Financial Review and Supplementary Information

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.

Overview

The Corporation is a financial holding company, which is subject to the supervision and regulation of the Board of Governors of the Federal Reserve System. The Corporation offers a broad range of products and services to consumer and corporate customers in Puerto Rico, the United States, the Caribbean and Latin 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., Levitt Mortgage Corporation and Popular FS, LLC
- 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 – Popular Insurance, Inc., Popular Insurance Agency U.S.A., Inc., Popular Insurance V.I., Inc., and Popular RE, Inc.

From its beginning, the year 2003 had a lot of uncertainty, such as the war in Iraq and an economy in desperate need of a boost. Continuing geopolitical risks included not only Iraq, but the rest of the Middle East. Economic data began to turn around, suggesting a slow turnaround may happen sooner than expected. Increased spending by consumers as well as an improvement in corporate earnings created more favorable economic conditions.

In an effort to sustain the economic recovery during 2003 and increase consumer spending and business investment, in June 2003, the Federal Reserve Bank lowered the federal funds target rate an additional 25 basis points, reaching 1.00%, its lowest level in 45 years. Moreover, the Bush Administration signed the Jobs and Growth Tax Relief Reconciliation Act of 2003, with the objective of delivering substantial tax relief to American taxpayers.

Highlights on the Corporation's performance for 2003 are listed below. These items and the events giving rise to their financial impact are explained further in this management's discussion and analysis:

- Net income reached $470.9 million for the year ended December 31, 2003, compared with $351.9 million a year earlier, an increase of $119.0 million, or 34%. Earnings per common share (EPS), basic and diluted, totaled $3.47 in 2003, compared with $2.61 in 2002. Return on assets (ROA) for 2003 was 1.36% compared with 1.11% in 2002, while the return on common equity (ROE) was 19.30% in 2003, compared with 16.29% in 2002.
- The Corporation's diversified business mix continued to produce a balanced revenue stream in 2003. The main source of income for the Corporation continues to be its net interest income, which represents approximately 67% of the Corporation's total revenues (defined as net interest income plus non-interest income). Non-interest income accounted for 33% of total revenues. During 2003, the Corporation realized higher than ordinary gains on the sale of securities, which totaled $71 million. In recent years, the Corporation has continued to diversify its revenue stream by offering a wide array of services that provide a stable source of income that is not sensitive to interest-rate fluctuations, such as processing,

Table A

Components of Net Income as a Percentage of Average Total Assets

	For the Year				
	2003	2002	2001	2000	1999
Net interest income	**3.71%**	3.65%	3.78%	3.70%	4.01%
Provision for loan losses	**(0.57)**	(0.65)	(0.76)	(0.73)	(0.63)
Securities and trading gains (losses)	**0.18**	(0.01)	(0.01)	0.05	-
Operating income	**1.63**	1.72	1.76	1.70	1.57
	4.95	4.71	4.77	4.72	4.95
Operating expenses	**(3.21)**	(3.23)	(3.31)	(3.30)	(3.52)
Net income before tax and minority interest	**1.74**	1.48	1.46	1.42	1.43
Income tax	**(0.38)**	(0.37)	(0.37)	(0.38)	(0.36)
Net loss of minority interest	**-**	-	-	-	0.01
Net income	**1.36%**	1.11%	1.09%	1.04%	1.08%

Table B

Changes in Net Income and Earnings per Common Share

	2003		2002		2001	
(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	**$349,422**	**$2.61**	$296,188	$2.17	$267,753	$1.97
Increase (decrease) from changes in:						
Net interest income	**124,444**	**0.93**	103,487	0.76	73,996	0.54
Sales of investment securities	**74,436**	**0.56**	(3,369)	(0.03)	(11,174)	(0.08)
Operating income	**17,221**	**0.13**	54,339	0.40	42,702	0.31
Provision for loan losses	**9,631**	**0.07**	7,680	0.06	(18,610)	(0.14)
Cumulative effect of accounting change	**-**	**-**	(686)	-	686	-
Minority interest	**(187)**	**-**	(266)	-	(1,134)	(0.01)
Trading account	**(9,410)**	**(0.07)**	977	0.01	(3,772)	(0.03)
Income tax	**(13,071)**	**(0.10)**	(11,975)	(0.09)	(4,483)	(0.03)
Operating expenses	**(84,081)**	**(0.63)**	(102,793)	(0.76)	(49,776)	(0.36)
Net income before preferred stock dividends and change in average common shares	**468,405**	**3.50**	343,582	2.52	296,188	2.17
(Increase) decrease in preferred stock dividends	**(7,409)**	**(0.06)**	5,840	0.04	-	-
Change in average common shares*	**-**	**0.03**	-	0.05	-	-
Net income applicable to common stock	**$460,996**	**$3.47**	$349,422	$2.61	$296,188	$2.17

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

check cashing, insurance agency and credit and debit card related services and transactional fees.

- Net interest income increased $124.4 million, or 11%, reaching $1.3 billion in 2003. A number of specific actions were taken during the year as part of the Corporation's asset / liability management strategies. These included investment opportunities undertaken, debt refinancing and the cancellation of certain interest rate contracts. For further information refer to the Net Interest Income and Market Risk analysis sections of this report.
- An important aspect of a financial institution is that related to lending activities. The Corporation's loan portfolio grew 15% from the end of 2002, reaching $22.6 billion at December 31, 2003. The provision for loan losses totaled $195.9 million in 2003, compared with $205.6 million in 2002. The provision for loan losses for 2003 exceeded net charge-offs by $22 million, or 13%. The ratio of allowance for loan losses to total loans declined to 1.81% at December 31, 2003, from 1.90% a year earlier. The decline in the provision and in the ratio of allowance for loan losses to loans reflects the decline in net charge-offs experienced during the year, as well as changes in the mix of the loan portfolio, whose growth has been mostly associated with mortgage loans. For more detailed information, refer to the Provision for Loan Losses and Credit Risk Management and Loan Quality sections of this report.
- Operating expenses in 2003 rose $84.1 million, or 8%, from 2002. The increase was attributed to higher personnel costs, business promotion, growth in business activities, costs incurred to support the Corporation's servicing infrastructure, and a prepayment penalty paid on the early cancellation of certain higher rate debt. Also, the Corporation experienced much higher levels of losses from unauthorized credit card transactions that resulted from an illegal external scheme. The Corporation took immediate action, dedicating internal resources as well as engaging experts in this field, to have the operational platform and the systems in place to protect customers and the Corporation from this growing type of illicit activity.
- Total deposits reached $18.1 billion at December 31, 2003, a 3% increase compared to December 31, 2002. The Corporation's extensive branch network in Puerto Rico and its expanding network in major U.S. markets have enabled it to maintain a stable base of deposits. The banking industry in Puerto Rico has been characterized by intense competition in recent years, to which the Corporation has reacted by designing attractive products and services, and by launching effective marketing campaigns to retain and attract customers and cross-sell products and services offered by the Corporation's traditional banking and non-banking subsidiaries.
- In order to fund its operations, including cash flow requirements of borrowers and depositors, as well as to fund asset acquisitions and future growth, the Corporation undertook several financing transactions during 2003. Popular North America, Inc., a subsidiary of the Corporation, sold $500 million in fixed-rate five-year notes. In addition, at the end of the third quarter, the Corporation issued $31 million in corporate debt with its yield linked to the Standard & Poor's 500 index, enabling debt holders to benefit

Table C

Selected Financial Data

(Dollars in thousands, except per share data)	**2003**	2002	2001
CONDENSED INCOME STATEMENTS			
Interest income	**$2,034,238**	$2,023,797	$2,095,862
Interest expense	**749,550**	863,553	1,039,105
Net interest income	**1,284,688**	1,160,244	1,056,757
Securities and trading gains (losses)	**60,880**	(4,146)	(1,754)
Operating income	**565,130**	547,909	493,570
Operating expenses	**1,113,083**	1,029,002	926,209
Provision for loan losses	**195,939**	205,570	213,250
Net (gain) loss of minority interest	**(435)**	(248)	18
Income tax	**130,326**	117,255	105,280
Dividends on preferred stock of BPPR	**-**	-	-
Cumulative effect of accounting change	**-**	-	686
Net income	**$470,915**	$351,932	$304,538
Net income applicable to common stock	**$460,996**	$349,422	$296,188
PER COMMON SHARE DATA*			
Net income (basic and diluted) (before and after cumulative effect of accounting change)	**$3.47**	$2.61	$2.17
Dividends declared	**1.01**	0.80	0.76
Book value	**19.32**	18.20	15.93
Market price	**44.85**	33.80	29.08
Outstanding shares:			
Average	**132,740,920**	133,915,082	136,238,288
End of period	**132,891,946**	132,439,047	136,362,364
AVERAGE BALANCES			
Net loans**	**$20,730,041**	$18,729,220	$17,045,257
Earning assets	**32,781,355**	30,194,914	26,414,204
Total assets	**34,674,761**	31,822,390	27,957,107
Deposits	**17,757,968**	16,984,646	15,575,791
Subordinated notes	**125,000**	125,000	125,000
Preferred beneficial interest in junior subordinated deferrable interest debentures guaranteed by the Corporation	**194,959**	145,254	150,000
Total stockholders' equity	**2,545,113**	2,150,386	2,096,534
PERIOD END BALANCES			
Net loans**	**$22,602,192**	$19,582,119	$18,168,551
Allowance for loan losses	**408,542**	372,797	336,632
Earning assets	**34,451,748**	31,899,765	29,139,288
Total assets	**36,434,715**	33,660,352	30,744,676
Deposits	**18,097,828**	17,614,740	16,370,042
Subordinated notes	**125,000**	125,000	125,000
Preferred beneficial interest in junior subordinated deferrable interest debentures guaranteed by the Corporation	**-**	144,000	149,080
Total stockholders' equity	**2,754,417**	2,410,879	2,272,818
SELECTED RATIOS			
Net interest yield (taxable equivalent basis)	**4.28%**	4.19%	4.33%
Return on average total assets	**1.36**	1.11	1.09
Return on average common stockholders' equity	**19.30**	16.29	14.84
Dividend payout ratio to common stockholders	**27.05**	30.76	33.10
Efficiency ratio	**60.17**	60.39	59.74
Overhead ratio	**37.91**	41.82	41.11
Tier I capital to risk-adjusted assets	**12.43**	9.85	9.96
Total capital to risk-adjusted assets	**13.93**	11.52	11.74

* 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,						
2000	1999	1998	1997	1996	1995	1994
$2,150,157	$1,851,670	$1,651,703	$1,491,303	$1,272,853	$1,105,807	$887,141
1,167,396	897,932	778,691	707,348	591,540	521,624	351,633
982,761	953,738	873,012	783,955	681,313	584,183	535,508
13,192	(944)	12,586	6,202	3,202	7,153	451
450,868	373,860	278,660	241,396	202,270	166,185	140,852
876,433	837,482	720,354	636,920	541,919	486,833	447,846
194,640	148,948	137,213	110,607	88,839	64,558	53,788
1,152	2,454	328	-	-	-	-
100,797	85,120	74,671	74,461	70,877	59,769	50,043
-	-	-	-	-	-	385
-	-	-	-	-	-	-
$276,103	$257,558	$232,348	$209,565	$185,150	$146,361	$124,749
$267,753	$249,208	$223,998	$201,215	$176,800	$138,011	$120,504
$1.97	$1.84	$1.65	$1.50	$1.34	$1.05	$0.92
0.64	0.60	0.50	0.40	0.35	0.29	0.25
13.92	11.51	11.86	10.37	8.80	7.91	6.87
26.31	27.94	34.00	24.75	16.88	9.69	7.03
135,907,476	135,585,634	135,532,086	134,036,964	132,044,624	131,632,600	131,192,972
135,998,617	135,654,292	135,637,327	135,365,408	132,177,012	131,794,544	131,352,512
$15,801,887	$13,901,290	$11,930,621	$10,548,207	$9,210,964	$8,217,834	$7,107,746
24,893,366	22,244,959	19,261,949	17,409,634	15,306,311	13,244,170	11,389,680
26,569,755	23,806,372	20,432,382	18,419,144	16,301,082	14,118,183	12,225,530
14,508,482	13,791,338	12,270,101	10,991,557	10,461,796	9,582,151	8,837,226
125,000	125,000	125,000	125,000	147,951	56,850	56,082
150,000	150,000	150,000	122,877	-	-	-
1,884,525	1,712,792	1,553,258	1,370,984	1,193,506	1,070,482	924,869
$16,057,085	$14,907,754	$13,078,795	$11,376,607	$9,779,028	$8,677,484	$7,781,329
290,653	292,010	267,249	211,651	185,574	168,393	153,798
26,339,431	23,754,620	21,591,950	18,060,998	15,484,454	14,668,195	11,843,806
28,057,051	25,460,539	23,160,357	19,300,507	16,764,103	15,675,451	12,778,358
14,804,907	14,173,715	13,672,214	11,749,586	10,763,275	9,876,662	9,012,435
125,000	125,000	125,000	125,000	125,000	175,000	50,000
150,000	150,000	150,000	150,000	-	-	-
1,993,644	1,660,986	1,709,113	1,503,092	1,262,532	1,141,697	1,002,423
4.23%	4.65%	4.91%	4.84%	4.77%	4.74%	5.06%
1.04	1.08	1.14	1.14	1.14	1.04	1.02
15.00	15.45	15.41	15.83	16.17	14.22	13.80
32.47	31.56	28.42	25.19	24.63	26.21	27.20
61.54	63.08	62.55	62.12	61.33	64.88	66.21
41.96	48.71	49.15	49.66	49.38	53.66	57.24
10.44	10.17	10.82	12.17	11.63	11.91	12.85
12.37	12.29	13.14	14.56	14.18	14.65	14.25

from the newly signed tax law that lowers the Puerto Rico tax rate to 10% on investment in corporate debt. Furthermore, during the last quarter of 2003, Popular Capital Trust I, a statutory business trust that is wholly-owned by the Corporation, sold to investors $300 million of its 6.70% trust preferred securities. In 2003, the Corporation adopted Financial Interpretation No. 46R, "Consolidation of Variable Interest Entities", which modified the reporting of trust preferred securities. Also, by the end of 2003, the Corporation filed a shelf registration with the U.S. Securities and Exchange Commission allowing the Corporation to issue up to $2.5 billion in medium-term notes, debt securities and preferred stock. Moreover, during 2003, Equity One, a subsidiary of Popular, Inc., tapped the asset-backed securities market with offerings of approximately $2.7 billion in asset-backed securities supported by residential mortgage loans.

- The Corporation continued strengthening its capital base during 2003. Stockholders' equity increased to $2.8 billion at December 31, 2003, from $2.4 billion a year before. During 2003, the Corporation completed the public offering of its 6.375% Non-cumulative Monthly Income Preferred Stock, 2003 Series A. This issuance, after the underwriting discounts and expenses, contributed approximately $183 million in additional Tier I capital.
- Popular, Inc.'s common stock price experienced a 33% increase during 2003, closing at $44.85 at December 31, 2003, compared with $33.80 at December 31, 2002. During the third quarter of 2003, the Chicago Board Options Exchange (CBOE) began to offer options tied to Popular, Inc.'s common stock under the symbol BQW. The CBOE essentially defines standard listed stock options and establishes fair and orderly markets in stock options trading.
- Cash dividends per common share for 2003 increased to $1.01, and were 26% higher than the cash dividend of $0.80 per common share in 2002.

In Puerto Rico, the Corporation completed the acquisition of Mediawire Communications Inc., a company that provided Internet services. Also, the Corporation acquired Advanced Data Support, Inc. / One Solutions, an industry leader in the health care transaction processing business in Puerto Rico. Furthermore, the Corporation completed the acquisition of the remaining 15% minority interest in Levitt Mortgage Corporation. In addition, Popular Finance acquired Mendoza Finance Company, Inc.'s small loan portfolio.

In the United States, BPNA signed a long-term contract with Metavante Corporation; a technology company specialized in banking data. Metavante provides BPNA with equipment and software that integrate banking processes, which will enable BPNA to offer a wider range of financial services to its clients more efficiently .

Continuing Popular, Inc.'s expansion efforts in Central America and supporting its technology-oriented initiatives, during 2003, the Corporation acquired a 31.11% interest in Servicios Financieros, S.A. de C.V. (Serfinsa), located in El Salvador. Serfinsa offers services associated with electronic payment systems, currently managing over 250 ATM's and 3,700 POS terminals in El Salvador.

Several marketing and community development initiatives were developed during 2003. The Corporation commemorated its 110th Anniversary with a variety of activities, including its new institutional campaign portraying the two principal aspects of the Corporation: its business history and legacy, and its commitment to social and community projects.

On January 16, 2004, the U.S. District Court for the District of Puerto Rico approved a request filed by the U.S. Department of Justice to dismiss the one-count information filed against BPPR on January 16, 2003, and proceeded to dismiss it, effective immediately. The United States noted that the period of twelve months had expired and BPPR was in full compliance with all of its obligations under the Deferred Prosecution Agreement. The course of action taken by the Court follows the terms of a Deferred Prosecution Agreement among BPPR, the U.S. Department of Justice, the Federal Reserve System, and the Financial Crimes Enforcement Network of the U.S. Department of Treasury (FinCEN), approved on January 16, 2003. The Agreement stipulated the U.S. Department of Justice would request the dismissal of one-count information within 30 days after the 12-month period following the settlement, provided BPPR complied with its obligations under the Agreement over the course of one year.

Further discussion of operating results and the Corporation's financial condition is presented in the narrative and tables. 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. In addition, Table C provides selected financial data for the past 10 years. Also, this management discussion and analysis covers the major risks encountered and faced by Popular, Inc. and financial institutions, in general, which fall largely into the following broad categories: market risk, liquidity risk, credit risk and operational risk.

The Corporation continuously monitors general business and economic conditions, industry-related indicators and trends, competition, interest rate volatility, credit quality indicators, loan and deposit demand, operational and systems efficiencies and revenue enhancements and changes in the regulation of financial services companies, among other factors. The Corporation will vigorously continue to execute and focus its strategies in three main areas of business: financial services in Puerto Rico, financial services in the United States and processing services.

Forward-looking statements

The information included herein may contain certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on management's current expectations and 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, competition, fiscal and monetary policies and legislation may cause actual results to differ from those contemplated by such forward-looking statements. For a discussion of such risks and uncertainties, see the Corporation's Form 10-K for the year ended December 31, 2003 filed with the U.S. Securities and Exchange Commission. The Corporation assumes no obligation to update any forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of such statements.

Critical Accounting Policies

The accounting and reporting policies followed by the Corporation and its subsidiaries conform with generally accepted accounting principles in the United States and general practices within the financial services industry. These policies require management to make estimates and assumptions which involve significant judgment about the effect of matters that are inherently uncertain and that involve a high degree of subjectivity. These estimates are made under facts and circumstances at a point in time and changes in those facts and circumstances could produce actual results that differ from those estimates. The following is a summary of the Corporation's critical accounting policies. These policies are described in detail in Note 1 to the consolidated financial statements and should be read in conjunction with this section.

Securities' Classification and Related Values

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, which have a readily available fair value, 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 (a component of stockholders' equity). At December 31, 2003, unrealized gains on the available-for-sale securities, net of taxes, amounted to $46 million. Investments in debt, equity or other types of securities that do not have publicly and readily determinable fair values are classified as other investment securities in the statement of condition and carried at cost.

The assessment of fair value applies to certain of the Corporation's assets and liabilities, including the trading and investment portfolios. Fair values are volatile and are affected by factors such as market interest rates, prepayment speeds and discount rates.

Fair values for most of the Corporation's trading and investment securities, including publicly-traded equity securities, are based on quoted market prices. If quoted market prices are not readily 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 rates 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 at least on a quarterly basis. Any impairment that is considered other than temporary is recorded directly in the income statement.

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, periodic reviews of internal models and the consistent application of methodologies from period to period.

Loans and Allowance for Loan Losses

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 becomes 60 days past due as to principal or interest rather than the standard industry practice of 90 days. For 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. Refer to the Credit Risk Management and Loan Quality section of this report for further information.

One of the most critical and complex accounting estimates is associated with the determination of the allowance for loan losses. The provision for loan losses charged to current operations is based on this determination. The methodology used to establish the allowance for loan losses is based on SFAS No. 114 "Accounting by Creditors for Impairment of a Loan" (as amended by SFAS No. 118) and SFAS No. 5 "Accounting for Contingencies." Under SFAS No. 114, commercial loans over a predefined amount are identified for impairment evaluation on an individual basis. The Corporation considers a loan to be impaired when 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. An allowance for loan impairment is recognized to the extent that the carrying value of an impaired loan exceeds the present value of the expected future cash flows discounted at the loan's effective rate; the observable market price of the loan; or the fair value of the collateral if the loan is collateral dependent. The allowance for impaired loans is part of the Corporation's overall allowance for loan losses. Meanwhile, SFAS No. 5 provides for the recognition of a loss allowance for groups of homogeneous loans. Under SFAS No. 5, the allowance for loan losses calculation for the Corporation is based on historical net charge-off experience by loan type and legal entity.

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 its 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.

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. In estimating taxes, management assesses the relative merits and risks of the appropriate tax treatment of transactions taking into account statutory, judicial and regulatory guidance.

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 never remitted retained earnings 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, 2003, the Corporation has not accumulated deferred taxes on approximately $259 million of retained earnings held by the subsidiaries. Had the Corporation recorded a deferred tax liability on the unremitted earnings of its U.S. subsidiaries, it would have approximated $27 million for the year 2003 and $78 million on a cumulative basis at December 31, 2003.

Goodwill and Other Intangible Assets

The Corporation's goodwill and other identifiable intangible assets having an indefinite useful life are tested annually for impairment at each reporting unit level, as prescribed in SFAS No. 142 "Goodwill and Other Intangible Assets." The test performed to identify potential impairment, compares the fair value of a reporting unit with its carrying amount, including goodwill. 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, which management has defined based on legal entity, following the same logic employed when making operating decisions and measuring performance. 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.

Pension and Postretirement Benefit Obligations

The Corporation provides pension benefits 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 23 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 $473 million at December 31, 2003. In developing the assumed long term rate of return for use in determining net periodic pension cost, 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 at January 1, 2004 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 2.7% inflation at January 1, 2004. The range of return developed relies both on forecasts and on broad-market historical benchmarks for expected return, correlation, and volatility for each asset class.

The Corporation reduced its expected return from 8.5% for year 2002 to 8.0% for year 2003. As a consequence of its most recent review, the Corporation left unchanged its expected return for year 2004 at 8.0%.

When calculating expected return on plan assets the Corporation. 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, 2004 will be reflected in the results of operations for year 2004.

Pension expense for the Banco Popular de Puerto Rico Retirement Plan in 2003 amounted to $8.4 million. This included a credit of $30.6 million reflecting the expected return on assets for 2003. There were no contributions made to the Plan during 2003.

Pension expense is sensitive to changes in the expected return on assets. For example, decreasing the expected rate of return for 2004 from 8.00% to 7.50% would increase the projected 2004 expense for the Banco Popular de Puerto Rico Retirement Plan by approximately $2.3 million.

The Corporation 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 2002, the Moody's Long-term AA Corporate Bond compounded annual yield was equal to 6.63% and the Corporation chose 6.50% as its discount rate. At December 31, 2003, the Moody's Long-term AA Corporate Bond compounded annual yield was equal to 6.10% and the Corporation chose 6.00% as its discount rate.

A 50 basis point increase / decrease in the assumed discount rate assumption as of the beginning of 2004 would decrease / increase the projected 2004 expense for the Banco Popular de Puerto Rico

Retirement Plan by approximately $1.4 million. The change would not affect the minimum required contribution to the Plan.

The Corporation also provides a postretirement health care benefit plan for certain employees of BPPR. This plan was unfunded at December 31, 2003. Assumed health care trend rates may have significant effects on the amounts reported for the health care plan. Note 23 to the consolidated financial statements provides information on the assumed rates considered by the Corporation and on the sensitivity that a one-percentage point change in the assumed rate may have in the cost components and postretirement benefit obligation of the Corporation.

Statement of Income Analysis

Net Interest Income

The principal source of earnings of the Corporation is net interest income which is defined as the difference between the revenue generated on earning assets, less the interest cost of funding those assets. The variables that affect net interest income are various, including the interest rate scenario, changes in volumes and mix of earning assets and interest bearing liabilities, and the repricing characteristics of these assets and liabilities.

Since November 2002, when the Federal Reserve (Fed) decreased the federal funds target rate by 50 basis points, this rate remained unchanged until June 2003, when the Fed decreased it by 25 basis points to 1.00%. The Fed's actions, along with increased loan demand, and certain asset/liability management strategies, which are described later, helped the Corporation's net interest margin improve slightly. The average key index rates for the years 2001 through 2003 were as follows:

	2003	2002	2001
Prime rate	**4.12%**	4.68%	6.91%
Fed funds rate	**1.13**	1.67	3.88
3-month LIBOR	**1.21**	1.79	3.78
3-month Treasury Bill	**1.02**	1.63	3.47
2-year Treasury	**1.63**	2.61	3.81
FNMA 30-year	**5.47**	6.74	7.40

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, 2003 reached $1,284.7 million, an increase of $124.4 million, or 11%, compared with $1,160.3 million in 2002. For the year ended December 31, 2001, net interest income amounted to $1,056.8 million.

Following the guidance on EITF Issue No. 03-11 "Reporting Realized Gains and Losses on Derivative Instruments that are Subject to FASB Statement No. 133 and 'Not Held for Trading Purposes'", the Corporation reclassified all fair value changes of derivatives that are not designated nor qualify for hedge accounting into a single income statement line item. This reclassification was considered for all periods presented in this report. Derivative losses reclassified into interest expense amounted to $7.5 million in 2003, $20.1 million in 2002 and $20.2 million in 2001, resulting in declines in the net interest margin of three basis points in 2003 and seven basis points in 2002 and 2001.

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 Commonwealth of Puerto Rico 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 (the statutory tax rate in Puerto Rico is 39%). 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.

Net interest income, on a taxable equivalent basis, was $1,404.9 million in 2003, compared with $1,263.9 million in 2002. The taxable equivalent adjustment amounted to $120.2 million in the year 2003 compared with $103.6 million in 2002 and $84.7 million in 2001. The increase in the adjustment from 2002 is mostly related to higher balance of investments whose interest income is exempt by the Internal Revenue Code of Puerto Rico and to a lower disallowance of the related interest expense. The decrease in the interest expense disallowance is directly associated with a 66 basis points decrease in the cost of interest bearing liabilities due to the 2003 lower interest rate scenario. The taxable equivalent adjustment increased $18.9 million from 2001 to 2002 mostly due to a significant decrease in the interest expense disallowance resulting from a decrease of 132 basis points in the average cost of interest bearing liabilities, partially offset by lower exempt interest income.

The increase of $141.0 million in net interest income since 2002 to 2003, on a taxable equivalent basis, was the effect of positive variances of $110.4 million due to a 9% growth in average earning assets as compared to an 8% growth in interest bearing liabilities, and $30.6 million due to a higher net interest margin. From 2001 to 2002, net interest income, on a taxable equivalent basis, increased by $122.4 million, resulting from a favorable variance of $79.0 million due to higher volume of average earning assets and $43.4 million due to a higher net interest spread.

The principal growth in average earning assets since 2002 was attained in mortgage loans and investment securities, which accounted for 53% and 19%, respectively, of the total increase in average earning assets. Mortgage loan originations benefited from the lower rate scenario, which continued to promote consumer refinancing. Average commercial and construction loans rose $481 million from 2002, while the consumer loan and the leasing portfolios increased by $61 million and $92 million, respectively. The rise in investment securities was mostly associated with higher balance of U.S. agency securities.

The average yield on earning assets for 2003, on a taxable equivalent basis, decreased by 48 basis points to 6.57%, compared with 7.05% in 2002.

