstanding amounting to $106,709,000 (2001 - $103,546,000; 2000 - $86,972,000) were declared. In addition, dividends declared on preferred stock amounted to $510,000 (2001 - $8,350,000; 2000 - $8,350,000).

The Banking Act of the Commonwealth of Puerto Rico requires that a minimum of 10% of BPPR's net income for the year be transferred to a legal surplus account until such surplus equals total paid-in capital. The surplus account is not available for payment of dividends to shareholders. No transfer to the legal surplus account was necessary in 2001 and 2002.

On February 26, 2003, the Corporation announced the closing of a public offering of 6,500,000 shares of its 6.375% noncumulative monthly income preferred stock, Series A, at a price of $25 per share. The Corporation also granted the underwriters an option to purchase up to an additional 975,000 shares at the same price for a period of 30 days to cover over-allotments. The net proceeds to the Corporation, after the underwriting discounts and expenses, are estimated to be $157,000,000 if the over-allotment option is not exercised and $181,000,000 if it is fully exercised. This issuance increases stockholders' equity, qualifies as Tier 1 capital for regulatory capital requirements and will impact the net income applicable to common stock in future earnings per common share computations.

Note 20 - Regulatory capital requirements:

The Corporation is subject to various regulatory capital requirements imposed by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Corporation's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Federal Reserve Bank and the other bank regulators have adopted quantitative measures which assign risk weightings to assets and off-balance sheet items and also define and set minimum regulatory capital requirements. All banks are required to have core capital (Tier I) of at least 4% of risk-weighted assets, total capital of at least 8% of risk-weighted assets and a minimum Tier I leverage ratio of 3% or 4% of adjusted quarterly average assets, depending on the bank's classification. The regulations also define well-capitalized levels of Tier I, total capital and Tier I leverage of 6%, 10% and 5%, respectively. Management has determined that as of December 31, 2002, the Corporation exceeded all capital adequacy requirements to which it is subject.

As of December 31, 2001, the Corporation's preferred stock totaling $100,000,000 was excluded from Tier I and Total Capital as a result of its redemption on January 22, 2002.

As of December 31, 2002, BPPR and BPNA were well capitalized under the regulatory framework for prompt corrective action, and there are no conditions or events since that date that management believes have changed the institutions' category.

The Corporation's actual ratios and amounts of total risk-based capital, Tier I risk-based capital and Tier I leverage, as of December 31, were as follows:

(Dollars in thousands)	Regulatory requirements			
	Actual		Actual	
	Amount	Ratio	Amount	Ratio
	2002		2001	
Total Capital (to Risk-Weighted Assets):				
Consolidated	$2,400,558	11.52%	$2,179,518	11.74%
BPPR	1,413,878	11.19	1,325,724	11.56
BPNA	489,070	11.63	444,011	11.04
Tier I Capital (to Risk-Weighted Assets):				
Consolidated	$2,054,027	9.85%	$1,849,305	9.96%
BPPR	1,254,687	9.93	1,181,331	10.31
BPNA	436,264	10.37	393,493	9.79
Tier I Capital (to Average Assets):				
Consolidated	$2,054,027	6.19%	$1,849,305	6.46%
BPPR	1,254,687	5.81	1,181,331	6.26
BPNA	436,264	7.92	393,493	7.27

Note 21 - Servicing assets:

The changes in servicing assets for the years ended December 31, were as follows:

(In thousands)	2002	2001	2000
Balance at beginning of year	$43,665	$40,116	$33,866
Rights originated	14,895	12,957	14,404
Rights purchased	2,824	1,364	697
Amortization	(11,557)	(10,772)	(8,851)
Balance at end of year	49,827	43,665	40,116
Less: Valuation allowance	1,991	649	562
Balance at end of year, net of valuation allowance	$47,836	$43,016	$39,554

Total loans serviced for others were $5,934,968,000 at December 31, 2002 (2001- $5,112,914,000). The estimated fair value of capitalized servicing rights was $64,449,000 at December 31, 2002 (2001 - $58,198,000).

The activity in the valuation allowance for impairment of recognized servicing assets for the years ended December 31, was as follows:

(In thousands)	2002	2001	2000
Balance at beginning of year	$649	$562	$14
Additions charged to operations	1,342	87	548
Balance at end of year	$1,991	$649	$562

Note 22 - Sales of receivables:

During the years ended December 31, 2002 and 2001, the Corporation retained servicing responsibilities and other subordinated interests on various securitization transactions and whole loan sales of residential mortgage and commercial loans.

In the course of certain residential mortgage and commercial whole loan sales in 2002 and 2001, the Corporation retained subordinated interests, including retained servicing responsibilities. The retained interests are subject to prepayment, credit and interest rate risks on the transferred financial assets. During 2002 and 2001, the Corporation also retained servicing assets on residential mortgage loans securitized in the form of trading and investment securities. Pretax gains of $39,057,000 and $28,598,000 were realized on these securitization transactions and the whole loan sales involving retained interests, which took place in 2002 and 2001, respectively.

During 2002 and 2001, the Corporation also participated in various securitization transactions, which did not meet the SFAS No. 140 criteria for sale accounting, as such these transactions were accounted for as secured borrowings.

The Corporation receives average annual servicing fees based on a percentage of the outstanding loan balance. In 2002, those average fees ranged from 0.33 to 0.50 percent for mortgage loans (2001 - 0.35% to 0.50%) and 1.0 percent for loans guaranteed by the Small Business Administration (SBA) (2001 - 1.0%).

Valuation methodologies used in determining the fair value of the retained interests, including servicing assets and interest-only securities, are disclosed in Note 1 to the consolidated financial statements.

Key economic assumptions used in measuring the retained interests at the date of the securitization and whole loan sales completed during the years ended December 31, 2002, and 2001, were as follows:

	Residential Mortgage Loans		SBA Loans
	2002	2001	2002
Prepayment speed	17.3%	18.1%	17.5%
Weighted average life (in years)	10.2	10.1	3.7
Expected credit losses	-	-	-
Discount rate	9.0%	9.0%	15%

At December 31, 2002, key economic assumptions and the sensitivity of the current value of residual cash flows to immediate 10 percent and 20 percent adverse changes in those assumptions for retained interests as of the end of the year are as follows:

(Dollars in thousands)	Residential Mortgage Loans	SBA Loans
Carrying amount of retained interests	$66,537	$1,042
Fair value of retained interests	$83,150	$1,042
Weighted average life (in years)	8.6 - 11.8	2.1 - 3.7
Prepayment Speed Assumption (annual rate)	21.7% - 23.2%	17.5% - 25.0%
Impact on fair value of 10% adverse change	($3,897)	($93)
Impact on fair value of 20% adverse change	($7,500)	($174)
Expected Credit Losses (annual rate)	0% - 0.35%	-
Impact on fair value of 10% adverse change	($1,260)	-
Impact on fair value of 20% adverse change	($2,323)	-
Discount rate (annual rate)	9% - 11.5%	10.0% - 15.0%
Impact on fair value of 10% adverse change	($3,018)	($32)
Impact on fair value of 20% adverse change	($5,779)	($62)

These sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a 10 percent variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in this table, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption; in reality, changes in one factor may result in changes in another (for example, increases in market interest rates may result in lower prepayments and increased credit losses), which might magnify or counteract the sensitivities.

The cash flows received from and paid to securitization trusts for the year ended December 31, were as follows:

(In thousands)	2002	2001
Servicing fees received	$1,632	$2,122
Servicing advances	(7,484)	(2,578)
Repayment of servicing advances	829	271
Other cash flows received on retained interests	1,455	4,856

The expected credit losses for the residential mortgage loans securitized/sold during the year ended December 31, 2002, are estimated at rates ranging from 0.0% to 0.35% for 2003 and 2004. No credit losses are anticipated on the retained servicing assets derived from the sale of SBA loans since the participation sold is fully guaranteed by the SBA.

Quantitative information about delinquencies, net credit losses, and components of securitized financial assets and other assets managed together with them by the Corporation for the year ended December 31, 2002, follows:

(In thousands)	Total principal amount of loans, net of unearned	Principal amount 60 days or more past due	Net credit losses
Loans (owned and managed):			
Commercial	$8,146,215	$170,439	$65,535
Lease financing	886,731	19,406	13,953
Mortgage	9,313,116	418,683	16,242
Consumer	3,099,550	83,216	78,257
Less:			
Loans securitized / sold	(1,863,493)		
Loans held-for-sale	(1,092,927)		
Loans held in portfolio	$18,489,192	$691,744	$173,987

Note 23 - Interest on investments:

Interest on investments for the year ended December 31, consisted of the following:

(In thousands)	2002	2001	2000
Money market investments:			
Federal funds sold and securities purchased under agreements to resell	$31,714	$46,477	$61,238
Time deposits with other banks	766	1,083	1,062
Other	25	50	56
	$32,505	$47,610	$62,356
Investment securities:			
U.S. Treasury securities	$26,121	$43,363	$110,655
Obligations of other U.S. Government agencies and corporations	280,362	277,063	233,116
Obligations of Puerto Rico, States and political subdivisions	9,370	6,460	7,834
Collateralized mortgage obligations	73,792	87,956	90,847
Mortgage-backed securities	39,044	35,553	32,330
Other	17,236	22,949	11,416
	$445,925	$473,344	$486,198

Note 24 - Employee benefits:

Pension and benefit restoration plans

All regular employees of BPPR and BPNA are covered by a noncontributory defined benefit pension plan. Pension benefits begin to vest after one year of service and are based on age, years of credited service and final average compensation, as defined. At December 31, 2002, plan assets consisted primarily of U.S. Government obligations, high grade corporate bonds and listed stocks, including 1,372,860 shares (2001 - 5,672,860) of the Corporation's stock with a market value of approximately $46,403,000 (2001 - $164,967,000). Dividends paid on shares of the Corporation's stock held by the plan during 2002 amounted to $2,818,000 (2001 - $4,311,000). In May 2002, the Corporation repurchased 4,300,000 shares of its common stock from Banco Popular Retirement Plan.

BPPR and BPNA also have supplementary pension and profit sharing plan for those employees whose compensation exceeds the limits established by ERISA.

