POPULAR INC
Form 10-Q
August 10, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

þ **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended June 30, 2009
Commission File Number: 000-13818
POPULAR, INC.

(Exact name of registrant as specified in its charter)

Puerto Rico	**66-0667416**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)
Popular Center Building **209 Muñoz Rivera Avenue, Hato Rey** **San Juan, Puerto Rico**	**00918**
(Address of principal executive offices)	(Zip code)

(787) 765-9800

(Registrant s telephone number, including area code)
NOT APPLICABLE

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

þ Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

o Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of accelerated filer, large accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act:

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

o Yes þ No

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: Common Stock $0.01 par value 282,031,548 shares outstanding as of August 5, 2009.

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Forward-Looking Information

The information included in this Form 10-Q contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements may relate to the Corporation s financial condition, results of operations, plans, objectives, future performance and business, including, but not limited to, statements with respect to the adequacy of the allowance for loan losses, market risk and the impact of interest rate changes, capital markets conditions, capital adequacy and liquidity, and the effect of legal proceedings and new accounting standards on the Corporation s financial condition and results of operations. All statements contained herein that are not clearly historical in nature are forward-looking, and the words anticipate, believe, continues, expect, estimate, intend, project and similar expressions and future or conditional verbs such as will, would, could, might, can, may, or similar expressions are generally intended to identify forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties, estimates and assumptions by management that are difficult to predict. Various factors, some of which are beyond the Corporation s control, could cause actual results to differ materially from those expressed in, or implied by, such forward-looking statements.

Various factors, some of which are beyond Popular s control, could cause actual results to differ materially from those expressed in, or implied by, such forward-looking statements. Factors that might cause such a difference include, but are not limited to:

- the rate of declining growth in the economy and employment levels, as well as general business and economic conditions;
- changes in interest rates, as well as the magnitude of such changes;
- the fiscal and monetary policies of the federal government and its agencies;
- changes in federal bank regulatory and supervisory policies, including required levels of capital;
- the relative strength or weakness of the consumer and commercial credit sectors and of the real estate markets in Puerto Rico and the other markets in which borrowers are located;
- the performance of the stock and bond markets;
- competition in the financial services industry;
- possible legislative, tax or regulatory changes; and
- difficulties in combining the operations of acquired entities.

Investors should refer to the Corporation s Annual Report on Form 10-K for the year ended December 31, 2008 as well as Part II, Item 1A of this Form 10Q for a discussion of such factors and certain risks and uncertainties to which the Corporation is subject.

Moreover, the outcome of legal proceedings, as discussed in Part II, Item I. Legal Proceedings, is inherently uncertain and depends on judicial interpretations of law and the findings of regulators, judges and juries.

All forward-looking statements included in this document are based upon information available to the Corporation as of the date of this document, and than as required by law, including the requirements of applicable securities laws, we assume no obligation to update or revise any such forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of such statements.

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ITEM 1. FINANCIAL STATEMENTS
POPULAR, INC.
CONSOLIDATED STATEMENTS OF CONDITION
(UNAUDITED)

(In thousands, except share information)		June 30, 2009		December 31, 2008		June 30, 2008
ASSETS						
Cash and due from banks	$	661,852	$	784,987	$	887,619
Money market investments:						
Federal funds sold		106,092		214,990		710,000
Securities purchased under agreements to resell		306,974		304,228		170,497
Time deposits with other banks		538,581		275,436		17,299
		951,647		794,654		897,796
Investment securities available-for-sale, at fair value:						
Pledged securities with creditors right to repledge		2,599,558		3,031,137		3,418,708
Other investment securities available-for-sale		4,646,901		4,893,350		4,283,619
Investment securities held-to-maturity, at amortized cost (fair value as of June 30, 2009 $313,462; December 31, 2008 $290,134; June 30, 2008 $231,210)		320,061		294,747		232,483
Other investment securities, at lower of cost or realizable value (realizable value as of June 30, 2009 $216,551; December 31, 2008 $255,830; June 30, 2008 - $299,827)		214,923		217,667		240,731
Trading account securities, at fair value:						
Pledged securities with creditors right to repledge		400,128		562,795		417,437
Other trading securities		87,054		83,108		82,051
Loans held-for-sale measured at lower of cost or fair value		242,847		536,058		337,552
Loans measured at fair value pursuant to SFAS No. 159:						
Loans measured at fair value with creditors right to repledge						45,758
Other loans measured at fair value						799,134
Loans held-in-portfolio		24,717,321		25,857,237		26,636,004
Less Unearned income		111,259		124,364		186,770
Allowance for loan losses		1,146,239		882,807		652,730
		23,459,823		24,850,066		25,796,504
Premises and equipment, net		614,366		620,807		633,450
Other real estate		105,553		89,721		102,809
Accrued income receivable		135,978		156,227		163,274
Servicing assets (at fair value on June 30, 2009 $180,808; December 31, 2008 - $176,034; June 30, 2008 $186,155)		184,189		180,306		190,778
Other assets (See Note 9)		1,214,849		1,115,597		2,455,842
Goodwill		607,164		605,792		628,826