The yield on average loans decreased by 68 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. At

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	
2003	2002	Variance	**2003**	2002	Variance		**2003**	2002	Variance	Rate	Volume
$833	$1,012	($179)	**3.11%**	3.21%	(0.10%)	Money market investments	**$25,881**	$32,505	($6,624)	($1,542)	($5,082)
10,594	10,090	504	**4.99**	5.34	(0.35)	Investment securities	**528,557**	538,916	(10,359)	(51,842)	41,483
624	364	260	**6.08**	4.66	1.42	Trading securities	**37,887**	16,961	20,926	6,248	14,678
12,051	11,466	585	**4.92**	5.13	(0.21)		**592,325**	588,382	3,943	(47,136)	51,079
						Loans:					
8,233	7,752	481	**6.04**	6.68	(0.64)	Commercial and construction	**496,994**	517,899	(20,905)	(51,840)	30,935
967	875	92	**9.90**	11.13	(1.23)	Leasing	**95,749**	97,367	(1,618)	(11,272)	9,654
8,354	6,987	1,367	**7.21**	7.72	(0.51)	Mortgage	**602,430**	539,758	62,672	(37,683)	100,355
3,176	3,115	61	**11.55**	12.33	(0.78)	Consumer	**366,910**	384,008	(17,098)	(17,801)	703
20,730	18,729	2,001	**7.54**	8.22	(0.68)		**1,562,083**	1,539,032	23,051	(118,596)	141,647
$32,781	$30,195	$2,586	**6.57%**	7.05%	(0.48%)	**Total earning assets**	**$2,154,408**	$2,127,414	$26,994	($165,732)	$192,726
						Interest bearing deposits:					
$2,550	$2,502	$48	**1.35%**	2.15%	(0.80%)	NOW and money market	**$34,317**	$53,776	($19,459)	($20,365)	$906
5,191	4,775	416	**1.31**	2.23	(0.92)	Savings	**67,976**	106,538	(38,562)	(46,738)	8,176
6,522	6,481	41	**3.69**	4.20	(0.51)	Time deposits	**240,598**	272,101	(31,503)	(37,605)	6,102
14,263	13,758	505	**2.40**	3.14	(0.74)		342,891	432,415	(89,524)	(104,708)	15,184
8,391	7,787	604	**1.76**	2.38	(0.62)	Short-term borrowings	**147,456**	185,343	(37,887)	(52,113)	14,226
5,444	4,403	1,041	**4.76**	5.58	(0.82)	Medium and long-term debt	**259,203**	245,795	13,408	(39,482)	52,890
28,098	25,948	2,150	**2.67**	3.33	(0.66)	**Total interest bearing liabilities**	**749,550**	863,553	(114,003)	(196,303)	82,300
3,495	3,227	268				Demand deposits					
1,188	1,020	168				Other sources of funds					
$32,781	$30,195	$2,586	**2.29%**	2.86%	(0.57%)						
			4.28%	4.19%	0.09%	**Net interest margin**					
						Net interest income on a taxable equivalent basis	**1,404,858**	1,263,861	140,997	$30,571	$110,426
			3.90%	3.72%	0.18%	**Net interest spread**					
						Taxable equivalent adjustment	**120,170**	103,617	16,553		
						Net interest income	**$1,284,688**	$1,160,244	$124,444		

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.

December 31, 2003, approximately 61% of the commercial and construction loan portfolios had floating or adjustable rates, compared to 54% at the end of 2002. Mortgage loan originations and refinancing also had a significant impact reducing the average yield on mortgage loans by 51 basis points, from 7.72% to 7.21% in 2003. Furthermore, the consumer loans yield declined 78 basis points, due in part to the interest rate scenario, coupled with promotional campaigns with lower rates for auto and personal loans. The lease financing yield declined 123 basis points, associated in part with the rate scenario and with the purchase of approximately $138 million in medical and communications equipment leases by the Corporation in mid-year 2003, which had a lower average yield than that of the Corporation's remaining lease financing portfolio.

The average yield on investment securities, on a taxable equivalent basis, declined to 4.99% in 2003 from 5.34% in the previous year, mainly due to growth of the average portfolio and the repricing of the investment portfolio runoff in a declining rate environment, partially offset by the extension in the maturity of the investment portfolio. The yield on money market investments had a negative variance of 10 basis points, declining from 3.21% in 2002 to 3.11% in 2003. On the other hand, due to the increase in volume and the characteristics of the securities classified as trading, mainly mortgage-backed

(Dollars in millions)

Average Volume			Average Yields / Costs		
2002	2001	Variance	2002	2001	Variance
$1,012	$932	$80	3.21%	5.11%	(1.90%)
10,090	8,170	1,920	5.34	6.74	(1.40)
364	267	97	4.66	5.75	(1.09)
11,466	9,369	2,097	5.13	6.55	(1.42)
7,752	7,471	281	6.68	8.11	(1.43)
875	843	32	11.13	11.62	(0.49)
6,987	5,507	1,480	7.72	8.12	(0.40)
3,115	3,224	(109)	12.33	12.90	(0.57)
18,729	17,045	1,684	8.22	9.20	(0.98)
$30,195	$26,414	$3,781	7.05%	8.26%	(1.21%)
$2,502	$2,102	$400	2.15%	3.08%	(0.93%)
4,775	4,170	605	2.23	2.79	(0.56)
6,481	6,247	234	4.20	5.39	(1.19)
13,758	12,519	1,239	3.14	4.14	(1.00)
7,787	7,136	651	2.38	4.62	(2.24)
4,403	2,669	1,734	5.58	7.18	(1.60)
25,948	22,324	3,624	3.33	4.65	(1.32)
3,227	3,057	170			
1,020	1,033	(13)			
$30,195	$26,414	$3,781	2.86%	3.93%	(1.07%)
			4.19%	4.33%	(0.14%)
			3.72%	3.61%	0.11%

(In thousands)

	Interest			Variance Attributable to	
	2002	2001	Variance	Rate	Volume
Money market investments	$32,505	$47,610	($15,105)	($18,180)	$3,075
Investment securities	538,916	550,250	(11,334)	(118,977)	107,643
Trading securities	16,961	15,358	1,603	(3,286)	4,889
	588,382	613,218	(24,836)	(140,443)	115,607
Loans:					
Commercial and construction	517,899	606,227	(88,328)	(110,434)	22,106
Leasing	97,367	97,951	(584)	(4,235)	3,651
Mortgage	539,758	447,197	92,561	(22,704)	115,265
Consumer	384,008	416,007	(31,999)	(15,013)	(16,986)
	1,539,032	1,567,382	(28,350)	(152,386)	124,036
Total earning assets	$2,127,414	$2,180,600	($53,186)	($292,829)	$239,643
Interest bearing deposits:					
NOW and money market	$53,776	$64,637	($10,861)	($21,107)	$10,246
Savings	106,538	116,226	(9,688)	(24,811)	15,123
Time deposits	272,101	337,018	(64,917)	(78,606)	13,689
	432,415	517,881	(85,466)	(124,524)	39,058
Short-term borrowings	185,343	329,648	(144,305)	(164,610)	20,305
Medium and long-term debt	245,795	191,576	54,219	(47,070)	101,289
Total interest bearing liabilities	863,553	1,039,105	(175,552)	(336,204)	160,652
Demand deposits					
Other sources of funds					
Net interest margin					
Net interest income on a taxable equivalent basis	1,263,861	1,141,495	122,366	$43,375	$78,991
Net interest spread					
Taxable equivalent adjustment	103,617	84,738	18,879		
Net interest income	$1,160,244	$1,056,757	$103,487		

securities, the average yield on trading account securities, on a taxable equivalent basis, increased to 6.08% from 4.66% in 2002.

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, 2003, average interest bearing deposits increased by $505 million, or 4%, from 2002. Average savings, NOW and money market deposits rose $464 million, or 6%, while average time deposits increased $41 million, or 1%, compared with 2002. Brokered certificates of deposit averaged $744 million and $756 million during 2003 and 2002, respectively. The average cost of interest bearing deposits decreased 74 basis points when compared with 2002, due to reductions in deposit rates reflecting the prevailing lower interest rate scenario.

Average short-term borrowings, which are mostly comprised of Fed funds and repurchase agreements, increased by $604 million in 2003, or 8%, from 2002, while longer-term borrowings increased by $1.0 billion, or 24%, 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, medium-term notes and obligations for trust preferred securities. The cost of short and long-term borrowings declined by 60 basis points due in part to the

low interest rate scenario and initiatives to reduce the cost of certain interest bearing liabilities, including the cancellation during April 2003 of $500 million in notional amount of interest rate swaps that the Corporation used to convert floating rate debt to fixed rate debt. In addition, the Corporation cancelled approximately $198 million in long-term borrowings which were replaced with debt with the same maturity, but at substantial lower costs. Also, the year 2002 was impacted by higher losses related to derivative transactions.

The Corporation's net interest margin, on a taxable equivalent basis, increased 9 basis points from 4.19% in 2002 to 4.28% in 2003, while the net interest spread increased by 18 basis points, rising to 3.90%. The net interest margin is affected by the net interest spread, which is the difference between the average yield on earning assets and the average rate paid on interest bearing liabilities, and the contribution of non-interest bearing funds supporting earning assets (primarily demand deposits and stockholders' equity). The Corporation's ratio of non-interest bearing funds supporting earning assets remained stable at approximately 14% in 2003 and 2002. The increase in net interest spread resulted from a more rapid decrease in the cost of interest bearing liabilities than in the yield of earning assets, combined with the full-year impact of the magnitude of 2002's interest rate reductions. Also, it is due to certain asset / liability management strategies undertaken in 2003, which included the extension in the maturity of investment securities, the termination of interest rate swaps, and the early cancellation of debt, which were previously mentioned.

As shown in Table D, net interest income on a taxable basis, amounted to $1,263.9 million in 2002, up $122.4 million from 2001. The increase was mainly related to a higher volume of investment securities and mortgage loans, partially offset by a lower net interest margin by 14 basis points when compared to 2001.

Provision for Loan Losses

The provision for loan losses is a charge to earnings to maintain the allowance for loan losses at a level consistent with management's assessment of the loan portfolio in light of current economic conditions and market trends, and taking into account loan impairment and net charge-offs. The Corporation's provision for loan losses for the year ended December 31, 2003 was $195.9 million, compared with $205.6 million in 2002 and $213.2 million in 2001. The provision for loan losses for 2003 exceeded net charge-offs by $22.0 million, or 13%. The decline in the provision for loan losses of $9.7 million, or 5%, compared with 2002, is mostly associated with the fact that the growth in the Corporation's loan portfolio continues to be primarily in mortgage loans, which historically has represented a lower risk portfolio. Refer to Table G for the composition of the loan portfolio. Also, the reduction reflects lower net charge-offs in the commercial, lease financing and consumer loan portfolios. The net charge-off to average loans ratio declined to 0.84% in 2003, from 0.92% in 2002 and 0.99% in 2001. 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 this analysis, operating income excludes securities and trading transactions, since management believes that their exclusion permits greater comparability for analytical purposes due to the volatility of these items. Operating income, excluding securities and trading transactions, totaled $565.1 million for the year 2003, an increase of $17.2 million, or 3%, compared with $547.9 million in 2002 and $493.6 million in 2001. Operating income by major categories for the past five years is presented in Table E.

Service charges on deposit accounts increased $4.1 million, or 3%, from 2002, reaching $161.8 million in 2003. This rise is mostly related to certain commercial accounts favorably impacted by service charges on non-compensatory balances. Service charges on deposit accounts were 0.91% of average deposits in 2003, 0.93% in 2002 and 0.94% in 2001.

Other service fees reached $284.4 million for the year ended December 31, 2003, an increase of $18.6 million, or 7%, compared with 2002. Insurance fees rose $5.5 million, or 22%, from 2002, derived from new products and services and the additional volume derived from the Corporation's broad delivery channels and client base. Debit and credit card fees increased $4.6 million, or 5%, mainly due to an increase in transactional volume. Processing income increased $3.5 million, or 9%, mainly due to higher transactional volume, including new service contracts. Check cashing fees rose $3.3 million, or 16%, mostly derived from Popular Cash Express, the Corporation's retail financial services subsidiary in the United States. Also, mortgage servicing fees, net of amortization, increased by $3.5 million, or 29%, partly due to a greater servicing portfolio. These favorable variances were partially offset by lower trust fees, mostly due to the sale of the Corporation's trust operations in the United States during 2002. These trust operations contributed with approximately $1.0 million in trust fees during 2002.

Gain on sales of loans, including loans held-for-sale, totaled $53.6 million for the year ended December 31, 2003, an increase of $1.5 million, or 3%, compared with 2002. This increase was derived mostly from $5.3 million in gains on the sale of loans guaranteed by the Small Business Administration in 2003, compared with gains of $2.2 million in 2002, partially offset by lower gains on the sale of mortgage loans. Other income decreased $7.0 million compared with 2002 mainly as a result of lower fees derived from the Corporation's investment in Telecomunicaciones de Puerto Rico, Inc. (TELPRI). Also, the results for 2002 included the gains on the sale of the U.S. trust operations and some branches of Popular Finance, which totaled $3.7 million. Partially offsetting the decrease in other income was the income earned from the bank-owned life insurance program, initiated in 2003, which amounted to $2.0 million.

During 2002, operating income, excluding securities and trading transactions, increased $54.3 million, or 11%, from 2001. This growth was principally attributed to other service fees which grew by $23.3 million, or 10%, from 2001. As shown in Table E, this increase was mostly attributed to higher credit and debit card fees, insurance agency commissions, check cashing fees and other fees, which included mortgage brokerage services. Also, contributing to the increase in operating income was service charges on deposit accounts, which rose $10.7 million, or 7%, mostly associated with commercial account analysis fees. Gains on sale of loans rose by $6.4 million, or 14%, mostly related to mortgage loans, associated with a higher volume of mortgage loan originations and subsequent sales of these loans. Other income increased by $13.9 million from 2001 mostly as a result of higher investment banking fees derived by the Corporation's broker/dealer subsidiary, gains on sale of software and equipment, consulting

Table E
Operating Income

(Dollars in thousands)	**2003**	2002	2001	2000	1999	Five-Year C.G.R.*
	Year ended December 31,					
Service charges on deposit accounts	**$161,839**	$157,713	$146,994	$125,519	$118,187	9.30%
Other service fees:						
Credit card fees and discounts	**60,432**	59,199	55,776	60,652	49,233	10.89
Debit card fees	**45,811**	42,461	37,156	30,513	22,785	20.95
Processing fees	**40,003**	36,545	37,521	28,528	8,312	-
Insurance fees	**29,855**	24,380	18,718	9,385	6,903	28.00
Check cashing fees	**24,420**	21,128	18,187	14,505	11,999	56.14
Sale and administration of investment products	**21,174**	21,590	21,633	17,298	17,452	12.23
Mortgage servicing fees, net of amortization	**15,497**	11,924	12,183	12,561	11,300	11.16
Trust fees	**7,830**	9,071	9,548	9,481	9,928	(2.47)
Other fees	**39,370**	39,508	31,825	33,072	31,815	12.74
Total other service fees	**284,392**	265,806	242,547	215,995	169,727	19.53
Other income	**65,327**	72,313	58,396	69,681	51,056	13.09
Gain on sale of loans	**53,572**	52,077	45,633	39,673	34,890	18.39
Total operating income	**$565,130**	$547,909	$493,570	$450,868	$373,860	15.19%
Operating income to average assets	**1.63%**	1.72%	1.77%	1.70%	1.57%	
Operating income to operating expenses	**50.77**	53.25	53.29	51.44	44.64	

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

and network services fees, and higher revenues from equity investments and TELPRI.

Securities and Trading Gains/Losses

Gains on sale of investment securities reached $71.1 million, compared with losses of $3.3 million in 2002. The gains realized during 2003 were mainly attributed to the sale of marketable equity securities held by the Corporation.

Trading losses amounted to $10.2 million in 2003, compared with trading losses of $0.8 million in the previous year. The losses experienced during 2003 resulted mostly from mortgage-backed securities, whose market value was negatively impacted by fluctuations in the long-term interest rate scenario.

During 2001, the Corporation recorded $27 thousand in gains on sale of investment securities and $1.8 million in trading account losses.

Operating Expenses

Operating expenses in 2003 amounted to $1,113.1 million, an increase of $84.1 million, or 8%, compared with $1,029.0 million in 2002. As a percentage of average assets, operating expenses decreased to 3.21% in 2003, compared with 3.23% in 2002 and 3.31% in 2001. The Corporation's efficiency ratio remained relatively stable from 60.39% in 2002 to 60.17% in 2003. In 2001 this ratio was 59.74%. The efficiency ratio is a relative measure used by banking institutions that expresses as a percentage operating expenses divided by the sum of net interest income and recurring non-interest income. The efficiency ratio measures how much of a company's revenue is used to pay operating expenses. Table F presents a detail of operating expenses and various related ratios for the last five years. Also, the discussion below identifies significant events which took place during 2003, that had an impact on these performance indicators.

Personnel costs, the largest category of operating expenses, totaled $526.4 million in 2003, an increase of $37.7 million, or 8%, compared with $488.7 million in 2002, mostly due to higher salaries as a result of headcount and merit salary increases, pension, incentives compensation, commissions and other bonuses and health insurance costs. Full-time equivalent employees (FTE's) totaled 11,474 at December 31, 2003, an increase of 437 employees from December 31, 2002. Pension plan expense for the year ended December 31, 2003, compared with the same period in the previous year increased by $8.5 million. At December 31, 2002, based on the prevailing conditions, the Corporation lowered the assumed discount rate for 2003 from 7.00% to 6.50%, and the expected rate of return on its pension plan assets from 8.50% to 8.00%. It also increased the rate of salary compensation assumption in calculating the cost for the pension plan. Incentives and commissions increased as a result of performance and higher business production at various subsidiaries.

Table F
Operating Expenses

(Dollars in thousands)	2003	2002	2001	2000	1999	Five-Year C.G.R.
	Year ended December 31,					
Salaries	**$388,527**	$361,957	$321,386	$306,529	$289,995	9.43%
Pension and other benefits	**117,270**	104,549	87,505	68,734	72,820	11.60
Profit sharing	**20,647**	22,235	16,251	18,913	23,881	(1.32)
Total personnel costs	**526,444**	488,741	425,142	394,176	386,696	9.31
Equipment expenses	**104,821**	99,099	97,383	98,022	88,334	6.84
Net occupancy expenses	**83,630**	78,503	72,100	67,720	60,814	11.46
Professional fees	**82,325**	84,660	73,735	64,851	67,955	7.22
Business promotion	**73,277**	61,451	50,783	46,791	45,938	13.23
Communications	**58,038**	53,892	48,883	45,689	43,146	9.46
Other taxes	**37,904**	37,144	38,756	34,125	33,290	3.32
Printing and supplies	**19,111**	19,918	17,804	20,828	20,709	1.66
Amortization of intangibles	**7,844**	9,104	27,438	34,558	31,788	(22.39)
Other operating expenses:						
Credit card processing, volume and interchange expenses	**23,858**	18,033	16,000	13,365	11,132	19.72
Transportation and travel	**13,811**	13,896	10,960	10,112	10,426	11.63
All other*	**82,020**	64,561	47,225	46,196	37,254	22.85
Subtotal	**586,639**	540,261	501,067	482,257	450,786	8.90
Total	**$1,113,083**	$1,029,002	$926,209	$876,433	$837,482	9.09%
Efficiency ratio**	**60.17%**	60.39%	59.74%	61.54%	63.08%	
Personnel costs to average assets	**1.52**	1.54	1.52	1.48	1.62	
Operating expenses to average assets	**3.21**	3.23	3.31	3.30	3.52	
Assets per employee (in millions)	**$3.18**	$3.05	$2.71	$2.63	$2.21	

* Includes insurance, sundry losses, FDIC assessment and other real estate expenses, among others.
** Non-interest expense divided by net interest income plus recurring non-interest income.

Operating expenses, excluding personnel costs, increased $46.3 million, or 9%, totaling $586.6 million for the year ended December 31, 2003, compared with $540.3 million in 2002. This increase was mostly attributed to higher business promotion, equipment expenses, net occupancy, communications and other operating expenses. The increase in business promotion of $11.8 million, or 19%, was mainly associated with higher advertising expenses, resulting mostly from the PREMIA rewards program, marketing campaigns, public relations, sponsorships and community involvement initiatives. The rise in equipment expenses of $5.7 million, or 6%, compared with the previous year, was mainly due to higher amortization of software packages to support the technology infrastructure of the Corporation, and higher maintenance and repairs charges for data processing and other equipment. Net occupancy expenses increased $5.1 million, or 7%, mainly as a result of the Corporation's continuous business expansion and new headquarters in the United States. The rise in communication expenses of $4.1 million, or 8%, was mainly associated with the electronic and data network which supports business applications, support for the debit card business and higher postage expenses. Other operating expenses, which rose by $23.2 million, or 24%, included an increase of approximately $19 million in sundry losses, mostly associated with unauthorized credit card transactions conducted on credit cards issued by Banco Popular de Puerto Rico. In connection with these losses, BPPR implemented various measures designed to enhance its systems for the detection and prevention of credit card fraud including changes to its authorization procedures and the parameters for issuing cards to its customers. Also, included in other operating expenses was a $12.1 million charge on the early cancellation of long-term borrowings, which was previously mentioned in this report. Other categories which increased in the category of other operating expenses included other real estate expenses and credit card interchange costs. The year ended December 31, 2002 included the $21.6 million forfeiture related to the federal investigation previously mentioned.

In 2002, total operating expenses increased $102.8 million, or 11%, from 2001. Personnel costs increased $63.6 million, or 15%, over 2001, mainly due to annual merit increases, incentives, profit sharing and higher pension and post-retirement costs. Other operating expenses, excluding personnel costs, totaled $540.3 million in 2002, compared with $501.1 million in 2001. This increase was mainly the

result of higher professional fees, business promotion, net occupancy expenses, and other operating expenses. The latter category included the $21.6 million forfeiture. These increases were partially offset by lower amortization of intangibles due to the adoption of SFAS No. 142 "Goodwill and Other Intangible Assets" during 2002.

Income Tax Expense

Income tax expense for the year ended December 31, 2003, was $130.3 million compared with $117.3 million in 2002, an increase of $13.0 million, or 11%. The increase in 2003 was primarily due to higher pretax earnings for the current year partially offset by higher benefits from net tax-exempt interest income and by an increase in gains on sale of securities subject to a lower statutory tax rate.

The effective tax rate decreased from 25.0% in 2002 to 21.7% in 2003 mostly due to the increase in gains on the sale of securities, which are subject to a lower tax rate on capital gains in Puerto Rico.

The difference between the effective tax rates 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 2002, income tax expense increased $12.0 million, or 11%, from $105.3 million in 2001. The effective tax rate was 25.7% in 2001. The decline in the effective tax rate was mostly due to a decrease in the disallowance of interest expense attributed to tax-exempt investment income 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 No. 142 in January 2002, since a portion of goodwill is not tax deductible.

In January 2004, the Government of Puerto Rico approved a legislation that partially eliminates the tax exempt status of an International Banking Entity ("IBE") that operates as a division or branch of a bank in Puerto Rico. In order to be subject to tax, the IBE's net taxable income must exceed 40% in 2004, 30% in 2005, and 20% in 2006 and thereafter, of the net taxable income of the bank as a whole. Once these thresholds are exceeded, the IBE will be taxed at regular tax rates on its net taxable income that exceeds the applicable threshold. Currently, management of the Corporation does not expect any material financial impact from this new legislation since the net taxable income of BPPR's IBE has not exceeded and is not expected to exceed 20% of BPPR's net taxable income.

Refer to Note 26 to the consolidated financial statements for additional information on income taxes.

Fourth Quarter Results

Net income for the quarter ended December 31, 2003 was $106.3 million, or $0.78 per common share (basic and diluted), compared with $80.8 million, or $0.61 per common share (basic and diluted), for the same quarter of 2002. The results for the fourth quarter of 2003 represented an annualized return on assets of 1.18% and an annualized return on common equity of 16.38%, compared with 0.96% and 14.64%, respectively, for the same period in 2002.

Net interest margin, on a taxable equivalent basis, increased to 4.22% for the last quarter of 2003, from 4.20% in the same period of 2002. The rise of $22.4 million or 7% in net interest income, on a taxable equivalent basis, over the fourth quarter of 2002 was mostly attributed to higher loan volume. The average volume of earning assets rose by $2.0 billion, primarily due to a $2.8 billion increase in average loans, mainly mortgages, partially offset by lower money market, trading and investment securities. The increase in the volume of earning assets was funded mostly through borrowed funds, which on average rose by $1.2 billion, and by interest bearing deposits, which increased by $0.2 billion. Also, other sources of funds, which include demand deposits and capital raised through stock issuance, rose in average by $0.6 billion. The increase in the net interest yield was mostly due to a reduction in the cost of funds by 45 basis points, partially offset by a lower yield in earning assets by 43 basis points, primarily related to a reduction in the yields of the investment and the commercial and mortgage loans portfolios.

The provision for loan losses totaled $49.7 million in the quarter ended December 31, 2003, compared with $50.0 million in the fourth quarter of 2002. Net charge-offs for the last quarter of 2003 were $47.9 million or 0.87% of average loans, compared with $31.9 million or 0.66% for the same period in 2002. The increase in net charge-offs in the fourth quarter of 2003 was mainly reflected in the commercial, including construction, and the consumer loan portfolios, which increased by $9.8 million and $3.9 million, respectively. 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 lower losses in proportion to that portfolio, than the losses incurred in the commercial, consumer and leasing portfolios.

Operating income, excluding securities and trading transactions, reached $141.8 million for the quarter ended December 31, 2003, compared with $140.1 million for the same quarter in 2002, an increase of $1.7 million, or 1%. The growth in operating income was led by an increase in other service fees of $2.1 million, service charges on deposit accounts of $1.4 million and gain on sales of loans of $1.3 million, partially offset by lower other operating income of $3.1 million. The rise in other service fees was mostly associated with higher processing fees. Service charges on deposit accounts increased mainly due to higher commercial account charges. Other operating income decreased mostly due to lower management fees and dividends derived from the participation in TELPRI.

Sale of securities for the fourth quarter in 2003 resulted in gains of $0.7 million, compared with losses of $0.7 million in the same quarter of 2002. Trading losses totaled $0.4 million and $0.7 million in the quarters ended December 31, 2003 and 2002, respectively.

Operating expenses for the quarter ended December 31, 2003 were $282.9 million, compared with $282.3 million in the same quarter in 2002. Personnel costs rose $9.8 million, or 8%, compared with the fourth quarter of 2002, primarily due to higher salaries, incentives and pension costs. Business promotion increased by $6.5 million, mostly associated with higher advertising, donations and public relation expenses. Other operating expenses decreased $14.4 million, mostly attributed to the previously disclosed $21.6 million forfeiture recorded in the last quarter of 2002. The remaining categories of operating expenses decreased $1.4 million, reflected mostly in lower professional fees, partially offset by an increase in net occupancy expenses.

Table G

Loans Ending Balances

	As of December 31,					
(Dollars in thousands)	**2003**	2002	2001	2000	1999	Five-Year C.G.R.
Commercial, industrial and agricultural	**$8,235,683**	$7,883,381	$7,420,738	$7,013,834	$6,656,411	7.84%
Construction	**335,482**	245,926	258,453	258,197	247,288	5.41
Lease financing	**1,053,821**	886,731	859,119	816,714	728,644	10.31
Mortgage*	**9,708,536**	7,466,531	6,497,459	4,643,646	3,933,663	23.70
Consumer	**3,268,670**	3,099,550	3,132,782	3,324,694	3,341,748	0.56
Total	**$22,602,192**	$19,582,119	$18,168,551	$16,057,085	$14,907,754	11.56%

*Includes loans held-for-sale.

Statement of Condition Analysis

Assets

The Corporation's total assets at December 31, 2003 were $36.4 billion, an increase of $2.8 billion, or 8%, compared with $33.6 billion a year earlier. Total assets at December 31, 2001 amounted to $30.7 billion. At December 31, 2003 earning assets totaled $34.5 billion, an increase of $2.6 billion, or 8%, from $31.9 billion at December 31, 2002. At December 31, 2001, earning assets totaled $29.1 billion.

Investment securities, including other investment securities, totaled $10.5 billion at December 31, 2003, a slight decrease of $0.2 billion, compared with $10.7 billion at December 31, 2002. For a breakdown of the Corporation's available-for-sale and held-to-maturity investment portfolios, refer to Notes 4 and 5 to the consolidated financial statements. Trading securities at December 31, 2003 totaled $605 million, an increase of $95 million compared with December 31, 2002. This increase was mostly in the form of mortgage-backed securities. At December 31, 2003, money market investments totaled $773 million, a decrease of $322 million, or 29%, from the $1.1 billion at December 31, 2002, mostly in federal funds sold at the banking subsidiaries and resale agreements.

The Corporation's loan portfolio was the major contributor to the increase in earning assets. Table G presents the portfolio composition and its continued growth. Total loans increased $3.0 billion, or 15%, from $19.6 billion at December 31, 2002 to $22.6 billion at the end of 2003.

Mortgage loans reflected the largest increase in the portfolio, rising $2.2 billion, or 30%, from December 31, 2002. The growth in mortgage loans resulted principally from the continued sales efforts and successful marketing campaigns, the prevailing low interest rate environment and portfolio acquisitions. The commercial (including construction) loan portfolio increased $442 million, or 5%. The growth in the commercial loan portfolio was partly the result of higher working capital needs by borrowers due to the current economic environment.