The following table sets forth the aggregate status of the plans and the amounts recognized in the consolidated financial statements at December 31:

	Pension Plan	Benefit Restoration Plan	Total
		2002	
Change in benefit obligation:		(In thousands)	
Benefit obligation at beginning of year	$349,902	$11,373	$361,275
Service cost	12,823	511	13,334
Interest cost	25,304	789	26,093
Plan amendment	1,472	(1,472)	
Curtailment	(170)		(170)
Actuarial loss (gain)	42,632	(401)	42,231
Benefits paid	(19,936)	(21)	(19,957)
Benefit obligations at end of year	412,027	10,779	422,806
Change in plan assets:			
Fair value of plan assets at beginning of year	425,858		425,858
Actual return on plan assets	(5,741)	6	(5,735)
Employer contributions	254	6,600	6,854
Benefits paid	(19,936)		(19,936)
Fair value of plan assets at end of year	400,435	6,606	407,041
Unfunded status	(11,592)	(4,173)	(15,765)
Unrecognized net asset	(5,783)		(5,783)
Unrecognized net prior service cost (benefit)	7,345	(1,167)	6,178
Unrecognized net actuarial loss	49,933	3,004	52,937
Prepaid (accrued) pension cost	39,903	(2,336)	37,567
Amount recognized in the statement of financial condition consists of:			
Prepaid benefit cost	41,788		41,788
Accrued benefit liability	(1,885)	(2,336)	(4,221)
Net amount recognized	$39,903	($2,336)	$37,567

	Pension Plan	Benefit Restoration Plan	Total
		2001	
Change in benefit obligation:		(In thousands)	
Benefit obligation at beginning of the year	$319,549	$11,359	$330,908
Service cost	11,097	686	11,783
Interest cost	22,657	824	23,481
Plan amendment	1,223		1,223
Actuarial loss	11,695	506	12,201
Benefits paid	(16,319)	(14)	(16,333)
Benefit obligation at end of year	349,902	13,361	363,263
Change in plan assets:			
Fair value of plan assets at beginning of the year	426,932		426,932
Actual return on plan assets	14,707		14,707
Employer contributions	538		538
Benefits paid	(16,319)		(16,319)
Fair value of plan assets at end of year	425,858		425,858
Funded (unfunded) status	75,956	(13,361)	62,595
Unrecognized net asset	(8,244)		(8,244)
Unrecognized net prior service cost	6,440	358	6,798
Unrecognized net actuarial (gain) loss	(33,833)	5,281	(28,552)
Prepaid (accrued) pension cost	40,319	(7,722)	32,597
Amount recognized in the statement of financial condition consists of:			
Prepaid benefit cost	41,421		41,421
Accrued benefit liability	(1,102)	(8,080)	(9,182)
Intangible assets		358	358
Net amount recognized	$40,319	($7,722)	$32,597

Weighted average assumptions as of December 31:	Pension Plan			Benefit Restoration Plan		
	2002	2001	2000	2002	2001	2000
Discount rate	6.50%	7.00%	7.25%	6.50%	7.00%	7.25%
Expected return on plan assets	8.50%	8.50%	8.50%			
Rate of compensation increase	3.5 to 7.5%	3.5 to 7.5%	3.5 to 7.5%	3.5 to 7.5%	3.5 to 7.5%	3.5 to 7.5%

	Pension Plan			Restoration Plan		
	2002	2001	2000	2002	2001	2000
Components of net periodic pension cost:			(In thousands)			
Service cost	$12,823	$11,097	$9,468	$511	$686	$580
Interest cost	25,304	22,657	21,369	789	824	717
Expected return on plan assets	(35,421)	(35,677)	(36,646)	(307)		
Amortization of asset obligation	(2,461)	(2,461)	(2,461)			
Amortization of prior service cost	565	510	455	53	53	53
Amortization of net (gain) loss		(2,340)	(7,578)	189	358	323
Net periodic cost (benefit)	810	(6,214)	(15,393)	1,235	1,921	1,673
Curtailment gain	(139)					
Total cost (benefit)	$671	($6,214)	($15,393)	$1,235	$1,921	$1,673

Retirement and savings plan

The Corporation also provides contributory retirement and savings plans pursuant to Section 1165 (e) of the Puerto Rico Internal Revenue Code and Section 401 (k) of the U.S. Internal Revenue Code, as applicable, for substantially all the employees of Popular Securities, Equity One, Banco Popular North America, Popular Finance, Popular Auto, Popular Insurance, Popular Mortgage, GM Group, Banco Popular, National Association and Popular Cash Express. Employer contributions are determined based on specific provisions of each plan. The cost of providing this benefit in 2002 was $8,658,000 (2001 - $5,865,000; 2000 -$5,444,000).

The Corporation also has a contributory savings plan available to employees of BPPR. Employees are fully vested in the employer's contribution after five years of service. Total savings plan expense was $973,000 in 2002 (2001 - $1,003,000; 2000 - $988,000). The savings plan held 2,338,854 (2001 - 2,190,994 ; 2000 - 1,590,695) shares of common stock of the Corporation with a market value of approximately $79,053,000 at December 31, 2002 (2001 - $63,714,000; 2000 - $41,855,000).

Postretirement health care benefits

In addition to providing pension benefits, BPPR provides certain health care benefits for retired employees. Substantially all of the employees of BPPR who are eligible to retire under the pension plan, and provided they reach retirement age while working for BPPR, may become eligible for these benefits.

The status of the Corporation's unfunded postretirement benefit plan at December 31, was as follows:

(In thousands)	2002	2001
Change in benefit obligation:		
Benefit obligation at beginning of the year	$105,848	$90,907
Service cost	2,987	2,800
Interest cost	9,160	6,426
Plan amendment		(168)
Benefits paid	(6,065)	(4,375)
Actuarial loss	33,691	10,258
Benefit obligation at end of year	$145,621	$105,848
Change in plan assets:		
Unfunded status	($145,621)	($105,848)
Unrecognized net prior service benefit	(7,136)	(7,943)
Unrecognized net actuarial loss	47,335	15,848
Accrued benefit cost	($105,422)	($97,943)

The weighted average discount rate used in determining the accumulated postretirement benefit obligation at December 31, 2002 was 6.50% (2001 - 7.00%).

The components of net periodic postretirement benefit cost for the year ended December 31, were as follows:

(In thousands)	2002	2001	2000
Service cost	$2,987	$2,800	$2,455
Interest cost	9,160	6,426	6,212
Amortization of prior service benefit	(807)	(799)	(696)
Amortization of net loss	2,204		
Net periodic benefit cost	$13,544	$8,427	$7,971

For measurement purposes, a 10% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2002. The rate was assumed to decrease 1% annually to 5% in 2007 and remain at that level thereafter. The Plan assumes that the cost will be capped to 3% of the annual health care cost increase affecting only those employees retiring after February 1, 2001.

Assumed health care trend rates generally have a significant effect on the amounts reported for a health care plan. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	1-Percentage Point Increase	1-Percentage Point Decrease
Effect on total service cost and interest cost components	$639,000	($550,000)
Effect on postretirement benefit obligation	$9,730,000	($8,367,000)

Profit sharing plan

BPPR also has a profit sharing plan covering substantially all regular employees. Annual contributions are determined based on the bank's profitability ratios, as defined in the plan, and are deposited in trust. Profit sharing expense for the year, including the cash portion paid annually to employees which represented 50% of the expense, amounted to $21,219,000 in 2002 (2001 - $15,455,000; 2000 - $18,234,000).

Note 25 - Stock option plan:

The Corporation has a Stock Option Plan, which permits the granting of incentive awards in the form of qualified stock options, incentive stock options, or non-statutory stock options of the Corporation. Any employee or director of the Corporation or any of its subsidiaries is eligible to participate in the plan. The Board of Directors has the absolute discretion to determine the individuals eligible to participate in the plan. This plan provides for the issuance of Popular, Inc.'s common stock at a price equal to its fair market value at the grant date, subject to certain plan provisions. The aggregate number of shares of common stock, which may be issued under the plan, is limited to 5,000,000 shares, subject to adjustment for stock splits, recapitalizations and similar events. The shares are to be made available from authorized but unissued shares of common stock or treasury stock. The maximum option term is generally ten years from the date of grant. Unless an option agreement provides otherwise, all options granted are 20% exercisable after the first year and an additional 20% is exercisable after each subsequent year. The exercise price of each option is equal to the market price of the Corporation's stock on the date of grant.

In 2002, the Corporation opted to use the fair value method of recording stock options as described in SFAS No. 123 "Accounting for Stock-Based Compensation," which is considered the preferable accounting method for stock-based compensation. All future stock option grants will be expensed over the stock option vesting period based on the fair value at the date the options are granted.

Previously, as permitted by SFAS No. 123, the Corporation measured compensation cost for this plan based on APB No. 25 "Accounting for Stock Issued to Employees." Had the recognition provisions of SFAS No. 123 been applied to such grants during 2001, there would have been no change in the related earnings per share.

The Corporation recognized $957,000 in stock options expense for the year ended December 31, 2002 as a result of the aforementioned change in accounting method.

The following table presents information on stock options as of December 31, 2002:

Exercise Price Range per Share	Options Outstanding	Weighted-Average Exercise Price of Options Outstanding	Weighted-Average Remaining Life in Years	. Options Exercisable	Weighted Average Exercise Price of Options Exercisable
$28.78 - $35.65	445,075	$29.25	9.12	22,529	$29.55

The following table summarizes the stock option activity and related information:

	Options Outstanding	Weighted-Average Exercise Price
Balance at January 1, 2001	-	-
Granted	26,416	$31.39
Exercised	-	-
Forfeited	-	-
Outstanding at December 31, 2001	26,416	31.39
Granted	423,647	29.11
Exercised	(199)	32.60
Forfeited	(4,789)	28.84
Outstanding at December 31, 2002	445,075	$29.25

The fair value of these options was estimated on the date of the grants using the Black-Scholes Option Pricing Model. The weighted average assumptions used for the grants issued during 2002 were an expected dividend yield of 2.16%, an expected life of options of 10 years, an expected volatility of 26.48% and a risk-free interest rate of 4.91%. The weighted-average fair value of options granted during 2002 was $9.80 per option. The weighted average assumptions used for the grants issued during 2001 were an expected dividend yield of 2.31%, an expected life of 10 years, an expected volatility of 30.62% and a risk-free interest rate of 5.05%. The weighted-average fair value of options granted during 2001 was $11.43 per option.

Note 26 - Rental expense and commitments:

At December 31, 2002, the Corporation was obligated under a number of noncancelable leases for land, buildings, and equipment which require rentals (net of related sublease rentals) as follows:

Year	Minimum payments	Sublease rentals	Net
	(In thousands)		
2003	$35,025	$2,466	$32,559
2004	30,505	1,535	28,970
2005	24,953	1,245	23,708
2006	20,401	782	19,619
2007	18,107	468	17,639
Later years	96,102		96,102
	$225,093	$6,496	$218,597

Total rental expense for the year ended December 31, 2002, was $45,823,000 (2001 - $42,529,000; 2000 - $39,331,000).

Note 27 - Income tax:

The components of income tax expense for the years ended December 31, are summarized below. Included in these amounts are income taxes of ($469,000) in 2002 (2001 - $2,094,000; 2000 - $2,490,000), related to net losses or gains on securities transactions.