Other intangible assets	48,447	53,163	64,223
Assets from discontinued operations (See Note 3)	3,452	12,587	
	$ 36,498,792	$ 38,882,769	$ 41,678,594
LIABILITIES AND STOCKHOLDERS EQUITY			
Liabilities:			
Deposits:			
Non-interest bearing	$ 4,408,865	$ 4,293,553	$ 4,482,287
Interest bearing	22,504,620	23,256,652	22,633,441
	26,913,485	27,550,205	27,115,728
Federal funds purchased and assets sold under agreements to repurchase	2,941,678	3,551,608	4,738,677
Other short-term borrowings	1,825	4,934	1,337,210
Notes payable at cost	2,643,722	3,386,763	3,750,647
Notes payable at fair value pursuant to SFAS No. 159			173,725
Other liabilities	1,084,455	1,096,338	856,613
Liabilities from discontinued operations (See Note 3)	13,926	24,557	
	33,599,091	35,614,405	37,972,600
Commitments and contingencies (See Note 17)			
Stockholders equity:			
Preferred stock, 30,000,000 shares authorized; 24,410,000 issued and outstanding as of June 30, 2009 and December 31, 2008 (June 30, 2008 23,475,000) (aggregate liquidation preference value of $1,521,875 as of June 30, 2009 and December 31, 2008; $586,875 as of June 30, 2008)	1,487,000	1,483,525	586,875
Common stock, $0.01 par value as of June 30, 2009 ($6.00 as of December 31, 2008 and June 30, 2008); 700,000,000 shares authorized as of June 30, 2009 (470,000,000 as of December 31, 2008 and June 30, 2008); 282,034,819 shares issued (December 31, 2008 295,632,080; June 30, 2008 294,620,193) and 282,031,548 outstanding (December 31, 2008 282,004,713; June 30, 2008 280,983,132)	2,820	1,773,792	1,767,721
Surplus	2,185,757	621,879	563,100
(Accumulated deficit) retained earnings	(659,165)	(374,488)	1,086,373
Accumulated other comprehensive loss, net of tax of ($67,257) (December 31, 2008 ($24,771); June 30, 2008 ($22,392))	(116,700)	(28,829)	(90,448)
Treasury stock at cost, 3,271 shares as of June 30, 2009 (December 31, 2008 13,627,367 shares; June 30, 2008 13,637,061 shares)	(11)	(207,515)	(207,627)
	2,899,701	3,268,364	3,705,994
	$ 36,498,792	$ 38,882,769	$ 41,678,594

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

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POPULAR, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(In thousands, except per share information)	Quarter ended June 30, 2009	Quarter ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
INTEREST INCOME:				
Loans	$ 382,244	$ 466,576	$ 784,012	$ 964,032
Money market investments	2,381	3,476	5,514	10,204
Investment securities	75,818	82,755	149,301	176,859
Trading account securities	10,603	12,451	21,411	26,005
	471,046	565,258	960,238	1,117,100
INTEREST EXPENSE:				
Deposits	128,452	168,045	276,491	362,985
Short-term borrowings	16,631	40,312	37,334	100,591
Long-term debt	42,903	26,604	90,867	47,468
	187,986	234,961	404,692	511,044
Net interest income	283,060	330,297	555,546	666,056
Provision for loan losses	349,444	189,165	721,973	350,401
Net interest income after provision for loan losses	(66,384)	141,132	(166,427)	315,655
Service charges on deposit accounts	53,463	51,799	107,204	102,886
Other service fees (See Note 18)	102,437	108,117	200,970	211,347
Net gain on sale and valuation adjustments of investment securities	53,705	28,334	229,851	78,562
Trading account profit	16,839	18,541	23,662	31,878
(Loss) gain on sale of loans and valuation adjustments on loans held-for-sale	(13,453)	4,907	(27,266)	19,174
Other operating income	12,848	24,100	26,149	56,702
	159,455	376,930	394,143	816,204
OPERATING EXPENSES:				
Personnel costs:				
Salaries	107,079	120,598	212,402	242,015
Pension and other benefits	29,127	34,719	69,095	69,270
	136,206	155,317	281,497	311,285
Net occupancy expenses	26,024	26,840	52,465	54,708
Equipment expenses	25,202	28,854	51,306	58,007
Other taxes	13,084	13,719	26,260	26,604
Professional fees	27,048	27,825	51,949	57,184
Communications	12,386	12,088	24,213	25,563
Business promotion	9,946	18,104	17,856	34,848

Printing and supplies	3,017	3,663	5,807	7,494
FDIC deposit insurance	36,331	2,270	45,448	4,612
Other operating expenses	38,968	39,168	73,202	68,346
Amortization of intangibles	2,433	2,490	4,839	4,982
	330,645	330,338	634,842	653,633
(Loss) income from continuing operations before income tax	(171,190)	46,592	(240,699)	162,571
Income tax expense (benefit)	5,393	(12,581)	(21,540)	4,159
(Loss) income from continuing operations	(176,583)	59,173	(219,159)	158,412
Loss from discontinued operations, net of income tax	(6,599)	(34,923)	(16,545)	(30,872)
NET (LOSS) INCOME	$ (183,182)	$ 24,250	$ (235,704)	$ 127,540
NET (LOSS) INCOME APPLICABLE TO COMMON STOCK	$ (207,810)	$ 18,247	$ (285,010)	$ 118,559
(LOSSES) EARNINGS PER COMMON SHARE BASIC AND DILUTED:				
(Losses) earnings from continuing operations	$ (0.71)	$ 0.19	$ (0.95)	$ 0.52
Losses from discontinued operations	(0.03)	(0.13)	(0.06)	(0.10)
Net (losses) earnings per common share	$ (0.74)	$ 0.06	$ (1.01)	$ 0.42
DIVIDENDS DECLARED PER COMMON SHARE		$ 0.16	$ 0.02	$ 0.32

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

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POPULAR, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY (UNAUDITED)

(In thousands)	Six months ended June 30, 2009	2008
Preferred stock:		
Balance at beginning of year	$ 1,483,525	$ 186,875
Issuance of preferred stock		400,000
Accretion of preferred stock discount 2008 Series C	3,475	
Balance at end of period	1,487,000	586,875
Common stock:		
Balance at beginning of year	1,773,792	1,761,908
Common stock issued under the Dividend Reinvestment Plan		5,813
Treasury stock retired	(81,583)	
Change in par value (from $6.00 to $0.01)	(1,689,389)	
Balance at end of period	2,820	1,767,721
Surplus:		
Balance at beginning of year	621,879	568,184
Common stock issued under the Dividend Reinvestment Plan		4,307
Issuance cost of preferred stock		(9,950)
Stock options expense on unexercised options, net of forfeitures	45	559
Treasury stock retired	(125,556)	
Change in par value (from $6.00 to $0.01)	1,689,389	
Balance at end of period	2,185,757	563,100
(Accumulated deficit) retained earnings:		
Balance at beginning of year	(374,488)	1,319,467
Net (loss) income	(235,704)	127,540
Cumulative effect of accounting change adoption of SFAS No. 159		(261,831)
Cash dividends declared on common stock	(5,641)	(89,822)
Cash dividends declared on preferred stock	(39,857)	(8,981)
Accretion of preferred stock discount 2008 Series C	(3,475)	
Balance at end of period	(659,165)	1,086,373
Accumulated other comprehensive loss:		
Balance at beginning of year	(28,829)	(46,812)
Other comprehensive loss, net of tax	(87,871)	(43,636)
Balance at end of period	(116,700)	(90,448)