The consumer loan portfolio, which includes personal, auto and boat loans, credit cards and reserve lines, increased by $169 million, or 5%, since the end of 2002. The rise in consumer loans was mostly reflected in auto loans, which increased $194 million, or 24%, since December 31, 2002, mainly as a result of aggressive sales efforts in this area and favorable interest rates in the current rate scenario. Partially offsetting the increase in auto loans were decreases in other consumer loan categories. Personal loans, the largest category of consumer loans, decreased $12 million, from $1.4 billion at December 31, 2002. This decline was partly due to a lower demand for personal loans as a result of the interest rate scenario, which tends to favor the refinancing of mortgage loans and personal debt consolidation. Credit cards decreased $20 million, or 3%, since December 31, 2002 due in part to strong competition in this market.

The lease financing portfolio totaled $1.1 billion at December 31, 2003, compared with $0.9 billion at December 31, 2002. The acquisition of certain lease portfolios of medical and communications equipment by the Corporation's banking and lease financing subsidiaries in the United States during the second quarter of 2003 was the principal reason for this increase.

At December 31, 2003, premises and equipment totaled $485 million, compared with $461 million at December 31, 2002. The increase since 2002 is mostly associated with office remodeling and premises under construction for business expansion and relocations.

Other assets totaled $769 million at the end of 2003, compared with $578 million at December 31, 2002. The growth of $191 million was mostly associated with the bank owned life insurance program initiated in 2003 and with deferred tax assets.

At December 31, 2003, goodwill totaled $191 million compared with $183 million at the end of 2002. The increase was mostly associated with the acquisitions performed during the year, which included Mediawire, ADS / One Solutions, Levitt and other contingent payments on acquisitions performed in prior years. Other intangible assets totaled $27 million at December 31, 2003, a decline of $7 million, when 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, Borrowings and Other Liabilities

Total deposits increased $0.5 billion, or 3%, from $17.6 billion at December 31, 2002, to $18.1 billion at December 31, 2003. Interest bearing deposits totaled $14.4 billion at December 31, 2003, compared with $14.2 billion in the previous year. Non-interest bearing deposits were $3.7 billion at December 31, 2003, compared with $3.4 billion at the end of 2002.

The increase in deposits was mainly reflected in demand deposits, which increased $359 million, or 11%, since December 31, 2002. This rise was partly associated with retail and commercial deposits, including deposits in trust and public funds. Savings deposits, which include NOW and money markets, increased $226 million, or 3%. This growth was attained in both retail and commercial accounts. Time deposits, excluding brokered certificates of deposit, increased by $116 million, or 2%, from December 31, 2002. At December 31, 2003, brokered certificates of deposit, totaled $638 million, resulting in a decrease of $218 million, or 25%, since December 31, 2002.

Borrowed funds increased $1.9 billion, from $13.0 billion at December 31, 2002 to $14.9 billion at the end of 2003. The increase in borrowings was used primarily to fund the Corporation's loan portfolio growth. Short-term borrowings, federal funds purchased and assets sold under agreements to repurchase amounted to $7.8 billion at December 31, 2003, compared with $8.4 billion in 2002. Other borrowed funds, classified long-term, totaled $7.1 billion at December 31, 2003, compared with $4.6 billion at the same date the previous year.

During 2003, the Corporation sold $500 million in five-year fixed-rate medium-term notes and issued $31 million in corporate debt with its yield linked to the Standard & Poor's 500 index. Also, Equity One tapped the asset-backed securities market with offerings of approximately $2.7 billion in asset-backed securities, supported by residential mortgage loans. These transactions were accounted as secured borrowings since they did not qualify as sales under SFAS No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities."

Furthermore, during the last quarter of 2003, Popular Capital Trust I, a statutory business trust that is wholly-owned by the Corporation, sold to institutional and retail investors $300 million of its 6.70% trust preferred securities ("the capital securities"). In accordance with the provisions of FIN No. 46R, the Corporation deconsolidated the issuer trust at the end of 2003. Deconsolidation of the issuer trust resulted in the re-characterization of the capital securities in the Corporation's consolidated statement of condition at December 31, 2003 from capital securities to junior subordinated debentures. The junior subordinated debentures issued by the Corporation to the issuer trusts during 2003 totaled $309 million and are included in the consolidated statement of condition as notes payable. Refer to Note 16 to the consolidated financial statements for further information.

Refer to Notes 12 through 17 to the consolidated financial statements for information on the Corporation's borrowings at December 31, 2003 and 2002.

Stockholders' Equity

Total stockholders' equity at December 31, 2003 was $2.8 billion, compared with $2.4 billion at the same date in 2002. The issuance of 7,475,000 shares of the Corporation's 6.375% noncumulative monthly income preferred stock, 2003 Series A, during the first quarter of 2003, and earnings retention contributed to the increase in stockholders' equity since 2002. The preferred stock issuance, net of related costs, contributed approximately $183 million in additional capital, which qualifies as Tier 1 capital for regulatory purposes. The increase was partially offset by a decrease in accumulated other comprehensive income, mainly due to a $162 million reduction in unrealized gains on the securities available-for-sale portfolio. Refer to the consolidated statements of condition, of stockholders' equity and of comprehensive income for further information.

In 2003, the Corporation declared dividends on common stock of $134.1 million, compared with $106.7 million in 2002. Total cash dividends declared per common share for 2003 amounted to $1.01, which is 26% higher than the 2002 cash dividend of $0.80 per common share, and 33% higher than the 2001 cash dividend of $0.76 per common share. The dividend payout ratios for 2003, 2002 and 2001 were 27.05%, 30.76% and 33.10%, respectively.

The Corporation offers a dividend reinvestment plan for its stockholders that allows them to reinvest dividends in shares of common stock at a 5% discount from the average market price at the time of the issuance. During 2003, a total of 431,846 shares, equivalent to $14.9 million in additional capital, were issued under the Plan. In 2002, 383,301 shares representing $11.2 million in additional capital were issued under this Plan.

The Corporation continues to exceed the well-capitalized guidelines under the federal banking regulations. Table H presents the Corporation's capital adequacy information for the years 1999 to 2003. Note 20 to the consolidated financial statements presents further information on the Corporation's regulatory capital requirements.

During 2003, the Corporation adopted FIN No. 46R that resulted in the deconsolidation of two subsidiaries that had issued approximately $444 million in trust preferred securities qualifying as Tier 1 regulatory capital. However, debt to these subsidiaries of closely similar amounts is now included in notes payable in the Corporation's consolidated statement of condition. The Federal Reserve Bank has reached no final conclusion on the continued qualification of trust preferred securities for regulatory capital, but has indicated that until further notice, they will continue to count as Tier 1 regulatory capital. If Tier 1 capital treatment is disallowed, the Corporation's Tier 1 capital would be reduced by approximately $444 million.

The average tangible equity amounted to $2.3 billion and $1.9 billion for the year ended December 31, 2003 and 2002, respectively. Total tangible equity at December 31, 2003 was $2.5 billion compared with $2.2 billion at the end of the previous year. The average tangible equity to average tangible assets ratio for 2003 was 6.76%, compared with 6.12% in 2002. Book value per common share was $19.32 at December 31, 2003, compared with $18.20 at December 31, 2002. The market value of the Corporation's common stock at the end of 2003 was $44.85 per share compared with $33.80 a year earlier. Total market capitalization was $6.0 billion at December 31, 2003 and $4.5 billion at December 31, 2002.

The Corporation's common and preferred stocks are traded on the National Association of Securities Dealers Automated Quotation (NASDAQ) National Market System under the symbols BPOP and BPOPO, respectively. 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 26, 2004, the Corporation had 10,061 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

Table H
Capital Adequacy Data

(Dollars in thousands)	2003	2002	2001	2000	1999
	As of December 31,				
Risk-based capital:					
Tier I capital	**$2,834,599**	$2,054,027	$1,849,305	$1,741,004	$1,557,096
Supplementary (Tier II) capital	**341,840**	346,531	330,213	321,627	324,519
Total capital	**$3,176,439**	$2,400,558	$2,179,518	$2,062,631	$1,881,615
Risk-weighted assets:					
Balance sheet items	**$21,384,288**	$19,487,339	$18,087,672	$16,173,005	$14,878,731
Off-balance sheet items	**1,411,402**	1,355,430	479,691	496,735	428,780
Total risk-weighted assets	**$22,795,690**	$20,842,769	$18,567,363	$16,669,740	$15,307,511
Ratios:					
Tier I capital (minimum required - 4.00%)	**12.43%**	9.85%	9.96%	10.44%	10.17%
Total capital (minimum required - 8.00%)	**13.93**	11.52	11.74	12.37	12.29
Leverage ratio (minimum required - 3.00%)	**8.00**	6.19	6.46	6.40	6.40
Equity to assets	**7.34**	6.76	7.50	7.09	7.19
Tangible equity to assets	**6.76**	6.12	6.74	6.18	6.21
Equity to loans	**12.28**	11.48	12.30	11.93	12.32
Internal capital generation rate	**12.84**	11.29	9.19	9.59	9.80

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 2002 and 2003, options for 423,647 and 481,936 common shares, respectively, were awarded under the plan. Refer to Note 24 to the consolidated financial statements for further information.

Risk Management

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

Management of market risk is the responsibility of the Corporation's Board of Directors (the Board), which is responsible for establishing policies regarding the assumption and management of market risk. The Board delegates the monitoring of this risk to the Board's Risk Management Committee, and its management 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 maturing or repricing at a future point in time. 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, 2003. These static measurements do not reflect the results of any projected

Table I

Common Stock Performance

	Market Price High	Market Price Low	Cash Dividends Declared Per Share	Book Value Per Share	Dividend Payout Ratio	Dividend Yield *	Price/ Earnings Ratio	Market/ Book Ratio
2003				**$19.32**	**27.05%**	**2.45%**	**12.93x**	**232.14%**
4th quarter	**$47 4/7**	**$39 4/5**	**$0.27**					
3rd quarter	**41 1/6**	**36 2/3**	**0.27**					
2nd quarter	**40 5/6**	**34 1/6**	**0.27**					
1st quarter	**35**	**32**	**0.20**					
2002				18.20	30.76	2.58	12.95	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					

* Based on the average high and low market price for the four quarters.

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, 2003 the Corporation's one-year cumulative gap was $1.4 billion or 4.2% of total earning assets. During 2003, the Corporation extended the maturity of the investment portfolio as part of asset / liability management strategies. Also, it continued extending the maturity dates of certain borrowings into long-term maturities motivated by the historically low interest rate environment.

During 2003, the Corporation terminated, as part of the risk management strategies, certain interest rate swap agreements with an aggregate notional amount of $500 million. In such agreements, the Corporation had converted floating rate debt to fixed rate debt.

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. At December

Table J

Interest Rate Sensitivity

	As of December 31, 2003							
	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	$496,998	$259,695	$16,200					$772,893
Investment and trading securities	2,231,045	634,780	466,525	$142,912	$348,500	$7,252,901		11,076,663
Loans	6,390,885	1,117,677	1,239,682	1,251,837	951,759	11,650,352		22,602,192
Other assets							$1,982,967	1,982,967
Total	9,118,928	2,012,152	1,722,407	1,394,749	1,300,259	18,903,253	1,982,967	36,434,715
Liabilities and stockholders' equity:								
Savings, NOW and money market accounts	707,779					7,131,512		7,839,291
Other time deposits	1,026,705	1,005,157	932,149	669,405	384,667	2,513,747		6,531,830
Federal funds purchased and assets sold under agreements to repurchase	3,342,313	1,144,252	47,062	50,000	70,000	1,125,360		5,778,987
Other short-term borrowings	1,702,372	172,917		86,335	35,000			1,996,624
Notes payable	1,895,490	556,358	82,739	77,095	142,501	4,237,842		6,992,025
Subordinated notes						125,000		125,000
Non-interest bearing deposits							3,726,707	3,726,707
Other non-interest bearing liabilities and minority interest							689,834	689,834
Stockholders' equity							2,754,417	2,754,417
Total	$8,674,659	$2,878,684	$1,061,950	$882,835	$632,168	$15,133,461	$7,170,958	$36,434,715
Interest rate swaps	25,000					(25,000)		
Interest rate sensitive gap	469,269	(866,532)	660,457	511,914	668,091	3,744,792		
Cumulative interest rate sensitive gap	469,269	(397,263)	263,194	775,108	1,443,199	5,187,991		
Cumulative interest rate sensitive gap to earning assets	1.36%	(1.15%)	0.76%	2.25%	4.19%	15.06%		

31, 2003, 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 $1.4 million and an increase of $13.3 million, respectively, which represented changes of 0.1% and 1.0% in net interest income. It should be mentioned that some short-term rates are below 1% at December 31, 2003. In the scenario of interest rates decreasing 100 basis points, rates were not permitted to fall below 0.1%. These estimated changes are within the policy guidelines established by the Board.

The Corporation's loan and investment porfolios are subject to prepayment risk, which results from the ability of a third party to pay a debt obligation prior to maturity. Generally, in a declining rate scenario, prepayment activity should increase, reducing the weighted average lives of the earning asset. Accordingly, the Corporation would be required to amortize net premiums into income over a shorter period of time, thereby reducing the corresponding asset yield and net interest income. Conversely, the opposite would occur in a rising rate scenario. At December 31, 2003, premiums associated with loans acquired represented less than 1% of the total loan portfolio and approximately 3% of the investment portfolio. Prepayment risk also has a significant impact on mortgage-backed securities and collateralized mortgage obligations, since prepayments could shorten the weighted average life of these portfolios. Table K presents mortgage-related investment securities based on expected maturities, which take into consideration prepayment assumptions as determined by management based on the expected interest rate scenario.

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 as well as principal repayments,

Table K

Maturity Distribution of Earning Assets

	As of December 31, 2003					
	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	$291,693	$406,200		$75,000		$772,893
Investment and trading securities	1,521,115	2,845,893	$935,833	4,369,167	$1,078,935	10,750,943
Loans:						
Commercial	3,288,602	1,621,462	1,449,294	873,574	1,002,751	8,235,683
Construction	155,625	4,383	160,652	7,037	7,785	335,482
Lease financing	312,062	733,563		8,196		1,053,821
Mortgage	939,439	1,661,825	380,053	4,943,609	1,783,610	9,708,536
Consumer	878,342	1,537,963		852,365		3,268,670
Total	$7,386,878	$8,811,289	$2,925,832	$11,128,948	$3,873,081	$34,126,028

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

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 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. At December 31, 2003, the estimated duration of the market value of equity of the Corporation was 7.44 years compared with 7.03 years as of the same date a year earlier.

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, index options, 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 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 "Accounting for Derivative Instruments and Hedging Activities" (as amended), and their changes in market value are recognized in current earnings. Refer to Note 29 to the consolidated financial statements for further information on the Corporation's limited 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 29 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.

At December 31, 2003 the trading portfolio of the Corporation amounted to $605 million and represented 1.7% of total assets, compared with $510 million and 1.5% a year earlier. Mortgage-backed securities represented 92% of the trading portfolio at the end of 2003, compared with 74% in 2002. A significant portion of the trading portfolio is hedged against market risk by positions that offset the risk assumed. This portfolio was composed of the following at December 31, 2003:

(Dollars in thousands)	Amount	Weighted Average Yield*
Mortgage-backed securities	$559,624	6.02%
Commercial paper	14,979	1.50
U.S. Treasury and agencies	325	3.77
Puerto Rico Government obligations	15,014	2.90
Other	15,177	5.96
	$605,119	5.83%

*Not on a taxable equivalent basis

At December 31, 2003, the trading portfolio of the Corporation had an estimated duration of 4.20 years and a one-month value at risk (VAR) of approximately $1.1 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.

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 interests in Consorcio de Tarjetas Dominicanas, S.A. 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. At December 31, 2003 the Corporation had $24 million in an unfavorable foreign currency translation adjustment as part of accumulated other comprehensive income, compared with $2 million at December 31, 2002. The increase was mostly associated with a devaluation of the Dominican peso. However, management does not expect future exchange rate volatility between the U.S. dollar and the particular foreign currency to affect significantly the Corporation's consolidated financial condition or results of operations.

Liquidity

Liquidity refers to the ability to fund current operations, including the cash flow requirements of depositors and borrowers as well as future growth. Liquidity management involves maintaining ample and diverse funding capacity, liquid assets and other sources of cash to accommodate fluctuations in asset and liability levels due to customer behavior, capital market conditions or unanticipated events. Liquidity risk may arise whenever the Corporation's ability to raise cash and the runoff of its assets are substantially less than the runoff of its liabilities.

The Board of Directors, through the Risk Management Committee, is also responsible for approving policies regarding liquidity risk management as well as approving operating and contingency procedures, and supervising their implementation. The Market Risk Committee and the Treasury Division are responsible for planning and executing the Corporation's funding activities and strategy, and for implementing the policies and procedures approved by the Risk Management Committee.

Liquidity is managed at the level of the holding companies that own the banking and non-banking subsidiaries. Also, it is managed at the level of the banking and non-banking subsidiaries. Each level has different funding needs and sources, and each level is subject to regulatory guidelines and requirements. Diversification of funding sources is a major priority, as it helps protect the liquidity of the Corporation from market disruptions.

The principal sources of funding for the banking subsidiaries include retail and commercial deposits, institutional borrowings, and to a lesser extent, loan sales. The principal uses of funds for the banking subsidiaries include repayment of maturing debt, dividend payments to the holding company, loan and investment portfolio growth, and operational needs, among others. In addition, the Corporation's banking subsidiaries maintain borrowing facilities at the Discount Window of the Federal Reserve Bank of New York and the Federal Home Loan Bank of New York, and have a considerable amount of collateral that can be used to raise funds under these facilities.

The principal sources of funding for the non-banking subsidiaries include internally generated cash flows from operations, borrowed funds from the holding companies, loan sales and proceeds from securitization transactions, which are structured as secured borrowings, not sales. The principal uses of funds for the non-banking subsidiaries include loan portfolio growth, repayment of maturing debt and operational needs.

The principal sources of funding for the holding company include dividends received from the banking subsidiaries and proceeds from the issuance of medium-term notes, commercial paper, junior subordinated debentures, secured debt and equity. The principal uses of these funds include the payment of maturing debt, dividend payments to shareholders and subsidiary funding.

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. 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.

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.

The Consolidated Statements of Cash Flows can be used to assess the Corporation's ability to generate positive future net cash flows from operations and its ability to meet future obligations. Net cash provided by operating activities totaled $562 million in 2003. Cash provided by financing activities totaled $2.5 billion, resulting mostly from the increase in deposits of $476 million, issuance of preferred stock of $183 million and net proceeds from long-term borrowings of $2.5 billion, partially offset by dividend payments of $135 million and the net decrease in short-term borrowings, federal funds purchased and resale agreements of $613 million, among the principal factors. These activities were partially offset by net cash used in investing activities of $3.0 billion, primarily resulting from a net increase in loans of $3.5 billion, offset by net inflows related to investment securities and money market investments of $576 million.

The Corporation's liquidity position is closely monitored on an ongoing basis. Management believes that available sources of liquidity are adequate to meet the funding needs in the normal course of business.

The composition of the Corporation's financing to total assets at December 31, 2003 and 2002 were as follows:

(Dollars in millions)	**2003**	2002	% increase (decrease) from 2002 to 2003	% of total assets **2003**	% of total assets 2002
Non-interest bearing deposits	**$3,727**	$3,367	10.7%	**10.2%**	10.0%
Interest-bearing core deposits	**11,117**	10,906	1.9	**30.5**	32.4
Other interest-bearing deposits	**3,254**	3,341	(2.6)	**8.9**	9.9
Federal funds and repurchase agreements	**5,779**	6,685	(13.6)	**15.9**	19.9
Other short-term borrowings	**1,997**	1,704	17.2	**5.5**	5.1
Notes payable, subordinated notes and capital securities	**7,117**	4,568	55.8	**19.5**	13.6
Others	**690**	678	1.8	**1.9**	2.0
Stockholders' equity	**2,754**	2,411	14.2	**7.6**	7.2

The following sections provide further information on the Corporation's major funding activities and needs, as well as the risks involved in these activities.

Deposits

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. Total deposits increased 3% from December 31, 2002 to the same date in 2003. Particularly, core deposits, which are an important stable, low-cost funding source, were up 4% from December 31, 2002, totaling $14.8 billion at December 31, 2003. Certificates of deposits with denominations of $100,000 and over as of December 31, 2003 totaled $3.3 billion, or 18% of total deposits. Their distribution by maturity was as follows:

(In thousands)	
3 months or less	$1,373,648
3 to 6 months	405,107
6 to 12 months	433,519
over 12 months	1,041,751
	$3,254,025

Average deposits for the year ended December 31, 2003 represented 54% of average earning assets, compared with 56% for the year ended December 31, 2002. Table L summarizes average deposits for the past five years. During the last five years, total average deposits increased at a compound growth rate of 7.67%.

Segregated in Table L are 936 deposits, which represent funds of 936 corporations that are reinvested by the Corporation in eligible assets, which are tax-exempt for U.S. and Puerto Rico's Industrial Incentive Act purposes. A legislation that repealed federal tax exemption on these funds, was approved for taxable years beginning after December 31, 1995, as such, 936 deposits have substantially decreased in volume since that date.

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.

Borrowings

Various forms of both short and long-term borrowings provide additional funding sources. Wholesale or institutional sources of funding include the repo and federal funds markets, commercial paper programs, medium term notes, junior subordinated debentures, and asset securitizations.

The Corporation diversifies the sources and the maturities of these borrowings in order to avoid undue reliance on any single source and maintain an orderly volume of borrowings maturing in the future.

Table L

Average Total Deposits

(Dollars in thousands)	2003	2002	2001	2000	1999	Five-Year C.G.R.
	For the Year					
Demand	**$3,495,099**	$3,226,758	$3,052,270	$3,030,307	$3,032,001	6.03%
Other non-interest bearing accounts	**-**	-	4,277	4,976	6,881	-
Non-interest bearing	**3,495,099**	3,226,758	3,056,547	3,035,283	3,038,882	6.00
Savings accounts	**5,190,527**	4,775,115	4,170,202	4,113,338	4,132,397	6.65
NOW and money market accounts	**2,550,480**	2,502,272	2,101,892	1,811,352	1,745,579	11.80
Savings deposits	**7,741,007**	7,277,387	6,272,094	5,924,690	5,877,976	8.19
Certificates of deposit:						
Under $100,000	**2,877,946**	2,809,305	2,751,490	2,766,905	2,664,174	5.95
$100,000 and over	**2,784,708**	2,797,085	2,721,716	2,030,067	1,601,861	14.40
936	**97,128**	121,290	111,251	259,203	297,122	(23.45)
Certificates of deposit	**5,759,782**	5,727,680	5,584,457	5,056,175	4,563,157	7.86
Other time deposits	**762,080**	752,821	662,693	492,334	311,323	9.20
Interest bearing	**14,262,869**	13,757,888	12,519,244	11,473,199	10,752,456	8.11
Total	**$17,757,968**	$16,984,646	$15,575,791	$14,508,482	$13,791,338	7.67%

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.

The Corporation and BPPR's debt ratings at December 31, 2003 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-

The ratings above are subject to revisions or withdrawal at any time by the assigning rating agency. Each rating should be evaluated independently of any other rating.

At December 31, 2003, the Corporation had outstanding $85 million in commercial paper. At that date, the Corporation had a committed liquidity facility in the amount of $340 million, which also serves as a back-up for the commercial paper program. The facility has never been drawn upon and management does not anticipate doing so in the future. At the end of 2003, the Corporation had $1.1 billion in approved lines of credit with the Federal Home Loan Bank, of which approximately $50.5 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, excluding the discount window, $15.9 billion was approved and $10.4 billion remained unused at the end of 2003. In addition, BPPR has established a borrowing facility at the discount window of the Federal Reserve Bank of New York. At December 31, 2003, BPPR has a borrowing capacity at the discount window of approximately $1.7 billion, which remained unused. These facilities are collateralized sources of credit that are highly reliable even under difficult market conditions. The amount available under this line is dependent upon the balance of loans and securities pledged as collateral.

In the ordinary course of business, Equity One, the Corporation's mortgage and consumer lending subsidiary in the United States, packages residential mortgage loans and participates in securitization transactions that result in secured borrowings, as opposed to sales of loans. This determination is made in accordance with the detailed accounting guidelines dictated by SFAS No. 140. During 2003, securitization arrangements performed by Equity One, which qualified for the secured borrowing accounting treatment, approximated $2.7 billion. The loans, which serve as collateral for the secured debt, remain in the Corporation's consolidated statement of condition at December 31, 2003.

At December 31, 2003, junior subordinated debentures, arising in deals structured for trust preferred securities, amounted to $458 million, of which $309 million was issued in 2003.

A more detailed description of borrowings 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.

In 2003, 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 $2.5 billion. At December 31, 2003, the total amount was available. This shelf registration is intended to permit the Corporation to raise funds with a relatively short lead-time.

Some of the Corporation's borrowings and deposits 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 that could accelerate the maturity of the underlying borrowing was $231 million at December 31, 2003, of which $200 million were in Popular North America and $31 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. At December 31, 2003 the Corporation had outstanding $719 million in obligations subject to covenants, including those which are subject to rating triggers and those outstanding under the commercial paper program.

Other Funding Sources

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. At December 31, 2003, the entire investment portfolio, excluding trading securities, totaled $10.5 billion, of which $0.9 billion, or 9%, had 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, 2003 is presented in Table K. As of that date $5.6 billion or 25% 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.

Another component of liquidity and an important source of funding is the Corporation's capital. As previously mentioned, the Corporation issued preferred stock during 2003 in order to raise funds for operations and to strengthen its regulatory capital position.

Contractual Obligations and Commercial Commitments

In the normal course of business, the Corporation enters into various contractual obligations and commitments that may require future cash payments under contracts as disclosed in the notes to the consolidated financial statements. At December 31, 2003, the aggregate contractual cash obligations were:

	Payments Due by Period				
(In millions)	Less than 1 year	1 to 3 years	4 to 5 years	After 5 years	Total
Certificates of deposit	$4,018	$1,517	$913	$84	$6,532
Fed funds and repurchase agreements	4,358	861	485	75	5,779
Long-term debt	1,405	2,482	1,750	1,480	7,117
Purchase obligations	63	26	20		109
Annual rental commitments under operating leases	39	62	45	93	239
Capital leases	1				1
Total contractual cash obligations	$9,884	$4,948	$3,213	$1,732	$19,777

Purchase obligations include major legal and binding contractual obligations outstanding at the end of 2003, primarily for services, equipment and real estate construction projects.

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

During 2004, the Corporation expects to contribute $2.3 million to the pension and benefit restoration plans. Also, during 2004, it expects to contribute $6.9 million to the postretirement benefit plan to fund current benefit payment requirements. Refer to Note 23 to the consolidated financial statements for further information on these plans.

Popular, Inc. also utilizes lending-related financial instruments in the normal course of business to accommodate the financial needs of its customers. The Corporation's exposure to credit losses 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 these instruments. The Corporation uses credit procedures and policies in making those commitments and conditional obligations as it does in extending loans to customers. Since many of the commitments may expire without being drawn upon, the total contractual amounts are not representative of the Corporation's actual future credit exposure or liquidity requirements for these commitments.

At December 31, 2003 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	$4,340	$538	$93	$73	$5,044
Commercial letters of credit	14				14
Standby letters of credit	57	75	5		137
Commitments to originate mortgage loans	363	12	10	40	425
Total	$4,774	$625	$108	$113	$5,620

At December 31, 2003, the Corporation has various outstanding commitments to purchase mortgage loans from other institutions at market. In 2003, the Corporation entered into loan commitments to purchase an aggregate amount of $275 million of mortgage loans with the option of purchasing $125 million in additional loans. The commitments expire completely by June 30, 2005. As of December 31, 2003, $75 million in loans had been purchased under these agreements. In 2002, the Corporation had entered into a similar commitment to purchase $100 million of mortgage loans with the option of purchasing $75 million in additional loans. This agreement expires on June 30, 2004. At December 31, 2003, the Corporation had purchased $100 million in mortgage loans under this agreement.

Refer to the notes to the consolidated financial statements for further information on the Corporation's contractual obligations and commercial commitments.