(In thousands)	2002	2001	2000
Current income tax expense:			
Puerto Rico	$92,110	$99,811	$93,352
Federal and States	52,095	35,588	17,622
Subtotal	144,205	135,399	110,974
Deferred income tax benefit:			
Puerto Rico	(12,548)	(11,968)	(7,577)
Federal and States	(14,402)	(18,151)	(2,600)
Subtotal	(26,950)	(30,119)	(10,177)
Total income tax expense	$117,255	$105,280	$100,797

The reasons for the difference between the income tax expense applicable to income before provision for income taxes and the amount computed by applying the statutory rate in Puerto Rico, were as follows:

	2002		2001		2000	
(Dollars in thousands)	Amount	% of pre-tax income	Amount	% of pre-tax income	Amount	% of pre-tax income
Computed income tax at statutory rates	$183,080	39%	$159,554	39%	$146,542	39%
Benefits of net tax exempt interest income	(71,696)	(15)	(58,741)	(14)	(46,164)	(12)
Federal, States taxes and other	5,871	1	4,467	1	419	
Income tax expense	$117,255	25%	$105,280	26%	$100,797	27%

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Significant components of the Corporation's deferred tax assets and liabilities at December 31, were as follows:

(In thousands)	2002	2001
Deferred tax assets:		
Tax credits available for carryforward	$12,071	$14,060
Net operating loss carryforward available	2,071	2,025
Postretirement and pension benefits	29,308	26,139
Allowance for loan losses	143,335	129,491
Unrealized loss on derivatives	15,990	6,292
Other temporary differences	45,873	32,797
Total gross deferred tax assets	248,648	210,804
Deferred tax liabilities:		
Differences between the assigned values and the tax bases of assets and liabilities recognized in purchase business combinations	4,486	4,875
Unrealized net gain on securities available-for-sale	54,985	27,861
Other temporary differences	25,965	20,516
Total gross deferred tax liabilities	85,436	53,252
Valuation allowance	418	33
Net deferred tax asset	$162,794	$157,519

At December 31, 2002, the Corporation had $12,071,000 in credits expiring in annual installments through year 2016 that will reduce the

regular income tax liability in future years. The Corporation had, at the end of 2002, $11,666,000 in net operating losses (NOL) available to carry over to offset taxable income in future years. Other temporary differences included as deferred taxes are mainly related to the deferral of loan origination costs and commissions.

A valuation allowance of $418,000 is reflected in 2002 (2001 - $33,000), related to deferred tax assets arising from temporary differences for which the Corporation could not determine the likelihood of its realization. Based on the information available, the Corporation expects to fully realize all other items comprising the net deferred tax asset as of December 31, 2002.

Under the Puerto Rico Internal Revenue Code, the Corporation and its subsidiaries are treated as separate taxable entities and are not entitled to file consolidated tax returns. The Code provides a dividend received deduction of 100% on dividends received from "controlled" subsidiaries subject to taxation in Puerto Rico and 85% on dividends received from other taxable domestic corporations.

The Corporation has never received any dividend payments from its U.S. subsidiaries. Any such dividend paid from a U.S. subsidiary to the Corporation would be subject to a 30% withholding tax based on the provisions of the U.S. Internal Revenue Code. The Corporation has not recorded any deferred tax liability on the unremitted earnings of its U.S. subsidiaries because the reinvestment of such earnings is considered permanent. The Corporation believes that the likelihood of receiving dividend payments from any of its U.S. subsidiaries in the foreseeable future is remote based on the expansion it is undertaking in the U.S. mainland.

The Corporation's subsidiaries in the United States file a consolidated federal income tax return. The Corporation's federal income tax provision for 2002 was $34,614,000 (2001 - $14,824,000; 2000 - $14,636,000). The intercompany settlement of taxes paid is based on tax sharing agreements which generally allocate taxes to each entity based on a separate return basis.

On February 20, 2003, Senate Bill 2044 and House of Representatives Bill 3496 were filed to amend the International Banking Center Regulatory Act. The proposed amendment would eliminate the current tax exemption on the net income of international banking entities operating in Puerto Rico, and impose a ten-percent tax rate on the net income of such entities. Although the Corporation cannot predict if, when and in what form this amendment will be adopted, the Corporation believes that the financial impact of the proposed bill is not likely to be material to the Corporation.

Note 28 - Off-balance sheet lending activities and concentration of credit risk:

Off-balance sheet risk

The Corporation is a party to financial instruments with off-balance sheet credit risk in the normal course of business to meet the financial needs of its customers. These financial instruments include loan commitments, letters of credit, and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated statements of condition.

The Corporation's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit, standby letters of credit and financial guarantees written is represented by the contractual notional amounts of those instruments. The Corporation uses the same credit policies in making these commitments and conditional obligations as it does for those reflected on the consolidated statements of condition.

Financial instruments with off-balance sheet credit risk at December 31, whose contract amounts represent potential credit risk were as follows:

(In thousands)	2002	2001
Commitments to extend credit:		
Credit card lines	$2,166,034	$1,950,970
Commercial lines of credit	2,651,835	2,562,860
Other unused commitments	27,175	56,219
Commercial letters of credit	19,564	16,846
Standby letters of credit	126,383	87,810
Commitments to purchase mortgage loans	100,000	100,000
Commitments to originate mortgage loans	547,284	193,958

Commitments to extend credit

Contractual commitments to extend credit are legally binding agreements to lend money to customers for a specified period of time. To extend credit the Corporation evaluates each customer's creditworthiness. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies but may include cash, accounts receivable, inventory, property, plant and equipment and investment securities, among others. Since many of the loan commitments may expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements.

Letters of credit

There are two principal types of letters of credit: commercial and standby letters of credit. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

In general, commercial letters of credit are short-term instruments used to finance a commercial contract for the shipment of goods from a seller to a buyer. This type of letter of credit ensures prompt payment to the seller in accordance with the terms of the contract. Although the commercial letter of credit is contingent upon the satisfaction of specified conditions, it represents a credit exposure if the buyer defaults on the underlying transaction.

Standby letters of credit are issued by the Corporation to disburse funds to a third party beneficiary if the Corporation's customer fails to perform under the terms of an agreement with the beneficiary. These letters of credit are used by the customer as a credit enhancement and typically expire without being drawn upon.

Other commitments

In 2002, the Corporation entered into a commitment to purchase $100,000,000 of mortgage loans from another institution with the option of purchasing $75,000,000 in additional loans. The commitment expires

on June 30, 2004. The purchased mortgage loans will continue to be serviced by the originating institution. As of December 31, 2002, no loans have been purchased under this agreement. In 2001, the Corporation entered into a similar agreement purchasing the full amount during 2002.

Geographic concentration

A geographic concentration exists within the Corporation's loan portfolio since a significant portion of its business activity is with customers located in Puerto Rico. As of December 31, 2002, the Corporation had no significant concentrations of credit risk and no significant exposure to highly leveraged transactions in its loan portfolio. Note 32 provides further information on the asset composition of the Corporation by geographical area as of December 31, 2002 and 2001.

Included in total assets of Puerto Rico are investments in obligations of the U.S. Treasury and U.S. Government agencies amounting to $6.1 billion and $5.2 billion in 2002 and 2001, respectively.

Note 29 - Disclosures about fair value of financial instruments:

The fair value of financial instruments is the amount at which an asset or obligation could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Fair value estimates are made at a specific point in time based on the type of financial instrument and relevant market information. Many of these estimates involve various assumptions and may vary significantly from amounts that could be realized in actual transactions.

The information about the estimated fair values of financial instruments presented hereunder excludes all nonfinancial instruments and certain other specific items.

Derivatives are considered financial instruments and their carrying value equals fair value. For disclosures about the fair value of derivative instruments refer to Note 30 to the consolidated financial statements.

For those financial instruments with no quoted market prices available, fair values have been estimated using present value or other valuation techniques, as well as management's best judgment with respect to current economic conditions, including discount rates, estimates of future cash flows and prepayment assumptions.

The fair values reflected herein have been determined based on the prevailing interest rate environment as of December 31, 2002 and 2001, respectively. In different interest rate environments, fair value estimates can differ significantly, especially for certain fixed rate financial instruments and non-accrual assets. In addition, the fair values presented do not attempt to estimate the value of the Corporation's fee generating businesses and anticipated future business activities, that is, they do not represent the Corporation's value as a going concern. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Corporation.

The following methods and assumptions were used to estimate the fair values of significant financial instruments at December 31, 2002 and 2001.

Short-term financial assets and liabilities have relatively short maturities, or no defined maturities, and little or no credit risk. The carrying amounts reported in the consolidated statements of condition approximate fair value. Included in this category are: cash and due from banks, federal funds sold and securities purchased under agreements to resell, time deposits with other banks, bankers acceptances, customers' liabilities on acceptances, accrued interest receivable, federal funds purchased and securities sold under agreements to repurchase, short-term borrowings, acceptances outstanding and accrued interest payable.

Trading and investment securities are financial instruments that regularly trade on secondary markets. The estimated fair value of these securities was determined using either market prices or dealer quotes, where available, or quoted market prices of financial instruments with similar characteristics. Trading account securities and securities available-for-sale are reported at their respective fair values in the consolidated statements of condition since they are marked-to-market for accounting purposes. These instruments are detailed in the consolidated statements of condition and in Notes 4, 5 and 30.

The estimated fair value for loans held-for-sale is based on secondary market prices. The fair values of the loan portfolios have been determined for groups of loans with similar characteristics. Loans were segregated by type such as commercial, construction, residential mortgage, consumer and credit cards. Each loan category was further segmented based on loan characteristics, including repricing term and pricing. The fair value of most fixed-rate loans was estimated by discounting scheduled cash flows using interest rates currently being offered on loans with similar terms. For variable rate loans with frequent repricing terms, fair values were based on carrying values. The fair values for certain mortgage loans are based on quoted market prices. Prepayment assumptions have been applied to the mortgage and installment loan portfolio. The fair value of the loans was also reduced by an estimate of credit losses inherent in the portfolio. Generally accepted accounting principles do not require, and the Corporation has not performed a fair valuation of its lease financing portfolio, therefore it is included in the loan totals at its carrying amount.

The fair value of deposits with no stated maturity, such as non-interest bearing demand deposits, savings, NOW and money market accounts is, for purpose of this disclosure, equal to the amount payable on demand as of the respective dates. The fair value of certificates of deposit is based on the discounted value of contractual cash flows, using interest rates currently being offered on certificates with similar maturities.

Borrowings and long-term debt, which include notes payable, senior debentures, subordinated notes and capital securities, were valued

using quoted market rates for similar instruments at December 31, 2002 and 2001, respectively.

Commitments to extend credit were fair valued using the fees currently charged to enter into similar agreements. For those commitments where a future stream of fees is charged, the fair value was estimated by discounting the projected cash flows of fees on commitments, which are expected to be disbursed, based on historical experience. The fair value of letters of credit is based on fees currently charged on similar agreements.