Treasury stock at cost:		
Balance at beginning of year	(207,515)	(207,740)
Purchase of common stock	(12)	(358)
Reissuance of common stock	377	471
Treasury stock retired	207,139	
Balance at end of period	(11)	(207,627)
Total stockholders equity	$ 2,899,701	$3,705,994

Disclosure of changes in number of shares:

	June 30, 2009	December 31, 2008	June 30, 2008
Preferred Stock:			
Balance at beginning of year	24,410,000	7,475,000	7,475,000
Shared issued (2008 Series B)		16,000,000	16,000,000
Shared issued (2008 Series C)		935,000	
Balance at end of period	24,410,000	24,410,000	23,475,000
Common Stock Issued:			
Balance at beginning of year	295,632,080	293,651,398	293,651,398
Issued under the Dividend Reinvestment Plan		1,980,682	968,795
Treasury stock retired	(13,597,261)		
Balance at end of period	282,034,819	295,632,080	294,620,193
Treasury stock	(3,271)	(13,627,367)	(13,637,061)
Common Stock outstanding	282,031,548	282,004,713	280,983,132

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

POPULAR, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME (UNAUDITED)

(In thousands)	Quarter ended June 30, 2009	Quarter ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
Net (loss) income	$(183,182)	$ 24,250	$(235,704)	$127,540
Other comprehensive (loss) income before tax:				
Foreign currency translation adjustment	(877)	(1,411)	(757)	(1,192)
Adjustment of pension and postretirement benefit plans	1,855	(37)	63,095	(74)
Unrealized holding losses on securities available-for-sale arising during the period	(34,712)	(149,927)	(19,399)	(22,437)
Reclassification adjustment for gains included in net (loss) income	(1,410)	(27,685)	(177,556)	(26,373)
Unrealized net gains (losses) on cash flow hedges	(37)	2,963	(1,623)	(2,107)
Reclassification adjustment for losses included in net (loss) income	3,469	92	5,883	1,593
	(31,712)	(176,005)	(130,357)	(50,590)
Income tax benefit	5,694	41,838	42,486	6,954
Total other comprehensive loss, net of tax	(26,018)	(134,167)	(87,871)	(43,636)
Comprehensive (loss) income, net of tax	$(209,200)	$(109,917)	$(323,575)	$ 83,904

Tax Effects Allocated to Each Component of Other Comprehensive Income (Loss):

(In thousands)	Quarter ended June 30, 2009	Quarter ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
Underfunding of pension and postretirement benefit plans			$(22,783)	
Unrealized holding losses on securities available-for-sale arising during the period	$6,050	$38,943	3,293	$3,680
Reclassification adjustment for gains included in net (loss) income	247	4,025	62,709	3,124
Unrealized net gains (losses) on cash flows hedges	15	(1,094)	633	775
Reclassification adjustment for losses included in net (loss) income	(618)	(36)	(1,366)	(625)

Income tax benefit (expense)	$5,694	$41,838	$ 42,486	$6,954

Disclosure of accumulated other comprehensive loss:

(In thousands)	June 30, 2009	December 31, 2008	June 30, 2008
Foreign currency translation adjustment	$ (39,825)	$ (39,068)	$(35,780)
Underfunding of pension and postretirement benefit plans	(197,114)	(260,209)	(51,213)
Tax effect	76,858	99,641	20,108
Net of tax amount	(120,256)	(160,568)	(31,105)
Unrealized gains (losses) on securities available-for-sale	53,019	249,974	(21,718)
Tax effect	(9,616)	(75,618)	854
Net of tax amount	43,403	174,356	(20,864)
Unrealized losses on cash flows hedges	(37)	(4,297)	(4,129)
Tax effect	15	748	1,430
Net of tax amount	(22)	(3,549)	(2,699)
Accumulated other comprehensive loss, net of tax	$(116,700)	$ (28,829)	$(90,448)

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

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POPULAR, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In thousands)	Six months ended June 30, 2009	2008
Cash flows from operating activities:		
Net (loss) income	$ (235,704)	$ 127,540
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization of premises and equipment	33,603	37,318
Provision for loan losses	721,973	358,862
Amortization of intangibles	4,839	4,982
Amortization and fair value adjustments of servicing assets	10,505	25,122
Net gain on sale and valuation adjustments of investment securities	(229,851)	(75,703)
(Gains) losses from changes in fair value related to instruments measured at fair value pursuant to SFAS No. 159	(1,141)	38,942
Net loss (gain) on disposition of premises and equipment	1,771	(3,111)
Net loss (gain) on sale of loans and valuation adjustments on loans held-for-sale	32,472	(67,292)
Net amortization of premiums and accretion of discounts on investments	7,488	12,656
Net amortization of premiums and deferred loan origination fees and costs	22,831	28,951
Earnings from investments under the equity method	(6,380)	(6,899)
Stock options expense	45	559
Deferred income taxes, net of valuation	(73,983)	(83,836)
Net disbursements on loans held-for-sale	(685,500)	(1,509,819)
Acquisitions of loans held-for-sale	(209,814)	(185,053)
Proceeds from sale of loans held-for-sale	43,875	1,006,208
Net decrease in trading securities	911,066	732,067
Net decrease in accrued income receivable	19,553	42,301
Net decrease (increase) in other assets	36,984	(264,170)
Net decrease in interest payable	(30,133)	(53,440)
Net increase in postretirement benefit obligation	2,404	203
Net increase (decrease) in other liabilities	61,055	(24,429)
Total adjustments	673,662	14,419
Net cash provided by operating activities	437,958	141,959
Cash flows from investing activities:		
Net (increase) decrease in money market investments	(156,993)	108,916
Purchases of investment securities:		
Available-for-sale	(3,962,978)	(3,427,660)
Held-to-maturity	(28,328)	(3,631,141)
Other	(22,243)	(136,775)
Proceeds from calls, paydowns, maturities and redemptions of investment securities:		