Off-Balance Sheet Financing Entities

The Corporation conducts asset securitizations that involve the transfer of mortgage loans to a qualifying special purpose entity (QSPE), which in turn transferred these assets and their titles, to different trusts, thus isolating those loans from the Corporation's assets. The transactions, conducted before 2001, 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. The investors and the securitization trusts have no recourse to the Corporation's assets. At December 31, 2003, these trusts held approximately $156 million in assets in the form of mortgage loans. Their liabilities in the form of debt principal due to investors approximated $148 million at the end of 2003. The Corporation retained servicing responsibilities and certain subordinated interests in these securitizations in the form of interest-only securities. 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, and fair value, respectively. During the year ended December 31, 2003 the Corporation recorded approximately $3.5 million of write-downs related to interest-only strips, in which the decline in the fair value was considered other than temporary.

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 requires 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 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 a Credit Risk Management Division (CRMD), which is centralized and independent of the lending function. It oversees the credit risk rating system and reviews 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 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 are considered problem loans based on their risk profile.

The Corporation also has a 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 in the U.S. mainland. This group evaluates the credit risk profile of each originating unit along with each unit's credit administration effectiveness, the quality of the credit and collateral documentation.

At December 31, 2003, the Corporation's credit exposure was centered in its $22.6 billion loan portfolio, which represented 66% of its earning assets. The portfolio composition for the last five years is presented in Table G.

Table M

Non-Performing Assets

(Dollars in thousands)	**2003**	2002	2001	2000	1999
		As of December 31,			
Non-accrual loans:					
Commercial, industrial and agricultural	**$166,421**	$170,039	$195,169	$169,535	$163,968
Construction	**1,845**	-	3,387	2,867	1,504
Lease financing	**7,494**	10,648	10,297	7,152	3,820
Mortgage*	**344,916**	279,150	176,967	99,861	70,038
Consumer	**36,350**	40,019	40,946	43,814	57,515
Other real estate	**53,898**	39,399	31,532	23,518	29,268
Total	**$610,924**	$539,255	$458,298	$346,747	$326,113
Accruing loans past-due 90 days or more	**$26,364**	$26,178	$24,613	$21,599	$28,731
Non-performing assets to loans	**2.70%**	2.75%	2.52%	2.16%	2.19%
Non-performing loans to loans	**2.46**	2.55	2.35	2.01	1.99
Non-performing assets to assets	**1.68**	1.60	1.49	1.24	1.28
Interest lost*	**$45,541**	$35,820	$27,866	$23,129	$20,428

*Includes loans held-for-sale.

Note: The Corporation's policy is to place commercial and construction loans on non-accrual status if payments of principal or interest are past-due 60 days or more. 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.

The Corporation issues certain credit-related off-balance sheet financial instruments, including commitments to extend credit, standby 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 27 to the consolidated financial statements and to the Contractual Obligations and Commercial Commitments section of this Management's Discussion and Analysis for the Corporation's involvement in these credit-related activities.

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 29 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 approximately 675,000 consumer loans and 35,000 commercial lending relationships. Only 96 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 25% of total commercial loans outstanding, including construction, are secured by real estate or cash collateral. In addition, the secured consumer loan portfolio was $1.4 billion or 43% of the total consumer portfolio at December 31, 2003.

The Corporation continues diversifying its geographical risk as a result of its growth strategy in the United States and the Caribbean. Puerto Rico's share of the Corporation's total loan portfolio has decreased from 59% in 1999, to 51% in 2002 and 48% in 2003. The Corporation's assets and revenue composition by geographical area and by business line segments is further presented in Note 31 to the consolidated financial statements.

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, $62 million of residential mortgages and $282 million in commercial loans were insured or guaranteed by the U.S. Government or its agencies at December 31, 2003. The Corporation continues to be one of the largest Small Business Administration lenders in the United States. Furthermore, there were $295 million of loans issued to or guaranteed by the Puerto Rico Government and its political subdivisions and $37 million of loans issued to or guaranteed by the U.S. Virgin Islands Government. Puerto Rico's economic outlook is generally similar to that of the U.S. mainland, and its Government and its instrumentalities are investment-grade rated borrowers in the U.S. capital markets.

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. Non-performing assets were $611 million or 2.70% of loans at December 31, 2003, compared with $539 million or 2.75% at the end of 2002, and $458 million or 2.52% at December 31, 2001.

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. 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 mortgage loans totaled $345 million or 56% of total non-performing assets and 4% of total mortgage loans at December 31, 2003, compared with $279 million or 52% of total non-performing assets and 4% of total mortgage loans at December 31, 2002. This increase of $66 million, or 24%, in non-performing mortgage loans was mostly driven by portfolio growth. Mortgage loans comprised 74% of total loan growth since December 31, 2002. The increase in non-performing mortgage loans was mostly attributable to Equity One's non-performing mortgage loans, which rose by $63 million, or 34%, since December 31, 2002. Equity One's total mortgage portfolio rose by $1.9 billion, or 45%, since December 31, 2002. Approximately, a 66% of Equity One's total mortgage loan portfolio is considered non-prime under 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 creditworthiness and risk profile based on their credit history and current credit accounts). Nevertheless, as of December 31, 2003, Equity One's non-prime portfolio performed 64 basis points below industry indicators for serious delinquency (90 days past due and over plus foreclosures) and 81 basis points below industry indicators for total delinquency (30 days past due and over), a better performance than the non-prime mortgage loan industry, as reported by the company Loan Performance Services. The industry indicators in this analysis correspond to statistics derived from those companies which participate in the studies performed by the company Loan Performance Services. The Corporation has experienced a low level of losses in its mortgage portfolio, historically, both in the U.S. mainland and Puerto Rico, as compared to other loan categories of the Corporation's portfolio. Refer to the Allowance for Loan Losses section in this report for information on mortgage loans net charge-offs statistics.

At December 31, 2003, non-performing commercial loans, including construction loans, reflected a decline of $2 million, compared with December 31, 2002. These non-performing loans represented 1.96% of the commercial and construction loan portfolio at December 31, 2003, compared with 2.09% in 2002.

Furthermore, non-performing consumer loans decreased $4 million, or 9%, since December 31, 2002. These non-performing loans represented 1.11% and 1.29% of total consumer loans at December 31, 2003 and 2002, respectively. The decline was principally the result of a better credit quality mix, coupled with improved collection strategies and initiatives.

Non-performing financing leases represented 0.71% and 1.20% of the lease financing portfolio at December 31, 2003 and 2002, respectively. Non-performing financing leases at December 31, 2003 decreased by $3 million compared with the same date in 2002.

Other real estate assets reached $54 million at December 31, 2003, an increase of $15 million, or 37%, from December 31, 2002. This increase was associated with higher foreclosures in the mortgage business as a result of mortgage portfolio growth, coupled with strengthened and more dynamic foreclosure procedures.

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, 2003, would have been $547 million or 2.42% of loans, and the allowance for loan losses would have been 74.73% of non-performing assets. At December 31, 2002 and 2001, adjusted non-performing assets would have been $478 million or 2.44% of loans, and $389 million or 2.14% of loans, respectively. The allowance for loan losses as a percentage of non-performing assets as of December 31, 2002 and 2001 would have been 78.00% and 86.57%, 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 $45.5 million in 2003, compared with $35.8 million in 2002 and $27.9 million in 2001. During the third quarter of 2003, the Corporation opted to follow a more conservative policy with respect to interest recognition on non-accruing mortgage loans at Equity One, the Corporation's U.S. based mortgage and consumer lending subsidiary. In the third quarter of 2003, Equity One began to charge against current earnings the balance of all accrued and uncollected interest on loans that were placed on non-accrual status in that period.

Table N

Allowance for Loan Losses and Selected Loan Losses Statistics

(Dollars in thousands)	**2003**	2002	2001	2000	1999
Balance at beginning of year	**$372,797**	$336,632	$290,653	$292,010	$267,249
Allowances acquired (sold)	**13,697**	2,327	1,675	(15,869)	515
Provision for loan losses	**195,939**	205,570	213,250	194,640	148,948
	582,433	544,529	505,578	470,781	416,712
Losses charged to the allowance:					
Commercial	**79,934**	85,588	76,140	73,585	51,011
Construction	**135**	3,838	6,394	145	651
Lease financing	**22,995**	32,037	41,702	32,256	23,009
Mortgage	**29,495**	14,701	8,577	5,615	3,977
Consumer	**100,040**	103,056	102,236	129,430	104,062
	232,599	239,220	235,049	241,031	182,710
Recoveries:					
Commercial	**20,567**	18,515	14,636	17,352	18,589
Construction	**27**	5,376	960	9	169
Lease financing	**11,477**	18,084	26,008	17,797	15,839
Mortgage	**467**	714	500	717	771
Consumer	**26,170**	24,799	23,999	25,028	22,640
	58,708	67,488	66,103	60,903	58,008
Net loans charged-off (recovered):					
Commercial	**59,367**	67,073	61,504	56,233	32,422
Construction	**108**	(1,538)	5,434	136	482
Lease financing	**11,518**	13,953	15,694	14,459	7,170
Mortgage	**29,028**	13,987	8,077	4,898	3,206
Consumer	**73,870**	78,257	78,237	104,402	81,422
	173,891	171,732	168,946	180,128	124,702
Balance at end of year	**$408,542**	$372,797	$336,632	$290,653	$292,010
Loans:					
Outstanding at year end	**$22,602,192**	$19,582,119	$18,168,551	$16,057,085	$14,907,754
Average	**20,730,041**	18,729,220	17,045,257	15,801,887	13,901,290
Ratios:					
Allowance for loan losses to year end loans	**1.81%**	1.90%	1.85%	1.81%	1.96%
Recoveries to charge-offs	**25.24**	28.21	28.12	25.27	31.75
Net charge-offs to average loans	**0.84**	0.92	0.99	1.14	0.90
Net charge-offs earnings coverage	**4.59x**	3.93x	3.68x	3.17x	3.92x
Allowance for loan losses to net charge-offs	**2.35**	2.17	1.99	1.61	2.34
Provision for loan losses to:					
Net charge-offs	**1.13**	1.20	1.26	1.08	1.19
Average loans	**0.95%**	1.10%	1.25%	1.23%	1.07%
Allowance to non-performing assets	**66.87**	69.13	73.45	83.82	89.54
Allowance to non-performing loans	**73.34**	74.58	78.88	89.92	98.37

Prior to this date, Equity One ceased to accrue interest on all mortgage loans that were 90 days or four scheduled payments in arrears, but did not take a charge against current earnings for uncollected interest that had accrued prior to the loan being placed on non-accrual status.

In addition to the non-performing loans discussed earlier, there were $34 million of loans at December 31, 2003, which in management's opinion are currently subject to potential future classification as non-performing, and therefore are considered impaired for our analysis of SFAS No. 114. At December 31, 2002 and 2001, these potential problem loans approximated $36 million and $29 million, respectively.

Table O

Allocation of the Allowance for Loan Losses

	As of December,									
(Dollars in millions)	**2003**		2002		2001		2000		1999	
	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	**$163.1**	**36.4%**	$155.5	40.3%	$140.3	40.9%	$120.6	43.7%	$140.5	44.6%
Construction	**8.4**	**1.5**	8.4	1.3	8.2	1.4	8.1	1.6	8.7	1.7
Lease Financing	**29.8**	**4.7**	29.6	4.5	22.7	4.7	18.6	5.1	9.2	4.9
Mortgage	**55.5**	**42.9**	34.6	38.1	19.9	35.8	12.0	28.9	14.6	26.4
Consumer	**151.7**	**14.5**	144.7	15.8	145.5	17.2	131.4	20.7	119.0	22.4
Total	**$408.5**	**100.0%**	$372.8	100.0%	$336.6	100.0%	$290.7	100.0%	$292.0	100.0%

Another key measure used to evaluate and monitor the Corporation's asset quality is the level of loan delinquencies. Loans delinquent 30 days or more and delinquencies as a percentage of their related portfolio category at December 31, 2003 and 2002 are presented below.

(Dollars in millions)	**2003**	2002
Loans delinquent 30 days or more	**$1,205**	$1,106
Total delinquencies as a percentage of total loans:		
Commercial	**4.37%**	4.59%
Construction	**1.95**	4.45
Lease financing	**4.29**	5.14
Mortgage	**6.70**	7.30
Consumer	**4.39**	4.58
Total	**5.33%**	5.65%

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 the allowance for loan losses is based on SFAS No. 114 (as amended by SFAS No. 118) and SFAS No. 5. Under SFAS No. 114, commercial loans over a predefined amount are identified for impairment evaluation on an individual basis and specific impairment reserves are calculated. 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 determine 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 loan type and legal entity.

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 the allowance for loan losses for each subsidiary and the Corporation is a determination made by the CRESCO, which actively reviews the Corporation's 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 the Corporation will be unable to collect all amounts due according to the contractual terms of the loan agreement. 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.

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

At December 31, 2003, the allowance for loan losses was $409 million or 1.81% of total loans, compared with $373 million or 1.90% at the same date in 2002. At December 31, 2001, the allowance was $337 million or 1.85% 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, 2003, the allowance for loan losses as a percentage of non-performing loans was 73.34%, compared with 74.58% at December 31, 2002. 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 portfolio with a lower risk of losses.

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 loans charged-off for the year 2003 totaled $173.9 million, an increase of $2.2 million, or 1%, compared with the previous year. However, net charge-offs as a percentage of average loans decreased during the year from 0.92% in 2002 to 0.84% in 2003.

Commercial loans net charge-offs, including construction loans, amounted to $59.5 million in 2003, compared with $65.5 million a year earlier. As a percentage of average commercial loans, they were 0.72% in 2003 and 0.85% in 2002. The allowance for loan losses corresponding to commercial and construction loans represented 2.00% of this portfolio at December 31, 2003, compared with 2.02% in 2002. The ratio of allowance to non-performing loans in the commercial and construction loan category was 101.9% at the end of 2003, compared with 96.4% in 2002. At December 31, 2003 and 2002, the portion of the allowance for loan losses related to impaired loans was $44.0 million and $34.9 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 $73.9 million in 2003, compared with $78.3 million in 2002. Consumer loans net charge-offs represented 2.33% of the average consumer loan portfolio in 2003, compared with 2.51% for 2002. This decline in consumer loans net charge-offs was partly due to the Corporation's tightening of its credit criteria for consumer borrowings prompted by the current economic environment, coupled with enhanced collection/recovery strategies and initiatives. Also, this decline is partly due to the fact that most of the Corporation's growth in the consumer portfolio has been in auto loans, a secured portfolio. The allowance for loan losses for consumer loans represented 4.6% of that portfolio at December 31, 2003, compared with 4.7% in 2002.

Lease financing net charge-offs were $11.5 million or 1.19% of the average lease financing portfolio for the year ended December 31, 2003, compared with $14.0 million or 1.59% in the previous year, a reduction of $2.5 million or 17%. This reduction was the result of a better portfolio credit quality mix, coupled with enhanced collection strategies and initiatives. The allowance for loan losses for the lease financing portfolio decreased to 2.8% at December 31, 2003, from 3.3% at the end of 2002.

Mortgage loans net charge-offs increased to $29.0 million in 2003 from $14.0 million in 2002, an increase of $15.0 million, or 108%. Mortgage loans net charge-offs as a percentage of the average mortgage loan portfolio were 0.35% in 2003, compared with 0.20% in 2002. This increase was associated in part with the general economic slowdown that prevailed during the year, characterized by a sluggish job market and high bankruptcy levels, which have had an adverse impact, principally on the market segment that Equity One caters to. Also, the increase in the net charge-off ratio was associated with write-downs of certain delinquent loans based on a current assessment of the collateral value, mostly related to properties located in rural areas in Puerto Rico. Furthermore, during 2003, the Corporation recorded $3.8 million in net charge-offs associated with the sale of approximately $32 million in non-performing and other historically delinquent mortgage loans. The allowance for loan losses assigned to the mortgage loan portfolio has remained at relatively low levels due to the historically low level of losses in this portfolio. Based on historical experience and current economic conditions, the Corporation does not foresee significant losses in the mortgage portfolio. Also, measures have been taken to improve collections and recovery processes with enhanced initiatives to expedite foreclosures. The allowance for loan losses for mortgage loans represented 0.6% of that portfolio at December 31, 2003, compared with 0.5% at the end of 2002.

Operational Risk Management

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes and systems, people or from external events. Operational risk can manifest itself in various ways, including errors, fraud, business interruptions, inappropriate behavior of employees, and failure to perform in a timely manner, among others. These events can potentially result in financial losses and other damages to the Corporation, including reputational harm.

To monitor and control operational risk and mitigate related losses, the Corporation maintains a system of comprehensive policies and controls. The Operational Risk Management Division, is responsible for establishing baseline processes to identify, measure and manage operational risk. The Division provides oversight to facilitate consistency of effective policies, best practices, controls and monitoring tools for managing and assessing all types of operational risks across the Corporation. In addition, the Internal Audit Division provides oversight about policy compliance and ensure adequate attention is paid to correct issues as identified. The Operational Risk Management Division reports to the Risk Management Committee of the Board of Directors.

Operational risks fall into two major categories, business specific and corporate-wide affecting all business lines. Operational risk management plays a different role in each category. For business specific risks, management works with the segments to ensure consistency in policies, processes, and assessments. With respect to corporate-wide risks, such as information security, business continuity, legal and compliance, the risks are assessesed and a consolidated corporate view is developed and communicated to the business level.

The primary responsibility for the day-to-day management of operational risks relies on business unit managers. Accordingly, business unit managers are responsible to ensure that appropriate risk containment measures, including corporate-wide or business segment specific policies and procedures, controls and monitoring tools are in place to minimize risk occurrence and loss exposures. Examples of these include personnel management practices, data reconciliation processes, fraud management units, transaction processing monitoring and analysis and contingency plans for systems interruptions.

To manage corporate-wide risks, specialized groups such as Legal, Information Security, Business Continuity, Finance and Compliance, assist the business units in the development and implementation of risk management practices specific to the needs of the individual businesses.

Statistical Summary 1999-2003

Statements of Condition

(In thousands)	2003	2002	2001	2000	1999
		As of December 31,			
Assets					
Cash and due from banks	**$688,090**	$652,556	$606,142	$726,051	$663,696
Money market investments:					
Federal funds sold and securities purchased under agreements to resell	**764,780**	1,091,435	820,332	1,057,320	931,123
Time deposits with other banks	**8,046**	3,057	3,056	10,908	54,354
Bankers' acceptances	**67**	154	402	390	517
	772,893	1,094,646	823,790	1,068,618	985,994
Trading securities, at market value	**605,119**	510,346	270,186	153,073	236,610
Investment securities available-for-sale, at market value	**10,051,579**	10,310,656	9,091,933	8,605,401	7,137,811
Investment securities held-to-maturity, at amortized cost	**186,821**	180,751	592,360	264,731	299,312
Other investment securities, at cost	**233,144**	221,247	192,468	190,523	187,139
Loans held-for-sale, at lower of cost or market	**271,592**	1,092,927	939,488	823,901	619,298
Loans	**22,613,879**	18,775,847	17,556,029	15,580,379	14,659,400
Less -Unearned income	**283,279**	286,655	326,966	347,195	370,944
Allowance for loan losses	**408,542**	372,797	336,632	290,653	292,010
	21,922,058	18,116,395	16,892,431	14,942,531	13,996,446
Premises and equipment	**485,452**	461,177	405,705	405,772	440,971
Other real estate	**53,898**	39,399	31,533	23,518	29,268
Accrued income receivable	**176,152**	184,549	186,143	202,540	175,746
Other assets	**769,037**	578,091	496,855	368,797	383,462
Goodwill	**191,490**	182,965	177,842	212,756	214,674
Other intangible assets	**27,390**	34,647	37,800	68,839	90,112
	$36,434,715	$33,660,352	$30,744,676	$28,057,051	$25,460,539
Liabilities and Stockholders' Equity					
Liabilities:					
Deposits:					
Non-interest bearing	**$3,726,707**	$3,367,385	$3,281,841	$3,109,885	$3,284,949
Interest bearing	**14,371,121**	14,247,355	13,088,201	11,695,022	10,888,766
	18,097,828	17,614,740	16,370,042	14,804,907	14,173,715
Federal funds purchased and assets sold under agreements to repurchase	**5,778,987**	6,684,551	5,751,768	4,964,115	4,414,480
Other short-term borrowings	**1,996,624**	1,703,562	1,827,242	4,369,212	2,612,389
Notes payable	**6,992,025**	4,298,853	3,735,131	1,176,912	1,852,599
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
Other liabilities	**689,729**	677,605	512,686	472,334	448,759
	33,680,193	31,248,311	28,470,949	26,062,480	23,776,942
Minority interest in consolidated subsidiaries	**105**	1,162	909	927	22,611
Stockholders' equity:					
Preferred stock	**186,875**	-	100,000	100,000	100,000
Common stock	**837,566**	834,799	832,498	830,356	827,662
Surplus	**314,638**	278,366	268,544	260,984	243,855
Retained earnings	**1,601,851**	1,300,437	1,057,724	865,082	694,301
Treasury stock - at cost	**(205,527)**	(205,210)	(66,136)	(66,214)	(64,123)
Accumulated other comprehensive income (loss), net of tax	**19,014**	202,487	80,188	3,436	(140,709)
	2,754,417	2,410,879	2,272,818	1,993,644	1,660,986
	$36,434,715	$33,660,352	$30,744,676	$28,057,051	$25,460,539

Statistical Summary 1999-2003
Statements of Income

(In thousands, except per common share information)	2003	2002	2001	2000	1999
	For the year ended December 31,				
Interest Income:					
Loans	**$1,550,036**	$1,528,903	$1,559,890	$1,586,832	$1,373,158
Money market investments	**25,881**	32,505	47,610	62,356	33,434
Investment securities	**422,295**	445,925	473,344	486,198	425,907
Trading securities	**36,026**	16,464	15,018	14,771	19,171
Total interest income	**2,034,238**	2,023,797	2,095,862	2,150,157	1,851,670
Less - Interest expense	**749,550**	863,553	1,039,105	1,167,396	897,932
Net interest income	**1,284,688**	1,160,244	1,056,757	982,761	953,738
Provision for loan losses	**195,939**	205,570	213,250	194,640	148,948
Net interest income after provision for loan losses	**1,088,749**	954,674	843,507	788,121	804,790
Gain (loss) on sale of investment securities	**71,094**	(3,342)	27	11,201	638
Trading account (loss) profit	**(10,214)**	(804)	(1,781)	1,991	(1,582)
Gain on sale of loans	**53,572**	52,077	45,633	39,673	34,890
All other operating income	**511,558**	495,832	447,937	411,195	338,970
	1,714,759	1,498,437	1,335,323	1,252,181	1,177,706
Operating Expenses:					
Personnel costs	**526,444**	488,741	425,142	394,176	386,696
All other operating expenses	**586,639**	540,261	501,067	482,257	450,786
	1,113,083	1,029,002	926,209	876,433	837,482
Income before tax, minority interest and cumulative effect of accounting change	**601,676**	469,435	409,114	375,748	340,224
Income tax	**130,326**	117,255	105,280	100,797	85,120
Net (gain) loss of minority interest	**(435)**	(248)	18	1,152	2,454
Income before cumulative effect of accounting change	**470,915**	351,932	303,852	276,103	257,558
Cumulative effect of accounting change, net of tax	**-**	-	686	-	-
Net Income	**$470,915**	$351,932	$304,538	$276,103	$257,558
Net Income Applicable to Common Stock	**$460,996**	$349,422	$296,188	$267,753	$249,208
Net Income per Common Share (basic and diluted) (before and after cumulative effect of accounting change)*	**$3.47**	$2.61	$2.17	$1.97	$1.84
Dividends Declared per Common Share	**$1.01**	$0.80	$0.76	$0.64	$0.60

**The average common shares used in the computation of basic earnings per common share were 132,740,920 for 2003; 133,915,082 for 2002; 136,238,288 for 2001; 135,907,476 for 2000 and 135,585,634 for 1999. The average common shares used in the computation of diluted earnings per common share were 132,797,916 for 2003; 133,915,275 for 2002 and 136,238,469 for 2001. There were no dilutive common shares in 2000 and 1999.*

Statistical Summary 1999-2003

Average Balance Sheet and Summary of Net Interest Income

On a Taxable Equivalent Basis*

(Dollars in thousands)	2003			2002		
	Average Balance	**Interest**	**Average Rate**	Average Balance	Interest	Average Rate
Assets						
Interest earning assets:						
Money market investments	**$833,237**	**$25,881**	**3.11%**	$1,012,357	$32,505	3.21%
U.S. Treasury securities	**472,114**	**24,615**	**5.21**	467,517	34,055	7.28
Obligations of other U.S. Government agencies and corporations	**6,451,157**	**356,008**	**5.52**	5,971,610	354,035	5.93
Obligations of Puerto Rico, States and political subdivisions	**201,505**	**13,570**	**6.73**	188,883	11,911	6.31
Collateralized mortgage obligations and mortgage-backed securities	**3,062,564**	**118,097**	**3.86**	3,021,564	119,887	3.97
Other	**407,105**	**16,267**	**4.00**	439,800	19,028	4.33
Total investment securities	**10,594,445**	**528,557**	**4.99**	10,089,374	538,916	5.34
Trading account securities	**623,632**	**37,887**	**6.08**	363,963	16,961	4.66
Loans (net of unearned income)	**20,730,041**	**1,562,083**	**7.54**	18,729,220	1,539,032	8.22
Total interest earning assets/ Interest income	**32,781,355**	**$2,154,408**	**6.57%**	30,194,914	$2,127,414	7.05%
Total non-interest earning assets	**1,893,406**			1,627,476		
Total assets	**$34,674,761**			$31,822,390		
Liabilities and Stockholders' Equity						
Interest bearing liabilities:						
Savings, NOW and money market accounts	**$7,741,007**	**$102,293**	**1.32%**	$7,277,387	$160,314	2.20%
Time deposits	**6,521,861**	**240,598**	**3.69**	6,480,501	272,101	4.20
Short-term borrowings	**8,390,874**	**147,456**	**1.76**	7,787,011	185,343	2.38
Notes payable	**5,124,604**	**234,776**	**4.58**	4,132,811	224,800	5.44
Subordinated notes	**125,000**	**8,539**	**6.83**	125,000	8,536	6.83
Preferred beneficial interest in junior subordinated deferrable interest debentures guaranteed by the Corporation	**194,959**	**15,888**	**8.15**	145,254	12,459	8.58
Total interest bearing liabilities/ Interest expense	**28,098,305**	**749,550**	**2.67**	25,947,964	863,553	3.33
Total non-interest bearing liabilities	**4,031,343**			3,724,040		
Total liabilities	**32,129,648**			29,672,004		
Stockholders' equity	**2,545,113**			2,150,386		
Total liabilities and stockholders' equity	**$34,674,761**			$31,822,390		
Net interest income on a taxable equivalent basis		**$1,404,858**			$1,263,861	
Cost of funding earning assets			**2.29%**			2.86%
Net interest yield			**4.28%**			4.19%
Effect of the taxable equivalent adjustment		**120,170**			103,617	
Net interest income per books		**$1,284,688**			$1,160,244	

* *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 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.*

2001			2000			1999		
Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
$932,422	$47,610	5.11%	$932,886	$62,356	6.68%	$681,106	$33,434	4.91%
748,337	51,637	6.90	1,762,129	115,801	6.57	2,479,828	169,683	6.84
4,750,786	349,750	7.36	3,958,406	288,214	7.28	3,028,577	200,649	6.63
131,797	8,416	6.39	126,768	8,398	6.62	138,184	9,100	6.59
2,060,685	115,333	5.60	1,838,016	107,959	5.87	1,246,582	92,960	7.46
478,043	25,114	5.25	260,143	24,236	9.32	455,488	26,654	5.85
8,169,648	550,250	6.74	7,945,462	544,608	6.85	7,348,659	499,046	6.79
266,877	15,358	5.75	213,131	15,624	7.33	313,904	20,584	6.56
17,045,257	1,567,382	9.20	15,801,887	1,597,116	10.11	13,901,290	1,380,330	9.93
26,414,204	$2,180,600	8.26%	24,893,366	$2,219,704	8.92%	22,244,959	$1,933,394	8.69%
1,542,903			1,676,389			1,561,413		
$27,957,107			$26,569,755			$23,806,372		
$6,272,094	$180,863	2.88%	$5,924,690	$184,018	3.11%	$5,877,976	$173,946	2.96%
6,247,150	337,018	5.39	5,548,509	345,355	6.22	4,874,480	278,269	5.71
7,136,358	329,648	4.62	7,781,030	508,029	6.53	5,992,445	317,646	5.30
2,393,642	170,172	7.11	1,618,517	108,572	6.71	1,558,410	106,639	6.84
125,000	8,527	6.82	125,000	8,545	6.84	125,000	8,555	6.84
150,000	12,877	8.58	150,000	12,877	8.58	150,000	12,877	8.58
22,324,244	1,039,105	4.65	21,147,746	1,167,396	5.52	18,578,311	897,932	4.83
3,536,329			3,537,484			3,515,269		
25,860,573			24,685,230			22,093,580		
2,096,534			1,884,525			1,712,792		
$27,957,107			$26,569,755			$23,806,372		
	$1,141,495			$1,052,308			$1,035,462	
		3.93%			4.69%			4.04%
		4.33%			4.23%			4.65%
	84,738			69,547			81,724	
	$1,056,757			$982,761			$953,738	

Statistical Summary 2002-2003
Quarterly Financial Data

(In thousands, except per common share information)	**2003** Fourth Quarter	Third Quarter	Second Quarter	First Quarter	2002 Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Summary of Operations								
Interest income	**$509,898**	**$509,399**	**$511,659**	**$503,282**	$513,869	$508,110	$505,999	$495,819
Interest expense	**183,310**	**180,100**	**181,964**	**204,176**	208,570	232,914	212,176	209,893
Net interest income	**326,588**	**329,299**	**329,695**	**299,106**	305,299	275,196	293,823	285,926
Provision for loan losses	**49,737**	**48,668**	**49,325**	**48,209**	50,049	50,992	50,075	54,454
Operating income	**141,757**	**137,043**	**143,992**	**142,338**	140,100	136,755	136,117	134,937
Gain (loss) on sale of investment securities	**696**	**39,109**	**29,875**	**1,414**	(668)	1,251	85	(4,010)
Trading account (loss) profit	**(435)**	**(4,599)**	**(4,243)**	**(937)**	(662)	1,247	(359)	(1,030)
Non-interest expense	**282,907**	**287,256**	**279,278**	**263,642**	282,326	253,857	250,653	242,166
Income before tax and minority interest	**135,962**	**164,928**	**170,716**	**130,070**	111,694	109,600	128,938	119,203
Income tax	**29,659**	**33,818**	**35,946**	**30,903**	30,783	23,730	32,594	30,148
Net gain of minority interest	**(10)**	**(184)**	**(163)**	**(78)**	(82)	(116)	(39)	(11)
Net income	**$106,293**	**$130,926**	**$134,607**	**$99,089**	$80,829	$85,754	$96,305	$89,044
Net income applicable to common stock	**$103,315**	**$127,947**	**$131,594**	**$98,140**	$80,829	$85,754	$96,305	$86,534
Net income per common share	**$0.78**	**$0.96**	**$0.99**	**$0.74**	$0.61	$0.65	$0.72	$0.63
Selected Average Balances (In millions)								
Total assets	**$35,816**	**$35,426**	**$34,279**	**$33,159**	$33,562	$31,863	$31,408	$30,418
Loans	**22,112**	**21,114**	**20,141**	**19,538**	19,358	19,044	18,439	18,058
Interest earning assets	**33,822**	**33,485**	**32,382**	**31,420**	31,850	30,249	29,790	28,856
Deposits	**17,948**	**17,824**	**17,811**	**17,527**	17,355	16,962	17,086	16,526
Interest bearing liabilities	**28,933**	**28,694**	**27,699**	**27,059**	27,518	26,054	25,561	24,625
Selected Ratios								
Return on assets	**1.18%**	**1.47%**	**1.58%**	**1.21%**	0.96%	1.07%	1.23%	1.19%
Return on equity	**16.38**	**20.85**	**22.63**	**17.39**	14.64	16.03	18.14	16.83

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 in the normal course of business. Management has evaluated the internal control system as of December 31, 2003, and believes that, as of that date, Popular, Inc. maintained an effective system of accounting internal controls.

