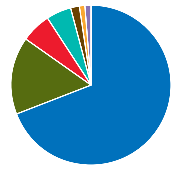
POPULAR, Inc.

2002 Annual Report

POPULAR, INC.

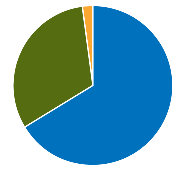
Popular, Inc., a financial holding company with $33.7 billion in assets, is a complete financial services provider with operations in Puerto Rico, the United States, the Caribbean and Latin America. As the leading financial institution in Puerto Rico, the Corporation offers full retail and commercial banking services through its main subsidiary, Banco Popular, as well as investment banking, auto and equipment leasing and financing, mortgage loans, consumer lending, insurance and information processing through specialized subsidiaries. In the United States, the Corporation has established the largest Hispanic financial services franchise, providing complete financial solutions to all the communities it serves. The Corporation continues to use its expertise in technology and electronic banking as a competitive advantage in its Caribbean and Latin America expansion, and is exporting its 109 years of experience to the region. Popular, Inc. has always been committed to meeting the needs of retail and business clients through innovation, and to fostering growth in the communities it serves.

REVENUE BY LINE OF BUSINESS
percentage



- Retail and Commercial Banking: 69.11%
- Mortgage and Consumer Lending: 15.66%
- Processing: 6.04%
- Auto and Equipment Leasing and Financing: 5.05%
- Investment: 1.78%
- Insurance: 1.11%
- Other: 1.25%

ASSETS BY GEOGRAPHICAL AREA
percentage



- Puerto Rico: 66.27%
- United States: 31.60%
- Caribbean and Latin America: 2.13%

FINANCIAL HIGHLIGHTS

(Dollars in millions except per share data)	**2002**	2001	2000
Net Interest Income	**$ 1,180.3**	$ 1,077.0	$ 982.8
Non-Interest Income	**523.7**	471.6	464.1
Net Income	**351.9**	304.5	276.1
Assets	**$ 33,660.4**	$ 30,744.7	$ 28,057.1
Net Loans	**19,582.1**	18,168.6	16,057.1
Deposits	**17,614.7**	16,370.0	14,804.9
Shareholders' Equity	**2,410.9**	2,272.8	1,993.6
Market Capitalization	**$ 4,476.4**	$ 3,965.4	$ 3,578.1
Return on Assets (ROA)	**1.11%**	1.09%	1.04%
Return on Equity (ROE)	**16.29%**	14.84%	15.00%
Per Common Share			
Net Income	**$ 2.61**	$ 2.17	$ 1.97
Book Value	**18.20**	15.93	13.92
Market Price	**33.80**	29.08	26.31

OUR CREED

Banco Popular is a local institution dedicating its efforts exclusively to the enhancement of the social and economic conditions in Puerto Rico and inspired by the most sound principles and fundamental practices of good banking.

Banco Popular pledges its efforts and resources to the development of a banking service for Puerto Rico within strict commercial practices and so efficient that it could meet the requirement of the most progressive community of the world.

These words, written in 1928 by Don Rafael Carrión Pacheco, Executive Vice President and President (1927–1956), embody the philosophy of Popular, Inc.

OUR PEOPLE

The men and women who work for our institution, from the highest executive to the employees who handle the most routine tasks, feel a special pride in serving our customers with care and dedication. All of them feel the personal satisfaction of belonging to the "Banco Popular Family", which fosters affection and understanding among its members, and which at the same time firmly complies with the highest ethical and moral standards of behavior.

These words by Don Rafael Carrión Jr., President and Chairman of the Board (1956–1991) were written in 1988 to commemorate the 95th anniversary of Banco Popular de Puerto Rico, and reflect our commitment to human resources.

STRATEGIC OBJECTIVES

Puerto Rico Fortress
Strengthen our competitive position in our main market by offering the best and most complete financial services in an efficient and convenient manner. Our services will respond to the needs of all segments of the market in order to earn their trust, satisfaction and loyalty.

PanAmerican Bank
Expand our franchise in the United States by offering the most complete financial services to the communities we serve while capitalizing on our strengths in the Hispanic market, and in the Caribbean, using our technological advantage.

Processing
Provide added value to our customers by offering integrated technology solutions and financial transaction processing.

INSTITUTIONAL VALUES

Social Commitment
We are committed to work actively in promoting the social and economic well-being of the communities we serve.

Customer
We achieve satisfaction for our customers and earn their loyalty by adding value to each interaction. Our relationship with the customer takes precedence over any particular transaction.

Integrity
We are guided by the highest standards of ethics, integrity and morality. Our customers' trust is of utmost importance to our institution.

Excellence
We believe there is only one way to do things: the right way.

Innovation
We foster a constant search for new solutions as a strategy to enhance our competitive advantage.

Our People
We strive to attract, develop, compensate and retain the most qualified people in a work environment characterized by discipline and affection.

Shareholder Value
Our goal is to produce high and consistent financial returns for our shareholders, based on a long-term view.

LETTER TO SHAREHOLDERS

The year 2002 was one of difficult decisions and an uncertain economic environment. We witnessed an aggressive rate-cutting campaign by the Federal Reserve, which culminated in a 1.25% overnight lending rate, the lowest in over 40 years. The year also experienced uneven economic growth, weakness in several sectors of the economy, aggressive competition, the lingering effects of terrorism and general uncertainty in the financial markets. Notwithstanding this difficult business environment and the specific challenges we faced, at year-end Popular reported net income of $351.9 million, an increase of 16% over 2001. Earnings per common share (EPS) totaled $2.61, compared to $2.17 for the previous year. The Corporation's total assets increased 9% to $33.7 billion by the end of the year. In terms of profitability, these results yielded a return on assets (ROA) of 1.11% and a return on equity (ROE) of 16.29%.

In May 2002 the Corporation repurchased 4.3 million shares of its common stock from Banco Popular's Retirement Plan. Earnings retention and a favorable change in the value of securities available-for-sale compensated these capital reductions.

Richard L. Carrión
Chairman
President
Chief Executive Officer

At December 31, 2002, Popular's stock (BPOP) closed at $33.80, an increase of 16% over the closing price for 2001. Over a 10-year period, our stock's total return has averaged 18.89% annually, outperforming broad and industry-specific market indexes.

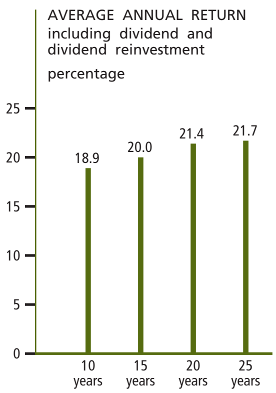
Customer

Finding ways to strengthen and add value to each customer's relationship with Popular is essential to our growth strategy. To this purpose, in Puerto Rico we successfully introduced *PREMIA*, a unique loyalty program in which clients accumulate points for acquiring, maintaining and using products and services from the Popular brand, rewarding customers for a wide array of financial relations. The program has enjoyed great acceptance among our customers and exceeded its first-year goals after only six months. At year-end we had more than 145,000 enrolled and active members. We are confident of the continuing success of the *PREMIA* program as a value-adding feature to the relationship with our customers in Puerto Rico. Likewise, it provides us with a tool to increase our customers' share of wallet and encourages retention among our extensive customer base.

In the continental United States a recently introduced image initiative, "Popularity", was developed to expand the Banco Popular brand. Banco Popular North America (BPNA) strives to serve and expand its customer base, not only within the Hispanic community, but also to other individual and commercial customers with diverse cultural backgrounds, while maintaining its personalized attention, professional guidance and corporate values.

Social Commitment

Reflecting one of our institutional values, Popular has always made it a priority to make financial services accessible to everyone. Starting with our *Banco Rodante* (Bank-on-Wheels) initiative in 1951, when we brought the bank to rural unbanked communities throughout Puerto Rico, Banco Popular de Puerto Rico (BPPR) has always been committed to the promotion of savings. Today, we are proud to report that the *El Banco en la Comunidad* (Bank in the Community) initiative has produced very positive results for the second consecutive year. As part of these efforts to bring basic financial services and to educate the unbanked sector about the benefits of saving for the future, our employees visited 480 low-income communities in Puerto Rico and opened approximately 100,000 accounts of *Acceso Popular*, an account tailored to meet the needs of this segment. Most significantly, over 75% of these customers have activated the savings section of this account. We are extremely proud of these accomplishments, and we reaffirm our dedication to promote financial access and to serve the underserved.



Innovation

Popular is at the forefront of advancements in the financial services industry. We have employed our creativity to evolve in tandem with our community and to jointly reap the benefits of innovation. We have also pursued technological innovation to diversify our business and to offer more and better services to our clients.

An important area of technological innovation is our Internet banking initiative, *Mi Banco Popular*, which by the end of the year had 150,000 registered clients. During 2002 we improved its performance and browsing capabilities, providing our customers with a first-class Internet banking experience. We also expanded this service to support small and mid-size businesses, as well as mortgage and credit card customers. We are very pleased with the positive response and the increased level of satisfaction among our Internet-using customers after these upgrades.

We further enhanced *Mi Banco Popular* by adding the first set of outside merchants to the online electronic billing and payment feature first introduced in 2001. In 2003, we will continue to expand the number of merchants subscribed to this service so that our customers can conveniently receive, review and pay most of their bills over the Internet.

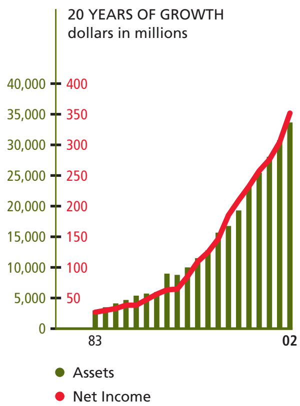
This year marked the introduction of another innovative project: ticketpop, a ticket-processing service. During the first quarter of 2002, we completed the in-house development of this multichannel ticket sale and distribution system that supports phone, in-person and Internet sales. Ticketpop has been operational since September 2002 and at year-end had sold approximately 90,000 tickets. This exemplifies how our payment processing expertise can be leveraged to generate new sources of revenue as we provide our customers added convenience.

Shareholder Value

We are continuously seeking to maximize our resources and the returns to our shareholders. To this purpose we decided to restructure Popular Finance, our small loans subsidiary in Puerto Rico. This process has resulted in revamped systems, processes, operating environment and business strategy, as well as in a reduction in the number of branches. By taking advantage of BPPR's core systems, loan origination, collections, accounting and communications, Popular Finance is now positioned to absorb higher loan origination numbers, offer new products and services and improve loan quality.