Carrying or notional amounts, as applicable, and estimated fair values for financial instruments at December 31 were:

(In thousands)	2002		2001	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial Assets:				
Cash and short-term investments	$1,747,202	$1,747,202	$1,429,932	$1,429,932
Trading securities	510,346	510,346	270,186	270,186
Investment securities available-for-sale	10,531,903	10,531,903	9,284,401	9,284,401
Investment securities held-to-maturity	180,751	182,183	592,360	596,415
Loans held-for-sale	1,092,927	1,102,639	939,488	940,715
Loans, net	18,116,395	18,753,941	16,892,431	17,469,537
Financial Liabilities:				
Deposits	$17,614,740	$17,757,376	$16,370,042	$16,451,776
Federal funds purchased	834,338	834,338	651,858	651,858
Securities sold under agreements to repurchase	5,850,213	5,850,213	5,099,910	5,099,910
Short-term borrowings	1,703,562	1,703,562	1,827,242	1,827,242
Notes payable	4,298,853	4,650,813	3,735,131	3,932,148
Subordinated notes	125,000	136,406	125,000	128,033
Capital securities	144,000	168,085	149,080	160,617
	Notional amount	Fair value	Notional amount	Fair value
Commitments to extend credit and standby letters of credit:				
Commitments to extend credit	$4,845,044	$10,666	$4,570,049	$10,749
Letters of credit	145,947	8,020	104,656	7,543

Note 30 - Derivative instruments and hedging activities:

The Corporation maintains an overall interest rate risk-management strategy that incorporates the use of derivative instruments to minimize significant unplanned fluctuations in earnings and cash flows that are caused by interest rate volatility. The Corporation's goal is to manage interest rate sensitivity by modifying the repricing or maturity characteristics of certain balance sheet assets and liabilities so that the net interest margin is not, on a material basis, adversely affected by movements in interest rates. As a result of interest rate fluctuations, hedged fixed-rate assets and liabilities will appreciate or depreciate in market value. The effect of this unrealized appreciation or depreciation is expected to be substantially offset by the Corporation's gains or losses on the derivative instruments that are linked to these hedged assets and liabilities. Another result of interest rate fluctuations is that the interest income and interest expense of hedged variable-rate assets and liabilities, respectively, will increase or decrease. The effect of this variability in earnings is expected to be substantially offset by the Corporation's gains and losses on the derivative instruments that are linked to these hedged assets and liabilities. The Corporation considers its strategic use of derivatives to be a prudent method of managing interest-rate sensitivity, as it prevents earnings from being exposed to undue risk posed by changes in interest rates.

Derivative instruments that are used as part of the Corporation's interest rate risk-management strategy include interest rate swaps, interest rate swaptions and interest rate forwards and futures contracts. As a matter of policy, the Corporation does not use highly leveraged derivative instruments for interest rate risk management. Interest rate swaps generally involve the exchange of fixed- and variable-rate interest payments between two parties, based on a common notional principal amount and maturity date. Interest rate swaptions are options on swaps, which combine the characteristics of interest rate swaps and options. Interest rate forwards and futures are contracts for the delayed delivery of securities which the seller agrees to deliver on a specified future date at a specified price or yield.

The Corporation also enters into foreign exchange contracts and interest rate caps, floors and put options embedded in interest bearing contracts. The Corporation enters into foreign exchange contracts to a limited extent in the spot or futures market. Spot contracts require the exchange of two currencies at an agreed rate to occur within two business days of the contract date. Forward and futures contracts to purchase or sell currencies at a future date settle over periods of up to one year, in general. Interest rate caps and floors are option-like contracts that require the writer to pay the purchaser at specified future dates the amount, if any, by which a specified market interest rate exceeds the fixed cap rate or falls below the fixed floor rate, applied to a notional principal amount. The option writer receives a premium for bearing the risk of unfavorable interest rate changes.

By using derivative instruments, the Corporation exposes itself to credit and market risk. If a counterparty fails to fulfill its performance obligations under a derivative contract, the Corporation's credit risk will equal the fair-value gain in a derivative. Generally, when the fair value of a derivative contract is positive, this indicates that the counterparty owes the Corporation, thus creating a repayment risk for the Corporation. When the fair value of a derivative contract is negative, the Corporation owes the counterparty and, therefore, assumes no repayment risk. To manage the level of credit risk, the Corporation deals with counterparties of good credit standing, enters into master netting agreements whenever possible and, when appropriate, obtains collateral. Concentrations of credit risk which arise through the Corporation's off-balance sheet lending activities are presented in Note 28.

Market risk is the adverse effect that a change in interest rates, currency exchange rates, or implied volatility rates might have on the value of a financial instrument. The Corporation manages the market risk associated with interest rates, and to a limited extent, with fluctuations in foreign currency exchange rates, by establishing and monitoring limits for the types and degree of risk that may be

undertaken. The Corporation regularly measures this risk by using static gap analysis, simulations and duration analysis.

The Corporation's derivatives activities are monitored by its Market Risk Committee as part of that committee's oversight of the Corporation's asset/liability and treasury functions. The Corporation's Market Risk Committee is responsible for approving hedging strategies that are developed through its analysis of data derived from financial simulation models and other internal and industry sources. The resulting hedging strategies are then incorporated into the Corporation's overall interest rate risk-management and trading strategies.

Cash Flow Hedges

Futures and forwards are contracts for the delayed delivery of securities in which the seller agrees to deliver on a specified future date, a specified instrument, at a specified price or yield. These contracts qualify for cash flow hedge accounting in accordance with SFAS No. 133, as amended and therefore, changes in the fair value of the derivatives are recorded in other comprehensive income. As of December 31, 2002, the fair market values of these forwards were $75,000 recorded in other liabilities. As of December 31, 2002, the total amount (net of tax) included in accumulated other comprehensive income pertaining to forward contracts was an unrealized loss of $46,000, which the Corporation expects to reclassify into earnings in the next twelve months. These contracts have a maximum maturity of 50 days. As of December 31, 2001, the fair market value of these futures and forwards were $70,000 recorded in other liabilities and $355,000 included in other assets, respectively. As of December 31, 2001, the total amount (net of tax) included in accumulated other comprehensive income pertaining to futures and forward contracts was an unrealized loss and gain of $43,000 and $216,000, respectively.

The Corporation purchased interest rate caps as part of a securitization in order to limit the interest rate payable to the security holders. These contracts qualify for cash flow hedge accounting in accordance with SFAS No. 133, as amended. As of December 31, 2002, the fair market value of these interest rate caps was $3,192,000 included in other assets and the amount included in accumulated other comprehensive income was a loss of $2,883,000. These contracts have a maximum maturity of 7.1 years. As part of these contracts, during 2002 the Corporation reclassified $140,000 from other comprehensive income into earnings pertaining to the ineffective portion of changes in fair value of the cash flow hedge and $173,000 pertaining to the caplets expiration, both amounts included as an increase to interest expense. Assuming no change in interest rates, $1,626,000, net of tax, of accumulated other comprenhensive loss is expected to be reclassified to earnings over the next twelve months as contractual payments are made.

As of December 31, 2001, the fair market value of these interest rate caps was $4,278,000 included in other assets and the amount included in accumulated other comprehensive income was a loss of $94,000.

During the last quarter of 2002, the Corporation entered into a $25,000,000 notional amount interest rate swap to convert floating rate debt to fixed rate debt in order to fix the cost of short-term borrowings. This contract qualifies for cash flow hedge accounting in accordance with SFAS No. 133, as amended. As of December 31, 2002, the fair market value of the interest rate swap was $156,000 included in other assets and the amount included in accumulated other comprehensive income was a gain of $160,000. This contract matures on October 17, 2005.

For cash flow hedges, gains and losses on derivative contracts that are reclassified from accumulated other comprehensive income to current-period earnings are included in the line item in which the hedged item is recorded and in the same period in which the forecasted transaction affects earnings.

Trading and Non-Hedging Activities

The Corporation enters into options on swaps ("swaption") derivative securities, which combine the characteristics of interest rate swaps and options. These swaptions are related to certificates of deposit with returns linked to the Standard & Poor's 500 index through an embedded option, which has been bifurcated from the host contract, and in accordance with SFAS No. 133 do not qualify for hedge accounting. As of December 31, 2002, the Corporation had recognized a derivative liability of $15,043,000 based on the fair value of the swaptions, a derivative liability of $3,685,000 based on the fair value of the bifurcated option, and a related discount on the certificates of deposit of $15,189,000. These amounts are included in other liabilities and deposits, respectively. As of December 31, 2001, the Corporation had recognized a derivative asset of $13,515,000 based on the fair value of the swaptions, a derivative liability of $34,863,000 based on the fair value of the bifurcated option, and a related discount on the certificates of deposit of $19,743,000.

The Corporation uses interest rate swaps to convert floating rate debt to fixed rate debt in order to fix the future cost of the portfolio of short-term borrowings. The specific terms and notional amounts of the swaps are determined based on management's assessment of future interest rates, as well as other factors. As of December 31, 2002, the Corporation had $500,000,000 in notional amount pertaining to these interest rate swaps. These swaps do not qualify as hedges in accordance with SFAS No. 133, as amended, and therefore changes in fair value of the derivatives are recorded in the statement of income.

For the year ended December 31, 2002 and 2001, respectively, the Corporation recognized a loss of $20,085,000 and $20,228,000 as a result of the changes in fair value of the non-hedging derivatives included as part of the loss on derivatives.

To satisfy the needs of its customers, from time to time, the Corporation enters into foreign exchange contracts in the spot or futures market and at the same time into foreign exchange contracts with third parties under the same terms and conditions. As of December 31, 2002, the Corporation did not have any foreign exchange contracts outstanding. As of December 31, 2001, the Corporation included $2,000 and $2,000 in other assets and other liabilities, respectively, pertaining to the fair value of these contracts.

At December 31, 2002 and 2001, respectively, the Corporation also had forward contracts to sell $194,700,000 and $20,000,000 of mortgage-backed securities with terms lasting less than a month which were accounted for as trading derivatives. These contracts are recognized at fair market value with changes directly reported in income. At December 31, 2002 and 2001, respectively, the fair market

value of these forwards was a liability of $153,000 and an asset of $91,000.

These contracts are entered into in order to optimize the gain on sales of mortgage loans and/or mortgage backed securities and net interest income, given levels of interest rate risk consistent with the Corporation's business strategies.

In addition, the Corporation entered into call options for mortgage-backed securities. The gross notional (or contractual) amounts of these written option contracts used for trading purposes as of December 31, 2002 amounted to $98,000,000. The fair value of these derivative financial instruments was a liability of $13,000 at December 31, 2002.

Note 31 - Supplemental disclosure on the consolidated statements of cash flows:

During the year ended December 31, 2002, the Corporation paid interest and income taxes amounting to $842,137,000 and $135,247,000, respectively (2001 - $1,080,436,000 and $94,358,000; 2000 - $1,142,495,000 and $117,920,000). In addition, loans transferred to other real estate and other property for the year ended December 31, 2002, amounted to $59,052,000 and $31,733,000, respectively (2001 - $47,264,000 and $30,372,000).

Note 32 - Segment reporting:

Popular, Inc. operates three major reportable segments: commercial banking, mortgage and consumer lending, and lease financing. Management has determined its reportable segments based on legal entity, which is the way that operating decisions are made and performance is measured. These entities have then been aggregated by products, services and markets with similar characteristics.

The Corporation's commercial banking segment includes all banking subsidiaries, which provide individuals, corporations and institutions with commercial and retail banking services, including loans and deposits, trust, mortgage banking and servicing, asset management, credit cards and other financial services.

The Corporation's mortgage and consumer lending segment includes those non-banking subsidiaries whose principal activity is originating mortgage and consumer loans such as Popular Mortgage, Levitt Mortgage, Popular Finance and Equity One.