Popular, Inc. maintains an internal 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 auditors 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 Auditors

PRICEWATERHOUSECOOPERS

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, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003 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 27, 2004

CERTIFIED PUBLIC ACCOUNTANTS
(OF PUERTO RICO)
License No. 216 Expires Dec. 1, 2004
Stamp 1935639 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, 2003	2002
Assets		
Cash and due from banks	**$688,090**	$652,556
Money market investments:		
Federal funds sold and securities purchased under agreements to resell	**764,780**	1,091,435
Time deposits with other banks	**8,046**	3,057
Bankers' acceptances	**67**	154
	772,893	1,094,646
Trading securities, at market value:		
Pledged securities with creditors' right to repledge	**490,536**	416,979
Other trading securities	**114,583**	93,367
Investment securities available-for-sale, at market value:		
Pledged securities with creditors' right to repledge	**3,523,505**	4,397,974
Other securities available-for-sale	**6,528,074**	5,912,682
Investment securities held-to-maturity, at amortized cost (market value 2003 - $188,074; 2002 - $182,183)	**186,821**	180,751
Other investment securities, at cost (fair value $238,162; 2002 - $221,247)	**233,144**	221,247
Loans held-for-sale, at lower of cost or market	**271,592**	1,092,927
Loans:		
Loans pledged with creditors' right to repledge	**403,131**	420,724
Other loans	**22,210,748**	18,355,123
Less - Unearned income	**283,279**	286,655
Allowance for loan losses	**408,542**	372,797
	21,922,058	18,116,395
Premises and equipment	**485,452**	461,177
Other real estate	**53,898**	39,399
Accrued income receivable	**176,152**	184,549
Other assets	**769,037**	578,091
Goodwill	**191,490**	182,965
Other intangible assets	**27,390**	34,647
	$36,434,715	$33,660,352
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Non-interest bearing	**$3,726,707**	$3,367,385
Interest bearing	**14,371,121**	14,247,355
	18,097,828	17,614,740
Federal funds purchased and assets sold under agreements to repurchase	**5,778,987**	6,684,551
Other short-term borrowings	**1,996,624**	1,703,562
Notes payable	**6,992,025**	4,298,853
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
Other liabilities	**689,729**	677,605
	33,680,193	31,248,311
Commitments and contingencies (See Note 32)		
Minority interest in consolidated subsidiaries	**105**	1,162
Stockholders' Equity:		
Preferred stock, $25 liquidation value; 10,000,000 shares authorized; 7,475,000 issued and outstanding in 2003	**186,875**	-
Common stock, $6 par value; 180,000,000 shares authorized; 139,594,296 shares issued (2002 - 139,133,156) and 132,891,946 shares outstanding (2002 - 132,439,047)	**837,566**	834,799
Surplus	**314,638**	278,366
Retained earnings	**1,601,851**	1,300,437
Accumulated other comprehensive income, net of tax of $2,913 (2002 - $53,070)	**19,014**	202,487
Treasury stock - at cost, 6,702,350 shares (2002 - 6,694,109)	**(205,527)**	(205,210)
	2,754,417	2,410,879
	$36,434,715	$33,660,352

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, 2003	2002	2001
Interest Income:			
Loans	**$1,550,036**	$1,528,903	$1,559,890
Money market investments	**25,881**	32,505	47,610
Investment securities	**422,295**	445,925	473,344
Trading securities	**36,026**	16,464	15,018
	2,034,238	2,023,797	2,095,862
Interest Expense:			
Deposits	**342,891**	432,415	517,881
Short-term borrowings	**147,456**	185,343	329,648
Long-term debt	**259,203**	245,795	191,576
	749,550	863,553	1,039,105
Net interest income	**1,284,688**	1,160,244	1,056,757
Provision for loan losses	**195,939**	205,570	213,250
Net interest income after provision for loan losses	**1,088,749**	954,674	843,507
Service charges on deposit accounts	**161,839**	157,713	146,994
Other service fees	**284,392**	265,806	242,547
Gain (loss) on sale of investment securities	**71,094**	(3,342)	27
Trading account loss	**(10,214)**	(804)	(1,781)
Gain on sale of loans	**53,572**	52,077	45,633
Other operating income	**65,327**	72,313	58,396
	1,714,759	1,498,437	1,335,323
Operating Expenses:			
Personnel costs:			
Salaries	**388,527**	361,957	321,386
Profit sharing	**20,647**	22,235	16,251
Pension and other benefits	**117,270**	104,549	87,505
	526,444	488,741	425,142
Net occupancy expenses	**83,630**	78,503	72,100
Equipment expenses	**104,821**	99,099	97,383
Other taxes	**37,904**	37,144	38,756
Professional fees	**82,325**	84,660	73,735
Communications	**58,038**	53,892	48,883
Business promotion	**73,277**	61,451	50,783
Printing and supplies	**19,111**	19,918	17,804
Other operating expenses	**119,689**	96,490	74,185
Amortization of intangibles	**7,844**	9,104	27,438
	1,113,083	1,029,002	926,209
Income before income tax, minority interest and cumulative effect of accounting change	**601,676**	469,435	409,114
Income tax	**130,326**	117,255	105,280
Net (gain) loss of minority interest	**(435)**	(248)	18
Income before cumulative effect of accounting change	**470,915**	351,932	303,852
Cumulative effect of accounting change, net of tax	**-**	-	686
Net Income	**$470,915**	$351,932	$304,538
Net Income Applicable to Common Stock	**$460,996**	$349,422	$296,188
Net Income per Common Share (basic and diluted) (before and after cumulative effect of accounting change)	**$3.47**	$2.61	$2.17
Dividends Declared per Common Share	**$1.01**	$0.80	$0.76

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

Consolidated Statements of Cash Flows

(In thousands)	Year ended December 31, 2003	2002	2001
Cash Flows from Operating Activities:			
Net income	**$470,915**	$351,932	$304,538
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of premises and equipment	**73,007**	74,167	75,962
Provision for loan losses	**195,939**	205,570	213,250
Amortization of intangibles	**7,844**	9,104	27,438
Net (gain) loss on sale of investment securities	**(71,094)**	3,342	(27)
Net (gain) loss on disposition of premises and equipment	**(366)**	773	672
Net gain on sale of loans, excluding loans held-for-sale	**(12,550)**	(6,718)	(1,173)
Net amortization of premiums and accretion of discounts on investments	**28,296**	15,980	6,708
Net amortization of deferred loan origination fees and costs	**39,838**	29,155	22,881
Earnings from investments under the equity method	**(5,294)**	(6,128)	(993)
Stock options expense	**1,490**	957	-
Net decrease (increase) in loans held-for-sale	**77,638**	(153,439)	(115,587)
Net increase in trading securities	**(138,811)**	(240,160)	(117,113)
Net decrease in accrued income receivable	**8,397**	1,594	16,397
Net (increase) decrease in other assets	**(80,771)**	(4,530)	11,567
Net (decrease) increase in interest payable	**(1,602)**	21,416	(41,331)
Net (decrease) increase in current and deferred taxes	**(4,131)**	(22,766)	19,356
Net increase in postretirement benefit obligation	**7,391**	7,479	4,052
Net (decrease) increase in other liabilities	**(33,655)**	96,233	15,494
Total adjustments	**91,566**	32,029	137,553
Net cash provided by operating activities	**562,481**	383,961	442,091
Cash Flows from Investing Activities:			
Net decrease (increase) in money market investments	**321,753**	(265,080)	244,828
Purchases of investment securities:			
Available-for-sale	**(6,721,439)**	(9,338,636)	(7,314,907)
Held-to-maturity	**(667,127)**	(26,588,518)	(7,973,243)
Other	**(36,943)**	(51,763)	(20,516)
Proceeds from calls, paydowns, maturities and redemptions of investment securities:			
Available-for-sale	**6,164,498**	7,426,932	5,767,857
Held-to-maturity	**661,555**	27,000,127	7,635,276
Other	**43,353**	22,246	17,949
Proceeds from sales of investment securities available-for-sale	**810,540**	1,266,504	1,161,097
Net disbursements on loans	**(866,667)**	(1,352,101)	(2,316,388)
Proceeds from sale of loans	**370,755**	592,992	887,238
Acquisition of loan portfolios	**(2,970,276)**	(1,220,139)	(833,035)
Assets acquired, net of cash	**(1,079)**	(1,500)	-
Acquisition of premises and equipment	**(102,240)**	(138,074)	(79,472)
Proceeds from sale of premises and equipment	**5,358**	7,662	2,905
Net cash used in investing activities	**(2,987,959)**	(2,639,348)	(2,820,411)
Cash Flows from Financing Activities:			
Net increase in deposits	**476,307**	1,271,967	1,552,033
Net (decrease) increase in federal funds purchased and assets sold under agreements to repurchase	**(905,564)**	932,783	787,653
Net increase (decrease) in other short-term borrowings	**293,062**	(123,680)	(2,541,970)
Net proceeds from notes payable and capital securities	**2,533,203**	558,642	2,557,299
Dividends paid	**(134,603)**	(108,003)	(106,384)
Proceeds from issuance of common stock	**15,765**	11,166	9,702
Proceeds from issuance of preferred stock	**183,159**	-	-
Redemption of preferred stock		(102,000)	-
Treasury stock (acquired) sold	**(317)**	(139,074)	78
Net cash provided by financing activities	**2,461,012**	2,301,801	2,258,411
Net increase (decrease) in cash and due from banks	**35,534**	46,414	(119,909)
Cash and due from banks at beginning of period	**652,556**	606,142	726,051
Cash and due from banks at end of period	**$688,090**	$652,556	$606,142

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, 2003	2002	2001
Preferred Stock:			
Balance at beginning of year	**-**	$100,000	$100,000
Issuance (redemption) of preferred stock	**$186,875**	(100,000)	-
Balance at end of year	**186,875**	-	100,000
Common Stock:			
Balance at beginning of year	**834,799**	832,498	830,356
Common stock issued under Dividend Reinvestment Plan	**2,591**	2,300	2,142
Options exercised	**176**	1	-
Balance at end of year	**837,566**	834,799	832,498
Surplus:			
Balance at beginning of year	**278,366**	268,544	260,984
Common stock issued under Dividend Reinvestment Plan	**12,326**	8,857	7,560
Issuance cost of preferred stock	**(3,716)**	-	-
Options granted	**1,235**	957	-
Options exercised	**927**	8	-
Transfer from retained earnings	**25,500**	-	-
Balance at end of year	**314,638**	278,366	268,544
Retained Earnings:			
Balance at beginning of year	**1,300,437**	1,057,724	865,082
Net income	**470,915**	351,932	304,538
Cash dividends declared on common stock	**(134,082)**	(106,709)	(103,546)
Cash dividends declared on preferred stock	**(9,919)**	(510)	(8,350)
Redemption of preferred stock	**-**	(2,000)	-
Transfer to surplus	**(25,500)**	-	-
Balance at end of year	**1,601,851**	1,300,437	1,057,724
Accumulated Other Comprehensive Income:			
Balance at beginning of year	**202,487**	80,188	3,436
Other comprehensive (loss) income, net of tax	**(183,473)**	122,299	76,752
Balance at end of year	**19,014**	202,487	80,188
Treasury Stock - At Cost :			
Balance at beginning of year	**(205,210)**	(66,136)	(66,214)
(Purchase) sale of common stock	**(317)**	(139,074)	78
Balance at end of year	**(205,527)**	(205,210)	(66,136)
Total stockholders' equity	**$2,754,417**	$2,410,879	$2,272,818

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

Consolidated Statements of Comprehensive Income

(In thousands)	Year ended December 31, 2003	2002	2001
Net income	**$470,915**	$351,932	$304,538
Other comprehensive (loss) income, net of tax:			
Foreign currency translation adjustment	**(22,261)**	(780)	(572)
Unrealized (losses) gains on securities:			
Unrealized holding (losses) gains arising during the period, net of tax of ($42,836) (2002 - $26,444; 2001 - $26,076)	**(102,051)**	125,485	75,831
Less: reclassification adjustment for gains (losses) included in net income, net of tax of $7,684 (2002 - ($679); 2001 - ($102))	**59,780**	(964)	(1,025)
Net loss on cash flow hedges	**(5,011)**	(6,999)	(2,162)
Less: reclassification adjustment for losses included in net income, net of tax of ($3,561) (2002- ($2,311)) (2001 - ($1,395))	**(5,648)**	(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	**18**	6	(136)
Total other comprehensive (loss) income, net of tax	**(183,473)**	122,299	76,752
Comprehensive income	**$287,442**	$474,231	$381,290

Disclosure of accumulated other comprehensive income:

(In thousands)	Year ended December 31, 2003	2002	2001
Foreign currency translation adjustment	**($24,497)**	($2,236)	($1,456)
Unrealized gains on securities	**45,794**	207,625	81,176
Unrealized (losses) gains on cash flow hedges	**(2,649)**	(3,286)	78
Cumulative effect of accounting change	**366**	384	390
Accumulated other comprehensive income	**$19,014**	$202,487	$80,188

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

Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements

Note 1 - Summary of significant accounting policies:

The accounting and financial reporting policies of Popular, Inc. and its subsidiaries (the Corporation) conform with accounting principles generally accepted in the United States of America and with prevailing 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 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 31 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, 2003, 2002 and 2001.

Unconsolidated investments that are considered voting interest entities under FIN No. 46 "Consolidation of Variable Interest Entities," and in which there is at least 20% ownership, are generally accounted for by the equity method, with earnings recorded in other operating income; those in which there is less than 20% ownership, are generally carried under the cost method of accounting, unless significant influence is exercised. Under the cost method, the Corporation recognizes income when dividends are received.

Beginning in 2003, statutory business trusts that are wholly-owned by the Corporation and are issuers of trust preferred securities are not consolidated in the Corporation's consolidated financial statements in accordance with the provisions of revised FIN No. 46R.

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 four 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, and which have a readily available fair value, 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 accumulated other comprehensive income. The specific identification method is used to determine realized gains and losses on securities available-for-sale, which are included in gains (losses) on sale of investment securities in the consolidated statements of income.

- Investment in debt, equity or other securities that do not have readily available fair values, are classified as other investment securities in the consolidated statements of condition. These securities are stated at cost. 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 included in this category.

The amortization of premiums is deducted and the accretion of discounts is added to net 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, held-to-maturity and other investment securities, 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 to minimize significant unplanned fluctuations in earnings and cash flows caused by interest rate volatility.

When 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 net of taxes 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 statement of condition or to specific forecasted transactions or firm commitments 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 current period earnings.

Following the guidance in EITF Issue No. 03-11 "Reported Realized Gains and Losses on Derivative Instruments that are Subject to FASB Statement No. 133 and 'Not Held for Trading Purposes'", the Corporation reclassified all fair value changes of derivatives that are not designated nor qualify for hedge accounting into a single income statement line item. Derivative losses reclassified into interest expense amounted to $7,477,000 in 2003 (2002 - $20,085,000; 2001 - $20,228,000).

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 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. The accrual of interest on 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.

Once a loan is placed on 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. Such interest, if ultimately collected, is credited to income in the period of the recovery.

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 methodology used to establish the allowance for loan losses is based on SFAS No. 114 "Accounting by Creditors for Impairment of a Loan" (as amended by SFAS No. 118) and SFAS No. 5 "Accounting for Contingencies." Under SFAS No. 114, commercial loans over a predefined amount are identified for impairment evaluation on an individual basis. The Corporation considers a loan to be impaired when 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. An allowance for loan impairment is recognized to the extent that the carrying value of an impaired loan exceeds the present value of the expected future cash flows discounted at the loan's effective rate; the observable market price of the loan; or the fair value of the collateral if the loan is collateral dependent. The allowance for impaired loans is part of the Corporation's overall allowance for loan losses. Meanwhile, SFAS No. 5 provides for the recognition of a loss allowance for groups of homogeneous loans. Under SFAS No. 5, the allowance for loan losses calculation for the Corporation is based on historical net charge-off experience by loan type and legal entity.

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 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.

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

In past years, the Corporation sold residential mortgage loans to qualifying special-purpose entities (QSPEs), which in turn issued asset-backed securities to investors. The Corporation retained an interest in the loans sold in the form of a residual or interest-only security. 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. The assets and liabilities of the QSPEs are not included in the Corporation's consolidated statements of condition, except for the retained interests previously described. 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, received in satisfaction of debt, is recorded at the lower of cost (carrying value of the loan) or the appraised value less estimated costs of disposal of the real estate acquired, by charging the allowance for loan losses. Subsequent to foreclosure, any losses in the carrying value arising from periodic reevaluations of the properties, and any gains or losses on the sale of these properties are credited or charged to expense in the period incurred and are included as a component of other operating expenses. 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.

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 are not amortized, but are tested at least annually for impairment.

-Goodwill is tested 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 are tested for impairment using a one-step process which compares the fair value with the carrying amount of the asset.

The Corporation performed the impairment tests during 2002 and 2003, and determined that there were no impairment losses to be recognized in the periods.

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
Reported Net Income	$304,538
Add back: Goodwill amortization, including impact on profit sharing expense and related tax	16,526
Adjusted Net Income	$321,064

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

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

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

Assets sold/purchased under agreements to repurchase/resell

Repurchase and resell agreements are treated as collateralized financing transactions and are carried at the amounts at which the assets will be subsequently 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 those 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 assets sold under agreements to repurchase; accordingly, such securities continue to be carried on the consolidated statements of condition.

Treasury stock

Treasury stock 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 accumulated other comprehensive income.

Income taxes

The Corporation recognizes 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. A deferred tax valuation allowance is established if it is considered more likely than not that all or a portion of the deferred tax assets will not 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. 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." All stock option grants are expensed over the stock option vesting period based on their fair value at the date the options are granted.

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 separate consolidated statements 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 includes cash on hand and amounts due from banks.

Reclassifications
Certain reclassifications have been made to the 2002 and 2001 consolidated financial statements to conform with the 2003 presentation.

Recently issued accounting pronouncements and interpretations

SFAS No. 132 "Employers' Disclosures about Pensions and Other Postretirement Benefits, as amended in 2003"
In December 2003, the FASB issued SFAS. No 132, as amended, which revises employers' disclosures about pension plans and other postretirement benefit plans. It does not address measurement or recognition of those plans. This statement requires additional disclosures to those in the original SFAS No. 132 about the assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other defined benefit postretirement plans. The required information should be provided separately for pension plans and for other postretirement benefit plans. This statement also expands related disclosures in interim financial reports. The new provisions of SFAS No. 132 are effective for fiscal years ending after December 15, 2003, except for certain provisions which are not effective until fiscal years ending after June 15, 2004. The interim disclosures required by this statement are effective for interim periods beginning after December 31, 2003. The new disclosures requirements, which are applicable at December 31, 2003, are incorporated in the notes to the consolidated financial statements.

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. The adoption of this statement did not have a material impact on the consolidated financial statements of the Corporation during 2003.

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. The adoption of this statement did not have an impact in the Corporation's financial statements for the year ended December 31, 2003.

SFAS No. 149 "Amendment of Statement 133 on Derivative Instruments and Hedging Activities"
SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 149 (1) clarifies under what circumstances a contract with an initial net investment meets the characteristic of a derivative discussed in paragraph 6(b) of SFAS No. 133, (2) clarifies when a derivative contains a financing component, (3) amends the definition of an underlying to conform it to language used in FIN No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others", and (4) amends certain other existing pronouncements. Those changes will result in more consistent reporting of contracts as either derivatives or hybrid instruments. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003, with certain exceptions, and for hedging relationships designated after June 30, 2003. In addition, except for certain situations, all provisions of this Statement are to be applied prospectively. Also, the provisions related to forward purchases or sales of when-issued securities or other securities that do not yet exist, should be applied to both existing contracts and new contracts entered into after June 30, 2003. The adoption of SFAS No. 149 did not have an impact on the Corporation's financial condition or results of operations for the year ended December 31, 2003.

SFAS No. 150 "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity"
SFAS No. 150 establishes how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify certain financial instruments, including some previously classified as equity, as a liability (or an asset in some circumstances) because the financial instrument embodies an obligation of the issuer. Specifically, SFAS No. 150 requires that financial instruments issued in the form of shares that are mandatorily redeemable, financial instruments that embody an obligation to repurchase the issuer's equity shares or are indexed to such an obligation, or financial instruments that embody an unconditional obligation or a conditional obligation that can be settled in certain ways, be classified as liabilities. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and effective for other financial instruments held by the Corporation at the beginning of the first interim period beginning after June 15, 2003. The adoption of the required provisions of SFAS No. 150 did not have an impact on the Corporation's consolidated statements of condition or results of operations for the year ended December 31, 2003.

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 provisions for initial recognition and measurement were effective on a prospective basis for guarantees that were issued or modified after December 31, 2002. The adoption of this interpretation did not have a material impact on the Corporation's financial condition or results of operations.

FIN No. 46 "Consolidation of Variable Interest Entities"

In January 2003, the FASB issued FIN No. 46 "Consolidation of Variable Interest Entities." The FASB's stated intent in issuing FIN No. 46 was to clarify the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN No. 46 requires an enterprise to consolidate a variable interest entity (as defined in FIN No. 46) if that enterprise has a variable interest (or combination of variable interests) that will absorb a majority of the entity's expected losses if they occur, receive a majority of the entity's expected returns if they occur, or both. In December 2003, the FASB issued a revised FIN No. 46 (FIN No. 46R), which attempts to clarify the guidance in the original interpretation. FIN No. 46 applies to variable interest entities created after January 31, 2003. FIN No. 46 also applies to all variable interest entities created prior to February 1, 2003 that are considered to be special-purpose entities (as defined in FIN No. 46R) as of December 31, 2003. FIN No. 46R must be applied to all variable interest entities no later than the end of the first reporting period that ends after March 15, 2004. Certain variable interest entities that are qualifying special purpose entities subject to the reporting requirements for SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities," are not required to be consolidated under the provisions of FIN No. 46.

At December 31, 2003, the Corporation had two wholly-owned issuer trusts that issued trust preferred securities (also referred to as "Capital Securities"). Prior to FIN No. 46R, the issuer trusts were consolidated subsidiaries of the Corporation. In relation to these issuer trusts, the Corporation adopted the provisions of FIN No. 46R, requiring the deconsolidation of these trusts. Refer to Note 16 to the consolidated financial statements for further information of the issuer trusts and the impact in the Corporation's consolidated financial statements.

FASB Staff Position No. FAS 106-1 "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003"

On January 12, 2004, the FASB issued FASB Staff Position No. FAS 106-1, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" (FSP 106-1). FSP 106-1 permits employers that sponsor postretirement benefit plans which provide prescription drug benefits to retirees to make a one-time election to defer accounting for any effects of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (the "Act"). Without the FSP 106-1, employers would be required under SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," to account for the effects of the Act in the fiscal period that includes December 8, 2003, the date the President of the United States signed the Act into law. If deferral is elected, the deferral must remain in effect until the earlier of (a) the issuance of guidance by the FASB on how to account for the federal subsidy to be provided to plan sponsors under the Act or (b) the remeasurement of plan assets and obligations subsequent to January 31, 2004. FSP 106-1 requires employers to provide certain disclosures, regardless of whether they choose to account, or defer accounting, for the effects of the Act. The Corporation elected to defer the accounting, for any effects of the Act, as permitted by FSP 106-1. Refer to Note 23 to the consolidated financial statements for further disclosures.

Statement of Position 03-3 "Accounting for Certain Loans or Debt Securities Acquired in a Transfer"

In December 2003, the Accounting Standards Executive Committee issued Statement of Position 03-3 "Accounting for Certain Loans or Debt Securities Acquired in a Transfer" (SOP 03-3). This statement addresses accounting for differences between contractual cash flows and cash flows expected to be collected from an investor's initial investment in loans or debt securities acquired in a transfer if those differences are attributable, at least in part, to credit quality. SOP 03-3 does not apply to loans originated by the entity. SOP 03-3 limits the yield that may be accreted (accretable yield) to the excess of the investor's estimate of undiscounted expected principal, interest, and other cash flows (cash flows expected at acquisition to be collected) over the investor's initial investment in the loan. SOP 03-3 requires that the excess of contractual cash flows over cash flows expected to be collected (nonaccretable difference) not be recognized as an adjustment of yield, loss accrual, or valuation allowance. SOP 03-3 prohibits investors from displaying accretable yield and nonaccretable difference in the balance sheet. Subsequent increases in cash flows expected to be collected generally should be recognized prospectively through adjustment of the loan's yield over its remaining life. Decreases in cash flows expected to be collected should be recognized as impairment.

SOP 03-3 prohibits "carrying over" or creation of valuation allowances in the initial accounting of all loans acquired in a transfer that are within the scope of this statement. The prohibition of the valuation allowance carryover applies to the purchase of an individual loan, a pool of loans, a group of loans, and loans acquired in a purchase business combination.

SOP 03-3 is effective for loans acquired in fiscal years beginning after December 15, 2004. Early adoption is encouraged. The Corporation elected to adopt SOP 03-3 for the year ending December 31, 2005.

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 $496,979,000 at December 31, 2003 (2002 - $465,567,000).