Our expansion in the continental United States is at the center of our growth strategy and our long-term vision. This year we launched a new strategic initiative for BPNA, "A New Day", through which we communicated to BPNA's employees the Bank's vision, new organizational structure and business strategy in our effort to become the premier community bank in all the markets we serve in the United States.

Following the consolidation and strengthening of our operational platform and product offerings in 1999, during 2002 we centralized the support areas of BPNA in its new headquarters in Rosemont, Illinois. As part of these reorganization efforts we had to make the difficult, but necessary



decision of reducing headcount by 20%. These organizational and operational changes, together with the efforts of our entire U.S. team, are producing very positive results as the net income from our United States operations increased by $41 million over 2001.

Excellence

We strive for excellence in everything we do. Continuing with that tradition, this year we started an initiative to measure customer satisfaction levels across all of Popular's businesses in Puerto Rico. The constant measurement and monitoring of customer satisfaction levels will be a valuable tool in focusing our efforts in our principal goal, exceeding our clients' expectations.

In Banco Popular North America, we shifted our retail and business banking focus from price, products and operations to customer, sales, service and profitability. Through the new "Quest for Success" program we developed sales and service training, a performance management program, and incentive and recognition programs that stimulate a sales and service culture. These initiatives resulted in a 178% increase in sales per banker. We believe that these efforts provide our institution with the right tools to continue our quest for excellence.

Our People

Our continued success as a company derives from the efforts of nearly 11,000 employees who work every day sharing the same vision, values and commitment. We are especially grateful to those who dedicate their career to our institution and through their contribution leave an indelible mark on the Popular family.

During 2002, Larry B. Kesler announced his retirement as Executive Vice President of the Retail Credit Group after 16 years of service. We are extremely grateful for his contributions and valuable accomplishments during this time. Larry will continue his collaboration with our Corporation as a consultant to Popular Insurance, Equity One and Banco Popular's Virgin Islands operations.

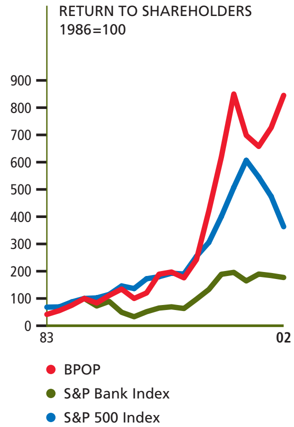
Guillermo Martínez, GM Group's founder, Chief Executive Officer and Chairman of the Board of Directors, also announced his retirement effective November 30, 2002. We will be forever grateful to Guillermo for his drive and vision which helped position GM Group as the leader in the processing industry in Puerto Rico, the Caribbean and Latin America. Guillermo will continue as a member of the Board of Directors of Banco Popular.

Carlos Colino, previously the Chief Executive Officer of *Servicios Electrónicos Globales* (E-GLOBAL), a payment systems and electronic banking company in Mexico, assumes the position of GM Group's Chief Executive Officer and Chairman of its Board of Directors. Carlos was also named Executive Vice President of Popular and member of our Senior Management Council. Walter Cervoni, previously GM Group's Senior Vice President, assumed the role of GM Group's President.

Integrity

Since our beginnings 109 years ago, Popular has been committed to the prosperity of the communities where we do business. In achieving our business goals, we have conducted our dealings with a code of ethics built on the solid foundation laid by our predecessors. The integrity of our business is and always will be one of our most esteemed institutional values. These core values remain constant and have guided us through the cycles of the business environment. Our values and our traditions have provided us a strong platform from which to overcome significant challenges during the year.

In early 2003, Banco Popular de Puerto Rico reached a Deferred Prosecution Agreement (DPA) with the U.S. Department of Justice, the Board of Governors of the Federal Reserve System, and the Financial Crimes Enforcement Network of the U.S. Department of Treasury (FINCEN). In accordance with this Agreement, the Government filed an information single count of failure to file Suspicious Activity Reports (SARs) in a timely



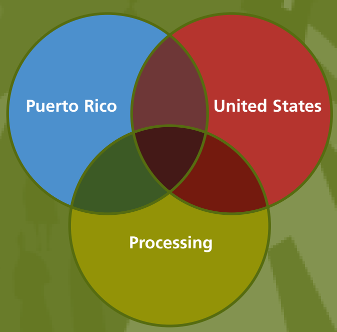
and complete manner, primarily in relation to a former client's activities and some others. Consequently, BPPR agreed to forfeit $21.6 million connected to certain former clients' transactions. This Agreement concludes a three-year investigation of anti-money laundering compliance issues in our organization and resolves all claims in this matter against BPPR. The Deferred Prosecution Agreement also terminates a previous Written Agreement signed with the Federal Reserve Bank of New York in 2000, which required enhancements to our anti-money laundering and Bank Secrecy Act programs. The Federal Reserve found us to be fully compliant with this Written Agreement on November 26, 2001. Recognizing that the Bank accepted responsibility and took the necessary corrective measures, the Government has postponed any action for 12 months at which time all charges will be dismissed provided that the Bank fulfills its commitments under the Deferred Prosecution Agreement.

The third clause of the Deferred Prosecution Agreement states that "Banco Popular expressly agrees that it shall not, through its attorneys, board of directors, agents, officers or employees, make any public statement contradicting any statement of fact contained in the Factual Statement. Any such contradictory public statement by Banco Popular, its attorneys, board of directors, agents, officers or employees, shall constitute a breach of this Agreement as governed by Paragraph 12 of this Agreement, and Banco Popular would thereafter be subject to prosecution pursuant to the terms of this Agreement. The decision of whether any statement by any such person contradicting a fact contained in the Factual Statement will be imputed to Banco Popular for the purpose of determining whether Banco Popular has breached this Agreement shall be in the sole discretion of the United States. Upon the United States' notification to Banco Popular of a public statement by any such person that in whole or in part contradicts a statement of fact contained in the Factual Statement, Banco Popular may avoid breach of this Agreement by publicly repudiating such statement within 48 hours after notification by the United States." For this reason, we believe that it is not prudent to make any public comment that may be misconstrued as a breach of the Deferred Prosecution Agreement.

I want to stress that through the lengthy and comprehensive investigation, no current or former officer, director or employee of BPPR was found by any of the Federal agencies to have benefited financially from the situation described in the Agreement. This Agreement closes a difficult chapter in our history as an institution and is another example of the difficult decisions that we faced in 2002. Reaching this Agreement with the Federal authorities was a painful step, but we decided that the alternative of a court case would subject the Bank to many months of negative publicity and would continue to drain managerial and financial resources.

It has been a difficult year and 2003 promises to be full of challenges as well. We feel blessed with people committed to our Vision and our Values. We are confident that we will continue to thrive.

Richard L. Carrión
Chairman
President
Chief Executive Officer



As a result of the combined efforts of nearly 11,000 people at Popular, we successfully grew earnings by 16% and assets by 9% to **$34 billion** in 2002. But our success in maximizing our relationship with existing customers and establishing relationships with prospective customers cannot be measured in numbers alone. This **commitment to the people** has spurred innovation in products and services, and expanded coverage in Puerto Rico, the United States, the Caribbean and Latin America. We believe that as long as our Puerto Rico, United States and Processing businesses are oriented to our customers, their communities and their needs, we will continue to achieve our goals.

DISTRIBUTION NETWORK	
Banco Popular	**Popular Finance**
• 195 branches in Puerto Rico • 8 branches in Virgin Islands • 10 Commercial Banking Centers • Mi Banco Popular (Internet banking) • TeleBanco Popular (24-hour phone banking) • 551 ATMs • 27,263 Point-of-Sale Terminals	• 30 offices • 7 mortgage centers **Popular Mortgage** • 29 mortgage centers • 22 locations in BPPR branches **Popular Auto** • 8 offices • 10 daily rental centers
Popular Securities	**Popular Insurance**
• 5 investment centers • 47 locations in BPPR branches	• 2 offices • 15 locations in BPPR branches

The foundation of the Corporation is our operations in **Puerto Rico**. We are firmly committed to bring the most modern and sophisticated financial services to all clients, from the unbanked individual to the largest institution. Through continuous technological and product innovation, we provide the best products and services to all our clients. We believe that each client's relationship adds value to our Corporation, and we strive every day to make those relationships with Popular stronger and more rewarding for each client.

PUERTO RICO

Popular's main subsidiary, Banco Popular de Puerto Rico, is the largest commercial bank in Puerto Rico with $12.8 billion in deposits and $10.3 billion in loans. It offers retail and commercial clients a full range of financial services through its extensive multichannel distribution network, including 195 branches, 551 ATMs, a 24-hour call center and the online banking site *Mi Banco Popular*.

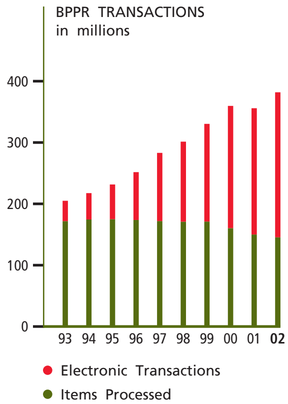
Banco Popular continued its commitment to provide financial advice to the unbanked segment conducting 480 *El Banco en la Comunidad* activities throughout the island. *Acceso Popular*, a low-cost transaction account tailored to meet the needs of the unbanked segment, finished the year with approximately 100,000 new accounts, a 69% increase over new account openings reported in 2001.

Banco Popular launched *PREMIA*, an innovative corporate rewards program that enables clients to accumulate points for acquiring and using a variety of Popular's financial products and services. This unique program enhances the value of the Corporation's diversity of offerings. In addition, *PREMIA* is aligned with the initiative to migrate clients to electronic channels. It encourages the use of our electronic products and services by rewarding clients for its usage. The accumulated points are redeemable for airline tickets, merchandise and prepaid ATM cards, among many other alternatives. At year-end, *PREMIA* had over 145,000 registered clients and had awarded over 500 million points.

Mi Banco Popular (www.bancopopular.com) reached 150,000 registered users in 2002. The performance and browsing capabilities of the website were upgraded during the year, and were expanded to support small and mid-sized businesses as well as credit card and mortgage customers. *Mi Banco Popular* was further enhanced by adding the first set of outside merchants to the online electronic billing and payment feature first introduced in 2001. This service will expand during 2003 to include additional merchants.