The Corporation's auto and lease segment provides financing for vehicles and equipment through Popular Auto in Puerto Rico and Popular Leasing, USA in the U.S. mainland. The "Other" category includes all holding companies and non-banking subsidiaries which provide insurance agency services, retail financial services, broker/dealer activities, as well as those providing ATM processing services, electronic data processing and consulting services, sale and rental of electronic data processing equipment, and selling and maintenance of computer software.

The accounting policies of the segments are the same as those followed by the Corporation in the ordinary course of business and conform with generally accepted accounting principles and with general practices within the financial industry. Following are the results of operations and selected financial information by operating segment for each of the three years ended December 31:

	2002					
(In thousands)	Commercial banking	Mortgage and consumer lending	Auto and Lease financing	Other	Elimina-tions	Total
Net interest income (loss)	$908,606	$206,557	$66,838	($1,919)	$247	$1,180,329
Provision for loan losses	134,762	44,033	26,775			205,570
Other income	269,115	70,678	19,132	175,405	(10,652)	523,678
Amortization of intangibles	8,959			145		9,104
Depreciation expense	52,595	4,318	10,789	6,465		74,167
Other operating expenses	658,179	123,309	30,975	134,257	(989)	945,731
Net gain of minority interest		(248)				(248)
Income tax	69,000	36,820	6,474	7,367	(2,406)	117,255
Net income	$254,226	$68,507	$10,957	$25,252	($7,010)	$351,932
Segment assets	$26,525,374	$5,884,442	$1,235,402	$6,979,182	($6,964,048)	$33,660,352

	2001					
(In thousands)	Commercial banking	Mortgage and consumer lending	Auto and Lease financing	Other	Elimina-tions	Total
Net interest income	$886,687	$137,013	$53,124	$267	($106)	$1,076,985
Provision for loan losses	149,630	42,300	21,320			213,250
Other income	248,535	66,711	19,860	148,249	(11,767)	471,588
Amortization of intangibles	21,827	728	755	4,128		27,438
Depreciation expense	57,466	3,690	10,058	4,748		75,962
Other operating expenses	575,007	100,637	24,094	123,947	(876)	822,809
Net loss of minority interest		18				18
Income tax	79,128	20,114	6,414	2,412	(2,788)	105,280
Cumulative effect of accounting change	686					686
Net income	$252,850	$36,273	$10,343	$13,281	($8,209)	$304,538
Segment assets	$25,538,228	$4,344,797	$1,037,468	$6,752,836	($6,928,653)	$30,744,676

	2000					
(In thousands)	Commercial banking	Mortgage and consumer lending	Auto and Lease financing	Other	Elimina-tions	Total
Net interest income	$845,575	$92,373	$43,546	$1,408	($141)	$982,761
Provision for loan losses	137,774	29,250	21,761	5,855		194,640
Other income	253,112	50,119	21,620	147,853	(8,644)	464,060
Amortization of intangibles	28,399	717	754	4,688		34,558
Depreciation expense	58,055	3,342	9,018	6,433		76,848
Other operating expenses	556,782	73,471	22,629	114,675	(2,530)	765,027
Net loss of minority interest		48		1,104		1,152
Income tax	81,314	12,201	4,181	4,641	(1,540)	100,797
Net income	$236,363	$23,559	$6,823	$14,073	($4,715)	$276,103
Segment assets	$23,880,191	$2,848,464	$957,175	$6,240,372	($5,869,151)	$28,057,051

*Intersegment revenues**

(In thousands)	2002	2001	2000
Commercial Banking	$67,402	$68,576	$27,582
Mortgage and Consumer Lending	(171,681)	(176,591)	(144,088)
Auto and Lease Financing	(53,735)	(56,035)	(48,154)
Other	168,419	175,923	173,445
Total intersegment revenues	$10,405	$11,873	$8,785

* For purposes of the intersegment revenues disclosure, revenues include interest income (expense) related to internal funding and other income derived from intercompany transactions, mainly related to gain on sales of loans.

Geographic Information

(In thousands)	2002	2001	2000
Revenues*:			
Puerto Rico	$1,174,193	$1,113,958	$1,010,229
United States	477,990	387,754	374,621
Other	51,824	46,861	61,971
Total consolidated revenues	$1,704,007	$1,548,573	$1,446,821

* Total revenues include net interest income, service charges on deposit accounts, other service fees, (loss) gain on sale of investment securities, derivative losses, trading account (loss) profit, gain on sale of loans and other operating income.

(In thousands)	2002	2001	2000
Selected Balance Sheet Information:			
Puerto Rico			
Total assets	$22,307,784	$20,800,728	$20,146,184
Loans	10,065,646	9,879,632	9,370,627
Deposits	12,036,491	10,874,829	9,974,677
United States			
Total assets	$10,637,293	$9,174,050	$7,246,259
Loans	9,140,382	7,868,729	6,264,014
Deposits	4,778,234	4,718,692	4,107,994
Other			
Total assets	$715,275	$769,898	$664,608
Loans	376,091	420,190	422,444
Deposits	800,015	776,521	722,236

Note 33 - Contingent liabilities:

The Corporation is a defendant in a number of legal proceedings arising in the normal course of business. Management believes, based on the opinion of legal counsel, that the final disposition of these matters will not have a material adverse effect on the Corporation's financial position or results of operations.

Settlement of Federal Investigation

On January 16, 2003, the U.S. District Court for the District of Puerto Rico approved a Deferred Prosecution Agreement among BPPR, the U.S. Department of Justice, the Board of Governors of the Federal Reserve System, and the Financial Crimes Enforcement Network of the U.S. Department of the Treasury ("FinCEN"). The Agreement concludes an investigation related principally to the circumstances surrounding the activities of a former customer of BPPR, including BPPR's reporting and compliance efforts, as well as certain other customers. The former customer has pleaded guilty to money laundering, including in connection with transactions made through an account at BPPR. No current or former BPPR officer, director or employee has been charged with a crime or accused of benefitting financially from the transactions described in the Agreement.

Under the Deferred Prosecution Agreement, BPPR agreed to the filing of a one-count information charging it with failure to file suspicious activity reports in a timely and complete manner. The Agreement provides for BPPR to forfeit $21.6 million to the United States, and resolves all claims the United States, FinCEN or the Federal Reserve may have against BPPR arising from the matters that were subject to investigation. Their forfeiture was recognized in the Corporation's consolidated statement of condition and results of operations for the year ended December 31, 2002.

This settlement also terminates the Written Agreement BPPR signed with the Federal Reserve Bank of New York on March 9, 2000, which required enhancements to BPPR's anti-money laundering and Bank Secrecy Act program. The Federal Reserve found BPPR to be fully compliant with the Written Agreement on November 26, 2001. Finally, the Deferred Prosecution Agreement provides that the court will dismiss the information and the Deferred Prosecution Agreement will expire 12 months following the settlement, provided that BPPR complies with its obligations under the Agreement.

On February 19, 2003, a derivative action was filed by a shareholder of Popular, Inc. in the United States District Court for the District of Puerto Rico in connection with the above-described matters against certain current and former directors of Popular, Inc. alleging that the defendants breached their fiduciary duties by failing to take the necessary steps to comply with the Bank Secrecy Act and to implement sufficient controls to permit them to exercise their oversight responsibilities and ensure compliance with Federal and state laws. The action seeks, on behalf of Popular, Inc., monetary damages from the defendants and attorneys' fees. Popular, Inc. does not expect that the foregoing civil action will have a material impact on Popular Inc.'s operations or consolidated financial statements.

Note 34 - Guarantees

The Corporation has obligations upon the occurrence of certain events under financial guarantees provided in certain contractual arrangements. These various arrangements are summarized below.

At December 31, 2002, the Corporation had issued approximately $126,383,000 of financial standby letters of credit to guarantee the performance of various customers to third parties. This contract amount represents the maximum amount of credit risk in the event of nonperformance by these customers. These standby letters of credit are used by the customer as a credit enhancement and typically expire without being drawn upon. The Corporation's standby letters of credit are secured and in the event of nonperformance by the customers, the Corporation has rights to the underlying collateral provided, which normally includes cash and marketable securities, real estate, receivables and others.

At December 31, 2002, the Corporation services approximately $1,600,000,000 in residential mortgage loans with recourse or other servicer-provided credit enhancement. In the event of any customer default, pursuant to the credit recourse provided, the Corporation is required to reimburse the third party investor. The maximum potential amount of future payments that the Corporation would be required to make under the agreement in the event of nonperformance by the borrowers, is equivalent to the total outstanding balance of the residential mortgage loans serviced. In the event of nonperformance, the Corporation has rights to the underlying collateral securing the mortgage loan, thus the losses associated to these guarantees should not be significant. The Corporation also services approximately $4,300,000,000 in mortgage loans without recourse or other servicer-provided credit enhancement. Although the Corporation may, from time to time, be required to make advances to maintain a regular flow of scheduled interest and principal payments to investors, including

special purpose entities, this does not represent an insurance against losses. These loans serviced are mostly insured by FHA, VA, and others, or the certificates arising in securitization transactions may be covered by a funds guaranty insurance policy.

The Corporation fully and unconditionally guarantees certain borrowing obligations issued by certain of the Corporation's wholly-owned subsidiaries approximating $2,100,000,000 at December 31, 2002.

Note 35 - Popular, Inc. (Holding Company only) financial information:

The following condensed financial information presents the financial position of the Holding Company only as of December 31, 2002 and 2001, and the results of its operations and its cash flows for each of the three years in the period ended December 31.

Statements of Condition

	December 31,	
(In thousands)	2002	2001
ASSETS		
Cash	$324	$263
Money market investments	2,937	112,937
Investment securities available-for-sale, at market value	223,661	166,193
Investment in BPPR and subsidiaries, at equity	1,511,933	1,416,698
Investment in Popular International Bank and subsidiaries, at equity	680,602	608,450
Investment in other subsidiaries, at equity	129,935	104,742
Advances to subsidiaries	150,574	173,979
Loans to affiliates	16,949	22,433
Premises and equipment	11,192	12,006
Other assets	22,075	21,118
Total assets	$2,750,182	$2,638,819
LIABILITIES AND STOCKHOLDERS' EQUITY		
Federal funds purchased	$10,300	
Commercial paper	18,989	
Other short-term borrowings	10,202	
Notes payable	137,777	$198,918
Accrued expenses and other liabilities	37,035	42,083
Subordinated notes	125,000	125,000
Stockholders' equity	2,410,879	2,272,818
Total liabilities and stockholders' equity	$2,750,182	$2,638,819

Statements of Income

	Year ended December 31,		
(In thousands)	2002	2001	2000
Income:			
Dividends from subsidiaries	$248,000	$248,550	$88,000
Interest on money market and investment securities	1,466	2,680	2,718
Other operating income	18,472	14,519	10,818
(Loss) gain on sale of securities	(2,361)	(100)	12,001
Interest on advances to subsidiaries	10,774	19,873	48,516
Interest on loans to affiliates	961	1,652	1,847
Total income	277,312	287,174	163,900
Expenses:			
Interest expense	21,435	32,360	59,690
Provision for loan losses			1,365
Operating expenses	2,297	2,802	2,454
Total expenses	23,732	35,162	63,509
Income before income taxes and equity in undistributed earnings of subsidiaries	253,580	252,012	100,391
Income taxes	(308)	(1,399)	3,354
Income before equity in undistributed earnings of subsidiaries	253,888	253,411	97,037
Equity in undistributed earnings of subsidiaries	98,044	51,127	179,066
Net income	$351,932	$304,538	$276,103