Note 3 - Securities purchased under agreements to resell:

The securities purchased 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 at December 31, was as follows:

(In thousands)	2003	2002
Repledged	$707,797	$853,992
Not repledged	33,935	18,568
Total	$741,732	$872,560

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 at December 31, 2003 and 2002 (2001 - only market value is presented) were as follows:

	2003				
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Market value	Weighted average yield
	(Dollars in thousands)				
U.S. Treasury securities (average maturity of 11 years and 6 months):					
After 1 to 5 years	$54,862	$115		$54,977	1.59%
After 10 years	500,902		$32,855	468,047	3.82
	555,764	115	32,855	523,024	3.60
Obligations of other U.S. Government agencies and corporations (average maturity of 6 years and 4 months):					
Within 1 year	609,614	8,048		617,662	3.32
After 1 to 5 years	2,073,990	24,705	3,413	2,095,282	3.79
After 5 to 10 years	3,549,232	5,390	50,767	3,503,855	3.96
After 10 years	50,000		270	49,730	2.09
	6,282,836	38,143	54,450	6,266,529	3.83
Obligations of P.R., States and political subdivisions (average maturity of 12 years and 5 months):					
Within 1 year	1,095	24		1,119	6.40
After 1 to 5 years	18,061	1,108		19,169	5.96
After 5 to 10 years	29,804	1,748	4	31,548	5.37
After 10 years	79,971	3,184	1,799	81,356	5.68
	128,931	6,064	1,803	133,192	5.65
Collateralized mortgage obligations (average maturity of 23 years):					
After 1 to 5 years	5,869	118		5,987	4.50
After 5 to 10 years	4,526			4,526	8.52
After 10 years	1,805,854	6,509	8,651	1,803,712	2.43
	1,816,249	6,627	8,651	1,814,225	2.45
Mortgage-backed securities (average maturity of 18 years and 9 months):					
After 1 to 5 years	103,131	216	985	102,362	3.32
After 5 to 10 years	210,328	1,225	624	210,929	4.28
After 10 years	793,880	30,753	342	824,291	5.85
	1,107,339	32,194	1,951	1,137,582	5.32
Equity securities (without contractual maturity)	26,010	67,721	235	93,496	4.35
Other (average maturity of 12 years and 7 months):					
After 1 to 5 years	2,627	88	206	2,509	3.63
After 5 to 10 years	3,750	585	291	4,044	0.89
After 10 years	77,449	454	925	76,978	7.13
	83,826	1,127	1,422	83,531	6.74
	$10,000,955	$151,991	$101,367	$10,051,579	3.78%

	2002					2001
	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 6 months):						
Within 1 year	$300,072	$4,381		$304,453	5.67%	$275,791
After 1 to 5 years	54,885	881		55,766	2.87	393,078
	354,957	5,262		360,219	5.24	668,869
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	1,195,488
After 1 to 5 years	3,402,631	81,787		3,484,418	4.17	2,208,710
After 5 to 10 years	2,290,566	31,327	$388	2,321,505	4.44	1,531,750
After 10 years	350,000	9,705		359,705	5.88	302,455
	6,192,871	125,675	388	6,318,158	4.37	5,238,403
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	1,687
After 1 to 5 years	23,425	1,563	2	24,986	5.32	6,593
After 5 to 10 years	26,499	1,161		27,660	5.94	74,421
After 10 years	22,580	2,088		24,668	6.34	22,695
	79,004	4,915	14	83,905	5.87	105,396
Collateralized mortgage obligations (average maturity of 20 years and 6 months):						
After 1 to 5 years	12,904	401		13,305	4.72	17,363
After 5 to 10 years	22,372	249		22,621	5.14	77,899
After 10 years	2,136,841	11,314	272	2,147,883	2.91	2,146,824
	2,172,117	11,964	272	2,183,809	2.94	2,242,086
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	160
After 5 to 10 years	108,956	1,955		110,911	5.07	35,978
After 10 years	975,771	34,599	156	1,010,214	5.89	605,432
	1,094,276	36,556	156	1,130,676	5.82	641,570
Equity securities (without contractual maturity)	42,095	77,677	22	119,750	3.12	88,070
Other (average maturity of 16 years and 8 months):						
After 1 to 5 years	1,046	3	3	1,046	8.22	233
After 5 to 10 years	369	28		397	11.80	1,441
After 10 years	110,927	1,769		112,696	8.52	105,865
	112,342	1,800	3	114,139	8.53	107,539
	$10,047,662	$263,849	$855	$10,310,656	4.30%	$9,091,933

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.

Securities not due on a single contractual maturity date, such as mortgage-backed securities and collateralized mortgage obligations, are classified in the period of final contractual maturity. The expected maturities of collateralized mortgage obligations, mortgage-backed securities and certain other securities may differ from their contractual maturities because they may be subject to prepayments or callable features.

The aggregate amortized cost and approximate market value of investment securities available-for-sale at December 31, 2003, by contractual maturity are shown below:

(In thousands)	Amortized cost	Market value
Within 1 year	$610,709	$618,781
After 1 to 5 years	2,258,540	2,280,286
After 5 to 10 years	3,797,640	3,754,902
After 10 years	3,308,056	3,304,114
Total	$9,974,945	$9,958,083
Without contractual maturity	26,010	93,496
Total investment securities available-for-sale	$10,000,955	$10,051,579

Proceeds from the sale of investment securities available-for-sale during 2003 were $810,540,000 (2002 - $1,266,504,000; 2001 - $1,161,097,000). Gross realized gains and losses on these securities during the year were $71,290,000 and $196,000, respectively (2002 - $3,717,000 and $7,059,000; 2001 - $8,505,000 and $8,478,000).

The following table shows the Corporation's gross unrealized losses and fair value of investment securities available-for-sale, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2003:

	Less than 12 months		
(In thousands)	Amortized Cost	Unrealized Losses	Market Value
U.S. Treasury securities	$500,902	$32,855	$468,047
Obligations of other U.S. Government agencies and corporations	3,264,856	54,450	3,210,406
Obligations of Puerto Rico, States and political subdivisions	44,174	1,803	42,371
Collateralized mortgage obligations	803,585	8,651	794,934
Mortgage-backed securities	251,825	1,938	249,887
Equity securities	4,002	194	3,808
Other	14,017	1,419	12,598
	$4,883,361	$101,310	$4,782,051

	12 months of more		
(In thousands)	Amortized Cost	Unrealized Losses	Market Value
Mortgage-backed securities	$203	$13	$190
Equity securities	527	41	486
Other	1,003	3	1,000
	$1,733	$57	$1,676

(In thousands)	Amortized Cost	Total Unrealized Losses	Market Value
U.S. Treasury securities	$500,902	$32,855	$468,047
Obligations of other U.S. Government agencies and corporations	3,264,856	54,450	3,210,406
Obligations of Puerto Rico, States and political subdivisions	44,174	1,803	42,371
Collateralized mortgage obligations	803,585	8,651	794,934
Mortgage-backed securities	252,028	1,951	250,077
Equity securities	4,529	235	4,294
Other	15,020	1,422	13,598
	$4,885,094	$101,367	$4,783,727

Available-for-sale securities in an unrealized loss position at December 31, 2003 are primarily U.S. Agency and Treasury obligations, and to a lesser extent, U.S. Agency-issued, collateralized mortgage obligations. The vast majority of them are rated the equivalent of AAA by the major rating agencies. The investment portfolio is structured primarily with highly liquid securities which posses a large and efficient secondary market. Valuations are performed at least on a quarterly basis using third party providers and dealer quotes. Management believes that the unrealized losses in the available-for-sale portfolio at December 31, 2003 are substantially related to market interest rate fluctuations and not deterioration in the creditworthiness of the issuer.

At December 31, 2003 and 2002, 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 at December 31, 2003 and 2002 (2001 - only amortized cost is presented) were as follows:

	2003				
	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 2 months):					
Within 1 year	$34,698		$1	$34,697	1.05%
Obligations of P.R., States and political subdivisions (average maturity of 13 years and 9 months):					
Within 1 year	15,656		1	15,655	0.87
After 1 to 5 years	6,577	$187	2	6,762	5.33
After 5 to 10 years	8,710	92	76	8,726	5.56
After 10 years	61,485	5	2,138	59,352	4.49
	92,428	284	2,217	90,495	4.04
Collateralized mortgage obligations (average maturity of 20 years and 7 months):					
After 10 years	863		112	751	5.45
Other (average maturity of 2 years and 3 months):					
Within 1 year	13,688	289		13,977	5.22
After 1 to 5 years	41,448	2,734		44,182	5.26
After 5 to 10 years	3,696	276		3,972	5.18
	58,832	3,299		62,131	5.25
	$186,821	$3,583	$2,330	$188,074	3.87%

	2002					2001
	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	$28,618	$4		$28,622	1.68%	$416,980
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	20,815
After 1 to 5 years	5,736	57	40	5,753	5.76	9,056
After 5 to 10 years	9,496	239	35	9,700	6.25	7,166
After 10 years	40,895	633	103	41,425	6.57	55,485
	80,174	933	186	80,921	4.94	92,522
Collateralized mortgage obligations (average maturity of 21 years and 7 months):						
After 10 years	1,126		112	1,014	5.45	1,430
Other (average maturity of 2 years and 9 months):						
Within 1 year	12,748	47		12,795	5.21	11,250
After 1 to 5 years	51,203	640		51,843	5.21	60,487
After 5 to 10 years	6,882	106		6,988	5.35	9,691
	70,833	793		71,626	5.22	81,428
	$180,751	$1,730	$298	$182,183	4.54%	$592,360

Securities not due on a single contractual maturity date, such as mortgage-backed securities and collateralized mortgage obligations, are classified in the period of final contractual maturity. The expected maturities of collateralized mortgage obligations, mortgage-backed securities and certain other securities may differ from their contractual maturities because they may be subject to prepayments or callable features.

The aggregate amortized cost and approximate market value of investment securities held-to-maturity at December 31, 2003, by contractual maturity are shown below:

(In thousands)	Amortized cost	Market value
Within 1 year	$64,042	$64,329
After 1 to 5 years	48,025	50,944
After 5 to 10 years	12,406	12,698
After 10 years	62,348	60,103
Total investment securities held-to-maturity	$186,821	$188,074

The following table shows the Corporation's gross unrealized losses and fair value of investment securities held-to-maturity, aggregated by investment category and length of time that individual securities have been in a continous unrealized loss position, at December 31, 2003:

	Less than 12 months		
(In thousands)	Amortized Cost	Unrealized Losses	Market Value
Obligations of other U.S. Government agencies and corporations	$34,698	$1	$34,697
Obligations of Puerto Rico, States and political subdivisions	66,220	2,216	64,004
Collateralized mortgage obligations			
	$100,918	$2,217	$98,701

	12 months of more		
(In thousands)	Amortized Cost	Unrealized Losses	Market Value
Obligations of Puerto Rico, States and political subdivisions	$221	$1	$220
Collateralized mortgage obligations	863	112	751
	$1,084	$113	$971

		Total	
(In thousands)	Amortized Cost	Unrealized Losses	Market Value
Obligations of other U.S. Government agencies and corporations	$34,698	$1	$34,697
Obligations of Puerto Rico, States and political subdivisions	66,441	2,217	64,224
Collateralized mortgage obligations	863	112	751
	$102,002	$2,330	$99,672

Held-to-maturity securities in an unrealized loss position at December 31, 2003 are primarily U.S. Agency and Treasury obligations, and to a lesser extent, U.S. Agency-issued, collateralized mortgage obligations. The vast majority of them are rated the equivalent of AAA by the major rating agencies.The investment portfolio is structured primarily with highly liquid securities which posses a large and efficient secondary market. Valuations are evaluated at least on a quarterly basis using third party providers and dealer quotes. Management believes that the unrealized losses in the held-to-maturity portfolio at December 31, 2003 are substantially related to market interest rate fluctuations and not deterioration in the creditworthiness of the issuer.

At December 31, 2003 and 2002, 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, 2003 and 2002, certain securities and loans were pledged to secure public and trust deposits, assets sold under agreements to repurchase, other borrowings and credit facilities available.

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

(In thousands)	2003	2002
Investment securities available-for-sale	$2,431,198	$2,046,100
Investment securities held-to-maturity	1,597	3,278
Loans	7,982,661	5,933,669
	$10,415,456	$7,983,047

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

Note 7 - Loans and allowance for loan losses:

The composition of the loan portfolio, excluding loans held-for-sale, at December 31, was as follows:

(In thousands)	2003	2002
Loans secured by real estate:		
Insured or guaranteed by the U.S. Government or its agencies	$62,411	$19,457
Guaranteed by the Commonwealth of Puerto Rico	49,501	56,604
Commercial loans secured by real estate	1,667,758	1,677,033
Residential conventional mortgages	9,307,287	6,290,410
Construction and land development	402,411	305,299
Consumer	330,265	347,062
	11,819,633	8,695,865
Financial institutions	17,803	21,777
Commercial, industrial and agricultural	6,338,664	5,964,338
Lease financing	1,219,029	1,054,189
Consumer for household, credit cards and other consumer expenditures	3,031,962	2,873,234
Other	186,788	166,444
	$22,613,879	$18,775,847

As of December 31, 2003, loans and loans held-for-sale on which the accrual of interest income had been discontinued amounted to $557,026,000 (2002 - $499,856,000; 2001 - $426,766,000). If these loans had been accruing interest, the additional interest income realized would have been approximately $45,541,000 (2002 - $35,820,000; 2001 - $27,866,000). Non-accruing loans as of December 31, 2003 include $36,350,000 (2002 - $40,019,000; 2001 - $40,946,000) in consumer loans.

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

	December 31,	
(In thousands)	2003	2002
Impaired loans with a related allowance	$88,246	$87,874
Impaired loans that do not require allowance	48,366	54,175
Total impaired loans	$136,612	$142,049
Allowance for impaired loans	$44,033	$34,941
Average balance of impaired loans during the year	$159,795	$142,669
Interest income recognized on impaired loans during the year	$3,655	$3,026

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

(In thousands)	2003	2002	2001
Balance at beginning of year	$372,797	$336,632	$290,653
Net allowances acquired	13,697	2,327	1,675
Provision for loan losses	195,939	205,570	213,250
Recoveries	58,708	67,488	66,103
Loans charged-off	(232,599)	(239,220)	(235,049)
Balance at end of year	$408,542	$372,797	$336,632

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

(In thousands)	2003	2002
Total minimum lease payments	$1,024,251	$872,206
Estimated residual value of leased property	190,885	177,701
Deferred origination costs	3,893	4,282
Less - Unearned financing income	(165,208)	(168,192)
Net minimum lease payments	1,053,821	885,997
Less - Allowance for loan losses	(29,802)	(29,572)
	$1,024,019	$856,425

At December 31, 2003, future minimum lease payments are expected to be received as follows:

(In thousands)	
2004	$314,746
2005	264,285
2006	209,309
2007	146,612
2008 and thereafter	89,299
	$1,024,251

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, 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
New loans	3,095	59,876	62,971
Payments	(1,029)	(60,868)	(61,897)
Other changes	(9)	(6,710)	(6,719)
Balance at December 31, 2003	$7,733	$85,913	$93,646

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	2003	2002
Land		$69,641	$64,937
Buildings	10-50	292,098	288,913
Equipment	1-15	536,413	513,691
Leasehold improvements	Various	87,737	82,518
		916,248	885,122
Less - Accumulated depreciation and amortization		557,620	514,327
		358,628	370,795
Construction in progress		57,183	25,445
		$485,452	$461,177

Depreciation and amortization of premises and equipment for the year 2003 was $73,007,000 (2002 - $74,167,000 ; 2001 - $75,962,000) of which $20,214,000 (2002 - $19,674,000; 2001 - $18,781,000) was charged to occupancy expense and $52,793,000 (2002 - $54,493,000; 2001 - $57,181,000) was charged to equipment, communications and other operating expenses. Occupancy expense is net of rental income of $15,398,000 (2002 - $12,423,000; 2001 - $10,440,000).

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.

The Corporation completed the impairment tests during 2003 and 2002, and determined that there are no impairment losses to be recognized in those periods.

The changes in the carrying amount of goodwill for the years ended December 31, were as follows:

(In thousands)	Commercial Banking	Mortgage and Consumer Lending	Auto and Lease Financing	Other	Total
Balance at 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 at December 31, 2002	$110,482	$11,247	$6,727	$54,509	$182,965
Goodwill acquired during the year	3,788	3,725		1,240	8,753
Goodwill written-off during the year				(228)	(228)
Balance at December 31, 2003	$114,270	$14,972	$6,727	$55,521	$191,490

At December 31, 2003 and December 31, 2002, goodwill totaled $191,490,000 and $182,965,000, respectively. Goodwill written-off during 2003 was related to the mobile units of Popular Cash Express sold during the year. Goodwill written-off during 2002 was related to

various branches of Popular Finance sold during the year. The Corporation has no other intangible assets not subject to amortization.

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

	2003		2002	
(In thousands)	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Core deposits	$67,484	$43,474	$87,739	$56,263
Other customer relationships	3,536	415	2,886	120
Other intangibles	362	103	509	104
Total	$71,382	$43,992	$91,134	$56,487

Certain core deposits intangibles became fully amortized during 2003, and as such, their gross amount and accumulated amortization were eliminated from the accounting records and the tabular disclosure presented above for December 31, 2003.

During the year ended December 31, 2003, the Corporation recognized $7,844,000 in amortization expense related to other intangible assets with definite lives (2002 - $9,104,000; 2001 - $10,092,000).

The following table presents the estimated aggregate amortization expense of the intangible assets with definite lives that the Corporation has at December 31, 2003, for each of the following fiscal years:

(In thousands)	
2004	$7,179
2005	5,529
2006	5,380
2007	3,719
2008	2,061

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 at December 31, consisted of:

(In thousands)	2003	2002
Savings deposits:		
Savings accounts	$5,281,210	$5,101,026
NOW and money market accounts	2,558,081	2,511,830
	7,839,291	7,612,856
Certificates of deposit:		
Under $100,000	3,277,805	3,292,915
$100,000 and over	3,254,025	3,341,584
	6,531,830	6,634,499
	$14,371,121	$14,247,355

A summary of certificates of deposit by maturity at December 31, 2003, follows:

(In thousands)	
2004	$4,018,082
2005	948,292
2006	568,747
2007	447,591
2008	465,507
2009 and thereafter	83,611
	$6,531,830

At December 31, 2003, the Corporation had brokered certificates of deposit amounting to $637,621,000 (2002 - $855,834,000).

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

The following table summarizes certain information on federal funds purchased and assets sold under agreements to repurchase at December 31:

(Dollars in thousands)	2003	2002	2001
Federal funds purchased	$831,163	$834,338	$651,858
Assets sold under agreements to repurchase	4,947,824	5,850,213	5,099,910
Total amount outstanding	$5,778,987	$6,684,551	$5,751,768
Maximum aggregate balance outstanding at any month-end	$7,655,105	$7,104,223	$6,015,631
Average monthly aggregate balance outstanding	$6,454,110	$5,763,812	$4,447,708
Weighted average interest rate:			
For the year	1.95%	2.62%	4.42%
At December 31	1.70	2.36	2.41

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, 2003 and 2002. 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:

2003

	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	$436,036	$353,276	$440,120	1.04%
After 90 days	25,461	26,513	26,568	5.64
	461,497	379,789	466,688	1.29
Obligations of other U.S. Government agencies and corporations				
Overnight	25,500	26,943	27,010	1.24
Within 30 days	1,182,916	1,179,659	1,213,500	1.10
After 30 to 90 days	540,231	564,711	555,882	1.26
After 90 days	387,629	387,572	399,017	2.98
	2,136,276	2,158,885	2,195,409	1.48
Obligations of P.R., States and political subdivisions				
Overnight	3,155	4,066	3,816	1.24
Mortgage - backed securities				
Overnight	21,871	23,631	24,226	1.24
Within 30 days	41,720	42,041	44,338	1.11
After 90 days	195,799	235,049	248,391	3.39
	259,390	300,721	316,955	2.84
Collateralized mortgage obligations				
After 30 to 90 days	760	868	755	1.35
After 90 days	546,888	563,149	563,277	2.79
	547,648	564,017	564,032	2.78
Loans				
Within 30 days	403,283	413,586	413,258	1.54
	$3,811,249	$3,821,064	$3,960,158	1.74%

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%

Note 13 - Other short-term borrowings:

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

(Dollars in thousands)	2003	2002
Advances under credit facilities with a fixed interest rate of 0.96% at December 31, 2003 (2002- 1.76% to 1.78%)	$500,000	$500,000
Commercial paper at rates ranging from 1.05% to 1.70% (2002 - 1.12% to 2.47%)	85,001	253,041
Term notes paying interest quarterly at fixed interest rates ranging from 1.60% to 1.73%	120,660	
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 fixed interest rates ranging from 1.00% to 1.22% (2002 - 1.63% to 2.00%)	175,675	85,202
Term funds purchased at interest rates ranging from 1.03% to 1.14% (2002 - 1.36% to 2.88%)	1,115,000	840,000
Others	288	319
	$1,996,624	$1,703,562

The weighted average interest rate of other short-term borrowings at December 31, 2003 was 1.11% (2002 - 1.71%; 2001 - 2.24%). The maximum aggregate balance outstanding at any month-end was approximately $2,452,264,000 (2002 - $2,573,355,000; 2001 - $3,164,520,000). The average aggregate balance outstanding during the year was approximately $1,937,529,000 (2002 - $2,023,200,000; 2001 - $2,806,598,000). The weighted average interest rate during the year was 1.14% (2002 - 1.69%; 2001 - 4.73%).

At December 31, 2003, the Corporation had $1,133,471,000 in approved lines of credit with the Federal Home Loan Bank (FHLB) (2002 - $814,768,000), of which $50,471,000 remained unused at the end of 2003 (2002 - $484,768,000). The FHLB advances are secured by securities and mortgages under a collateral agreement. The Corporation also had $17,684,144,000 in other credit facilities, which include fed funds lines, Federal Reserve Bank discount window and other financial institutions' regular credit lines with other banks (2002 - $18,223,590,000) of which $12,160,341,000 remained unused at the end of 2003 (2002 - $12,236,507,000).

Note 14 - Notes payable:

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

(Dollars in thousands)	2003	2002
Advances under credit facilities maturing in 2004 paying interest monthly at a fixed rate of 5.17% (2002 - 3.44% to 5.20%)	$105,000	$180,000
Term notes with maturities ranging from 2004 through 2008 paying interest semiannually at fixed rates ranging from 2.40% to 7.43% (2002 - 4.80% to 7.43%)	2,277,397	1,385,663
Term notes maturing in 2004 paying interest quarterly at a fixed rate of 1.70%	31,000	
Term notes with maturities ranging from 2004 through 2006 paying interest quarterly at rates ranging from 0.45% to 0.92% over the 3-month LIBOR rate (3-month LIBOR rate at December 31, 2003 was 1.15%; 2002 - 1.38%)	77,000	526,710
Term notes with maturities ranging from 2004 through 2030 paying interest monthly at fixed rates ranging from 1.52% to 7.62% (2002 - 5.15% to 7.62%)	322,162	97,066
Promissory notes maturing in 2005 with a floating interest rate of 92% of the 3-month LIBID rate (3-month LIBID rate at December 31, 2003 was 1.06%; 2002 - 1.25%)	150,000	180,000
Promissory notes with maturities until 2003 paying interest at a fixed rate of 6.35%		8,400
Secured borrowings with maturities until 2013 paying interest monthly at fixed rates ranging from 2.41% to 7.12% (2002 - 3.63% to 7.03%)	1,694,974	761,398
Secured borrowings with maturities until 2013 paying interest monthly at rates ranging from 0.09% to 4.75% over the 1-month LIBOR rate (1-month LIBOR rate at December 31, 2003 was 1.12%; 2002 - 1.38%)	1,841,472	1,151,532
Notes linked to the S&P500 Index maturing in 2008	31,324	
Junior subordinated deferrable interest debentures maturing in 2027 and 2033 with fixed interest rates of 8.33% and 6.70%	457,919	
Mortgage notes and other debt	3,777	8,084
	$6,992,025	$4,298,853

Note 15 - Subordinated notes:

Subordinated notes at December 31, 2003 and 2002, 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 - Junior subordinated deferrable interest debentures held by trusts that issued trust preferred securities:

On October 31, 2003, Popular Capital Trust I, a statutory business trust created under the laws of the State of Delaware that is wholly-owned by the Corporation, sold to institutional and retail investors $300,000,000 of its 6.70% Cumulative Monthly Income Trust Preferred Securities (liquidation amount $25 per Capital Security) ("6.70% Capital Securities") through certain underwriters. The proceeds of the issuance, together with the proceeds of the purchase by the Corporation of $9,279,000 of Popular Capital Trust I's 6.70% common securities (liquidation amount $25 per common security) were used to purchase $309,279,000 aggregate principal amount of the Corporation's 6.70% Junior Subordinated Deferrable Interest Debentures (the "6.70% Junior Subordinated Debentures"). The 6.70% Capital Securities are fully and unconditionally guaranteed by the Corporation. The assets of Popular Capital Trust I consisted of $309,279,000 of 6.70% Junior Subordinated Debentures at December 31, 2003 and the related accrued interest receivable. The 6.70% Junior Subordinated Debentures mature on November 1, 2033; however, under certain circumstances, the maturity of the Junior Subordinated Debentures may be shortened (which shortening would result in a mandatory redemption of the 6.70% Capital Securities). The 6.70% Capital Securities are traded on the NASDAQ under the symbol "BPOPN."

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 PNA and indirectly wholly-owned by the Corporation, sold to institutional investors $150,000,000 of its 8.327% Capital Securities Series A (liquidation amount $1,000 per Capital Security) ("8.327% Capital Securities") 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's 8.327% Junior Subordinated Deferrable Interest Debentures, Series A (the "8.327% Junior Subordinated Debentures"). As of December 31, 2003, the Corporation had reacquired $6,000,000 of the 8.327% Capital Securities. The obligations of PNA under the 8.327% 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 8.327% Junior Subordinated Debentures at December 31, 2003 (2002 - $148,640,000) and the related accrued interest receivable. The 8.327% Junior Subordinated Debentures mature on February 1, 2027; however, under certain circumstances, the maturity of the 8.327% Junior Subordinated Debentures may be shortened (which shortening would result in a mandatory redemption of the 8.327% Capital Securities).

Prior to FIN No. 46R, the issuer trusts described above were considered consolidated subsidiaries of the Corporation. The 8.327% Capital Securities were included in the consolidated statement of condition for the year ended December 31, 2002 under the caption "Preferred beneficial interest in Popular North America's junior subordinated deferrable interest debentures guaranteed by the Corporation," and the retained common capital securities of the issuer trusts were eliminated against the Corporation's investment in the issuer trust. Distributions on the Capital Securities were recorded as interest expense on the consolidated statements of income.

As a result of the adoption of FIN No. 46R, the Corporation deconsolidated these issuer trusts effective December 31, 2003. The Junior Subordinated Debentures issued by Popular, Inc. and PNA to the issuer trusts, totaling $457,919,000 are reflected in the Corporation's consolidated statement of condition at December 31, 2003 under the caption of notes payable. The Corporation will record interest expense on the corresponding junior subordinated debentures in the consolidated statement of income. The Corporation also recorded in the caption of other investment securities in the consolidated statement of condition at December 31, 2003, the common securities issued by the issuer trusts.

Refer to Note 20 for further disclosures on the regulatory capital treatment of the capital securities.

Note 17 - Long-term debt maturity requirements:

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

Year	Notes payable	Subordinated notes	Total
		(In thousands)	
2004	$1,404,975		$1,404,975
2005	949,515	$125,000	1,074,515
2006	1,407,081		1,407,081
2007	345,469		345,469
2008	1,404,606		1,404,606
Later years	1,480,379		1,480,379
Total	$6,992,025	$125,000	$7,117,025

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 years ended December 31:

(In thousands, except share information)	2003	2002	2001
Net income	$470,915	$351,932	$304,538
Less: Preferred stock dividends (includes amount paid on redemption of preferred stock in 2002)	9,919	2,510	8,350
Net income applicable to common stock	$460,996	$349,422	$296,188
Average common shares outstanding	132,740,920	133,915,082	136,238,288
Average potential common shares - stock options	56,996	193	181
Average common shares outstanding - assuming dilution	132,797,916	133,915,275	136,238,469
Basic earnings per common share	$3.47	$2.61	$2.17
Diluted earnings per common share	$3.47	$2.61	$2.17

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. Stock options that result in lower potential shares issued than shares purchased under the treasury stock method are not included in the computation of dilutive earnings per share since their inclusion would have an antidilutive effect in earnings per share.