Available-for-sale	846,944	1,851,899
Held-to-maturity	3,133	3,884,838
Other	24,988	112,628
Proceeds from sale of investment securities available-for-sale	3,747,567	2,406,504
Proceeds from sale of other investment securities	44,425	49,330
Net repayments (disbursements) on loans	670,771	(596,548)
Proceeds from sale of loans	304,468	1,715,330
Acquisition of loan portfolios	(18,260)	(6,669)
Mortgage servicing rights purchased	(727)	(2,986)
Acquisition of premises and equipment	(37,741)	(98,028)
Proceeds from sale of premises and equipment	8,800	19,743
Proceeds from sale of foreclosed assets	76,334	51,684
Net cash provided by investing activities	1,500,160	2,301,065
Cash flows from financing activities:		
Net decrease in deposits	(633,722)	(1,198,512)
Net decrease in federal funds purchased and assets sold under agreements to repurchase	(609,930)	(698,588)
Net decrease in other short-term borrowings	(3,109)	(164,769)
Payments of notes payable	(804,072)	(1,243,674)
Proceeds from issuance of notes payable	61,031	630,186
Dividends paid	(71,438)	(98,685)
Proceeds from issuance of common stock		10,120
Proceeds from issuance of preferred stock		390,050
Treasury stock acquired	(13)	(358)
Net cash used in financing activities	(2,061,253)	(2,374,230)
Net (decrease) increase in cash and due from banks	(123,135)	68,794
Cash and due from banks at beginning of period	784,987	818,825
Cash and due from banks at end of period	$ 661,852	$ 887,619

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

Note: The Consolidated Statements of Cash Flows for the six months ended June 30, 2009 and 2008 include the cash flows from operating, investing and financing activities associated with discontinued operations.

Notes to Unaudited Consolidated Financial Statements

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Notes to Unaudited Consolidated Financial Statements

Note 1 Nature of Operations and Basis of Presentation

Popular, Inc. (the Corporation or Popular) is a diversified, publicly owned financial holding company subject to the supervision and regulation of the Board of Governors of the Federal Reserve System. The Corporation has operations in Puerto Rico, the United States, the Caribbean and Latin America. In Puerto Rico, the Corporation offers retail and commercial banking services through its principal banking subsidiary, Banco Popular de Puerto Rico (BPPR), as well as auto and equipment leasing and financing, mortgage loans, investment banking, broker-dealer and insurance services through specialized subsidiaries. In the United States, the Corporation operates Banco Popular North America (BPNA), including its wholly-owned subsidiary E-LOAN. BPNA is a community bank providing a broad range of financial services and products to the communities it serves. BPNA operates branches in New York, California, Illinois, New Jersey and Florida. E-LOAN markets deposit accounts under its name for the benefit of BPNA and offers loan customers the option of being referred to a trusted consumer lending partner for loan products. The Corporation, through its subsidiary EVERTEC, provides transaction processing services throughout the Caribbean and Latin America, as well as internally servicing many of its subsidiaries system infrastructures and transactional processing businesses. Note 25 to the consolidated financial statements presents further information about the Corporation s business segments.

The unaudited consolidated financial statements include the accounts of Popular, Inc. and its majority-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. These unaudited statements are, in the opinion of management, a fair statement of the results for the periods reported and include all necessary adjustments, all of a normal recurring nature, for a fair statement of such results. Certain reclassifications have been made to the prior period consolidated financial statements to conform to the 2009 presentation, including retrospectively adjusting certain information of the consolidated statement of operations to present in a separate line item the results of discontinued operations from prior periods presented.

The statement of condition data as of December 31, 2008 was derived from audited financial statements. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted from the statements presented as of June 30, 2009, December 31, 2008 and June 30, 2008 pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, these financial statements should be read in conjunction with the audited consolidated financial statements of the Corporation for the year ended December 31, 2008, included in the Corporation s 2008 Annual Report. The Corporation s Form 10-K filed on March 2, 2009 incorporates by reference the 2008 Annual Report.

Note 2 Adoption of New Accounting Standards and Issued But Not Yet Effective Accounting Standards

SFAS No. 141-R Statement of Financial Accounting Standards No. 141(R), Business Combinations (a revision of SFAS No. 141) (SFAS No. 141(R))

SFAS No. 141(R), issued in December 2007, establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in an acquiree, including the recognition and measurement of goodwill acquired in a business combination. The Corporation is required to apply SFAS No. 141(R) to all business combinations completed on or after January 1, 2009. For business combinations in which the acquisition date was before the effective date, the provisions of SFAS No. 141(R) will apply to the subsequent accounting for deferred income tax valuation allowances and income tax contingencies and will require any changes in those amounts to be recorded in earnings. SFAS No. 141(R) has not had a material effect on the consolidated financial statements of the Corporation as of June 30, 2009.

SFAS No. 160 Statement of Financial Accounting Standards No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51 (SFAS No. 160)

In December 2007, the FASB issued SFAS No. 160, which amends ARB No. 51, to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 requires entities to classify noncontrolling interests as a component of stockholders equity on the consolidated financial statements and requires subsequent changes in ownership interests in a subsidiary to be accounted for as an equity transaction. Additionally, SFAS No. 160 requires entities to recognize a gain or loss upon the loss of control of a subsidiary and to remeasure any ownership interest retained at fair value on that date. This statement also requires expanded disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS No. 160 was adopted by the Corporation on January 1, 2009. The adoption of this standard did not have a material impact on the Corporation s consolidated financial statements.

SFAS No. 161 Disclosures about Derivative Instruments and Hedging Activities (SFAS No. 161)

In March 2008, the FASB issued SFAS No. 161, an amendment of SFAS No. 133. The standard requires enhanced disclosures about derivative instruments and hedged items that are accounted for under SFAS No. 133 and related interpretations. The standard expands the disclosure requirements for derivatives and hedged items and has no impact on how the Corporation accounts for these instruments. The standard was adopted by the Corporation in the first quarter of 2009. Refer to Note 10 to the consolidated financial statements.

SFAS No. 165, Subsequent Events (SFAS No. 165)

In May 2009, the FASB issued SFAS. No. 165, which establishes general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Specifically, this standard sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. SFAS No. 165 is effective for interim or annual financial periods ending after June 15, 2009, and shall be applied prospectively. The Corporation evaluated subsequent events through August 10, 2009. Refer to Note 27 for related disclosures.