Statements of Cash Flows

(In thousands)	Year ended December 31, 2002	2001	2000
Cash flows from operating activities:			
Net income	$351,932	$304,538	$276,103
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed earnings of subsidiaries	(98,044)	(51,127)	(179,066)
Provision for loan losses			1,365
Net loss (gain) on sale of investment securities available-for-sale	2,361	100	(12,001)
Stock options expense	148		
Net decrease (increase) in other assets	973	(10,016)	(19,904)
Net (decrease) increase in current and deferred taxes	(339)	(21)	6,826
Net decrease in interest payable	(179)	(12,599)	(605)
Net (decrease) increase in other liabilities	(2,080)	12,369	5,451
Total adjustments	(97,160)	(61,294)	(197,934)
Net cash provided by operating activities	254,772	243,244	78,169
Cash flows from investing activities:			
Net decrease (increase) in money market investments	110,000	(92,100)	14,663
Purchases of investment securities available-for-sale	(34,347)	(103,902)	(37,318)
Maturities of investment securities available-for-sale		99,679	13,503
Proceeds from sales of investment securities available-for-sale	131		19,950
Capital contribution to subsidiaries	(50)	(6,815)	(25,747)
Net change in advances to subsidiaries	28,889	347,362	350,310
Net cash provided by investing activities	104,623	244,224	335,361
Cash flows from financing activities:			
Net increase in securities sold under agreements to repurchase	10,300		
Net increase (decrease) in commercial paper	18,989	(51,987)	(81,130)
Net increase (decrease) in other short-term borrowings	10,202	(325,726)	27,793
Net decrease in notes payable	(61,141)	(13,093)	(272,704)
Cash dividends paid	(108,003)	(106,384)	(95,297)
Proceeds from issuance of common stock	11,166	9,702	9,823
Redemption of preferred stock	(102,000)		
Treasury stock acquired	(138,847)		(2,064)
Net cash used in financing activities	(359,334)	(487,488)	(413,579)
Net increase (decrease) in cash	61	(20)	(49)
Cash at beginning of year	263	283	332
Cash at end of year	$324	$263	$283

The principal source of income for the Holding Company consists of dividends from BPPR. As a member subject to the regulations of the Federal Reserve Board, BPPR must obtain the approval of the Federal Reserve Board for any dividend if the total of all dividends declared by it in any calendar year would exceed the total of its net profits for that year, as defined by the Federal Reserve Board, combined with its retained net profits for the preceding two years. The payment of dividends by BPPR may also be affected by other regulatory requirements and policies, such as the maintenance of certain minimum capital levels described in Note 20. At December 31, 2002, BPPR could have declared a dividend of approximately $162,688,000 without the approval of the Federal Reserve.

Note 36 - Condensed consolidating financial information of guarantor and issuers of registered guaranteed securities:

The following condensed consolidating financial information presents the financial position of Popular, Inc. Holding Company (PIHC), Popular International Bank, Inc. (PIBI), Popular North America, Inc. (PNA) and all other subsidiaries of the Corporation as of December 31, 2001 and 2002, and the results of their operations and cash flows for each of the three years in the period ended December 31, 2002. PIBI, PNA, and their wholly-owned subsidiaries, except BPNA and Banco Popular, National Association (BP,N.A.), have a fiscal year that ends on November 30. Accordingly, the consolidated financial information of PIBI and PNA as of November 30, 2000, 2001 and 2002, corresponds to their financial information included in the consolidated financial statements of Popular, Inc. as of December 31, 2000, 2001 and 2002, respectively.

PIHC, PIBI and PNA are authorized issuers of debt securities and preferred stock under various shelf registrations filed with the SEC.

PIBI is an operating subsidiary of PIHC and is the holding company of its wholly-owned subsidiaries, ATH Costa Rica, CreST, S.A., Popular Insurance V.I., Inc. and PNA.

PNA is an operating subsidiary of PIBI and is the holding company of its wholly-owned subsidiaries, Popular Cash Express, Inc., Equity One, Inc., BPNA, including its wholly-owned subsidiary Popular Leasing, U.S.A., and BP, N.A., including its wholly-owned subsidiary Popular Insurance, Inc.

PIHC fully and unconditionally guarantees all registered debt securities and preferred stock issued by PIBI and PNA. As described in Note 35 to the consolidated financial statements, the principal source of cash flows for PIHC consists of dividends from BPPR.

Condensed Consolidating Statement of Condition

	At December 31, 2002					
(In thousands)	Popular, Inc. Holding Co.	PIBI Holding Co.	PNA Holding Co.	All other Subsidiaries	Elimination Entries	Popular, Inc. Consolidated
ASSETS						
Cash and due from banks	$324	$70	$1,161	$694,114	($43,113)	$652,556
Money market investments	2,937	300	9,708	1,250,994	(169,293)	1,094,646
Investment securities available-for-sale, at market value	223,661	28,290	6,720	10,278,232	(5,000)	10,531,903
Investment securities held-to-maturity, at amortized cost				329,391	(148,640)	180,751
Trading account securities, at market value				510,346		510,346
Investment in subsidiaries	2,322,470	624,306	850,071	199,869	(3,996,716)	
Loans held-for-sale, at lower of cost or market				1,109,161	(16,234)	1,092,927
Loans	167,523		2,573,222	20,341,601	(4,306,499)	18,775,847
Less - Unearned income				286,655		286,655
Allowance for loan losses				372,797		372,797
	167,523		2,573,222	19,682,149	(4,306,499)	18,116,395
Premises and equipment	11,192			449,985		461,177
Other real estate				39,399		39,399
Accrued income receivable	294	2	11,891	194,372	(22,010)	184,549
Other assets	21,781	36,409	15,068	503,268	1,565	578,091
Goodwill				182,965		182,965
Other intangible assets				34,647		34,647
	$2,750,182	$689,377	$3,467,841	$35,458,892	($8,705,940)	$33,660,352
LIABILITIES AND STOCKHOLDERS' EQUITY						
Liabilities:						
Deposits:						
Non-interest bearing				$3,410,409	($43,024)	$3,367,385
Interest bearing				14,270,528	(23,173)	14,247,355
				17,680,937	(66,197)	17,614,740
Federal funds purchased and securities sold under agreements to repurchase	$10,300		$498,883	6,307,488	(132,120)	6,684,551
Other short-term borrowings	29,191	$90	439,052	2,477,471	(1,242,242)	1,703,562
Notes payable	137,777	8,788	1,849,017	5,517,986	(3,214,715)	4,298,853
Other liabilities	37,035	166	64,705	604,830	(29,131)	677,605
	214,303	9,044	2,851,657	32,588,712	(4,684,405)	30,979,311
Subordinated notes	125,000					125,000
Preferred beneficial interests in Popular North America's junior subordinated deferrable interest debentures guaranteed by the Corporation				144,000		144,000
Minority interest in consolidated subsidiaries				110	1,052	1,162
Stockholders' equity:						
Common stock	834,799	3,962	2	72,577	(76,541)	834,799
Surplus	278,366	492,543	439,964	1,335,498	(2,268,005)	278,366
Retained earnings	1,300,437	170,874	170,956	1,178,321	(1,520,151)	1,300,437
Treasury stock, at cost	(205,210)			(463)	463	(205,210)
Accumulated other comprehensive income, net of tax	202,487	12,954	5,262	140,137	(158,353)	202,487
	2,410,879	680,333	616,184	2,726,070	(4,022,587)	2,410,879
	$2,750,182	$689,377	$3,467,841	$35,458,892	($8,705,940)	$33,660,352

Condensed Consolidating Statement of Condition

	At December 31, 2001					
(In thousands)	Popular, Inc. Holding Co.	PIBI Holding Co.	PNA Holding Co.	All other Subsidiaries	Elimination Entries	Popular, Inc. Consolidated
ASSETS						
Cash and due from banks	$263	$18	$252	$659,094	($53,485)	$606,142
Money market investments	112,937	302	442	1,075,301	(365,192)	823,790
Investment securities available-for-sale, at market value	166,193	20,781	6,473	9,101,954	(11,000)	9,284,401
Investment securities held-to-maturity, at amortized cost				747,000	(154,640)	592,360
Trading account securities, at market value				271,106	(920)	270,186
Investment in subsidiaries	2,129,890	559,658	772,220	164,146	(3,625,914)	
Loans held-for-sale, at lower of cost or market				957,403	(17,915)	939,488
Loans	196,412		2,537,021	18,870,993	(4,048,397)	17,556,029
Less - Unearned income				326,966		326,966
Allowance for loan losses				336,632		336,632
	196,412		2,537,021	18,207,395	(4,048,397)	16,892,431
Premises and equipment	12,006			393,699		405,705
Other real estate				31,533		31,533
Accrued income receivable	323	2	12,263	196,277	(22,722)	186,143
Other assets	20,795	32,010	9,994	434,248	(192)	496,855
Goodwill				177,842		177,842
Other intangible assets				37,800		37,800
	$2,638,819	$612,771	$3,338,665	$32,454,798	($8,300,377)	$30,744,676
LIABILITIES AND STOCKHOLDERS' EQUITY						
Liabilities:						
Deposits:						
Non-interest bearing				$3,335,268	($53,427)	$3,281,841
Interest bearing				13,099,160	(10,959)	13,088,201
				16,434,428	(64,386)	16,370,042
Federal funds purchased and securities sold under agreements to repurchase			$421,618	5,561,883	(231,733)	5,751,768
Other short-term borrowings		$4,272	536,443	2,663,575	(1,377,048)	1,827,242
Notes payable	$198,918		1,780,452	4,709,260	(2,953,499)	3,735,131
Other liabilities	42,083	72	48,959	450,637	(29,065)	512,686
	241,001	4,344	2,787,472	29,819,783	(4,655,731)	28,196,869
Subordinated notes	125,000					125,000
Preferred beneficial interests in Popular North America's junior subordinated deferrable interest debentures guaranteed by the Corporation				150,000	(920)	149,080
Minority interest in consolidated subsidiaries				105	804	909
Stockholders' equity:						
Preferred stock	100,000					100,000
Common stock	832,498	3,962	2	72,575	(76,539)	832,498
Surplus	268,544	492,494	439,964	1,334,918	(2,267,376)	268,544
Retained earnings	1,057,724	105,748	110,687	1,032,542	(1,248,977)	1,057,724
Treasury stock, at cost	(66,136)			(236)	236	(66,136)
Accumulated other comprehensive income, net of tax	80,188	6,223	540	45,111	(51,874)	80,188
	2,272,818	608,427	551,193	2,484,910	(3,644,530)	2,272,818
	$2,638,819	$612,771	$3,338,665	$32,454,798	($8,300,377)	$30,744,676