During 2003 there were 365,542 weighted-average antidilutive stock options outstanding (2002 - 379,530; 2001 - 6,656).

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, 2003, there were 139,594,296 (2002 - 139,133,156) shares issued and 132,891,946 (2002 - 132,439,047) shares outstanding. As of December 31, 2003, the Corporation had 6,702,350 shares (2002 - 6,694,109) in treasury stock at a total cost of $205,527,000 (2002 - $205,210,000).

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 average market price at the time of issuance. During 2003, shares totaling 431,846 (2002 - 383,301; 2001 - 356,831), equivalent to $14,917,000 (2002 - $11,157,000; 2001 - $9,702,000) 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. In 2003, the Corporation issued 7,475,000 shares of its 6.375% noncumulative monthly income preferred stock, 2003 Series A, at a price of $25 per share. The net proceeds to the Corporation, after the underwriting discounts and expenses, amounted to $183,159,000. These shares of preferred stock are nonconvertible and are redeemable solely at the option of the Corporation beginning on March 31, 2008. The redemption price per share is $25.50 from March 31, 2008 through March 30, 2009, $25.25 from March 31, 2009 through March 30, 2010 and $25.00 from March 31, 2010 and thereafter.

During the year 2003, cash dividends of $1.01 (2002 - $0.80; 2001 - $0.76) per common share outstanding amounting to $134,082,000 (2002 - $106,709,000; 2001 - $103,546,000) were declared. In addition, dividends declared on preferred stock amounted to $9,919,000 (2002 - $510,000; 2001 - $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 statutory reserve account until such statutory reserve equals the total of paid-in capital on common and preferred stock. During 2003, $25,500,000 was transferred to the statutory reserve account. No transfer to this account was necessary in 2001 and 2002.

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 consolidated 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, 2003 and 2002, the Corporation exceeded all capital adequacy requirements to which it is subject.

At December 31, 2003 and 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, at December 31, were as follows:

			Regulatory requirements	
	Actual		Actual	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio
	2003		2002	
Total Capital (to Risk-Weighted Assets):				
Consolidated	$3,176,439	13.93%	$2,400,558	11.52%
BPPR	1,866,529	14.00	1,413,878	11.19
BPNA	546,597	11.33	489,070	11.63
Tier I Capital (to Risk-Weighted Assets):				
Consolidated	$2,834,599	12.43%	$2,054,027	9.85%
BPPR	1,698,276	12.74	1,254,687	9.93
BPNA	486,074	10.08	436,264	10.37
Tier I Capital (to Average Assets):				
Consolidated	$2,834,599	8.00%	$2,054,027	6.19%
BPPR	1,698,276	7.84	1,254,687	5.81
BPNA	486,074	7.91	436,264	7.92

The Federal Reserve has indicated in supervisory letter SR 03-13, dated July 2, 2003 (the "Supervisory Letter") that trust preferred securities (the "Capital Securities") will be treated as Tier 1 capital until notice is given to the contrary. The Supervisory Letter also indicates that the Federal Reserve will review the regulatory implications of any accounting treatment changes and will provide futher guidance if necesary or warranted. If Tier 1 capital treatment is disallowed, the Corporation's Tier 1 capital would be reduced by approximately $444,000,000.

Note 21 - Servicing assets:

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

(In thousands)	2003	2002	2001
Balance at beginning of year	$49,827	$43,665	$40,116
Rights originated	16,769	14,895	12,957
Rights purchased	4,992	2,824	1,364
Amortization	(12,566)	(11,557)	(10,772)
Impairment charges	(450)	-	-
Balance at end of year	58,572	49,827	43,665
Less: Valuation allowance	1,780	1,991	649
Balance at end of year, net of valuation allowance	$56,792	$47,836	$43,016

Total loans serviced for others were $6,374,817,000 at December 31, 2003 (2002 - $5,934,968,000). The estimated fair value of capitalized servicing rights was $61,236,000 at December 31, 2003 (2002 - $64,449,000).

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

(In thousands)	2003	2002	2001
Balance at beginning of year	$1,991	$649	$562
Additions charged to operations	239	1,342	87
Impairment charges	(450)	-	-
Balance at end of year	$1,780	$1,991	$649

Note 22 - Sales of receivables:

During the years ended December 31, 2003 and 2002, the Corporation retained servicing responsibilities and other subordinated interests on various securitization transactions and whole loan sales of residential mortgage and commercial loans.

Pretax gains of $37,982,000 and $39,057,000 were realized on these securitization transactions that met the sale criteria under SFAS No. 140 and the whole loan sales involving retained interests, which took place in 2003 and 2002, respectively.

During 2003 and 2002, the Corporation also participated in various securitization transactions, which did not meet the SFAS No. 140 criteria for sale accounting and 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 2003, those average fees ranged from 0.25 to 0.50 percent for mortgage loans (2002 - 0.33% to 0.50%) and from 1.0 to 1.30 percent for loans guaranteed by the Small Business Administration (SBA) (2002 - 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, 2003 and 2002, were as follows:

	Residential Mortgage Loans		SBA Loans	
	2003	2002	2003	2002
Prepayment speed	13.6%	17.3%	16.0%	17.5%
Weighted average life (in years)	10.4	10.2	3.7	3.7
Expected credit losses	-	-	-	-
Discount rate	9.0%-10.5%	9.0%	13.0%	15%

At December 31, 2003, 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 were as follows:

(Dollars in thousands)	Residential Mortgage Loans	SBA Loans
Carrying amount of retained interests	$68,655	$2,520
Fair value of retained interests	72,877	2,743
Weighted average life (in years)	8.8 - 10.8	2.0 - 3.7
Prepayment Speed Assumption (annual rate)	17.8% - 26.4%	16.5% - 25.0%
Impact on fair value of 10% adverse change	($2,273)	($175)
Impact on fair value of 20% adverse change	(4,322)	(334)
Expected Credit Losses (annual rate)	0% - 0.33%	-
Impact on fair value of 10% adverse change	($130)	-
Impact on fair value of 20% adverse change	(206)	-
Discount rate (annual rate)	10.5% - 11.0%	10.0% - 13.0%
Impact on fair value of 10% adverse change	($2,156)	($128)
Impact on fair value of 20% adverse change	(4,166)	(247)

These sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a 10 and 20 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)	2003	2002
Servicing fees received	$1,031	$1,632
Servicing advances	(1,637)	(7,484)
Repayment of servicing advances	272	829
Other cash flows received on retained interests	273	1,455

The expected credit losses for the residential mortgage loans securitized/sold are estimated at rates ranging from 0.0% to 0.33% for 2004 and 2005. 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, 2003, 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	$8,662,721	$168,333	$59,475
Lease financing	1,053,821	16,074	11,518
Mortgage	11,479,962	497,719	32,850
Consumer	3,268,670	82,474	73,870
Less:			
Loans securitized / sold	(1,862,982)		
Loans held-for-sale	(271,592)		
Loans held in portfolio	$22,330,600	$764,600	$177,713

Note 23 - Employee benefits:

Pension and benefit restoration plans

All regular employees of BPPR and BPNA are covered by noncontributory defined benefit pension plans. 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.

The Corporation's funding policy is to make annual contributions to the plans in amounts which fully provide for all benefits as they become due under the plans.

The Bank's pension fund investment strategy is to invest in a prudent manner for the exclusive purpose of providing benefits to participants. A well defined internal structure has been established to develop and implement a risk-controlled investment strategy that is targeted to produce a total return that, when combined with the Bank's contributions to the fund, will maintain the funds ability to meet all required benefit obligations. Risk is controlled through diversification of asset types and investments in domestic and international equities and fixed income.

Equity investments include various types of stock and index funds. Also, this category includes Popular, Inc.'s common stock. Fixed income investments include U.S. Government securities and other U.S. agencies' obligations, corporate bonds, mortgage loans, mortgage-backed securities and index funds, among others. A designated committee, with the assistance of an external consultant, periodically reviews the performance of the pension plans' investments and assets allocation. The Trustee and the money managers are allowed to exercise investment discretion, subject to limitations established by the pension plans' investment policies. The plans forbid money managers to enter into derivative transactions, unless approved by the Trustee.

The overall expected long-term rate-of-return-on-assets assumption reflects the average rate of earnings expected on the funds invested or to be invested to provide for the benefits included in the benefit obligation. The assumption has been determined by reflecting expectations regarding future rates of return for the plan assets, with consideration given to the distribution of the investments by asset class and historical rates of return for each individual asset class. This process is reevaluated at least on an annual basis and if market, actuarial and economic conditions change, adjustments to the rate of return may come into place.

The plans' weighted-average asset allocations at December 31, by asset category were as follows:

	2003	2002
Equity securities	72.1%	66.3%
Debt securites	25.2	29.9
Other	2.7	3.8
	100.0%	100.0%

The plans' target allocation for 2003 and 2002, by asset category, approximated 70% in equity securities and 30% in debt securities.

At December 31, 2003, these plans included 1,372,860 shares (2002 - 1,372,860) of the Corporation's stock with a market value of approximately $61,573,000 (2002 - $46,403,000). Dividends paid on shares of the Corporation's stock held by the plan during 2003 amounted to $1,290,000 (2002 - $2,818,000). 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 plans 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 Plans	Benefit Restoration Plans	Total
		2003	
Change in benefit obligation:		(In thousands)	
Benefit obligation at beginning of year	$412,027	$10,779	$422,806
Service cost	13,641	567	14,208
Interest cost	26,784	798	27,582
Plan amendment	(1,735)	(95)	(1,830)
Actuarial loss	49,081	3,584	52,665
Benefits paid	(20,032)	(14)	(20,046)
Benefit obligations at end of year	479,766	15,619	495,385
Change in plan assets:			
Fair value of plan assets at beginning of year	393,556	6,568	400,124
Actual return on plan assets	101,614	1,754	103,368
Employer contributions	917	14	931
Benefits paid	(20,032)	(14)	(20,046)
Fair value of plan assets at end of year	476,055	8,322	484,377
Unfunded status	(3,711)	(7,297)	(11,008)
Unrecognized net asset	(3,322)		(3,322)
Unrecognized net prior service cost (benefit)	5,128	(1,156)	3,972
Unrecognized net actuarial loss	32,905	5,106	38,011
Prepaid (accrued) pension cost	31,000	(3,347)	27,653
Amount recognized in the statement of financial condition consists of:			
Prepaid benefit cost	33,378		33,378
Accrued benefit liability	(2,378)	(3,347)	(5,725)
Net amount recognized	$31,000	($3,347)	$27,653
Accumulated benefit obligation	$403,828	$10,750	$414,578

	Pension Plans	Benefit Restoration Plans	Total
		2002	
Change in benefit obligation:		(In thousands)	
Benefit obligation at beginning of the 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	(400)	42,232
Benefits paid	(19,936)	(22)	(19,958)
Benefit obligation at end of year	412,027	10,779	422,806
Change in plan assets:			
Fair value of plan assets at beginning of the year	425,858		425,858
Actual return on plan assets	(12,620)	(32)	(12,652)
Employer contributions	254	6,622	6,876
Benefits paid	(19,936)	(22)	(19,958)
Fair value of plan assets at end of year	393,556	6,568	400,124
Unfunded status	(18,471)	(4,211)	(22,682)
Unrecognized net asset	(5,783)		(5,783)
Unrecognized net prior service cost (benefit)	7,345	(1,167)	6,178
Unrecognized net actuarial loss	56,812	3,042	59,854
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
Accumulated benefit obligation	$359,810	$8,016	$367,826

Information for plans with an accumulated benefit obligation in excess of plan assets for the years ended December 31, follows:

	Pension Plans		Benefit Restoration Plans	
(In thousands)	2003	2002	2003	2002
Projected benefit obligation	$6,874	$4,620	$15,619	$10,779
Accumulated benefit obligation	4,409	2,966	10,750	8,016
Fair value of plan assets	3,000	1,950	8,322	6,568

The measurements dates of the assets and liabilities of all plans presented above for 2003 and 2002 were December 31, 2003 and December 31, 2002, respectively.

The actuarial assumptions used to determine benefit obligations for the years ended December 31, were as follows:

Weighted average assumptions used to determine benefit obligations as of December 31:	2003	2002
Discount rate	6.00%	6.50%
Rate of compensation increase - weighted average	5.10%	4.20%

The actuarial assumptions used to determine the components of net periodic pension cost for the years ended December 31, were as follows:

Weighted average assumptions as of December 31:	Pension Plans			Benefit Restoration Plans		
	2003	2002	2001	2003	2002	2001
Discount rate	6.50%	7.00%	7.25%	6.50%	7.00%	7.25%
Expected return on plan assets	8.00%	8.50%	8.50%	8.00%	8.50%	8.50%
Rate of compensation increase - weighted average	5.10%	4.20%	4.20%	5.10%	4.20%	4.20%

The components of net periodic pension cost for the years ended December 31, were as follows:

	Pension Plans			Restoration Plans		
	2003	2002	2001	2003	2002	2001
Components of net periodic pension cost:			(In thousands)			
Service cost	$13,641	$12,823	$11,097	$567	$511	$686
Interest cost	26,784	25,304	22,657	798	789	824
Expected return on plan assets	(30,772)	(35,421)	(35,677)	(524)	(307)	
Amortization of asset obligation	(2,461)	(2,461)	(2,461)			
Amortization of prior service cost	482	565	510	(106)	53	53
Amortization of net (gain) loss	2,145		(2,340)	291	189	358
Net periodic cost (benefit)	9,819	810	(6,214)	1,026	1,235	1,921
Curtailment gain		(139)				
Total cost (benefit)	$9,819	$671	($6,214)	$1,026	$1,235	$1,921

During 2004, the Corporation expects to contribute $1,528,000 to the pension plans and $769,000 to the benefit restoration plans.

Retirement and savings plans

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 certain of the Corporation's subsidiaries. Employer contributions are determined based on specific provisions of each plan. Employees are fully vested in the employer's contribution after five years of service. The cost of providing this benefit in 2003 was $9,166,000 (2002 - $9,726,000; 2001 - $7,681,000).

The plans held 2,963,857 (2002 - 2,806,715; 2001 - 2,612,538) shares of common stock of the Corporation with a market value of approximately $132,929,000 at December 31, 2003 (2002 - $94,867,000; 2001 - $75,973,000).

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. Employees hired after February 1, 2000 are not elegible for retiree health benefits.

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

(In thousands)	2003	2002
Change in benefit obligation:		
Benefit obligation at beginning of the year	$145,621	$105,848
Service cost	3,140	2,987
Interest cost	9,254	9,160
Plan amendment	(3,200)	
Benefits paid	(6,501)	(6,065)
Actuarial loss	10,345	33,691
Benefit obligation at end of year	$158,659	$145,621
Change in plan assets:		
Unfunded status	($158,659)	($145,621)
Unrecognized net prior service benefit	(9,529)	(7,136)
Unrecognized net actuarial loss	55,375	47,335
Accrued benefit cost	($112,813)	($105,422)

The weighted average discount rate used in determining the accumulated postretirement benefit obligation at December 31, 2003 was 6.00% (2002 - 6.50%).

The weighted average discount rate used to determine the components of net periodic postretirement benefit cost for the year ended December 31, 2003 was 6.50% (2002 - 7.00%; 2001 - 7.25%)

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

(In thousands)	2003	2002	2001
Service cost	$3,140	$2,987	$2,800
Interest cost	9,254	9,160	6,426
Amortization of prior service benefit	(807)	(807)	(799)
Amortization of net loss	2,305	2,204	
Net periodic benefit cost	$13,892	$13,544	$8,427

The assumed health care cost trend rates at December 31, were as follows:

	2003	2002
Health care cost trend rate assumed for next year	10.00%	9.00%
Rate to which the cost trend rate is assumed to decline	5.00%	5.00%
Year that the ultimate trend rate is reached	2009	2007

The Plan provides that the cost will be capped to 3% of the annual health care cost increase affecting only those emloyees 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	$633,000	($544,000)
Effect on postretirement benefit obligation	$10,601,000	($9,116,000)

The Corporation expects to contribute $6,900,000 to the postretirement benefit plan in 2004 to fund current benefit payment requirements.

On December 8, 2003, the President of the United States signed into law the Medicare Prescription Drug, Improvement and Modernization Act of 2003 ("the Act"). The Act expanded Medicare to include, for the first time, coverage for prescription drugs. The Corporation expects that this legislation will eventually reduce the costs in the postretirement benefit plan for at least some of the participants. At this point, the Corporation's investigation into the legislation is preliminary, and awaits guidance from various governmental and regulatory agencies concerning the requirements that must be met to obtain these cost reductions as well as the manner in which such savings should be measured and accounted for. Pending issuance of these details and pursuant to FSP 106-1, the Corporation has elected to defer financial recognition of this legislation. Any final guidance, once issued, could require the Corporation to change previously reported information.

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 $19,821,000 in 2003 (2002 - $21,219,000 ; 2001 - $15,455,000).

Note 24 - Stock option plan:

The Corporation has a Stock Option Plan (the 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. Employees and directors of the Corporation or any of its subsidiaries are eligible to participate in the Plan. The Board of Directors or the Compensation Committee of the Board 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.

The Corporation recognized $1,490,000 in stock options expense for the year ended December 31, 2003 (2002 - $957,000).

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 earnings per share.

The following table presents information on stock options as of December 31, 2003:

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 - $37.00	871,230	$31.54	8.70	100,937	$29.33
$38.50 - $46.15	18,064	$41.99	9.63	-	-
$28.78 - $46.15	889,294	$31.75	8.72	100,937	$29.33

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	-	-
Balance 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
Granted	481,936	33.85
Exercised	(29,294)	28.93
Forfeited	(8,423)	29.46
Outstanding at December 31, 2003	889,294	$31.75

The stock options exercisable at December 31, 2003 totaled 100,937 (2002 - 22,529). No stock options were exercisable at December 31, 2001.

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 2003, 2002 and 2001 were:

	2003	2002	2001
Expected dividend yield	2.41%	2.79%	2.31%
Expected life of options	10 years	10 years	10 years
Expected volatility	23.87%	26.48%	30.62%
Risk-free interest rate	3.78%	4.90%	5.05%

The weighted-average fair value of options granted during 2003 was $9.12 per option. During 2002 and 2001, the weighted-average fair value of options granted was $8.70 and $11.43 per option, respectively.

Note 25 - Rental expense and commitments:

At December 31, 2003, 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)		
2004	$38,915	$2,537	$36,378
2005	33,885	1,680	32,205
2006	27,951	1,306	26,645
2007	24,237	706	23,531
2008	20,344	466	19,878
Later years	93,501	2,001	91,500
	$238,833	$8,696	$230,137

Total rental expense for the year ended December 31, 2003, was $52,137,000 (2002 - $45,823,000; 2001 - $42,529,000).

Note 26 - 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 $9,968,000 in 2003 (2002 - ($469,000); 2001 - $2,094,000), related to net gains or losses on securities transactions.

(In thousands)	2003	2002	2001
Current income tax expense:			
Puerto Rico	$85,200	$92,110	$99,811
Federal and States	41,557	57,291	35,588
Subtotal	126,757	149,401	135,399
Deferred income tax benefit:			
Puerto Rico	(7,578)	(12,548)	(11,968)
Federal and States	11,147	(19,598)	(18,151)
Subtotal	3,569	(32,146)	(30,119)
Total income tax expense	$130,326	$117,255	$105,280

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:

	2003		2002		2001	
(Dollars in thousands)	Amount	% of pre-tax income	Amount	% of pre-tax income	Amount	% of pre-tax income
Computed income tax at statutory rates	$234,654	39%	$183,080	39%	$159,554	39%
Benefits of net tax exempt interest income	(83,853)	(14)	(71,696)	(15)	(58,741)	(14)
Effect of income subject to capital gain tax rate	(18,112)	(3)				
Federal, States taxes and other	(2,363)		5,871	1	4,467	1
Income tax expense	$130,326	22%	$117,255	25%	$105,280	26%

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)	2003	2002
Deferred tax assets:		
Tax credits available for carryforward	$10,166	$12,071
Net operating loss carryforward available	1,654	2,071
Postretirement and pension benefits	35,604	29,308
Allowance for loan losses	153,573	143,335
Unrealized loss on derivatives	1,895	15,990
Other temporary differences	56,107	48,078
Total gross deferred tax assets	258,999	250,853
Deferred tax liabilities:		
Differences between the assigned values and the tax bases of assets and liabilities recognized in purchase business combinations	4,465	4,486
Unrealized net gain on securities available-for-sale	4,465	54,985
Other temporary differences	29,565	25,965
Total gross deferred tax liabilities	38,495	85,436
Valuation allowance	418	418
Net deferred tax asset	$220,086	$164,999

At December 31, 2003, the Corporation had $10,166,000 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 2003, $7,906,000 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 and gains on securitizations accounted for as sales for tax purposes and secured borrowings for financial accounting purposes.

A valuation allowance of $418,000 is reflected in 2003 and 2002, 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, 2003.

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 growth 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 2003 was $47,002,000 (2002 - $34,614,000; 2001 - $14,824,000). 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.

In January 2004, the Government of Puerto Rico approved a legislation that partially eliminates the tax exempt status of an International Banking Entity ("IBE") that operates as a division or branch of a bank in Puerto Rico. In order to be subject to tax, the IBE's net taxable income must exceed 40% in 2004, 30% in 2005, and 20% in 2006 and thereafter, of the net taxable income of the bank as a whole. Once these thresholds are exceeded, the IBE will be taxed at regular tax rates on its net taxable income that exceeds the applicable threshold. Currently, management of the Corporation does not expect any financial impact from this new legislation since the net taxable income of BPPR's IBE has not exceeded and is not expected to exceed 20% of BPPR's net taxable income.

Note 27 - 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)	2003	2002
Commitments to extend credit:		
Credit card lines	$1,972,802	$2,166,034
Commercial lines of credit	2,888,742	2,651,835
Other unused commitments	182,361	27,175
Commercial letters of credit	13,833	19,564
Standby letters of credit	137,290	126,383
Commitments to purchase mortgage loans	200,000	100,000
Commitments to originate mortgage loans	425,493	547,284

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

At December 31, 2003, the Corporation had various outstanding commitments to purchase mortgage loans from other institutions at market. In 2003, the Corporation entered into loan commitments to purchase an aggregate amount of $275,000,000 of mortgage loans with the option of purchasing $125,000,000 in additional loans. The commitments expire completely by June 30, 2005. As of December 31, 2003, $75,000,000 in loans had been purchased under these agreements.

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 agreement

expires on June 30, 2004. At December 31, 2003, the Corporation had purchased $100,000,000 in mortgage loans under this agreement.

Geographic concentration

As of December 31, 2003, the Corporation had no significant concentrations of credit risk and no significant exposure to highly leveraged transactions in its loan portfolio. Note 31 provides further information on the asset composition of the Corporation by geographical area as of December 31, 2003 and 2002.

Included in total assets of Puerto Rico are investments in obligations of the U.S. Treasury and U.S. Government agencies amounting to $6.2 billion and $6.1 billion in 2003 and 2002, respectively.

Note 28 - 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 29 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, 2003 and 2002, 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, 2003 and 2002.

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 assets sold under agreements to repurchase, short-term borrowings, acceptances outstanding and accrued interest payable. Resell and repurchase agreements with long-term maturities are valued using discounted cash flows based on market rates currently available for agreements with similar terms and remaining maturities.

Trading and investment securities, except for investments classified as other investment securities in the consolidated statement of condition, 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 29.

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. 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 loans total 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.

Long-term borrowings were valued using discounted cash flows, based on market rates currently available for debt with similar terms and remaining maturities and in certain instances using quoted market rates for similar instruments at December 31, 2003 and 2002, 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)	2003		2002	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial Assets:				
Cash and money market investments	$1,460,983	$1,460,983	$1,747,202	$1,747,202
Trading securities	605,119	605,119	510,346	510,346
Investment securities available-for-sale	10,051,579	10,051,579	10,310,656	10,310,656
Investment securities held-to-maturity	186,821	188,074	180,751	182,183
Other investment securities	233,144	238,162	221,247	221,247
Loans held-for-sale	271,592	314,896	1,092,927	1,102,639
Loans, net	21,922,058	22,463,353	18,116,395	18,753,941
Financial Liabilities:				
Deposits	$18,097,828	$18,190,979	$17,614,740	$17,757,376
Federal funds purchased	831,163	831,163	834,338	834,338
Assets sold under agreements to repurchase	4,947,824	4,953,772	5,850,213	5,850,213
Short-term borrowings	1,996,624	1,996,624	1,703,562	1,703,562
Notes payable	6,992,025	7,071,807	4,298,853	4,650,813
Subordinated notes	125,000	134,975	125,000	136,406
Capital securities			144,000	168,085
	Notional amount	Fair value	Notional amount	Fair value
Commitments to extend credit and letters of credit:				
Commitments to extend credit	$5,043,905	$12,228	$4,845,044	$10,666
Letters of credit	151,123	9,518	145,947	8,020

Note 29 - 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, index options 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. Index options are over-the-counter (OTC) contracts that the Corporation enters into in order to receive the appreciation of the Standard and Poor's 500 Index over a specified period. 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 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 27.

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, 2003, the fair market values of these forwards were $72,000 recorded in other liabilities. As of December 31, 2003, the total amount (net of tax) included in accumulated other comprehensive income pertaining to forward contracts was an unrealized loss of $44,000, which the Corporation expects to reclassify into earnings in the next twelve months. These contracts have a maximum maturity of 20 days. As of December 31, 2002, the fair market value 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.

The Corporation purchased interest rate caps in conjunction with a series of securitizations in order to limit the interest rate payable to the security holders. These contracts are designated as cash flow hedges and considered highly effective at inception. As of December 31, 2003, the fair market value of these interest rate caps considered highly effective was $4,037,000 included in other assets and the amount included in accumulated other comprehensive income was a loss of $1,370,000. These contracts have a maximum maturity of 2.6 years. As part of these contracts, during 2003 the Corporation reclassified $347,000 from other comprehensive income into earnings pertaining to the ineffective portion of changes in fair value of the cash flow hedge and $1,489,000 pertaining to the caplets expiration, both amounts included as an increase to interest expense. Assuming no change in interest rates, $1,723,000, net of tax, of accumulated other comprehensive loss is expected to be reclassified to earnings over the next twelve months as contractual payments are made.

During 2003 the Corporation discontinued the hedge accounting for certain caps that ceased to be highly effective and as a result reclassified a net loss of $1,285,000 into earnings. As of December 31, 2003, the fair value of these caps was $1,397,000 and the related unrealized loss in accumulated other comprehensive income amounted to $1,177,000, net of tax. The unrealized loss accumulated in other comprehensive income will be amortized to earnings over the term of the contract as contractual payments are made. The changes in fair value of the caps after the discontinuance of the hedging relationship amounted to a loss of $76,000 and was recorded in interest expense.

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.

The Corporation also entered into a $25,000,000 million 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, 2003, the fair market value of the interest rate swap was $188,000 included in other liabilities and the amount included in accumulated other comprehensive income was a loss of $115,000. This contract matures on October 17, 2005. As of December 31, 2002, the fair market value of this 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.

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 offers its customers deposits whose returns are tied to the performance of the Standard and Poor's 500 stock market index. In order to limit the Corporation's exposure to changes in the stock market index, the Corporation purchases index options from major broker dealer companies. These options are over-the-counter (OTC) contracts that are traded in the over the counter market. OTC options are not listed on an options exchange and do not have standardized terms. OTC contracts are executed between two counterparties that negotiate specific agreement terms, including the underlying instrument, amount, exercise price and maturity. In accordance with SFAS No. 133, the Corporation has bifurcated the related embedded option within the customers deposits from the host contract which does not qualify for hedge accounting. As of December 31, 2003, the Corporation had recognized a derivative liability of $7,383,000 based on the fair value of the indexed options, a derivative liability of $6,596,000 based on the fair value of the bifurcated option, and a related discount on the certificates of deposit of $11,319,000. These amounts are included in other liabilities and deposits, respectively. As of December 31, 2002, the Corporation had recognized a derivative liability of $15,043,000 based on the fair value of the indexed options, 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.

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. During the second quarter of 2003, the Corporation terminated the interest rate contracts outstanding with a notional amount of $500,000,000. These swaps did not qualify as hedges in accordance with SFAS No. 133, as amended, and therefore changes in fair value of the derivatives were recorded in the statement of income.

During 2003, the Corporation purchased an option related to the issuance of $31,152,000 in notes linked to the S&P 500 Index through an embedded option which has been bifurcated from the host contract, and in accordance with SFAS No. 133 does not qualify for hedge accounting. The Corporation recognized an asset of $2,050,000 pertaining to the fair market value of the purchased option, a derivative liability of $2,050,000 based on the fair value of the bifurcated option and a related discount on the notes of $1,833,000.