SFAS No. 166, Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140 (SFAS No. 166)

In June 2009, the FASB issued SFAS No. 166, a revision of SFAS No. 140, which requires more information about transfers of financial assets, including securitization transactions, and where entities have continuing exposure to the risks related to transferred financial assets. It eliminates the concept of a qualifying special-purpose entity (QSPEs), changes the requirements for derecognizing financial assets, and requires additional disclosures. It also requires a transferor to evaluate all existing QSPEs to determine whether they must be consolidated in accordance with SFAS No. 167 Amendments to FASB Interpretation No. 46(R) . This Statement must be applied as of the beginning of each reporting entity s first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. Earlier application is prohibited. The Corporation is currently evaluating the potential impact of the adoption to its consolidated financial statements; however, it is not expected that it will have a material impact on the Corporation s consolidated financial statements.

SFAS No. 167, Amendments to FASB Interpretation No. 46(R) (SFAS No. 167)

SFAS No. 167, issued in June 2009, amends the consolidating guidance applicable to variable interest entities and changes how a reporting entity determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a reporting entity is required to consolidate another entity is based on, among other things, the other entity s purpose and design and the reporting entity s ability to direct the activities of the other entity that most significantly impact the other entity s economic performance. The amendments to the consolidated guidance affect all entities currently within the scope of FIN 46(R), as well as qualifying special-purpose entities (QSPEs) that are currently excluded from the scope of FIN 46(R). SFAS No. 167 will require a reporting entity to provide additional disclosures about its involvement with variable interest entities and any significant changes in risk exposure due to that involvement. A reporting entity will be required to disclose how its involvement with a variable interest entity affects the reporting entity s financial statements. SFAS No. 167 will be effective as of the beginning of the first fiscal year that begins after November 15,

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2009. The Corporation is currently evaluating the potential impact of the adoption to its consolidated financial statements; however, it is not expected that it will have a material impact on the Corporation s consolidated financial statements.

SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles A Replacement of FASB Statement No. 162 (SFAS No. 168)

The FASB has issued SFAS No. 168 in June 2009. This statement establishes the FASB Accounting Standards Codification (Codification) as the single source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied by non-governmental entities. Rules and interpretive releases of the Securities and Exchange Commission (SEC) are also sources of authoritative GAAP for SEC registrants. SFAS No. 168 and the Codification are effective for financial statements issued for interim and annual periods ending after September 15, 2009. When effective, the Codification will supersede all existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification will become non-authoritative. The Corporation will begin to use the new guidelines and numbering system prescribed by the Codification when referring to GAAP in the third quarter of 2009. As the Codification was not intended to change or alter existing GAAP, it will not have any impact on the Corporation s consolidated financial statements.

FASB Staff Position FAS 140-3, Accounting for Transfers of Financial Assets and Repurchase Financing Transactions (FSP FAS 140-3)

FSP FAS 140-3, issued by the FASB in February 2008, provides implementation guidance on whether the security transfer and contemporaneous repurchase financing involving the transferred financial asset must be evaluated as one linked transaction or two separate de-linked transactions. FSP FAS 140-3 requires the recognition of the transfer and the repurchase agreement as one linked transaction, unless all of the following criteria are met: (1) the initial transfer and the repurchase financing are not contractually contingent on one another; (2) the initial transferor has full recourse upon default, and the repurchase agreement s price is fixed and not at fair value; (3) the financial asset is readily obtainable in the marketplace and the transfer and repurchase financing are executed at market rates; and (4) the maturity of the repurchase financing is before the maturity of the financial asset. The scope of this FSP is limited to transfers and subsequent repurchase financings that are entered into contemporaneously or in contemplation of one another. The Corporation adopted FSP FAS 140-3 on January 1, 2009. The adoption of FSP FAS 140-3 did not have a material impact on the Corporation s consolidated financial statements for 2009.

FASB Staff Position FAS 142-3, Determination of the Useful Life of Intangible Assets (FSP FAS 142-3)

FSP FAS 142-3, issued by the FASB in April 2008, amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142 Goodwill and Other Intangible Assets . In developing these assumptions, an entity should consider its own historical experience in renewing or extending similar arrangements adjusted for entity specific factors or, in the absence of that experience, the assumptions that market participants would use about renewals or extensions adjusted for the entity specific factors. FSP FAS 142-3 shall be applied prospectively to intangible assets acquired after the effective date of January 1, 2009. The adoption of this FSP did not have a material impact on the Corporation s consolidated financial statements for the quarter and six months ended June 30, 2009.

EITF 08-6 Equity Method Investment Accounting Considerations (EITF 08-6)

EITF 08-6 clarifies the accounting for certain transactions and impairment considerations involving equity method investments. This EITF applies to all investments accounted for under the equity method. EITF 08-6 provides guidance on the following: (1) how the initial carrying value of an equity method investment should be determined; (2) how an impairment assessment of an underlying indefinite-lived intangible asset of an equity method investment should be performed; (3) how an equity method investee s issuance of shares should be accounted for, and (4) how to account for a change in an investment from the equity method to the cost method. The adoption of EITF 08-6 in January 2009 did not have a material impact on the Corporation s consolidated financial statements.

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FASB Staff Position FSP FAS 132(R)-1 Employers Disclosures about Postretirement Benefit Plan Assets (FSP FAS 132(R)-1)

FSP FAS 132(R)-1 requires additional disclosures in the financial statements of employers who are subject to the disclosure requirements of FAS 132(R) as follows: (a) the investment allocation decision making process, including the factors that are pertinent to an understanding of investment policies and strategies; (b) the fair value of each major category of plan assets, disclosed separately for pension plans and other postretirement benefit plans; (c) the inputs and valuation techniques used to measure the fair value of plan assets, including the level within the fair value hierarchy in which the fair value measurements in their entirety fall; and (d) significant concentrations of risk within plan assets. Additional detailed information is required for each category above. Upon initial application, the provisions of this FSP are not required for earlier periods that are presented for comparative periods. The Corporation will apply the new disclosure requirements commencing with the December 31, 2009 annual financial statements. This FSP impacts disclosures only and will not have an effect on the Corporation s consolidated statements of condition or results of operations.