Condensed Consolidating Statement of Income

	Year ended December 31, 2002					
(In thousands)	Popular, Inc. Holding Co.	PIBI Holding Co.	PNA Holding Co.	Other Subsidiaries	Elimination Entries	Popular, Inc. Consolidated
INTEREST INCOME:						
Loans	$11,735		$154,873	$1,595,811	($233,516)	$1,528,903
Money market investments	260	$9	179	76,499	(44,442)	32,505
Investment securities	1,206		1,059	456,426	(12,766)	445,925
Trading account securities				16,628	(164)	16,464
	13,201	9	156,111	2,145,364	(290,888)	2,023,797
INTEREST EXPENSE:						
Deposits				431,965	(837)	431,128
Short-term borrowings	1,588	110	22,308	237,309	(76,065)	185,250
Long-term debt	19,847	52	134,104	287,320	(214,233)	227,090
	21,435	162	156,412	956,594	(291,135)	843,468
Net interest (loss) income	(8,234)	(153)	(301)	1,188,770	247	1,180,329
Provision for loan losses				205,570		205,570
Net interest (loss) income after provision for loan losses	(8,234)	(153)	(301)	983,200	247	974,759
Service charges on deposit accounts				157,727	(14)	157,713
Other service fees				258,867	(324)	258,543
(Loss) gain on sale of investment securities	(2,361)		25	(1,006)		(3,342)
Trading account loss				(874)	70	(804)
Loss on derivatives			(18,705)	(1,380)		(20,085)
Gain on sale of loans				68,508	(9,168)	59,340
Other operating income	18,472	5,119	169	49,768	(1,215)	72,313
	7,877	4,966	(18,812)	1,514,810	(10,404)	1,498,437
OPERATING EXPENSES:						
Personnel costs:						
Salaries		303		361,651	3	361,957
Profit sharing				22,235		22,235
Pension and other benefits		56		104,493		104,549
		359		488,379	3	488,741
Net occupancy expenses		13		78,490		78,503
Equipment expenses				99,099		99,099
Other taxes	1,071			36,073		37,144
Professional fees	869	11	189	83,930	(339)	84,660
Communications	40			53,852		53,892
Business promotion				61,451		61,451
Printing and supplies				19,918		19,918
Other operating expenses	317	81	513	96,232	(653)	96,490
Amortization of intangibles				9,104		9,104
	2,297	464	702	1,026,528	(989)	1,029,002
Income (loss) before income tax, minority interest, and equity in earnings of subsidiaries	5,580	4,502	(19,514)	488,282	(9,415)	469,435
Income tax	(308)		(6,494)	126,463	(2,406)	117,255
Net gain of minority interest				(248)		(248)
Income (loss) before equity in earnings of subsidiaries	5,888	4,502	(13,020)	361,571	(7,009)	351,932
Equity in earnings of subsidiaries	346,044	60,625	73,289	31,960	(511,918)	
NET INCOME	$351,932	$65,127	$60,269	$393,531	($518,927)	$351,932

Condensed Consolidating Statement of Income

	Year ended December 31, 2001					
(In thousands)	Popular, Inc. Holding Co.	PIBI Holding Co.	PNA Holding Co.	Other Subsidiaries	Elimination Entries	Popular, Inc. Consolidated
INTEREST INCOME:						
Loans	$21,525	$1,069	$153,426	$1,614,050	($230,180)	$1,559,890
Money market investments	1,127	19	781	97,931	(52,248)	47,610
Investment securities	1,553	2	756	484,095	(13,062)	473,344
Trading account securities				15,024	(6)	15,018
	24,205	1,090	154,963	2,211,100	(295,496)	2,095,862
INTEREST EXPENSE:						
Deposits				520,587	(2,419)	518,168
Short-term borrowings	1,144	231	64,856	372,091	(108,674)	329,648
Long-term debt	31,216		87,488	236,654	(184,297)	171,061
	32,360	231	152,344	1,129,332	(295,390)	1,018,877
Net interest (loss) income	(8,155)	859	2,619	1,081,768	(106)	1,076,985
Provision for loan losses				213,250		213,250
Net interest (loss) income after provision for loan losses	(8,155)	859	2,619	868,518	(106)	863,735
Service charges on deposit accounts				147,037	(43)	146,994
Other service fees				242,701	(154)	242,547
(Loss) gain on sale of investment securities	(100)	(50)		177		27
Trading account profit (loss)		27		(1,808)		(1,781)
(Loss) gain on derivatives			(20,515)	287		(20,228)
Gain on sale of loans				45,633		45,633
Other operating income	14,519	1,915		53,532	(11,570)	58,396
	6,264	2,751	(17,896)	1,356,077	(11,873)	1,335,323
OPERATING EXPENSES:						
Personnel costs:						
Salaries		292		321,094		321,386
Profit sharing				16,251		16,251
Pension and other benefits		51		87,454		87,505
		343		424,799		425,142
Net occupancy expenses		12		72,088		72,100
Equipment expenses				97,383		97,383
Other taxes	1,394			37,362		38,756
Professional fees	1,275	9	402	72,317	(268)	73,735
Communications	39			48,844		48,883
Business promotion				50,783		50,783
Printing and supplies				17,804		17,804
Other operating expenses	94	61	426	74,212	(608)	74,185
Amortization of intangibles				27,438		27,438
	2,802	425	828	923,030	(876)	926,209
Income (loss) before income tax, minority interest, cumulative effect of accounting change and equity in earnings of subsidiaries	3,462	2,326	(18,724)	433,047	(10,997)	409,114
Income tax	(1,399)		(6,627)	116,095	(2,789)	105,280
Net loss of minority interest				18		18
Income (loss) before cumulative effect of accounting change and equity in earnings of subsidiaries	4,861	2,326	(12,097)	316,970	(8,208)	303,852
Cumulative effect of accounting change				686		686
Income (loss) before equity in earnings of subsidiaries	4,861	2,326	(12,097)	317,656	(8,208)	304,538
Equity in earnings of subsidiaries	299,677	19,845	32,350	23,820	(375,692)	
NET INCOME	$304,538	$22,171	$20,253	$341,476	($383,900)	$304,538

Condensed Consolidating Statement of Income

	Year ended December 31, 2000					
(In thousands)	Popular, Inc. Holding Co.	PIBI Holding Co.	PNA Holding Co.	Other Subsidiaries	Elimination Entries	Popular, Inc. Consolidated
INTEREST INCOME:						
Loans	$50,363	$876	$119,316	$1,589,626	($173,349)	$1,586,832
Money market investments	855	81	189	118,585	(57,354)	62,356
Investment securities	1,863	2	715	496,603	(12,985)	486,198
Trading account securities				14,771		14,771
	53,081	959	120,220	2,219,585	(243,688)	2,150,157
INTEREST EXPENSE:						
Deposits				553,471	(24,098)	529,373
Short-term borrowings	30,354	552	54,030	522,091	(98,998)	508,029
Long-term debt	29,336	142	72,646	148,321	(120,451)	129,994
	59,690	694	126,676	1,223,883	(243,547)	1,167,396
Net interest (loss) income	(6,609)	265	(6,456)	995,702	(141)	982,761
Provision for loan losses	1,365			193,275		194,640
Net interest (loss) income after provision for loan losses	(7,974)	265	(6,456)	802,427	(141)	788,121
Service charges on deposit accounts				125,519		125,519
Other service fees				217,814	(1,819)	215,995
Gain (loss) on sale of investment securities	12,001			(800)		11,201
Trading account profit				1,991		1,991
Gain on sale of loans				39,673		39,673
Other operating income	10,818	1,279		64,409	(6,825)	69,681
	14,845	1,544	(6,456)	1,251,033	(8,785)	1,252,181
OPERATING EXPENSES:						
Personnel costs:						
Salaries		280		306,249		306,529
Profit sharing				18,913		18,913
Pension and other benefits		46		68,688		68,734
		326		393,850		394,176
Net occupancy expenses		12		67,724	(16)	67,720
Equipment expenses	1			98,021		98,022
Other taxes	1,350			32,775		34,125
Professional fees	473	9	228	66,088	(1,947)	64,851
Communications	19			45,670		45,689
Business promotion				46,791		46,791
Printing and supplies	2			20,826		20,828
Other operating expenses	609	50	421	69,160	(567)	69,673
Amortization of intangibles				34,558		34,558
	2,454	397	649	875,463	(2,530)	876,433
Income (loss) before income tax, minority interest and equity in earnings of subsidiaries	12,391	1,147	(7,105)	375,570	(6,255)	375,748
Income tax	3,354		(2,590)	101,573	(1,540)	100,797
Net loss of minority interest				1,152		1,152
Income (loss) before equity in earnings of subsidiaries	9,037	1,147	(4,515)	275,149	(4,715)	276,103
Equity in earnings of subsidiaries	267,066	12,900	20,944	9,271	(310,181)	
NET INCOME	$276,103	$14,047	$16,429	$284,420	($314,896)	$276,103