In addition, Banco Popular's Commercial Banking group continued to offer the broadest array of financial services available in the local market. During 2002, the institution promoted the use of online services by introducing a redesigned

"PREMIA is one of a kind. As a member of other programs I recognize the uniqueness of PREMIA. Being a client of Banco Popular has always been rewarding. Now, I enjoy all the benefits this program offers for what I do every day."
Ilsa López



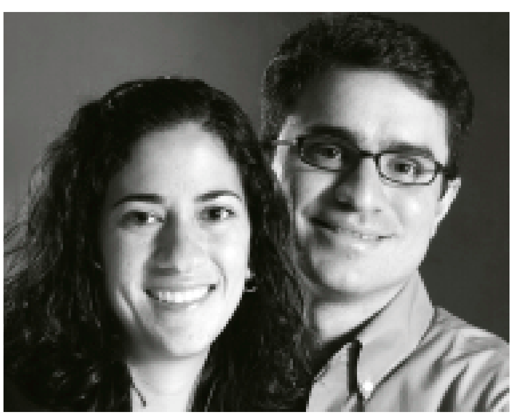
commercial ATM card and the launch of *Pagos de Estaciones Remotas* (PER), a unique software that allows clients to make utilities bill payments online using the Bank's network. Banco Popular is the only local institution currently providing this service. Banco Popular also leads in loans granted under the Small Business Administration program, collaborating to develop local investment in small and growing businesses.

Popular conducts its banking business in other Caribbean islands through Banco Popular Virgin Islands. With eight branches in the U.S. and British Virgin Islands, a team of more than 220 employees, deposits totaling $800 million and approximately $700 million in assets at year-end, Banco Popular has established itself as the leading financial institution in the region.

Popular Mortgage, one of the leading mortgage banks in Puerto Rico, experienced another outstanding year. As a result of the continued low interest rates, an aggressive customer-centered marketing strategy and the continued growth of its distribution network, Popular Mortgage originated over $1.4 billion in mortgage loans.

As part of its technology and customer-oriented strategies, during 2002 Popular Mortgage introduced "Instant Pre-Approval", an Internet-based application that provides a preapproval in five easy steps. Popular also introduced *Pago Flexible*, a mortgage loan with a flexible payment schedule. With these two new products, Popular Mortgage continues to expand its services and to provide greater convenience, flexibility and value to its customers. Popular Mortgage also opened four new mortgage centers, for a total of 29.

Popular Auto completed its first year of consolidated operations after the merger between Banco Popular's Auto Loan Division and Popular Leasing. This subsidiary, with a team of more than 340 employees, offers individual and commercial clients a wide range of auto and equipment leasing and financing options as well as daily rental of automobiles and trucks. At year-end, Popular Auto's portfolio surpassed $1 billion in assets. It currently has eight sales and service centers where it offers clients complete equipment and auto leasing and financing solutions, and 10 daily rental offices with a fleet of more than 1,100 passenger vehicles and commercial units to



"Our dealings with Popular Mortgage were very easy and straightforward. We were able to do all transactions over the phone. Their service was excellent, and they even helped us by offering different financing options. These alternatives resulted in lower mortgage costs to us."

Frances Pedraza and Irán Rivera

complement its auto loan and leasing services.

The efforts of all its employees and effective marketing strategies throughout the year were fundamental in the successful completion of the merger, in the attainment of $610.9 million in loan and lease origination volumes and in the reaffirmation of Popular Auto's leadership position in this market.

Popular Securities offers brokerage and investment banking services to both retail and institutional clients. In total, assets under management surpassed $3 billion at year-end. Through its retail business, Popular Securities offers individuals financial advisory and full investment services, including the sale of securities, through more than 80 financial consultants available at most Banco Popular branches, five investment centers and its website, www.popularsecurities.com.

On the institutional side, Popular Securities underwrites stock and bond issues and offers advisory services to public and private entities, providing investment expertise to local financial institutions, mutual funds, pension funds and large companies. Clients include the Government of Puerto Rico and a range of local, national and international companies. By year-end, Popular Securities had participated in the underwriting and distribution of stock and bond issues totaling $11.1 billion, an increase of 35% from $8.2 billion in 2001.

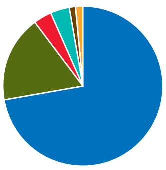
In October 2002, Popular Securities issued the Popular High Grade Fixed-Income Fund, a high-quality mutual fund specifically designed for investors who are residents of Puerto Rico. The Fund, which offers a unique combination of tax advantages, exceeded $150 million in total assets as of December 31, 2002.

Popular Asset Management, a division of Banco Popular, offers professional investment and money management services to institutional clients. It serves as investment adviser for 11 investment mutual funds, including the new Popular High Grade Fixed-Income Fund and two IRA funds. It also manages investments for public and private pension funds, academic endowments, charitable foundations, labor

"Popular Auto helps Gómez Hermanos Kennedy, Inc., our car dealership, in two ways. They provide us with floor plan financing and give my clients auto loans with exceptional service and the best rates. As a result, Popular Auto makes the experience of buying a car with us a very pleasant one. We both benefit from our relationship."

Víctor M. Gómez III

ASSETS BY LINE OF BUSINESS
percentage



- Retail and Commercial Banking: 73.94%
- Mortgage and Consumer Lending: 17.48%
- Investment: 3.86%
- Auto and Equipment Leasing and Financing: 3.67%
- Insurance: 0.09%
- Other: 0.96%

unions and private corporations. At the end of 2002 it had more than $2.5 billion assets under management.

Popular Insurance, a general agency established in 2000, offers insurance products and services to retail and commercial clients and represents over 80 insurance companies in Puerto Rico and the U.S. Virgin Islands. At the end of 2002, the agency had subscribed over $125 million in premiums.

During 2002, Popular Insurance continued its expansion by placing additional representatives through Banco Popular's branch network, increasing to 15 the permanent branch locations. In addition, Popular Insurance announced the acquisition of two insurance agencies in Puerto Rico, Del Nido & Associates and Life Insurance Services, Inc., adding to the current product offering, client base and available resources of Popular Insurance. With the acquisitions and the launching of the life insurance agency to complement the established business, Popular Insurance is now positioned as one of the leading insurance marketing organizations in Puerto Rico.

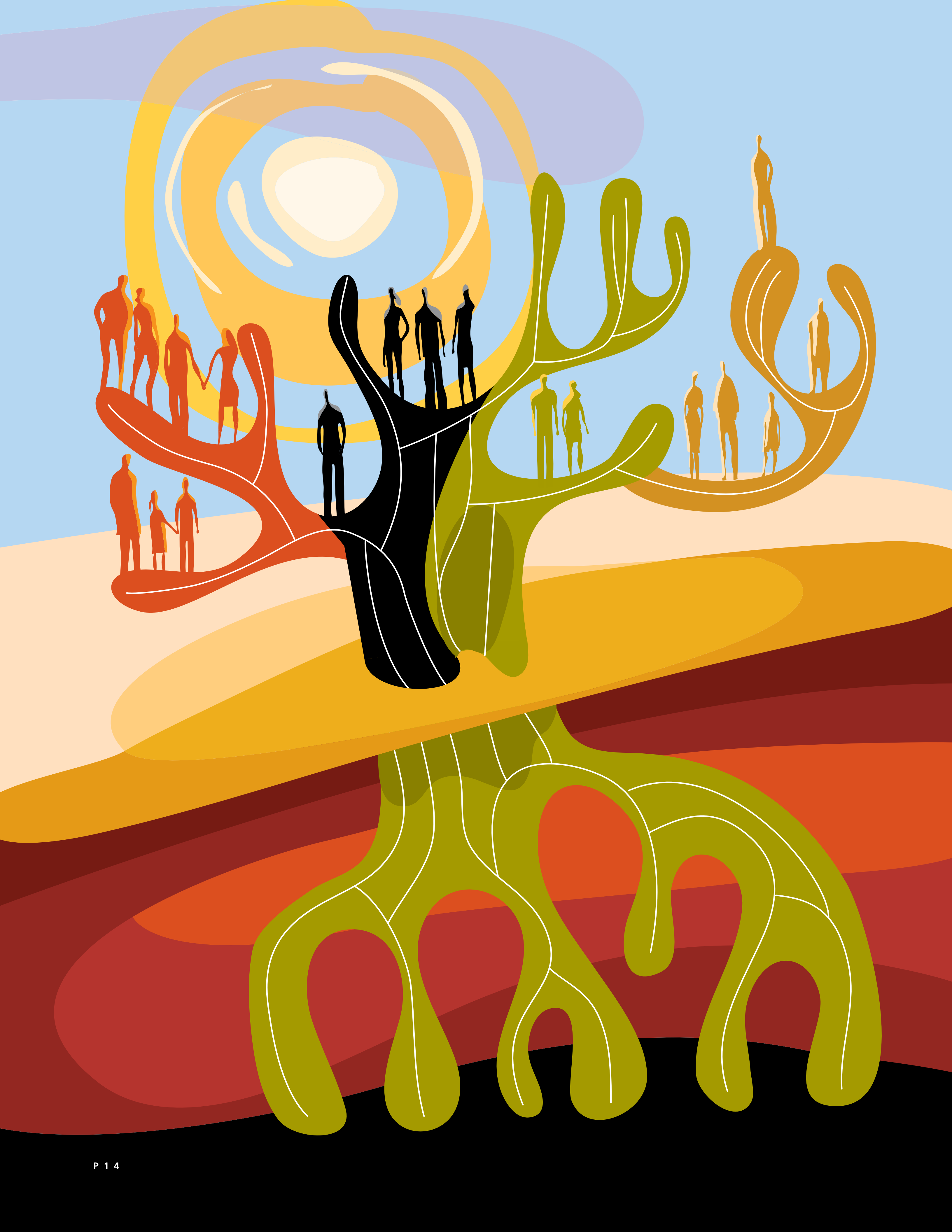
Popular Finance, which offers small personal and mortgage loans, restructured its operations. As a result, the office network now stands at 30 offices and seven mortgage centers in 25 Puerto Rico municipalities.

As part of the reorganization efforts, Popular Finance enhanced its operational systems to improve customer service and expand loan origination capabilities.

In May, Popular Finance established Popular Sales Credit, an indirect financing service offered through authorized dealers. This new credit product provides an additional source of income to complement the revenues generated by its loan products and its fee income services such as bill payment and money order sales.

"Laboratorio Borinquen was founded 31 years ago. We started with one clinical laboratory and now own 17. Without Banco Popular we would not be where we are now. In the beginning, when we needed the most financial support, they gave us their trust. Since then they have always been willing to help us."