FASB Staff Position FAS 115-2 and FAS 124-2 Recognition and Presentation of Other-Than-Temporary Impairments (FSP FAS 115-2 and FAS 124-2)

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, which is intended to provide greater clarity to investors about the credit and noncredit component of an other-than-temporary impairment event. FSP FAS 115-2 and FAS 124-2 amends the other-than-temporary impairment guidance for debt securities. The new guidance improves the presentation and disclosure of other-than-temporary impairment on investment securities and changes the calculation of the other-than-temporary impairment recognized in earnings in the financial statements. FSP FAS 115-2 and FAS 124-2 does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities.

For debt securities, FSP FAS 115-2 and FAS 124-2 requires an entity to assess whether (a) it has the intent to sell the debt security, or (b) it is more likely than not that it will be required to sell the debt security before its anticipated recovery. If either of these conditions is met, an other-than-temporary impairment on the security must be recognized. In instances in which a determination is made that a credit loss (defined by FSP FAS 115-2 and FAS 124-2 as the difference between the present value of the cash flows expected to be collected and the amortized cost basis) exists but the entity does not intend to sell the debt security and it is not more likely than not that the entity will be required to sell the debt security before the anticipated recovery of its remaining amortized cost basis (i.e., the amortized cost basis less any current-period credit loss), FSP FAS 115-2 and FAS 124-2 change the presentation and amount of the other-than-temporary impairment recognized in the statement of operations. In these instances, the impairment is separated into (a) the amount of the total impairment related to the credit loss, and (b) the amount of the total impairment related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in the statement of operations. The amount of the total impairment related to all other factors is recognized in other comprehensive loss. Previously, in all cases, if an impairment was determined to be other-than-temporary, an impairment loss was recognized in earnings in an amount equal to the entire difference between the security s amortized cost basis and its fair value at the balance sheet date of the reporting period for which the assessment was made.

FSP FAS 115-2 and FAS 124-2 is effective and is to be applied prospectively for financial statements issued for interim and annual reporting periods ending after June 15, 2009. When adopting FSP FAS 115-2 and FAS 124-2, an entity is required to record a cumulative-effect adjustment as of the beginning of the period of adoption to reclassify the noncredit component of a previously recognized other-than-temporary impairment from retained earnings to accumulated other comprehensive loss if the entity does not intend to sell the security and it is not more likely than not that the entity will be required to sell the security before the anticipated recovery of its amortized cost basis.

The Corporation adopted FSP FAS 115-2 and FAS 124-2 for interim and annual reporting periods commencing with the quarter ended June 30, 2009. The adoption of FSP FAS 115-2 and FAS 124-2 in the second quarter of 2009 did not have a cumulative-effect adjustment as of the beginning of the period of adoption (April 1, 2009) since there were no previously recognized other-than-temporary impairments related to outstanding debt securities. Also, the FSP did not have an impact on the Corporation s results of operations for the quarter ended June 30, 2009 since the

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unrealized losses in the Corporation s investment securities available-for-sale and held-to-maturity were considered temporary based on management s assessments. Refer to Notes 6 and 7 for additional disclosures.

FASB Staff Position FAS 107-1 and APB 28-1 Interim Disclosures about Fair Value of Financial Instruments (FSP FAS 107-1 and APB 28-1)

In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1 to require providing disclosures on a quarterly basis about the fair value of financial instruments that are not currently reflected on the statement of condition at fair value. Prior to issuing this FSP, fair value for these assets and liabilities was only required for year-end disclosures. The Corporation adopted FSP FAS 107-1 and APB 28-1 effective with the financial statement disclosures for the quarter ended June 30, 2009. This FSP only impacts disclosure requirements and therefore did not have an impact on the Corporation s financial condition or results of operations. Refer to Note 13 to the consolidated financial statements for required disclosures.

FASB Staff Position FAS 157-4 Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That are Not Orderly (FSP FAS 157-4)

FSP FAS 157-4, issued in April 2009, provides additional guidance for estimating fair value in accordance with FASB Statement No. 157, Fair Value Measurements , when the volume and level of activity for the asset or liability have significantly decreased. The FSP also includes guidance on identifying circumstances that indicate that a transaction is not orderly. It reaffirms the need to use judgment to ascertain if an active market has become inactive and in determining fair values when markets have become inactive. Additionally, it also emphasizes that even if there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation techniques used, the objective of a fair value measurement remains the same. Fair value is the price that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. FSP FAS 157-4 shall be applied prospectively and retrospective application is not permitted. The adoption of FSP FAS 157-4 did not have a material impact on the Corporation s consolidated financial statements.

Note 3 Discontinued Operations

As disclosed in the 2008 Annual Report, the Corporation discontinued the operations of Popular Financial Holdings in 2008 by selling substantially all assets and closing service branches and other units.

For financial reporting purposes, the results of the discontinued operations of PFH are presented as Assets / Liabilities from discontinued operations in the consolidated statements of condition as of June 30, 2009 and December 31, 2008 and as Loss from discontinued operations, net of income tax in the consolidated statements of operations for all periods presented. Prior periods presented in the consolidated statement of operations, as well as note disclosures covering income and expense amounts included in the accompanying notes to the consolidated financial statements, were retrospectively adjusted for comparative purposes. The consolidated statement of condition and related amounts in the notes to the consolidated financial statements as of June 30, 2008 do not reflect the reclassification of PFH s assets / liabilities to discontinued operations.

Total assets of the PFH discontinued operations amounted to $3 million as of June 30, 2009, compared to $13 million as of December 31, 2008. PFH s total assets amounted to $2.0 billion as of June 30, 2008, principally consisting of $1.2 billion in loans, of which $0.8 billion were accounted at fair value pursuant to SFAS No. 159, and $354 million in deferred tax assets, $300 million in servicing advances and related assets, and $56 million in mortgage servicing rights. As disclosed in the 2008 Annual Report, the Corporation substantially sold these loan portfolios and servicing related assets in late 2008. As of June 30, 2008, all loans and borrowings recognized at fair value pursuant to SFAS No. 159 pertained to the discontinued operations of PFH.

Assets held by the PFH discontinued operations as of June 30, 2009 included $1 million in loans measured at fair value with an unpaid principal balance of $10 million. Liabilities from discontinued operations as of June 30, 2009 amounted to approximately $14 million, which primarily consisted of indemnity and representation and warranty reserves associated to loans sold to third-parties under certain sales agreements.