Condensed Consolidating Statement of Cash Flows

	Year ended December 31, 2002					
(In thousands)	Popular, Inc. Holding Co.	PIBI Holding Co.	PNA Holding Co.	Other subsidiaries	Elimination Entries	Popular, Inc. Consolidated
Cash flows from operating activities:						
Net income	$351,932	$65,127	$60,269	$393,531	($518,927)	$351,932
Adjustments to reconcile net income to cash provided by operating activities:						
Equity in undistributed earnings of subsidiaries	(346,044)	(60,625)	(73,289)	(31,960)	511,918	
Depreciation and amortization of premises and equipment	814			73,353		74,167
Provision for loan losses				205,570		205,570
Amortization of intangibles				9,104		9,104
Net loss (gain) on sale of investment securities	2,361		(25)	1,006		3,342
Loss on derivatives			18,705	1,380		20,085
Net loss on disposition of premises and equipment				773		773
Net gain on sale of loans, excluding loans held-for-sale				(6,718)		(6,718)
Amortization of premiums and accretion of discounts on investments				15,980		15,980
Amortization of deferred loan fees and costs				29,155		29,155
Stock options expense	148			809		957
Increase in loans held-for-sale				(151,759)	(1,680)	(153,439)
Net increase in trading securities				(239,240)	(920)	(240,160)
Net decrease in interest receivable	29		371	1,906	(712)	1,594
Net decrease (increase) in other assets	130	(4,398)	1,406	(6,038)	(1,758)	(10,658)
Net (decrease) increase in interest payable	(179)	(47)	(1,610)	2,176	991	1,331
Net decrease in current and deferred taxes	(339)		(867)	(16,336)	(5,224)	(22,766)
Net increase in postretirement benefit obligation				7,479		7,479
Net (decrease) increase in other liabilities	(2,080)	140	(7,048)	101,055	4,166	96,233
Total adjustments	(345,160)	(64,930)	(62,357)	(2,305)	506,781	32,029
Net cash provided by (used in) operating activities	6,772	197	(2,088)	391,226	(12,146)	383,961
Cash flows from investing activities:						
Net decrease (increase) in money market investments	110,000	1	(9,266)	(169,917)	(195,898)	(265,080)
Purchases of investment securities held-to-maturity				(26,588,518)		(26,588,518)
Maturities of investment securities held-to-maturity				27,006,127	(6,000)	27,000,127
Purchases of investment securities available-for-sale	(34,347)	(4,721)	(1,932,303)	(7,419,028)		(9,390,399)
Maturities of investment securities available-for-sale			1,931,303	5,523,837	(6,000)	7,449,140
Proceeds from sales of investment securities available-for-sale	131		1,024	1,265,387		1,266,542
Net repayments (disbursements) on loans	28,889		(36,201)	(1,602,891)	258,102	(1,352,101)
Proceeds from sale of loans				592,992		592,992
Acquisition of loan portfolios				(1,220,139)		(1,220,139)
Capital contribution to subsidiaries	(50)	(81)			131	
Assets acquired, net of cash				(1,500)		(1,500)
Acquisition of premises and equipment				(138,074)		(138,074)
Proceeds from sale of premises and equipment				7,662		7,662
Dividends received from subsidiary	248,000				(248,000)	
Net cash provided by (used in) investing activities	352,623	(4,801)	(45,443)	(2,744,062)	(197,665)	(2,639,348)
Cash flows from financing activities:						
Net increase in deposits				1,273,778	(1,811)	1,271,967
Net increase in federal funds purchased and securities sold under agreements to repurchase	10,300		77,265	745,605	99,613	932,783
Net increase (decrease) in other short-term borrowings	29,191	(4,182)	(97,390)	(186,107)	134,808	(123,680)
Net (payments) proceeds from issuance of notes payable and capital securities	(61,141)	8,788	68,565	802,726	(260,296)	558,642
Dividends paid to parent company				(248,000)	248,000	
Dividends paid	(108,003)					(108,003)
Proceeds from issuance of common stock	11,166					11,166
Redemption of preferred stock	(102,000)					(102,000)
Treasury stock acquired	(138,847)			(227)		(139,074)
Capital contribution from parent		50		81	(131)	
Net cash (used in) provided by financing activities	(359,334)	4,656	48,440	2,387,856	220,183	2,301,801
Net increase in cash and due from banks	61	52	909	35,020	10,372	46,414
Cash and due from banks at beginning of year	263	18	252	659,094	(53,485)	606,142
Cash and due from banks at end of year	$324	$70	$1,161	$694,114	($43,113)	$652,556

Condensed Consolidating Statement of Cash Flows

	Year ended December 31, 2001					
(In thousands)	Popular, Inc. Holding Co.	PIBI Holding Co.	PNA Holding Co.	Other subsidiaries	Elimination Entries	Popular, Inc. Consolidated
Cash flows from operating activities:						
Net income	$304,538	$22,171	$20,253	$341,476	($383,900)	$304,538
Adjustments to reconcile net income to cash provided by operating activities:						
Equity in undistributed earnings of subsidiaries	(299,677)	(19,845)	(32,350)	(23,820)	375,692	
Depreciation and amortization of premises and equipment	203			75,759		75,962
Provision for loan losses				213,250		213,250
Amortization of intangibles				27,438		27,438
Net loss (gain) on sale of investment securities	100	50		(177)		(27)
Loss (gain) on derivatives			20,515	(287)		20,228
Net loss on disposition of premises and equipment				672		672
Net gain on sale of loans, excluding loans held-for-sale				(1,173)		(1,173)
Amortization of premiums and accretion of discounts on investments				6,708		6,708
Increase in loans held-for-sale				(133,502)	17,915	(115,587)
Amortization of deferred loan fees and costs				22,881		22,881
Net increase in trading securities				(118,033)	920	(117,113)
Net decrease (increase) in interest receivable	789	588	(212)	13,675	1,557	16,397
Net decrease (increase) in other assets	1,201	(31,116)	(2,972)	44,905	(1,444)	10,574
Net decrease in interest payable	(12,599)	(217)	(7,660)	(41,083)		(61,559)
Net (decrease) increase in current and deferred taxes	(21)		1,475	19,635	(1,733)	19,356
Net increase in postretirement benefit obligation				4,052		4,052
Net increase (decrease) in other liabilities	12,369	13	(4,722)	11,166	(3,332)	15,494
Total adjustments	(297,635)	(50,527)	(25,926)	122,066	389,575	137,553
Net cash provided by (used in) operating activities	6,903	(28,356)	(5,673)	463,542	5,675	442,091
Cash flows from investing activities:						
Net (increase) decrease in money market investments	(92,100)	25	(382)	869,064	(531,779)	244,828
Purchases of investment securities held-to-maturity				(7,973,243)		(7,973,243)
Maturities of investment securities held-to-maturity				7,635,276		7,635,276
Purchases of investment securities available-for-sale	(103,902)	(145)		(7,231,376)		(7,335,423)
Maturities of investment securities available-for-sale	99,679		62	5,675,066	10,999	5,785,806
Proceeds from sales of investment securities available-for-sale				1,161,097		1,161,097
Net repayments (disbursements) on loans	347,362	22,500	(694,506)	(3,452,097)	1,460,353	(2,316,388)
Proceeds from sale of loans				887,238		887,238
Acquisition of loan portfolios				(833,035)		(833,035)
Capital contribution to subsidiaries	(6,815)		(532)	1,259	6,088	
Return on investment from subsidiary		300			(300)	
Acquisition of premises and equipment	(12,209)			(67,263)		(79,472)
Proceeds from sale of premises and equipment				2,905		2,905
Dividends received from subsidiary	248,550				(248,550)	
Net cash provided by (used in) investing activities	480,565	22,680	(695,358)	(3,325,109)	696,811	(2,820,411)
Cash flows from financing activities:						
Net increase in deposits				1,471,561	80,472	1,552,033
Net increase in federal funds purchased and securities sold under agreements to repurchase			352,918	528,767	(94,032)	787,653
Net decrease in other short-term borrowings	(377,713)	(1,142)	(799,621)	(1,765,638)	402,144	(2,541,970)
Net (payments) proceeds from issuance of notes payable and capital securities	(13,093)		1,147,198	2,711,539	(1,288,345)	2,557,299
Dividends paid to parent company				(248,550)	248,550	
Dividends paid	(106,384)					(106,384)
Proceeds from issuance of common stock	9,702					9,702
Treasury stock sold				78		78
Return of capital to parent				(300)	300	
Capital contribution from parent		6,818	500	532	(7,850)	
Net cash (used in) provided by financing activities	(487,488)	5,676	700,995	2,697,989	(658,761)	2,258,411
Net decrease in cash and due from banks	(20)		(36)	(163,578)	43,725	(119,909)
Cash and due from banks at beginning of year	283	18	288	822,672	(97,210)	726,051
Cash and due from banks at end of year	$263	$18	$252	$659,094	($53,485)	$606,142

Condensed Consolidating Statement of Cash Flows

	Year ended December 31, 2000					
(In thousands)	Popular, Inc. Holding Co.	PIBI Holding Co.	PNA Holding Co.	Other subsidiaries	Elimination Entries	Popular, Inc. Consolidated
Cash flows from operating activities:						
Net income	$276,103	$14,047	$16,429	$284,420	($314,896)	$276,103
Adjustments to reconcile net income to cash provided by operating activities:						
Equity in undistributed earnings of subsidiaries	(267,066)	(12,900)	(20,944)	(9,271)	310,181	
Depreciation and amortization of premises and equipment				76,848		76,848
Provision for loan losses	1,365			193,275		194,640
Amortization of intangibles				34,558		34,558
Net (gain) loss on sale of investment securities	(12,001)			800		(11,201)
Net loss on disposition of premises and equipment				210		210
Net gain on sale of loans, excluding loans held-for-sale				(7,935)		(7,935)
Amortization of premiums and accretion of discounts on investments			(430)	1,350		920
Increase in loans held-for-sale				(204,603)		(204,603)
Amortization of deferred loan fees and costs				22,093		22,093
Net decrease in trading securities				83,537		83,537
Net increase in interest receivable	(991)	(394)	(11,379)	(27,779)	8,017	(32,526)
Net increase in other assets	(18,913)	(302)	(155)	(9,984)	238	(29,116)
Net (decrease) increase in interest payable	(605)	(210)	(3,585)	29,301		24,901
Net increase (decrease) in current and deferred taxes	6,826		(2,165)	(17,268)	1,373	(11,234)
Net increase in postretirement benefit obligation				3,844		3,844
Net increase in other liabilities	5,451	31	435	26,502	(13,794)	18,625
Total adjustments	(285,934)	(13,775)	(38,223)	195,478	306,015	163,561
Net cash (used in) provided by operating activities	(9,831)	272	(21,794)	479,898	(8,881)	439,664
Cash flows from investing activities:						
Net decrease (increase) in money market investments	14,663	2,931	21,443	(254,838)	102,398	(113,403)
Purchases of investment securities held-to-maturity				(5,517,411)		(5,517,411)
Maturities of investment securities held-to-maturity				5,458,897		5,458,897
Purchases of investment securities available-for-sale	(37,318)		(298)	(4,759,954)		(4,797,570)
Maturities of investment securities available-for-sale	13,503			2,771,791	(800)	2,784,494
Proceeds from sales of investment securities available-for-sale	19,950			799,005		818,955
Net repayments (disbursements) on loans	350,310	16,392	(414,741)	(1,899,973)	70,078	(1,877,934)
Proceeds from sale of loans				1,024,637		1,024,637
Acquisition of loan portfolios				(589,178)		(589,178)
Capital contribution to subsidiaries	(25,747)	(7,943)	(97,390)	(10,174)	141,254	
Assets acquired, net of cash				(8,453)		(8,453)
Acquisition of premises and equipment				(75,147)		(75,147)
Proceeds from sale of premises and equipment				11,631		11,631
Cash transferred due to sale of investment in subsidiary				(46,899)		(46,899)
Merger of Popular Holdings USA in PNA			455		(455)	
Dividends received from subsidiary	88,000				(88,000)	
Net cash provided by (used in) investing activities	423,361	11,380	(490,531)	(3,096,066)	224,475	(2,927,381)
Cash flows from financing activities:						
Net increase in deposits				413,493	512,678	926,171
Net increase in federal funds purchased and securities sold under agreements to repurchase			68,700	511,417	(30,482)	549,635
Net (decrease) increase in other short-term borrowings	(53,337)	(20,304)	1,011,407	1,385,576	(528,767)	1,794,575
Net (payments) proceeds from issuance of notes payable	(272,704)	(7,007)	(568,158)	417,844	(202,719)	(632,744)
Dividends paid to parent company				(88,000)	88,000	
Dividends paid	(95,297)					(95,297)
Proceeds from issuance of common stock	9,823					9,823
Treasury stock acquired	(2,064)			(27)		(2,091)
Capital contribution from parent		15,450		105,299	(120,749)	
Net cash (used in) provided by financing activities	(413,579)	(11,861)	511,949	2,745,602	(282,039)	2,550,072
Net (decrease) increase in cash and due from banks	(49)	(209)	(376)	129,434	(66,445)	62,355
Cash and due from banks at beginning of year	332	227	664	693,238	(30,765)	663,696
Cash and due from banks at end of year	$283	$18	$288	$822,672	($97,210)	$726,051