Delia Manrique de Whitlock



DISTRIBUTION NETWORK

Banco Popular North America	Equity One
• 96 branches in 6 states • Telephone Banking • Popular Net Banking (Internet Banking) • 131 ATMs • 542 Point-of-Sale Terminals	• 153 offices in 26 states
	Popular Leasing, U.S.A.
	• 13 offices in 11 states
	Popular Insurance, U.S.A.
Popular Cash Express	• 1 office
• 136 stores • 59 mobile units	

Our business in the continental **United States** grows stronger and broader every year. What began as an attempt to capitalize on the potential of the Hispanic market has expanded beyond this community. We have established ourselves as a dependable source of financial services for the entire market because of our superior service, full product offerings, and convenient locations. Our continued success in the United States will contribute significantly to the future growth of our Corporation.

UNITED STATES

Banco Popular North America (BPNA) is the largest Hispanic-owned bank in the United States with assets totaling $5.7 billion and more than 350,000 customers. BPNA is a full service commercial and relationship-oriented Bank, offering a wide array of credit and deposit products to both individual and business clients throughout 96 branches located in New York, New Jersey, Florida, Texas, Illinois and California. BPNA is an important small business lender in all of its markets, ranking among the top 10 Small Business Administration (SBA) lenders in the country.

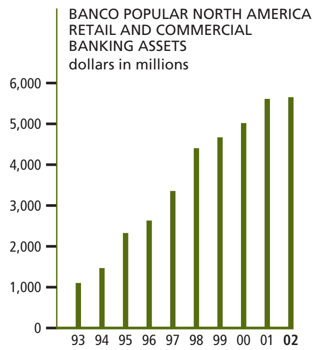
The year 2002 was a turnkey year for the organization. Early in the year, BPNA announced a series of strategic initiatives under the theme "A New Day". The principal objective was to communicate to its employees a revised management organization, a new three-year strategic plan, and the roadmap to achieve its new vision: to become the premier community bank in the markets it serves while leveraging its unique Hispanic opportunities.

As part of its "New Day" efforts, BPNA centralized back office and support areas in its new Rosemont, Illinois, headquarters. A thorough revision of back office and branch processes led to an important re-engineering effort aimed at creating the foundation to support significant business growth and further efficiency improvements. These efforts resulted in significantly lower expenses in the back office and branch areas and helped increase net income by more than 100%.

BPNA also launched "Popularity", an institutional advertising campaign featuring actual customers. The campaign showcases the Bank's diverse customer base and is aimed at expanding the Bank's brand appeal to all segments of its markets. The campaign's theme "Make Dreams Happen" is consistent with BPNA's focus on working class neighborhoods and its commitment to its customers' individual needs.

"Aspire is a non-profit agency serving individuals with development disabilities. For us to have a Bank that has the capacity to meet our growing needs is a crucial component of our working relationship. Banco Popular takes away the hassle of managing a very large agency."

Ann M. Shannon



Popular Cash Express (PCE) complements Banco Popular North America's distribution network by targeting the growing unbanked segment. It offers a wide range of financial services to individuals, including check-cashing, wire transfers, utility payments and money orders. During 2002, PCE continued its aggressive growth strategy and closed the year with 136 stores in California, Florida, Arizona, Texas, New York and Washington, D.C., as well as 59 mobile units in the Los Angeles metro area, making PCE the third largest check-cashing operation in the country. PCE generated $27.3 million in revenues in 2002, an 18% increase from the $23.2 million reported in 2001, and has close to 500,000 customers.

Equity One is a diversified consumer lending institution offering a complete line of real estate secured, home improvement and unsecured loan products. It operates through a network of 153 branches located in 26 states. During 2002 Equity One fueled its growth through the development of a Hispanic lending unit and a continued emphasis on customer service. At year-end its customer base had grown to 150,000 and its managed receivables reached $4.9 billion.

Popular Leasing, U.S.A., with headquarters in Ellisville, Missouri, offers small-ticket equipment leasing and specifically targets medical vendors to provide medical equipment leasing. With 13 branches in 11 states, clients are able to access information as well as submit applications online through Popular Leasing's website, www.popularleasingusa.com. Total assets increased by 8%, reaching $149 million at year-end.

Popular Insurance, U.S.A., the insurance subsidiary in the United States, offers insurance and investment products through BPNA's national branch network. It is licensed as an insurance agency in 23 states. In its first nine months of operation, Popular Insurance, U.S.A.'s licensed sales force grew to 20 representatives. Five of the six BPNA regions now have licensed representatives.

"We own Don Pepe's Cuban Café and Pepito's Cuban Café. Banco Popular's support in the early days gave us a phenomenal opportunity. The Bank has a family-type environment that's still completely professional. When I walk in, they know my name and that makes all the difference in the world."

Rubén Pérez

DISTRIBUTION NETWORK

Puerto Rico	Caribbean
• 1,261 ATMs • 46,383 Point-of-Sale Terminals	• CONTADO, S.A. – 1,143 ATMs – 15,867 Point-of-Sale Terminals • Banco Popular Virgin Islands – 12 ATMs – 1,006 Point-of-Sale Terminals
Latin America	
• ATH Costa Rica – 530 ATMs – 4,750 Point-of-Sale Terminals	

Our **Processing** business reflects the dynamic and innovative character of Popular. The Corporation continuously leverages its technological expertise to diversify its businesses and offer the best products and services alternatives to clients. We are strongly positioned to provide complete processing services, exporting our capabilities to the various markets we serve including Puerto Rico, the Caribbean and Latin America. Our incessant efforts to innovate and create new business opportunities will contribute to our solidification in these and other prospective markets.

PROCESSING

GM Group is the leading provider of electronic banking and information system services across the Caribbean region. It offers a diverse portfolio of services through its five main offices in San Juan, Caracas, Santo Domingo and Miami and has a presence in 10 different markets: Costa Rica, Dominican Republic, Venezuela, Haiti, El Salvador, Honduras, Dominica, Belize, Nicaragua and Puerto Rico. Services include ATM network management, data processing, consulting, software and hardware sales, system design and implementation, and business recovery services.

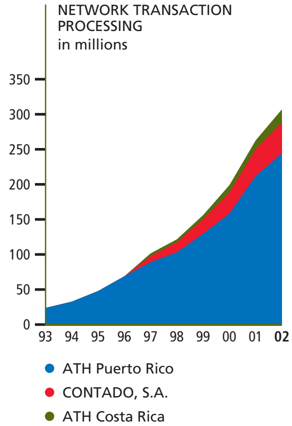
GM's ATM network management business runs operations in Puerto Rico, Dominican Republic and Costa Rica under the ATH brand name. Red ATH continues to be the largest ATM network in Puerto Rico, with a 16% increase in total transaction volume. During 2002 the network reported a 9% increase in ATMs for a total of 1,261, and another 9% increase in point-of-sales (POS) terminals for a total of 46,383 terminals managed by the network.

GM Group took advantage of new business opportunities in Puerto Rico during 2002. Major developments included the conversion into the ATH network of three major local banks formerly affiliated with a competing network, and the launch of a private label gift card for the largest shopping center in the Caribbean, which is accepted in over 100 retail stores. GM Group's Electronic Benefits Transfer (EBT) business continued to solidify in the local market. As part of its EBT initiatives, GM Group continued to work with government entities to build technology solutions, including the development of an electronic toll payment system, the creation of automated information networks and government-benefits debit cards.

During 2002 the Consorcio de Tarjetas Dominicanas (CONTADO, S.A.), Popular's network investment in the Dominican Republic, increased its penetration through strategic initiatives. These initiatives included selling prepaid phone cards through ATMs, implementing an internal automated accounting system and connecting Banco de Reservas, the only

"When I returned from the military in 1962, I purchased a truck and started buying and reselling produce to different small grocery stores around the island. Banco Popular was there from the beginning and as Empacadora Hill Brothers grew, Banco Popular trusted us when we needed them the most. Today, our business has more than 150 employees and we continue to have all of our financial relationships with Popular."

Cecilio Massanet and Emma Rosario



Dominican Republic Government bank, into the network. In addition, CONTADO will become the first provider in Latin America and the Caribbean to participate in a Visa chip card pilot program expected to be launched during the first half of 2003. The network connected 1,143 ATMs and 15,867 POS terminals, reflecting a 17% and 37% growth, respectively, over the previous year. Total transaction volume increased by 14% for a total of approximately 44 million transactions.

ATH Costa Rica continued to experience rapid expansion during 2002. The number of automated teller machines in the network increased 89% for a total of 530, while POS terminals grew 7% to 4,750. POS transactions volume reached 6 million, a 33% increase over the previous year. As part of its credit card processing business efforts, the network became the "MasterCard Issuer Member Service Provider" for the region, which enabled it to enter into the Belize and Nicaragua markets.

Banco Popular also launched ticketpop, a ticket-processing service. This multichannel ticket sale and distribution system supports in-person, telephone and Internet sales. Ticketpop initially formed a strategic alliance with Caribbean Cinemas, the largest movie theater chain in the Caribbean, allowing it to sell tickets at nine movie theaters through ticket-dispensing machines. In the first eight months of operations, ticketpop sold approximately 50,000 tickets. In September 2002, new functionalities were added to the website www.ticketpop.com to allow clients to purchase tickets online for concerts, sports, arts and other special events. Ticketpop sold over 40,000 tickets for these types of events.

"Banco Popular and GM Group have surpassed our expectations many times. They helped us to install POS terminals directly to the cash registers, making Mr. Special the first establishment in Puerto Rico to use this type of technology. That venture provided substantial savings to us. We are completely satisfied with the service provided."

Edwin Alonso


ABC

OUR COMMUNITY

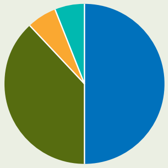
Popular is much more than a financial institution. Since its founding 109 years ago, it has been committed to the social well-being of the communities it serves. It has supported the cultural and educational expressions of our people and has promoted sports as a means to foster the spirit of achievement among children and youths. Moreover, Popular has distinguished itself for implementing community development programs and initiatives that stimulate the self-sufficiency and the integration of all sectors of the population into the banking mainstream.

This social commitment is made evident by a solid sponsorships and donations program and by an active participation of employees through their financial contributions and volunteer work to numerous non-profit organizations in our community.

In 2002, Popular donations amounted to $6.6 million to more than 350 community organizations. Moreover, it has consistently invested in the academic development of students through donations to educational programs and universities. BPNA, on its part, renewed its relationship with the Hispanic Scholarship Fund, and entered into a partnership with the FDIC to jointly develop the Spanish version of MoneySmart, a program designed to educate the Hispanic community about the importance of financial planning.