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The following table provides financial information for the discontinued operations for the quarter and six months ended June 30, 2009 and 2008.

($ in millions)	Quarter ended June 30, 2009	Quarter ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
Net interest income		$ 7.6	$ 0.9	$ 29.0
Provision for loan losses		1.5		8.5
Non-interest (loss) income	$ (5.5)	(42.2)	(3.7)	1.0
Operating expenses	1.0	17.4	7.0	66.6
Pre-tax loss from discontinued operations	(6.5)	(53.5)	(9.8)	(45.1)
Income tax expense (benefit)	0.1	(18.6)	6.7	(14.2)
Loss from discontinued operations, net of tax	$ (6.6)	$ (34.9)	$ (16.5)	$ (30.9)

Management implemented a series of actions in 2008 to downsize and eventually discontinue the PFH operations. These actions included two major restructuring plans, which are described in the 2008 Annual Report. These are the PFH Discontinuance Restructuring Plan and the PFH Branch Network Restructuring Plan . The PFH Discontinuance Restructuring Plan commenced execution in the second half of 2008 and included the elimination of substantially all employment positions and termination of contracts with the objective of discontinuing PFH s operations. The PFH Branch Network Restructuring Plan resulted in the sale of a substantial portion of PFH s loan portfolio in the first quarter of 2008 and the closure of Equity One s consumer service branches, which represented, at the time, the only significant channel for PFH to continue originating loans. The PFH Branch Network Restructuring Plan was completed.

The following section provides information on the PFH Discontinuance Restructuring. This plan is substantially complete as the company transferred the servicing of the loan portfolios of its affiliated company, E-LOAN, to a third-party in June 2009. PFH continues to employ 69 full-time equivalent employees (FTEs) that are primarily retained for a transition period. Additional costs could be incurred during 2009 associated to lease terminations, but these are not expected to be significant to the Corporation s results of operations.

PFH Discontinuance Restructuring Plan

During the quarter and six months ended June 30, 2009, the PFH Discontinuance Restructuring Plan resulted in charges, on a pre-tax basis, broken down as follows:

(In thousands)	Quarter ended June 30, 2009	Six months ended June 30, 2009
Personnel costs	$ 86(a)	$ 981(a)
Total restructuring costs	$ 86	$ 981

(a) Severance, retention bonuses and

other benefits

As of June 30, 2009, the PFH Discontinuance Restructuring Plan has resulted in combined charges for 2008 and 2009, broken down as follows:

(In thousands)	Impairments on long-lived assets	Restructuring costs	Total
Year ended December 31, 2008	$ 3,916	$ 4,124	$ 8,040
Quarter ended:			
March 31, 2009		895	895
June 30, 2009		86	86
Total	$ 3,916	$ 5,105	$ 9,021

The PFH Discontinuance Restructuring Plan charges are included in the line item Loss from discontinued operations, net of tax in the consolidated statements of operations for 2009 and 2008.

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The following table presents the activity in the accrued balances for the PFH Discontinuance Plan during 2009.

(In thousands)	Restructuring Costs
Balance as of January 1, 2009	$ 3,428
Charges in the quarter ended March 31, 2009	895
Cash payments	(1,711)
Balance at March 31, 2009	$ 2,612
Charges in the quarter ended June 30, 2009	86
Cash payments	(1,235)
Balance as of June 30, 2009	$ 1,463

Note 4 Restrictions on Cash and Due from Banks and Certain Securities

The Corporation s subsidiary banks are required by federal and state regulatory agencies to maintain average reserve balances with the Federal Reserve Bank or other banks. Those required average reserve balances were $718 million as of June 30, 2009 (December 31, 2008 $684 million; June 30, 2008 $665 million). Cash and due from banks as well as other short-term, highly-liquid securities are used to cover the required average reserve balances.

In compliance with rules and regulations of the Securities and Exchange Commission, the Corporation may be required to establish a special reserve account for the benefit of brokerage customers of its broker-dealer subsidiary, which may consist of securities segregated in the special reserve account. There were no reserve requirements as of June 30, 2009. At June 30, 2008 and December 31, 2008 the Corporation had securities with a market value of $0.3 million. These securities were classified in the consolidated statement of condition within the other trading securities category.

As required by the Puerto Rico International Banking Center Regulatory Act, as of June 30, 2009, December 31, 2008, and June 30, 2008, the Corporation maintained separately for its two international banking entities (IBEs), $0.6 million in time deposits, equally divided for the two IBEs, which were considered restricted assets.

As part of a line of credit facility with a financial institution, as of June 30, 2009, December 31, 2008 and June 30, 2008, the Corporation maintained restricted cash of $2 million as collateral for the line of credit. The cash is being held in certificates of deposits which mature in less than 90 days. The line of credit is used to support letters of credit.

As of June 30, 2009, the Corporation maintained restricted cash of $3 million to support a letter of credit. The cash is being held in an interest-bearing money market account.

As of June 30, 2009, the Corporation had restricted cash of $2 million (December 31, 2008 $3 million; June 30, 2008 $3.5 million) to support a letter of credit related to a service settlement agreement.

As of June 30, 2009 and December 31, 2008, the Corporation had $10 million in cash equivalents restricted as to usage for the potential payment of obligations contained in a loan sales agreement until November 3, 2009.

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Note 5 Pledged Assets

Certain securities and loans were pledged principally to secure public and trust deposits, assets sold under agreements to repurchase, other borrowings and credit facilities available, derivative positions and loan servicing agreements. The classification and carrying amount of the Corporation s pledged assets, in which the secured parties are not permitted to sell or repledge the collateral, were as follows:

(In thousands)	June 30, 2009	December 31, 2008	June 30, 2008
Investment securities available-for-sale, at fair value	$ 2,252,017	$ 2,470,591	$ 2,716,718
Investment securities held-to-maturity, at amortized cost	125,770	100,000	
Loans held-for-sale measured at lower of cost or fair value	34,014	35,764	36,613
Loans measured at fair value pursuant to SFAS No. 159			167,646
Loans held-in-portfolio	7,629,613	8,101,999	7,727,951
	$10,041,414	$10,708,354	$10,648,928

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

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Note 6 Investment Securities Available-For-Sale