In addition to using derivative instruments as an interest rate risk management tool, the Corporation also utilizes derivatives such as foreign exchange contracts and interest rate swaps in its capacity as an intermediary on behalf of its customers. The Corporation minimizes its market risk and credit risk by taking offsetting positions under the same terms and conditions with credit limit approvals and monitoring procedures. Market value changes on these swaps and other derivatives are recognized in income in the period of change. As of December 31, 2003, the Corporation included $414,000 and $129,000 in securities and other assets, respectively, and $543,000 in other liabilities pertaining to the fair value of $49,371,000 in interest rate contracts. As of December 31, 2002, the Corporation did not have any of the above mentioned interest rate or foreign exchange contracts outstanding.

For the years ended December 31, 2003 and 2002 the Corporation recognized losses of $7,477,000 and $20,085,000, respectively, as a result of the changes in fair value of the non-hedging derivatives included as part of interest expense.

At December 31, 2003 and 2002, respectively, the Corporation also had forward contracts to sell $351,900,000 and $194,700,000 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, 2003 and 2002, respectively, the fair market value of these forwards was a liability of $990,313 and of $153,000, respectively. 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 mortgage-backed securities (TBA's) for trading purposes. The gross notional amounts of these forward commitments to sell as of December 31, 2003 amounted to $94,200,000 and the gross notional amount of the commitments to purchase amounted to $11,000,000. The fair value of these derivative financial instruments was $99,000 at December 31, 2003.

Note 30 - Supplemental disclosure on the consolidated statements of cash flows:

During the year ended December 31, 2003, the Corporation paid interest and income taxes amounting to $751,152,000 and $136,634,000, respectively (2002 - $842,137,000 and $135,247,000; 2001 - $1,080,436,000 and $94,358,000). In addition, loans transferred to other real estate and other property for the year ended December 31, 2003, amounted to $85,493,000 and $27,205,000, respectively (2002 - $59,052,000 and $31,733,000).

During the first quarter of 2003, the Corporation transferred $637,925,000 of loans held-for-sale to the loan portfolio (held-for-investment) based on management intent and ability.

Note 31 - 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:

	2003					
(In thousands)	Commercial banking	Mortgage and consumer lending	Auto and lease financing	Other	Elimina-tions	Total
Net interest income (loss)	$937,957	$265,354	$81,315	($6,007)	$6,069	$1,284,688
Provision for loan losses	123,656	52,383	19,900			195,939
Other income	281,797	79,378	19,572	274,436	(29,173)	626,010
Amortization of intangibles	7,478			366		7,844
Depreciation expense	48,395	4,688	11,417	8,507		73,007
Other operating expenses	689,962	151,540	32,801	158,928	(999)	1,032,232
Net gain of minority interest		(435)				(435)
Income tax	56,536	45,946	14,158	20,295	(6,609)	130,326
Net income	$293,727	$89,740	$22,611	$80,333	($15,496)	$470,915
Segment assets	$27,688,403	$8,072,879	$1,551,512	$7,302,038	($8,180,117)	$36,434,715

	2002					
(In thousands)	Commercial banking	Mortgage and consumer lending	Auto and lease financing	Other	Elimina-tions	Total
Net interest income (loss)	$907,319	$206,464	$66,838	($20,624)	$247	$1,160,244
Provision for loan losses	134,762	44,033	26,775			205,570
Other income	270,402	70,771	19,132	194,109	(10,651)	543,763
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	$25,251	($7,009)	$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 (loss)	$886,974	$137,013	$53,124	($20,248)	($106)	$1,056,757
Provision for loan losses	149,630	42,300	21,320			213,250
Other income	248,248	66,711	19,860	168,764	(11,767)	491,816
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

During the year ended December 31, 2003, the Corporation's parent holding company realized gains on the sale of marketable equity securities approximating $67,900,000 ($59,400,000 after tax).

These gain are included as part of "other income" within the "other" reportable segment category.

*Intersegment revenues**

(In thousands)	2003	2002	2001
Commercial Banking	$60,450	$67,402	$68,576
Mortgage and Consumer Lending	(148,050)	(171,681)	(176,591)
Auto and Lease Financing	(50,137)	(53,735)	(56,035)
Other	160,841	168,418	175,923
Total intersegment revenues	$23,104	$10,404	$11,873

* 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)	2003	2002	2001
Revenues*:			
Puerto Rico	$1,289,920	$1,174,193	$1,113,958
United States	568,755	477,990	387,754
Other	52,023	51,824	46,861
Total consolidated revenues	$1,910,698	$1,704,007	$1,548,573

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

(In thousands)	2003	2002	2001
Selected Balance Sheet Information:			
Puerto Rico			
Total assets	$22,530,059	$22,307,784	$20,800,728
Loans	10,792,902	10,065,646	9,879,632
Deposits	12,377,181	12,036,491	10,874,829
United States			
Total assets	$13,221,947	$10,637,293	$9,174,050
Loans	11,421,958	9,140,382	7,868,729
Deposits	4,798,841	4,778,234	4,718,692
Other			
Total assets	$682,709	$715,275	$769,898
Loans	387,332	376,091	420,190
Deposits	921,806	800,015	776,521

Note 32 - 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.

On January 16, 2004, the U.S. District Court for the District of Puerto Rico approved a request filed by the U.S. Department of Justice to dismiss the one-count information filed against Banco Popular de Puerto Rico (BPPR) on January 16, 2003, and proceeded to dismiss it, effective immediately. The United States noted that the period of twelve months had expired and BPPR was in full compliance with all of its obligations under the Deferred Prosecution Agreement. The course of action taken by the Court follows the terms of a Deferred Prosecution Agreement among BPPR, the U.S. Department of Justice, the Federal Reserve System, and the Financial Crimes Enforcement Network of the U.S. Department of Treasury (FinCEN), approved on January 16, 2003. The Agreement stipulated that the U.S. Department of Justice would request the dismissal of one-count information within 30 days after the 12-month period following the settlement, provided BPPR complied with its obligations under the Agreement over the course of one year.

Note 33 - Guarantees

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

The Corporation issues financial standby letters of credit and has risk participation in standby letters of credit issued by other financial institutions, in each case to guarantee the performance of various customers to third parties. If the customer fails to meet its financial or performance obligation to the third party under the terms of the contract, then, upon their request, the Corporation would be obligated to make the payment to the guaranteed party. In accordance with the provisions of FIN No. 45, at December 31, 2003, the Corporation recorded a liability of $334,000, which represents the fair value of the obligations undertaken in issuing the guarantees under the standby letters of credit issued or modified after December 31, 2002. The fair value approximates the fee received from the customer for issuing such commitments. These fees are deferred and are recognized over the commitment period. Standby letters of credit and risk participations in standby letters of credit outstanding at December 31, 2003 had terms ranging from less than 1 year to 5 years. The contract amounts in standby letters of credit outstanding at December 31, 2003 and 2002 represent the maximum potential amount of future payments the Corporation could be required to make under the guarantees in the event of nonperformance by the customers. These standby letters of credit are used by the customer as a credit enhancement and typically expire without being drawn upon. Management does not anticipate any material losses related to these instruments.

At December 31, 2003, the Corporation serviced $1,625,839,000 (2002 - $1,584,469,000) 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. At December 31, 2003, the Corporation also serviced $4,657,422,000 (2002 - $4,333,591,000) 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.

Also, in the ordinary course of business, the Corporation sold SBA loans with recourse, in which servicing was retained. At December 31, 2003, SBA loans serviced with recourse amounted to $91,556,000 (2002 - $16,908,000). Due to the guaranteed nature of the SBA loans sold, the Corporation's exposure to loss under these agreements should not be significant.

The Corporation fully and unconditionally guarantees certain borrowing obligations issued by certain of its wholly-owned consolidated subsidiaries totaling $3,623,787,000 at December 31, 2003 (2002 - $3,377,800,000). In addition, at December 31, 2003, the Corporation fully and unconditionally guaranteed $444,000,000 of Capital Securities issued by two wholly-owned issuing trust entities that have been deconsolidated based on FIN No. 46R. Also, as of the end of 2003, Popular North America, Inc. fully and unconditionally guaranteed $403,000,000 of certain borrowing obligations issued by one of its non-banking subsidiaries.

A number of the acquisition agreements to which the Corporation is a party and under which it has purchased various types of assets, including the purchase of entire businesses, require the Corporation to make additional payments in future years if certain predetermined goals, such as revenue targets, are achieved and occur within a specified time. As these contingencies are relative to the attainment of the established goals and do not specify dollar limitations, it is not possible to quantify the aggregate exposure to the Corporation resulting from these agreements. Due to the nature and size of the operations acquired, management does not anticipate that these additional payments will have a material impact on the Corporation's financial condition or results of future operations.

Note 34 - 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, 2003 and 2002, 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)	2003	2002
ASSETS		
Cash	$995	$324
Money market investments	114,297	2,937
Investment securities available-for-sale, at market value	56,680	90,679
Other investment securities, at cost	441,686	132,982
Investment in BPPR and subsidiaries, at equity	1,525,426	1,511,933
Investment in Popular International Bank and subsidiaries, at equity	962,448	680,602
Investment in other subsidiaries, at equity	164,254	129,935
Advances to subsidiaries	64,700	150,574
Loans to affiliates	14,768	16,949
Premises and equipment	10,378	11,192
Other assets	29,285	22,075
Total assets	$3,384,917	$2,750,182
LIABILITIES AND STOCKHOLDERS' EQUITY		
Federal funds purchased		$10,300
Commercial paper		18,989
Other short-term borrowings	$35,675	10,202
Notes payable	424,635	137,777
Accrued expenses and other liabilities	45,190	37,035
Subordinated notes	125,000	125,000
Stockholders' equity	2,754,417	2,410,879
Total liabilities and stockholders' equity	$3,384,917	$2,750,182

Statements of Income

	Year ended December 31,		
(In thousands)	2003	2002	2001
Income:			
Dividends from subsidiaries	$135,273	$248,000	$248,550
Interest on money market and investment securities	2,070	1,466	2,680
Other operating income	15,331	18,472	14,519
Gain (loss) on sale of securities	67,778	(2,361)	(100)
Interest on advances to subsidiaries	2,667	10,774	19,873
Interest on loans to affiliates	716	961	1,652
Total income	223,835	277,312	287,174
Expenses:			
Interest expense	19,804	21,435	32,360
Operating expenses	6,410	2,297	2,802
Total expenses	26,214	23,732	35,162
Income before income taxes and equity in undistributed earnings of subsidiaries	197,621	253,580	252,012
Income taxes	8,490	(308)	(1,399)
Income before equity in undistributed earnings of subsidiaries	189,131	253,888	253,411
Equity in undistributed earnings of subsidiaries	281,784	98,044	51,127
Net income	$470,915	$351,932	$304,538

Statements of Cash Flows

(In thousands)	Year ended December 31, 2003	2002	2001
Cash flows from operating activities:			
Net income	$470,915	$351,932	$304,538
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed earnings of subsidiaries	(281,784)	(98,044)	(51,127)
Net (gain) loss on sale of investment securities available-for-sale	(67,778)	2,361	100
Earnings from investments under the equity method	(1,442)	(1,430)	502
Stock options expense	217	148	
Net (increase) decrease in other assets	(1,748)	2,403	(10,518)
Net decrease in current and deferred taxes	(267)	(339)	(21)
Net increase (decrease) in interest payable	22	(179)	(12,599)
Net increase (decrease) in other liabilities	1,544	(2,080)	12,369
Total adjustments	(351,236)	(97,160)	(61,294)
Net cash provided by operating activities	119,679	254,772	243,244
Cash flows from investing activities:			
Net (increase) decrease in money market investments	(111,360)	110,000	(92,100)
Purchases of investment securities:			
Available-for-sale			(102,631)
Other	(300,038)	(34,347)	(1,271)
Proceeds from maturities and redemptions of investment securities:			
Available-for-sale			99,354
Other		38	325
Proceeds from sales of investment securities available-for-sale	83,003	93	
Capital contribution to subsidiaries	(212,090)	(50)	(6,815)
Net change in advances to subsidiaries and affiliates	88,055	28,889	347,362
Net cash (used in) provided by investing activities	(452,430)	104,623	244,224
Cash flows from financing activities:			
Net (decrease) increase in assets sold under agreements to repurchase	(10,300)	10,300	
Net (decrease) increase in commercial paper	(18,989)	18,989	(51,987)
Net increase (decrease) in other short-term borrowings	25,473	10,202	(325,726)
Net increase (decrease) in notes payable	275,528	(61,141)	(13,093)
Cash dividends paid	(134,603)	(108,003)	(106,384)
Proceeds from issuance of common stock	15,765	11,166	9,702
Proceeds from issuance of preferred stock	180,548		
Redemption of preferred stock		(102,000)	
Treasury stock acquired		(138,847)	
Net cash provided by (used in) financing activities	333,422	(359,334)	(487,488)
Net increase (decrease) in cash	671	61	(20)
Cash at beginning of year	324	263	283
Cash at end of year	$995	$324	$263

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 during the calendar year would exceed the total of its net income for that year, as defined by the Federal Reserve Board, combined with its retained net income for the preceding two years, less any required transfers to surplus or to a fund for the retirement of any preferred stock. 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, 2003, BPPR could have declared a dividend of approximately $155,775,000 without the approval of the Federal Reserve.

Note 35 - 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, 2003 and 2002, and the results of their operations and cash flows for each of the three years in the period ended December 31, 2003. 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, 2003, 2002 and 2001, corresponds to their financial information included in the consolidated financial statements of Popular, Inc. as of December 31, 2003, 2002 and 2001, respectively.

PIHC, PIBI and PNA are authorized issuers of debt securities and preferred stock under 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 subsidiaries Popular Leasing, U.S.A., Popular Insurance Agency, U.S.A. and Popular FS, LLC, 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 34 to the consolidated financial statements, the principal source of income for PIHC consists of dividends from BPPR.

Condensed Consolidating Statement of Condition

	At December 31, 2003					
(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	$995	$47	$2,444	$722,181	($37,577)	$688,090
Money market investments	114,297	300	56,890	1,139,713	(538,307)	772,893
Investment securities available-for-sale, at market value	56,680	35,536	6,879	9,957,584	(5,100)	10,051,579
Investment securities held-to-maturity, at amortized cost				186,821		186,821
Trading account securities, at market value				605,119		605,119
Other investment securities, at cost	441,686	5,002	4,640	81,816	(300,000)	233,144
Investment in subsidiaries	2,652,128	887,671	935,084	219,378	(4,694,261)	
Loans held-for-sale, at lower of cost or market				283,571	(11,979)	271,592
Loans	79,468		2,511,262	24,634,365	(4,611,216)	22,613,879
Less - Unearned income				283,279		283,279
Allowance for loan losses				408,542		408,542
	79,468		2,511,262	23,942,544	(4,611,216)	21,922,058
Premises and equipment	10,378			475,074		485,452
Other real estate				53,898		53,898
Accrued income receivable	205	1	11,180	181,939	(17,173)	176,152
Other assets	29,080	20,705	2,435	707,310	9,507	769,037
Goodwill				191,490		191,490
Other intangible assets				27,390		27,390
	$3,384,917	$949,262	$3,530,814	$38,775,828	($10,206,106)	$36,434,715
LIABILITIES AND STOCKHOLDERS' EQUITY						
Liabilities:						
Deposits:						
Non-interest bearing				$3,764,226	($37,519)	$3,726,707
Interest bearing				14,675,297	(304,176)	14,371,121
				18,439,523	(341,695)	18,097,828
Federal funds purchased and assets sold under agreements to repurchase				6,038,714	(259,727)	5,778,987
Other short-term borrowings	$35,675	$205	$175,761	2,732,405	(947,422)	1,996,624
Notes payable	424,635	8,573	2,445,336	7,737,952	(3,624,471)	6,992,025
Subordinated notes	125,000					125,000
Other liabilities	45,190	133	30,450	636,376	(22,420)	689,729
	630,500	8,911	2,651,547	35,584,970	(5,195,735)	33,680,193
Minority interest in consolidated subsidiaries				105		105
Stockholders' equity:						
Preferred stock	186,875			300,000	(300,000)	186,875
Common stock	837,566	3,962	2	69,537	(73,501)	837,566
Surplus	312,027	678,038	619,964	1,363,998	(2,659,389)	314,638
Retained earnings	1,604,462	263,840	259,360	1,471,535	(1,997,346)	1,601,851
Treasury stock, at cost	(205,527)			(780)	780	(205,527)
Accumulated other comprehensive income (loss), net of tax	19,014	(5,489)	(59)	(13,537)	19,085	19,014
	2,754,417	940,351	879,267	3,190,753	(5,010,371)	2,754,417
	$3,384,917	$949,262	$3,530,814	$38,775,828	($10,206,106)	$36,434,715

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	90,679	28,288	6,720	10,189,969	(5,000)	10,310,656
Investment securities held-to-maturity, at amortized cost				329,391	(148,640)	180,751
Trading account securities, at market value				510,346		510,346
Other investment securities, at cost	132,982	2		88,263		221,247
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 assets 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
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		144,000
Other liabilities	37,035	166	64,705	604,830	(29,131)	677,605
	339,303	9,044	2,851,657	32,732,712	(4,684,405)	31,248,311
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 Income

	Year ended December 31, 2003					
(In thousands)	Popular, Inc. Holding Co.	PIBI Holding Co.	PNA Holding Co.	Other Subsidiaries	Elimination Entries	Popular, Inc. Consolidated
INTEREST INCOME:						
Loans	$3,383		$145,272	$1,612,362	($210,981)	$1,550,036
Money market investments	833	$6	1,364	67,396	(43,718)	25,881
Investment securities	1,237		817	419,235	1,006	422,295
Trading securities				36,026		36,026
	5,453	6	147,453	2,135,019	(253,693)	2,034,238
INTEREST EXPENSE:						
Deposits				344,458	(1,567)	342,891
Short-term borrowings	446	1	15,097	200,298	(68,386)	147,456
Long-term debt	19,358	231	139,111	290,312	(189,809)	259,203
	19,804	232	154,208	835,068	(259,762)	749,550
Net interest (loss) income	(14,351)	(226)	(6,755)	1,299,951	6,069	1,284,688
Provision for loan losses				195,939		195,939
Net interest (loss) income after provision for loan losses	(14,351)	(226)	(6,755)	1,104,012	6,069	1,088,749
Service charges on deposit accounts				161,851	(12)	161,839
Other service fees				287,599	(3,207)	284,392
Gain (loss) on sale of investment securities	67,778		(68)	3,384		71,094
Trading account loss				(10,214)		(10,214)
Gain on sale of loans				73,471	(19,899)	53,572
Other operating income	15,331	4,272		51,779	(6,055)	65,327
	68,758	4,046	(6,823)	1,671,882	(23,104)	1,714,759
OPERATING EXPENSES:						
Personnel costs:						
Salaries		325		388,205	(3)	388,527
Profit sharing				20,647		20,647
Pension and other benefits		58		117,212		117,270
		383		526,064	(3)	526,444
Net occupancy expenses		13		83,617		83,630
Equipment expenses				104,821		104,821
Other taxes	1,297			36,607		37,904
Professional fees	1,480	20	400	80,826	(401)	82,325
Communications	47			57,991		58,038
Business promotion				73,277		73,277
Printing and supplies				19,111		19,111
Other operating expenses	3,586	98	756	115,844	(595)	119,689
Amortization of intangibles				7,844		7,844
	6,410	514	1,156	1,106,002	(999)	1,113,083
Income (loss) before income tax, minority interest and equity in earnings of subsidiaries	62,348	3,532	(7,979)	565,880	(22,105)	601,676
Income tax	8,490		(1,305)	129,750	(6,609)	130,326
Net gain of minority interest				(435)		(435)
Income (loss) before equity in earnings of subsidiaries	53,858	3,532	(6,674)	435,695	(15,496)	470,915
Equity in earnings of subsidiaries	417,057	89,433	95,077	50,442	(652,009)	
NET INCOME	$470,915	$92,965	$88,403	$486,137	($667,505)	$470,915

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 securities				16,628	(164)	16,464
	13,201	9	156,111	2,145,364	(290,888)	2,023,797
INTEREST EXPENSE:						
Deposits				433,252	(837)	432,415
Short-term borrowings	1,588	110	22,308	237,402	(76,065)	185,343
Long-term debt	19,847	52	152,809	287,320	(214,233)	245,795
	21,435	162	175,117	957,974	(291,135)	863,553
Net interest (loss) income	(8,234)	(153)	(19,006)	1,187,390	247	1,160,244
Provision for loan losses				205,570		205,570
Net interest (loss) income after provision for loan losses	(8,234)	(153)	(19,006)	981,820	247	954,674
Service charges on deposit accounts				157,727	(14)	157,713
Other service fees				266,130	(324)	265,806
(Loss) gain on sale of investment securities	(2,361)		25	(1,006)		(3,342)
Trading account loss				(874)	70	(804)
Gain on sale of loans				61,245	(9,168)	52,077
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

(In thousands)	Popular, Inc. Holding Co.	PIBI Holding Co.	PNA Holding Co.	Other Subsidiaries	Elimination Entries	Popular, Inc. Consolidated
	Year ended December 31, 2001					
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 securities				15,024	(6)	15,018
	24,205	1,090	154,963	2,211,100	(295,496)	2,095,862
INTEREST EXPENSE:						
Deposits				520,300	(2,419)	517,881
Short-term borrowings	1,144	231	64,856	372,091	(108,674)	329,648
Long-term debt	31,216		108,003	236,654	(184,297)	191,576
	32,360	231	172,859	1,129,045	(295,390)	1,039,105
Net interest (loss) income	(8,155)	859	(17,896)	1,082,055	(106)	1,056,757
Provision for loan losses				213,250		213,250
Net interest (loss) income after provision for loan losses	(8,155)	859	(17,896)	868,805	(106)	843,507
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)
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 Cash Flows

	Year ended December 31, 2003					
(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	$470,915	$92,965	$88,403	$486,137	($667,505)	$470,915
Adjustments to reconcile net income to net cash provided by operating activities:						
Equity in undistributed earnings of subsidiaries	(417,057)	(89,433)	(95,077)	(50,442)	652,009	
Depreciation and amortization of premises and equipment	814			72,193		73,007
Provision for loan losses				195,939		195,939
Amortization of intangibles				7,844		7,844
Net (gain) loss on sale of investment securities	(67,778)		68	(3,384)		(71,094)
Net gain on disposition of premises and equipment				(366)		(366)
Net gain on sale of loans, excluding loans held-for-sale				(12,550)		(12,550)
Net amortization of premiums and accretion of discounts on investments				29,408	(1,112)	28,296
Net amortization of deferred loan origination fees and costs				39,838		39,838
Earnings from investments under the equity method	(1,442)	(3,852)				(5,294)
Stock options expense	217			1,277	(4)	1,490
Net decrease in loans held-for-sale				81,893	(4,255)	77,638
Net increase in trading securities				(138,811)		(138,811)
Net decrease in accrued income receivable	89	1	711	8,307	(711)	8,397
Net increase in other assets	(2,651)	(1,957)	(868)	(76,297)	1,002	(80,771)
Net increase (decrease) in interest payable	22	(24)	10,335	(12,690)	755	(1,602)
Net (decrease) increase in current and deferred taxes	(267)		18,166	(15,380)	(6,650)	(4,131)
Net increase in postretirement benefit obligation				7,391		7,391
Net increase (decrease) in other liabilities	1,544	(9)	(49,310)	14,584	(464)	(33,655)
Total adjustments	(486,509)	(95,274)	(115,975)	148,754	640,570	91,566
Net cash (used in) provided by operating activities	(15,594)	(2,309)	(27,572)	634,891	(26,935)	562,481
Cash flows from investing activities:						
Net (increase) decrease in money market investments	(111,360)		(47,182)	111,281	369,014	321,753
Purchases of investment securities:						
Available-for-sale		(3,108)	(25,137)	(7,137,932)	444,738	(6,721,439)
Held-to-maturity				(667,127)		(667,127)
Other	(300,038)			(36,905)	300,000	(36,943)
Proceeds from calls, paydowns, maturities and redemptions of investment securities:						
Available-for-sale				6,608,023	(443,525)	6,164,498
Held-to-maturity				661,555		661,555
Other				43,353		43,353
Proceeds from sales of investment securities available-for-sale	83,003		25,069	702,468		810,540
Net repayments (disbursements) on loans	88,055		61,960	(1,321,399)	304,717	(866,667)
Proceeds from sale of loans				370,755		370,755
Acquisition of loan portfolios				(2,970,276)		(2,970,276)
Capital contribution to subsidiaries	(212,090)	(180,000)			392,090	
Assets acquired, net of cash				(1,079)		(1,079)
Acquisition of premises and equipment				(102,240)		(102,240)
Proceeds from sale of premises and equipment				5,358		5,358
Dividends received from subsidiary	135,273			32,000	(167,273)	
Net cash (used in) provided by investing activities	(317,157)	(183,108)	14,710	(3,702,165)	1,199,761	(2,987,959)
Cash flows from financing activities:						
Net increase in deposits				751,805	(275,498)	476,307
Net decrease in federal funds purchased and assets sold under agreements to repurchase	(10,300)		(498,883)	(268,774)	(127,607)	(905,564)
Net increase (decrease) in other short-term borrowings	6,484	115	(263,291)	254,934	294,820	293,062
Net proceeds from (payments of) notes payable and capital securities	275,528	(215)	596,319	2,219,966	(558,395)	2,533,203
Dividends paid to parent company				(135,273)	135,273	
Dividends paid	(134,603)			(32,000)	32,000	(134,603)
Proceeds from issuance of common stock	15,765			3,000	(3,000)	15,765
Proceeds from issuance of preferred stock	180,548			300,000	(297,389)	183,159
Treasury stock acquired				(317)		(317)
Capital contribution from parent		185,494	180,000	2,000	(367,494)	
Net cash provided by financing activities	333,422	185,394	14,145	3,095,341	(1,167,290)	2,461,012
Net increase (decrease) in cash and due from banks	671	(23)	1,283	28,067	5,536	35,534
Cash and due from banks at beginning of year	324	70	1,161	694,114	(43,113)	652,556
Cash and due from banks at end of year	$995	$47	$2,444	$722,181	($37,577)	$688,090

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 net 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
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)
Net amortization of premiums and accretion of discounts on investments				15,980		15,980
Net amortization of deferred loan origination fees and costs				29,155		29,155
Earnings from investments under the equity method	(1,430)	(4,698)				(6,128)
Stock options expense	148			809		957
Net 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 accrued income receivable	29		371	1,906	(712)	1,594
Net decrease (increase) in other assets	1,560	300	1,406	(6,038)	(1,758)	(4,530)
Net (decrease) increase in interest payable	(179)	(47)	17,095	3,556	991	21,416
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:						
Available-for-sale		(4,721)	(1,932,303)	(7,401,612)		(9,338,636)
Held-to-maturity				(26,588,518)		(26,588,518)
Other	(34,347)			(17,416)		(51,763)
Proceeds from calls, paydowns, maturities and redemptions of investment securities:						
Available-for-sale			1,931,303	5,501,629	(6,000)	7,426,932
Held-to-maturity				27,006,127	(6,000)	27,000,127
Other	38			22,208		22,246
Proceeds from sales of investment securities available for sale	93		1,024	1,265,387		1,266,504
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 assets 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 of) proceeds from 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 net 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)
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)
Net amortization of premiums and accretion of discounts on investments				6,708		6,708
Net amortization of deferred loan origination fees and costs				22,881		22,881
Losses (earnings) from investments under the equity method	502	(1,495)				(993)
Net increase in loans held-for-sale				(133,502)	17,915	(115,587)
Net increase in trading securities				(118,033)	920	(117,113)
Net decrease (increase) in accrued income receivable	789	588	(212)	13,675	1,557	16,397
Net decrease (increase) in other assets	699	(29,621)	(2,972)	44,905	(1,444)	11,567
Net (decrease) increase in interest payable	(12,599)	(217)	12,855	(41,370)		(41,331)
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:						
Available-for-sale	(102,631)	(145)		(7,212,131)		(7,314,907)
Held-to-maturity				(7,973,243)		(7,973,243)
Other	(1,271)			(19,245)		(20,516)
Proceeds from calls, paydowns, maturities and redemption of investment securities:						
Available-for-sale	99,354		62	5,657,442	10,999	5,767,857
Held-to-maturity				7,635,276		7,635,276
Other	325			17,624		17,949
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 assets 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 of) proceeds from 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