Likewise, Popular maintains a firm commitment to promote the arts by supporting the most important avenues for artistic expression in our communities and by contributing to the presentation of cultural activities. As a legacy to our music tradition, the 2002 production, *Encuentro*, was dedicated to three renowned Hispanic songwriters and performers: Rubén Blades, Juan Luis Guerra and Robi Dräco Rosa. In this musical production we paid tribute to the caliber of composition and artistic performance of three pillars of contemporary Hispanic music. Part of the proceeds from the sale of the production is donated to Banco Popular Foundation for its support of other educational and community programs.

POPULAR, INC.
DONATIONS AND SPONSORSHIPS
percentage



- Cultural: 50%
- Civic/Community: 38%
- Educational: 6%
- Sports: 6%

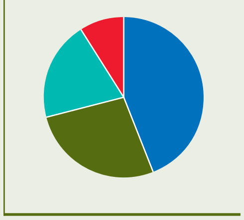
The Banco Popular Foundation fosters innovative projects at the Juan Ponce de León School.

In addition, for over 23 years, Banco Popular Foundation has focused on participating actively and effectively in improving the quality of life of the communities in Puerto Rico. It promotes their social well-being through several projects aimed at improving education, the arts, community development and the living conditions of the less privileged. Its main focus is geared toward education and innovative community development projects that inspire residents to strive for excellence.

During 2002, Banco Popular Foundation granted more than $771,000 to 49 non-profit entities. Moreover, it participated in programs aimed at transforming communities, such as the Community Initiative program, by providing both financial and legal resources. It also inaugurated the music center of the Loaíza Cordero Institute, which fosters musical education among blind students. The project was funded from the product of the sale of the *Guitarra Mía* music production. Several employees collaborated to maximize the investment by offering their space-planning and equipment-purchasing expertise, which helped create outstanding facilities for students with special needs. The Foundation also participated in creating an endowment fund for the Puerto Rico Music Conservatory, the island's foremost music education institution.

Through Banco Popular Foundation's Volunteers Program, employees remain committed to the communities we serve. Every month over 51% of Popular's employees make a voluntary contribution to the Foundation through payroll deductions. In 2002, those contributions amounted to $231,284. In addition, a fund-matching program was established by which seven Popular units contributed voluntarily to non-profit organizations. Those employees contributed a total of $71,235 and the Foundation matched the full contribution. Moreover, in 2002 our employees participated in various volunteer activities, some of them focused on protecting the environment, building new housing for the needy, collecting funds for different social causes and serving as mentors in schools.

BANCO POPULAR FOUNDATION DONATIONS
percentage



- Community Development: 42%
- Education: 29%
- Special Needs: 20%
- Arts: 9%

The musical center for visually impaired students at the Loaíza Cordero Institute was funded with the product of the sale of the *Guitarra Mía* music production.

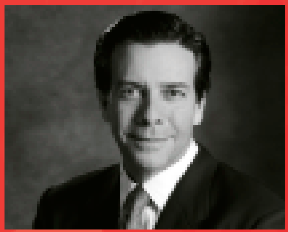
Through the Rafael Carrión Jr. Scholarship Fund, 175 scholarships totaling $267,100 were distributed to children of Popular employees and retirees. In addition, 15 Puerto Rican students pursuing their Bachelor's degrees at the Wharton School of the University of Pennsylvania have received scholarships from another fund established in 1994 with a current balance of $531,294.

Popular and its employees maintain a firm commitment to actively participate in improving the social, economic and educational well-being of their communities. Our contribution to the social development and the quality of life of the communities we serve reflects the values that have defined us as an institution from our beginnings.

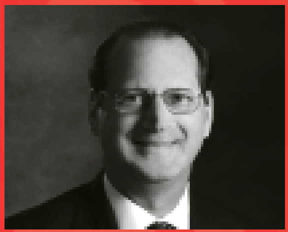
Through the Volunteers Program, Popular's employees dedicated their time and resources to the cleaning and reforestation of the Esperanza Beach.

SENIOR MANAGEMENT COUNCIL

Richard L. Carrión
Chairman
President
Chief Executive Officer



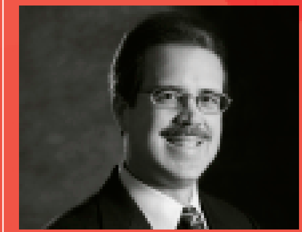
David H. Chafey Jr.
Senior Executive Vice President
Retail Banking



Jorge A. Junquera
Senior Executive Vice President
Chief Financial Officer

María Isabel Burckhart
Executive Vice President
Administration

Carlos Colino
Executive Vice President
GM Group



Roberto R. Herencia
Executive Vice President
North America

Larry B. Kesler
Executive Vice President
Retail Credit

Tere Loubriel
Executive Vice President
Human Resources

Emilio E. Piñero Ferrer, Esq.
Executive Vice President
Commercial Banking

Brunilda Santos de Álvarez, Esq.
Executive Vice President
Legal

Carlos J. Vázquez
Executive Vice President
Risk Management

Félix M. Villamil
Executive Vice President
Operations

POPULAR, INC. MANAGEMENT GROUP

PUERTO RICO

Banco Popular de Puerto Rico
Richard L. Carrión
Chairman
President
Chief Executive Officer

Retail Banking Group
David H. Chafey Jr.

Orlando Berges
Bayamón Region

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

Félix León
Eastern Region

Carlos J. Mangual
Caguas Region

Maritza Méndez
Río Piedras Region

Miguel Ripoll
San Juan Region

Carlos Rodríguez
Western Region

Edgar Roig
Ponce Region

Elí Sepúlveda Jr.
Arecibo/Manatí Region

Juan Guerrero
Financial and Investment Services

Néstor O. Rivera
Retail Banking

Lizzie Rosso
Alternative Delivery Channels

Retail Credit Group
Larry B. Kesler[3]
David H. Chafey Jr.[4]

Linda C. Colón
Retail Credit Services and Subsidiaries

Popular Auto, Inc.
Andrés Morrell
President

Popular Finance, Inc.
Rafael Negrón
President

Fabio García
Individual Lending

Popular Mortgage, Inc.
Silvio López
President

Raúl Colón
Mortgage Servicing

Valentino I. McBean
Virgin Islands Region

Commercial Banking Group
Emilio E. Piñero Ferrer, Esq.

Structured Finance

Yamil Castillo
Construction Loans

Cynthia Toro
Business Banking

Ricardo Toro
Corporate Banking

Financial Management Group
Jorge A. Junquera

Richard Barrios
Investments and Treasury

Luis R. Cintrón, Esq.
Trust

Amílcar L. Jordán, Esq.
Comptroller

Iván Pagán
Acquisitions and Corporate Investments

Popular Securities, Inc.
Kenneth W. McGrath
President

Administration Group
María Isabel Burckhart

Ginoris López-Lay
Strategic Planning and Marketing

Olga Mayoral Wilson
Public Relations and Communications

Jaime L. Nazario Yordán
Corporate Real Estate

Human Resources Group
Tere Loubriel

Legal Group
Brunilda Santos de Álvarez, Esq.

Eduardo J. Negrón, Esq.
Legal

Operations Group
Félix M. Villamil

Luis O. Abreu
Operational Financial Support

José L. Casas
Computer and Network Services

Ramón L. Meléndez
Programming

Roberto Negrón
Operations

Otto Rosario
Transaction Processing

Héctor Torres
Security

Risk Management Group
Carlos J. Vázquez

Jesús Aldarondo
Operational Risk Management

Ana Carmen Alemañy
Credit Risk Management

María de Lourdes Jiménez, Esq.
Corporate Compliance

José A. Méndez
General Auditor

GM Group, Inc.
Carlos Colino
Chairman
Chief Executive Officer

Walter Cervoni
President

Popular Insurance, Inc.
Angela Weyne
President

UNITED STATES

Banco Popular North America, Inc.
Richard L. Carrión
Chairman
Chief Executive Officer

Roberto R. Herencia
President

Manuel Chinea
Marketing and Product Development

Jeannette Frett
Mari Pat Varga
People and Leadership

Chris McFadden
Comptroller

César Medina
Credit Risk Management

James Norini
Administration

Alberto Paracchini
Finance and Treasury

Richard Peterson
Community Banking

Vernon V. Aguirre
Southern California Region

Mike Carr
Houston Region

Michele Imbasciani
New York Metro Region

Mercedes F. McCall
Orlando Region

Javier Ubarri
Chicago Region

Richard Stiles
Commercial Banking

Popular Cash Express, Inc.
Chris McFadden
Interim President

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

Banco Popular, National Association
Jorge A. Junquera
President

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

[1] Until January 1, 2003
[2] As of January 16, 2003
[3] Until December 31, 2002
[4] As of January 1, 2003

BOARDS OF DIRECTORS

POPULAR, INC.

Richard L. Carrión
Chairman
President
Chief Executive Officer

Antonio Luis Ferré
Vice Chairman
Chairman
El Nuevo Día

Juan J. Bermúdez
Partner
Bermúdez & Longo, S.E.

José B. Carrión Jr.
Private Investor

David H. Chafey Jr.
Senior Executive Vice President
Popular, Inc.

Héctor R. González
President
Chief Executive Officer
Ventek Group, Inc.

Jorge A. Junquera
Senior Executive Vice President
Popular, Inc.

Manuel Morales Jr.
President
Parkview Realty, Inc.

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

Félix J. Serrallés Nevares
President
Chief Executive Officer
Destilería Serrallés, Inc.

Julio E. Vizcarrondo Jr.
President
Chief Executive Officer
Desarrollos Metropolitanos, S.E.

Samuel T. Céspedes, Esq.
Secretary
Board of Directors

Brunilda Santos de Álvarez, Esq.
Assistant Secretary
Board of Directors

Ernesto N. Mayoral, Esq.
Assistant Secretary
Board of Directors

Eduardo J. Negrón, Esq.
Assistant Secretary
Board of Directors

BANCO POPULAR DE PUERTO RICO

Richard L. Carrión
Chairman
President
Chief Executive Officer

Juan A. Albors Hernández
Chairman
President
Chief Executive Officer
Albors Development Corp.

José A. Bechara Bravo
President
Empresas Bechara, Inc.

Juan J. Bermúdez
Partner
Bermúdez & Longo, S.E.

Francisco J. Carreras
Educator
Executive Director
Fundación Ángel Ramos, Inc.

José B. Carrión Jr.
Private Investor

David H. Chafey Jr.
Senior Executive Vice President
Popular, Inc.

María Luisa Ferré
Executive Vice President
Grupo Ferré Rangel

Héctor R. González
President
Chief Executive Officer
Ventek Group, Inc.

Guillermo L. Martínez
Chairman
Chief Executive Officer
GM Capital

Manuel Morales Jr.
President
Parkview Realty, Inc.

Alberto M. Paracchini
Private Investor

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

Félix J. Serrallés Nevares
President
Chief Executive Officer
Destilería Serrallés, Inc.

Jon E. Slater
President
Chief Executive Officer
Puerto Rico Telephone Co.
Verizon Wireless Puerto Rico

Julio E. Vizcarrondo Jr.
President
Chief Executive Officer
Desarrollos Metropolitanos, S.E.

Samuel T. Céspedes, Esq.
Secretary
Board of Directors

Brunilda Santos de Álvarez, Esq.
Assistant Secretary
Board of Directors

Ernesto N. Mayoral, Esq.
Assistant Secretary
Board of Directors

Eduardo J. Negrón, Esq.
Assistant Secretary
Board of Directors

BANCO POPULAR NORTH AMERICA

Richard L. Carrión
Chairman
Chief Executive Officer

Roberto R. Herencia
President

Alfonso F. Ballester
President
Ballester Hermanos, Inc.

Jorge A. Junquera
Senior Executive Vice President
Popular, Inc.

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

Félix J. Serrallés Nevares
President
Chief Executive Officer
Destilería Serrallés, Inc.

Richard N. Speer Jr.
Chief Executive Officer
Speer & Associates, Inc.

Julio E. Vizcarrondo Jr.
President
Chief Executive Officer
Desarrollos Metropolitanos, S.E.

Brunilda Santos de Álvarez, Esq.
Secretary
Board of Directors

Eduardo J. Negrón, Esq.
Assistant Secretary
Board of Directors

PricewaterhouseCoopers

REPORT OF INDEPENDENT ACCOUNTANTS

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated statements of condition of Popular, Inc. and its subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of income, of comprehensive income, of changes in stockholders' equity and of cash flows for each of the three years in the period ended December 31, 2002 (not presented herein) appearing in the 2002 Financial Review and Supplementary Information to stockholders of Popular, Inc., which is incorporated by reference in Popular, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2002; and in our report dated February 28, 2003, we expressed an unqualified opinion on those consolidated financial statements with an explanatory paragraph for the adoption of SFAS No. 142 "Goodwill and Other Intangible Assets."

In our opinion, the information set forth in the accompanying condensed consolidated statements of condition and of income, when read in conjunction with the consolidated financial statements from which it has been derived, is fairly stated in all material respects in relation thereto.

PricewaterhouseCoopers LLP

San Juan, Puerto Rico
February 28, 2003

Stamp 1838467 of the P.R. Society of Certified Public Accountants has been affixed to the file copy of this report.

CONDENSED CONSOLIDATED STATEMENTS OF CONDITION

(In thousands)	At December 31, 2002	2001
Assets		
Cash and due from banks	**$ 652,556**	$ 606,142
Money market investments	**1,094,646**	823,790
Trading securities, at market value	**510,346**	270,186
Investment securities available-for-sale, at market value	**10,531,903**	9,284,401
Investment securities held-to-maturity, at amortized cost	**180,751**	592,360
Loans held-for-sale, at lower of cost or market	**1,092,927**	939,488
Loans	**18,775,847**	17,556,029
Less – Unearned income	**286,655**	326,966
Allowance for loan losses	**372,797**	336,632
	18,116,395	16,892,431
Premises and equipment	**461,177**	405,705
Other real estate	**39,399**	31,533
Accrued income receivable	**184,549**	186,143
Other assets	**578,091**	496,855
Goodwill	**182,965**	177,842
Other intangible assets	**34,647**	37,800
	$ 33,660,352	$ 30,744,676
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Non-interest bearing	**$ 3,367,385**	$ 3,281,841
Interest bearing	**14,247,355**	13,088,201
	17,614,740	16,370,042
Federal funds purchased and securities sold under agreements to repurchase	**6,684,551**	5,751,768
Other short-term borrowings	**1,703,562**	1,827,242
Notes payable	**4,298,853**	3,735,131
Other liabilities	**677,605**	512,686
	30,979,311	28,196,869
Subordinated notes	**125,000**	125,000
Preferred beneficial interest in Popular North America's junior subordinated deferrable interest debentures guaranteed by the Corporation	**144,000**	149,080
Minority interest in consolidated subsidiaries	**1,162**	909
Stockholders' Equity:		
Preferred stock	**—**	100,000
Common stock	**834,799**	832,498
Surplus	**278,366**	268,544
Retained earnings	**1,300,437**	1,057,724
Treasury stock, at cost	**(205,210)**	(66,136)
Accumulated other comprehensive income, net of tax	**202,487**	80,188
	2,410,879	2,272,818
	$ 33,660,352	$ 30,744,676

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

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

For a complete set of audited consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, refer to Popular, Inc.'s 2002 Financial Review and Supplementary Information to stockholders incorporated by reference in Popular, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2002.

HISTORICAL FINANCIAL SUMMARY – 25 YEARS

(Dollars in millions, except per share data)	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
Selected Financial Information											
Net Interest Income	$ 89.8	$ 110.6	$ 130.0	$ 135.9	$ 151.7	$ 144.9	$ 156.8	$ 174.9	$ 184.2	$ 207.7	$ 232.5
Non-Interest Income	9.8	13.5	14.2	15.8	15.9	19.6	19.0	26.8	41.4	41.0	54.9
Operating Expenses	72.1	88.8	101.3	109.4	121.2	127.3	137.2	156.0	168.4	185.7	195.6
Net Income	12.6	18.2	23.5	24.3	27.3	26.8	29.8	32.9	38.3	38.3	47.4
Assets	$2,105.5	$2,472.0	$2,630.1	$2,677.9	$2,727.0	$2,974.1	$3,526.7	$4,141.7	$4,531.8	$5,389.6	$5,706.5
Net Loans	904.2	974.1	988.4	1,007.6	976.8	1,075.7	1,373.9	1,715.7	2,271.0	2,768.5	3,096.3
Deposits	1,792.4	2,045.8	2,060.5	2,111.7	2,208.2	2,347.5	2,870.7	3,365.3	3,820.2	4,491.6	4,715.8
Stockholders' Equity	98.5	112.4	122.1	142.3	163.5	182.2	203.5	226.4	283.1	308.2	341.9
Market Capitalization	$ 62.5	$ 70.3	$ 45.0	$ 66.4	$ 99.0	$ 119.3	$ 159.8	$ 216.0	$ 304.0	$ 260.0	$ 355.0
Return on Assets (ROA)	0.65%	0.79%	0.92%	0.90%	0.96%	0.95%	0.94%	0.89%	0.88%	0.76%	0.85%
Return on Equity (ROE)	13.64%	17.56%	19.96%	18.36%	17.99%	15.86%	15.83%	15.59%	15.12%	13.09%	14.87%
Per Common Share[1]											
Net Income	$ 0.17	$ 0.25	$ 0.34	$ 0.34	$ 0.38	$ 0.37	$ 0.41	$ 0.46	$ 0.50	$ 0.48	$ 0.59
Dividends (Declared)	0.05	0.06	0.07	0.06	0.08	0.11	0.12	0.14	0.15	0.17	0.17
Book Value	1.05	1.53	1.66	1.93	2.22	2.47	2.76	3.07	3.46	3.77	4.19
Market Price	0.87	0.98	1.01	0.92	1.38	1.66	2.22	3.00	4.00	3.34	4.44
Assets by Geographical Area											
Puerto Rico	96.59%	96.54%	95.53%	94.65%	94.63%	93.70%	91.31%	92.42%	91.67%	94.22%	93.45%
United States	3.41%	3.46%	4.47%	5.14%	5.01%	5.23%	7.52%	6.47%	7.23%	5.01%	5.50%
Caribbean and Latin America				0.21%	0.36%	1.07%	1.17%	1.11%	1.10%	0.77%	1.05%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Traditional Delivery System											
Banking Branches											
Puerto Rico	110	110	110	110	110	112	113	115	124	126	126
Virgin Islands				1	2	3	3	3	3	3	3
United States	8	8	7	7	7	6	9	9	9	9	10
Subtotal	118	118	117	118	119	121	125	127	136	138	139
Non-Banking Offices											
Equity One											
Popular Cash Express											
Popular Finance										14	17
Popular Auto											
Popular Leasing, U.S.A.											
Popular Mortgage											
Popular Securities											
Popular Insurance											
Popular Insurance, U.S.A.											
Popular Insurance, V.I.											
Levitt Mortgage											
GM Group											
Subtotal										14	17
Total	118	118	117	118	119	121	125	127	136	152	156
Electronic Delivery System											
ATMs											
Owned											
Puerto Rico						30	78	94	113	136	153
Caribbean										3	3
United States											
Subtotal						30	78	94	113	139	156
Driven											
Puerto Rico							6	36	51	55	68
Caribbean											
Subtotal							6	36	51	55	68
Total						30	84	130	164	194	224
BPPR Transactions (in millions)											
Electronic Transactions						0.6	4.4	7.0	8.3	12.7	14.9
Items Processed	N/A	88.9	94.8	96.9	98.5	102.1	110.3	123.8	134.0	139.1	159.8
Employees (full-time equivalent)	**3,215**	**3,659**	**3,838**	**3,891**	**3,816**	**3,832**	**4,110**	**4,314**	**4,400**	**4,699**	**5,131**

[1] *Per common share data adjusted for stock splits.*

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

SUBSIDIARIES

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

STOCKHOLDERS' INFORMATION

Independent Public Accountants
PricewaterhouseCoopers LLP

Annual Meeting
The 2003 Annual Stockholders' Meeting of Popular, Inc. will be held on Wednesday, April 30, at 9:00 a.m. at Centro Europa Building in San Juan, Puerto Rico.

Telephone: (787) 765-9800 ext. 5637, 5525
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E-mail: popular-stck-transfer@bppr.com

Additional Information
Copies of the Annual Report to the Securities and Exchange Commission on Form 10-K and any other financial information may be obtained by writing to:

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Senior Vice President and Comptroller
Banco Popular de Puerto Rico
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Or visit our web site www.popularinc.com

Design: BD&E Inc., Pittsburgh, Pennsylvania
Illustration: Carlos Aponte
Printing: Wallace Hoechstetter

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. The Corporation is a financial holding company, which offers a broad range of products and services to consumer and corporate customers in Puerto Rico, the United States, the Caribbean and Central America. The Corporation's subsidiaries are engaged in the following businesses:

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

OVERVIEW

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

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

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

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

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

Table A

Components of Net Income as a Percentage of Average Total Assets

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

Table B

Changes in Net Income and Earnings per Common Share

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

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

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

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

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

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

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

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

Settlement of Federal Investigation

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

Table C

Selected Financial Data

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

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

Year ended December 31,

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

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

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

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

CRITICAL ACCOUNTING POLICIES

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

Investment Securities

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

Loans and Allowance for Loan Losses

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

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

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

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

Income Taxes

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

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

Assessment of Fair Value

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

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

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

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

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

Goodwill and Other Intangible Assets

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

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

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

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

Stock Options

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

Among the assumptions that an estimated option price is most sensitive to, is the expected volatility of the underlying security, which in this case is the Corporation's common stock. Volatility refers to the standard deviation of the change in the underlying security's price during a period of time. When estimating the market price of the stock options granted to employees, an assumption regarding the expected volatility of the Corportation's common stock during the life of the options must be made. When pricing options granted to employees or directors, it is assumed that the expected volatility of the Corporation's shares of common stock during the life of the options is similar to the average actual volatility during the past 260 trading days, which is approximately one calendar year.

Pension and Postretirement Benefit Obligations

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

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

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

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

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

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

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

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

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

EARNINGS ANALYSIS

Net Interest Income

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

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

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

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

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

Table D presents the different components of the Corporation's net interest income segregated by major categories of earning assets and interest-bearing liabilities. Some of the assets, mostly investments in obligations of the U.S. Government and its agencies and the Puerto Rico Commonwealth and its agencies, generate interest, which is exempt for income tax purposes principally in Puerto Rico. Therefore, to facilitate the comparison of all interest data related to these assets, the interest income has been converted to a taxable equivalent basis, using the applicable statutory income tax rates. Non-accrual loans have been included in the respective average loans and leases categories. Average outstanding securities balances are based upon amortized cost excluding any unrealized gains or losses on securities available-for-sale.

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

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

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

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

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

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

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

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

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

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

Provision for Loan Losses

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

Table D

Net Interest Income - Taxable Equivalent Basis

Year ended December 31,

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

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

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

Operating Income

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

	(Dollars in millions)						(In thousands)				
	Average Volume			Average Yields / Costs			Interest			Variance Attributable to	
	2001	2000	Variance	2001	2000	Variance	2001	2000	Variance	Rate	Volume
Money market investments	$932	$933	($1)	5.11%	6.68%	(1.57%)	$47,610	$62,356	($14,746)	($14,562)	($184)
Investment securities	8,170	7,945	225	6.74	6.85	(0.11)	550,250	544,608	5,642	(8,730)	14,372
Trading securities	267	213	54	5.75	7.33	(1.58)	15,358	15,624	(266)	(3,749)	3,483
	9,369	9,091	278	6.55	6.85	(0.30)	613,218	622,588	(9,370)	(27,041)	17,671
Loans:											
Commercial and construction	7,471	7,216	255	8.11	9.66	(1.55)	606,227	696,903	(90,676)	(114,574)	23,898
Leasing	843	770	73	11.62	11.80	(0.18)	97,951	90,906	7,045	(1,456)	8,501
Mortgage	5,507	4,405	1,102	8.12	8.27	(0.15)	447,197	364,269	82,928	(6,662)	89,590
Consumer	3,224	3,411	(187)	12.90	13.05	(0.15)	416,007	445,038	(29,031)	(1,923)	(27,108)
	17,045	15,802	1,243	9.20	10.11	(0.91)	1,567,382	1,597,116	(29,734)	(124,615)	94,881
Total earning assets	$26,414	$24,893	$1,521	8.26%	8.92%	(0.66%)	$2,180,600	$2,219,704	($39,104)	($151,656)	$112,552
Interest bearing deposits:											
NOW and money market	$2,102	$1,811	$291	3.08%	3.60%	(0.52%)	$64,637	$65,195	($558)	($10,196)	$9,638
Savings	4,170	4,113	57	2.79	2.89	(0.10)	116,226	118,823	(2,597)	(5,024)	2,427
Time deposits	6,247	5,549	698	5.40	6.22	(0.82)	337,305	345,355	(8,050)	(45,652)	37,602
	12,519	11,473	1,046	4.14	4.61	(0.47)	518,168	529,373	(11,205)	(60,872)	49,667
Short-term borrowings	7,136	7,781	(645)	4.62	6.53	(1.91)	329,648	508,029	(178,381)	(143,245)	(35,136)
Medium and long-term debt	2,669	1,894	775	6.41	6.87	(0.46)	171,061	129,994	41,067	(7,835)	48,902
Total interest bearing liabilities	22,324	21,148	1,176	4.56	5.52	(0.96)	1,018,877	1,167,396	(148,519)	(211,952)	63,433
Demand deposits	3,057	3,035	22								
Other sources of funds	1,033	710	323								
	$26,414	$24,893	$1,521	3.86%	4.69%	(0.83%)					
Net interest margin				4.40%	4.23%	0.17%					
Net interest income on a taxable equivalent basis							1,161,723	1,052,308	109,415	$60,296	$49,119
Net interest spread				3.70%	3.40%	0.30%					
Taxable equivalent adjustment							84,738	69,547	15,191		
Net interest income							$1,076,985	$982,761	$94,224		

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

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

Table E
Operating Income

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

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

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

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

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

In 2001, operating income, excluding securities, trading and derivatives transactions, increased $42.7 million or 9% from 2000, reaching $493.6 million in 2001. This growth was partly attributed to service charges on deposit accounts, which grew by $21.5 million, or 17%, mostly related to commercial accounts and new fees on deposit accounts implemented during the latter part of 2000 and mid-2001. In 2001, other service fees were $26.6 million or 12% higher than in the previous year. As shown in Table E, most categories exhibited growth in 2001, mostly as a result of higher customer activity, business expansion and continued growth of the Corporation's electronic delivery services, with considerable increases recorded in insurance agency commissions, processing, debit card and investment banking fees. These variances were partially offset by a decrease in credit card fees and discounts of $4.9 million or 8% as a result of the sale of the U.S. credit card operations in 2000. These operations contributed approximately $13 million in service fees during 2000. Gains on sale of loans rose by $6.0 million or 15%. Other income decreased by $11.3 million from 2000 mostly as a result of pretax gains realized in 2000 on the sales of the Corporation's U.S. credit card operations and of the participation in Banco Fiduciario (BF), which combined resulted in pre-tax gains of $9.3 million.

Securities and Trading Gains/Losses

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

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

Derivatives

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

Operating Expenses

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

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

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

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

Table F
Operating Expenses

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

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

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

Income Tax Expense

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

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

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

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

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

Fourth Quarter Results

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

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

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

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

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

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

Statement of Condition Analysis

Assets

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

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

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

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

Table G
Loans Ending Balances

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

*Includes loans held-for-sale.

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

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

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

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

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

Deposits and Other Interest and Non-Interest Bearing Liabilities

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

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

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

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

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

Table H
Capital Adequacy Data

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

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

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

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

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

Stockholders' Equity

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

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

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

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

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

Table I

Common Stock Performance

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

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

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

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

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

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

The Corporation has a stock option plan, which permits the granting of incentive awards in the form of qualified stock options, incentive stock options, or non-statutory stock options of the Corporation. Any employee or director of the Corporation or any of its subsidiaries is eligible to participate in the plan. During 2001 and 2002, options for 26,416 and 423,647 common shares, respectively, were awarded under the plan. Refer to Note 25 to the consolidated financial statements for further information.

Risk Management

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

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

Market Risk

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

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

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

Interest Rate Risk

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

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

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

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

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

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

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

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

Table J
Interest Rate Sensitivity

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

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

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

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

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

Table K

Maturity Distribution of Earning Assets

As of December 31, 2002

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

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

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

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

Trading

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

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

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

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

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

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

Table L
Average Total Deposits

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

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

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

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

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

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

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

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

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

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

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

Risks to Liquidity

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

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

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

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

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

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

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

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

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

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

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

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

Off-Balance Sheet Activities

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

Contractual Obligations and Commercial Commitments

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

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

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

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

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

During 2002, the Corporation also entered into a commitment to purchase $100 million of mortgage loans from another institution with the option of purchasing $75 million in additional loans. The commitment expires on June 30, 2004. As of December 31, 2002, no loans have been purchased under this agreement.

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

Credit Risk Management and Loan Quality

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

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

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

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

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

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

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

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

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

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

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

Table M

Non-Performing Assets

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

*Includes loans held-for-sale.

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

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

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

Non-Performing Assets

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

The Corporation reports its non-performing assets on a more conservative basis than most U.S. banks. It is the Corporation's policy to place commercial loans and commercial leases on non-accrual status if payments of principal or interest are delinquent 60 days rather than the standard industry practice of 90 days. Consumer financing leases, conventional mortgages and closed-end consumer loans are placed on non-accrual status if payments are delinquent 90 days or four scheduled payments in arrears. Closed-end consumer loans are charged-off when payments are delinquent 120 days. Open-end (revolving credit) consumer loans are charged-off if payments are delinquent 180 days. Certain loans which would be treated as non-accrual loans pursuant to the foregoing policy are treated as accruing loans if they are considered well-secured and in the process of collection. Under the standard industry practice, closed-end consumer loans are charged-off when delinquent 120 days, but are not customarily placed on non-accrual status prior to being charged-off. Unsecured retail loans to borrowers who declare bankruptcy are charged-off within 60 days of receipt of notification of filing from the bankruptcy court.

Non-performing assets were $539 million or 2.75% of loans as of December 31, 2002, compared with $458 million or 2.52% at the end of 2001. The increase in non-performing assets since December 31, 2001 was mostly reflected in mortgage loans, which rose by $102 million or 58%. Non-performing mortgage loans amounted to $279 million or 52% of non-performing assets and 3.74% of total mortgage loans at December 31, 2002, compared with $177 million or 39% and 2.72%, respectively, as of the end of 2001. Mortgage loans comprised 69% of total loan growth since December 31, 2001. The increase in non-performing mortgage loans was mostly attributable to Equity One's non-performing mortgage loans, which rose by $86 million, or 86%, since December 31, 2001, and was mainly concentrated in the late stage (90 days past due and over) delinquency category. Equity One's total mortgage portfolio rose by $1.2 billion, or 42%, since December 31, 2001. A 69% of Equity One's total mortgage loan portfolio is considered sub-prime as per the industry's definition of a FICO score of 660 or less (FICO Credit Scores stem from statistical models developed by the Fair Isaac Company in conjunction with the nation's credit bureaus and are used to assess borrowers credit worthiness and risk profile based on their credit history and current credit accounts). Nevertheless, as of December 31, 2002, Equity One's sub-prime portfolio performed 139 basis points below industry indicators for serious delinquency (90 days past due and over plus foreclosures) and 206 basis points below industry indicators for total delinquency (30 days past due and over), a better performance than the sub-prime mortgage loan industry, as reported by the company Loan Performance. The Corporation has experienced a low level of losses in its mortgage portfolio, historically, both in the U.S. mainland and Puerto Rico. Mortgage loans net charge-offs as a percentage of the mortgage loan portfolio averaged 0.20% and 0.15% in 2002 and 2001, respectively.

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

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

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

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

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

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

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

Allowance for Loan Losses

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

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

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

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

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

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

Table N
Allowance for Loan Losses and Selected Loan Losses Statistics

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

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

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

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

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

Table O

Allocation of the Allowance for Loan Losses

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

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

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

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

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

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

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

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

Statistical Summary 1998-2002
Statements of Condition

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

Statistical Summary 1998-2002
Statements of Income

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

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

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

On a Taxable Equivalent Basis*

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

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

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

Statistical Summary 2001-2002
Quarterly Financial Data

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

Management's Report on Responsibility for Financial Reporting

POPULAR, Inc.

To Our Stockholders:

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

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

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

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

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

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

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

Report of Independent Accountants

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

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

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
San Juan, Puerto Rico
February 28, 2003

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

Consolidated Statements of Condition

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

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

Consolidated Statements of Income

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

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

Consolidated Statements of Cash Flows

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

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

Consolidated Statements of Changes in Stockholders' Equity

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

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

Consolidated Statements of Comprehensive Income

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

Disclosure of accumulated other comprehensive income:

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

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

Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements

Note 1 - Summary of significant accounting policies:

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

Nature of operations

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

Principles of consolidation

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

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

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

Use of estimates in the preparation of financial statements

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

Investment securities

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

- Debt securities that the Corporation has the intent and ability to hold to maturity are classified as securities held-to-maturity and reported at amortized cost. The Corporation may not sell or transfer held-to-maturity securities without calling into question its intent to hold other debt securities to maturity, unless a nonrecurring or unusual event that could not have been reasonably anticipated has occurred.
- Debt and equity securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and reported at fair value, with unrealized gains and losses included in earnings.
- Debt and equity securities not classified as either securities held-to-maturity or trading securities are classified as securities available-for-sale and reported at fair value, with unrealized gains and losses excluded from earnings and reported net of taxes in other comprehensive income. Stock that is owned by the Corporation to comply with regulatory requirements, such as Federal Reserve Bank and Federal Home Loan Bank (FHLB) stock, is also included in this category, at cost.

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

Derivative financial instruments

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

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

Prior to entering a hedge transaction, the Corporation formally documents the relationship between hedging instruments and hedged items, as well as the risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivative instruments that are designated as fair value or cash flow hedges to specific assets and liabilities on the balance sheet or to specific forecasted transactions along with a formal assessment at both, inception of the hedge and on an ongoing basis as to the effectiveness of the derivative instrument in offsetting changes in fair values or cash flows of the hedged item. If it is determined that the derivative instrument is not highly effective as a hedge, hedge accounting is discontinued and the adjustment to fair value of the derivative instrument is recorded in net income.

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

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

Loans held-for-sale

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

Loans

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

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

Lease financing

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

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

Allowance for loan losses

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

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

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

Transfers and servicing of financial assets and extinguishment of liabilities

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

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

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

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

Servicing assets

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

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

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

Interest-only securities

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

Premises and equipment and other long-lived assets

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

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

Other real estate

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

Goodwill and other intangible assets

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

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

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

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

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

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

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

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

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

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

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

Securities sold/purchased under agreements to repurchase/resell

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

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

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

Treasury stock

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

Foreign currency translation

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

Income taxes

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

Employees' retirement and other postretirement benefit plans

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

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

Stock option plan

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

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

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

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

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

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS AND REGULATIONS

SFAS No. 143 "Accounting for Asset Retirement Obligations"
This Statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the related asset retirement costs. It requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. This statement is effective for financial statements issued for fiscal years beginning after June 15, 2002. Management believes that the adoption of this statement will not have a material effect on the consolidated financial statements of the Corporation.

SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets"
This statement provides a single accounting model for long-lived assets that are to be disposed of by sale, whether previously held and used or newly acquired. This statement is effective for financial statements issued for fiscal years beginning after December 15, 2001. The adoption of this statement during 2002 did not have a material effect on the consolidated financial statements of the Corporation.

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

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

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

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

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

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

FIN No. 46 "Consolidation of Variable Interest Entities"

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

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

Note 2 - Cash and due from banks:

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

Note 3 - Securities purchased under agreements to resell:

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

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

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

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

Note 4 - Investment securities available-for-sale:

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

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

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

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

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

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

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

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

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

Note 5 - Investment securities held-to-maturity:

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

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

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

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

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

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

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

Note 6 - Pledged assets:

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

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

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

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

Note 7 - Loans and allowance for loan losses:

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

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

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

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

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

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

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

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

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

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

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

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

Note 8 - Related party transactions:

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

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

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

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

Note 9 - Premises and equipment:

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

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

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

Note 10 - Goodwill and other intangible assets:

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

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

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

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

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

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

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

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

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

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

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

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

Note 11 - Deposits:

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

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

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

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

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

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

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

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

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

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

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

Note 13 - Other short-term borrowings:

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

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

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

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

Note 14 - Notes payable:

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

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

Note 15 - Subordinated notes:

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

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

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

Note 17 - Long-term debt maturity requirements:

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

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

Note 18 - Earnings per common share:

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

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

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

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

Note 19 - Stockholders' equity:

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

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

The Corporation has 10,000,000 shares of authorized preferred stock with no par value. This stock may be issued in one or more series, and the shares of each series shall have such rights and preferences as shall be fixed by the Board of Directors when authorizing the issuance of that particular series. The Corporation had 4,000,000 shares issued and outstanding of its 8.35% noncumulative monthly income Series A preferred stock as of December 31, 2001. Effective January 22, 2002, the Corporation redeemed the outstanding preferred stock at a redemption price of $25.6276 per share, which consisted of the redemption price of $25.50 plus an amount representing accrued and unpaid dividends.

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

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

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

Note 20 - Regulatory capital requirements:

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

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

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

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

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

Note 21 - Servicing assets:

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

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

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

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

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

Note 22 - Sales of receivables:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Note 23 - Interest on investments:

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

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

Note 24 - Employee benefits:

Pension and benefit restoration plans

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

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

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

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

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

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

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

Retirement and savings plan

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

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

Postretirement health care benefits

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

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

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

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

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

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

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

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

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

Profit sharing plan

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

Note 25 - Stock option plan:

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

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

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

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

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

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

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

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

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

Note 26 - Rental expense and commitments:

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

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

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

Note 27 - Income tax:

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

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

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

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

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

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

At December 31, 2002, the Corporation had $12,071,000 in credits expiring in annual installments through year 2016 that will reduce the regular income tax liability in future years. The Corporation had, at the end of 2002, $11,666,000 in net operating losses (NOL) available to carry over to offset taxable income in future years. Other temporary differences included as deferred taxes are mainly related to the deferral of loan origination costs and commissions.

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

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

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

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

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

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

Off-balance sheet risk

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

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

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

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

Commitments to extend credit

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

Letters of credit

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

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

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

Other commitments

In 2002, the Corporation entered into a commitment to purchase $100,000,000 of mortgage loans from another institution with the option of purchasing $75,000,000 in additional loans. The commitment expires on June 30, 2004. The purchased mortgage loans will continue to be serviced by the originating institution. As of December 31, 2002, no loans have been purchased under this agreement. In 2001, the Corporation entered into a similar agreement purchasing the full amount during 2002.

Geographic concentration

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

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

Note 29 - Disclosures about fair value of financial instruments:

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

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

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

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

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

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

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

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

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

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

Borrowings and long-term debt, which include notes payable, senior debentures, subordinated notes and capital securities, were valued using quoted market rates for similar instruments at December 31, 2002 and 2001, respectively.

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

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

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

Note 30 - Derivative instruments and hedging activities:

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

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

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

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

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

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

Cash Flow Hedges

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

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

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

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

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

Trading and Non-Hedging Activities

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

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

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

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

At December 31, 2002 and 2001, respectively, the Corporation also had forward contracts to sell $194,700,000 and $20,000,000 of mortgage-backed securities with terms lasting less than a month which were accounted for as trading derivatives. These contracts are recognized at fair market value with changes directly reported in income. At December 31, 2002 and 2001, respectively, the fair market value of these forwards was a liability of $153,000 and an asset of $91,000.

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

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

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

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

Note 32 - Segment reporting:

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

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

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

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

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

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

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

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

*Intersegment revenues**

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

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

Geographic Information

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

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

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

Note 33 - Contingent liabilities:

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

Settlement of Federal Investigation

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

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

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

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

Note 34 - Guarantees

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

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

At December 31, 2002, the Corporation services approximately $1,600,000,000 in residential mortgage loans with recourse or other servicer-provided credit enhancement. In the event of any customer default, pursuant to the credit recourse provided, the Corporation is required to reimburse the third party investor. The maximum potential amount of future payments that the Corporation would be required to make under the agreement in the event of nonperformance by the borrowers, is equivalent to the total outstanding balance of the residential mortgage loans serviced. In the event of nonperformance, the Corporation has rights to the underlying collateral securing the mortgage loan, thus the losses associated to these guarantees should not be significant. The Corporation also services approximately $4,300,000,000 in mortgage loans without recourse or other servicer-provided credit enhancement. Although the Corporation may, from time to time, be required to make advances to maintain a regular flow of scheduled interest and principal payments to investors, including special purpose entities, this does not represent an insurance against losses. These loans serviced are mostly insured by FHA, VA, and others, or the certificates arising in securitization transactions may be covered by a funds guaranty insurance policy.

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

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

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

Statements of Condition

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

Statements of Income

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

Statements of Cash Flows

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

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

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

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

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

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

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

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

Condensed Consolidating Statement of Condition

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

Condensed Consolidating Statement of Condition

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

Condensed Consolidating Statement of Income

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

Condensed Consolidating Statement of Income

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

Condensed Consolidating Statement of Income

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

Condensed Consolidating Statement of Cash Flows

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

Condensed Consolidating Statement of Cash Flows

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

Condensed Consolidating Statement of Cash Flows

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