The amortized cost, gross unrealized gains and losses and approximate market value (or fair value for certain investment securities where no market quotations are available) of investment securities available-for-sale as of June 30, 2009, December 31, 2008 and June 30, 2008 were as follows:

	AS OF JUNE 30, 2009				
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value	Weighted Average Yield
U.S. Treasury securities					
After 5 to 10 years	$ 29,695	$ 1,138		$ 30,833	3.80%
Obligations of U.S. Government sponsored entities					
Within 1 year	154,896	2,990		157,886	4.33
After 1 to 5 years	1,476,345	65,241	$ 174	1,541,412	3.77
After 5 to 10 years	27,811	1,060		28,871	4.96
After 10 years	26,880	579		27,459	5.68
	1,685,932	69,870	174	1,755,628	3.87
Obligations of Puerto Rico, States and political subdivisions					
Within 1 year	4,500	10		4,510	6.10
After 1 to 5 years	2,150	5	8	2,147	4.95
After 5 to 10 years	68,476	264	4,906	63,834	4.79
After 10 years	28,690	4	277	28,417	5.23
	103,816	283	5,191	98,908	4.97
Collateralized mortgage obligations federal agencies					
Within 1 year	266	1		267	4.12
After 1 to 5 years	8,566	181	16	8,731	5.16
After 5 to 10 years	148,888	2,202	473	150,617	3.04
After 10 years	1,508,619	17,049	11,638	1,514,030	3.19
	1,666,339	19,433	12,127	1,673,645	3.18
Collateralized mortgage obligations private label					
Within 1 year	221		1	220	3.87
After 5 to 10 years	27,224		746	26,478	2.35
After 10 years	128,354	3	18,567	109,790	3.60
	155,799	3	19,314	136,488	3.38
Mortgage-backed securities					

Within 1 year	5,143	52		5,195	3.04
After 1 to 5 years	78,841	1,502	1	80,342	3.80
After 5 to 10 years	149,901	4,812	4	154,709	4.82
After 10 years	3,304,858	17,212	19,559	3,302,511	4.50
	3,538,743	23,578	19,564	3,542,757	4.50
Equity securities	13,116	81	4,997	8,200	2.48
	$7,193,440	$114,386	$61,367	$7,246,459	4.02%

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	AS OF DECEMBER 31, 2008				
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value	Weighted Average Yield
U.S. Treasury securities					
After 5 to 10 years	$ 456,551	$ 45,567		$ 502,118	3.83%
Obligations of U.S. Government sponsored entities					
Within 1 year	123,315	2,855		126,170	4.46
After 1 to 5 years	4,361,775	262,184		4,623,959	4.07
After 5 to 10 years	27,811	1,097		28,908	4.96
After 10 years	26,877	1,094		27,971	5.68
	4,539,778	267,230		4,807,008	4.09
Obligations of Puerto Rico, States and political subdivisions					
Within 1 year	4,500	66		4,566	6.10
After 1 to 5 years	2,259	4	$ 6	2,257	4.95
After 5 to 10 years	67,975	232	3,269	64,938	4.77
After 10 years	29,423	46	240	29,229	5.20
	104,157	348	3,515	100,990	4.95
Collateralized mortgage obligations federal agencies					
Within 1 year	179			179	5.36
After 1 to 5 years	6,837	52	12	6,877	5.20
After 5 to 10 years	156,240	784	994	156,030	3.38
After 10 years	1,363,705	9,090	28,913	1,343,882	3.11
	1,526,961	9,926	29,919	1,506,968	3.15
Collateralized mortgage obligations private label					
Within 1 year	443		3	440	4.96
After 5 to 10 years	30,914		2,909	28,005	2.30
After 10 years	158,667		38,364	120,303	3.52
	190,024		41,276	148,748	3.32
Mortgage-backed securities					
Within 1 year	18,673	46	8	18,711	3.94
After 1 to 5 years	67,570	237	150	67,657	3.86
After 5 to 10 years	116,059	3,456	226	119,289	4.85
After 10 years	635,159	11,127	3,438	642,848	5.47

	837,461	14,866	3,822	848,505	5.22
Equity securities	19,581	61	9,492	10,150	5.01
	$7,674,513	$337,998	$88,024	$7,924,487	4.01%

	AS OF JUNE 30, 2008				
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value	Weighted Average Yield
U.S. Treasury securities					
After 5 to 10 years	$ 461,404	$ 542	$ 1,195	$ 460,751	3.83%
Obligations of U.S. Government sponsored entities					
Within 1 year	188,498	433	9	188,922	3.91
After 1 to 5 years	4,367,914	26,771	10,772	4,383,913	4.09
After 5 to 10 years	5,568	40		5,608	5.05
After 10 years	26,874	433		27,307	5.68
	4,588,854	27,677	10,781	4,605,750	4.09
Obligations of Puerto Rico, States and political subdivisions					
Within 1 year	12,650	26		12,676	4.91
After 1 to 5 years	6,874	110	2	6,982	5.63
After 5 to 10 years	25,959	74	90	25,943	4.40
After 10 years	81,292	33	1,744	79,581	5.09
	126,775	243	1,836	125,182	4.96
Collateralized mortgage obligations federal agencies					
Within 1 year	1,067	4		1,071	5.09
After 1 to 5 years	5,079	16	4	5,091	5.52
After 5 to 10 years	138,134	422	1,016	137,540	3.92
After 10 years	1,263,250	3,008	11,093	1,255,165	3.77
	1,407,530	3,450	12,113	1,398,867	3.80
Collateralized mortgage obligations private label					
After 1 to 5 years	661		1	660	4.96
After 5 to 10 years	19,578		969	18,609	3.33
After 10 years	198,433	37	7,996	190,474	4.09
	218,672	37	8,966	209,743	4.02
Mortgage-backed securities					
Within 1 year	6,589	1		6,590	3.10
After 1 to 5 years	96,007	500	292	96,215	3.95
After 5 to 10 years	70,357	149	1,108	69,398	4.74
After 10 years	716,660	5,093	9,918	711,835	5.40

	889,613	5,743	11,318	884,038	5.17
Equity securities	28,607	441	13,642	15,406	3.03
Others					
After 1 to 5 years	15			15	
After 5 to 10 years	37			37	
After 10 years	2,538			2,538	
	2,590			2,590	20.47
	$7,724,045	$38,133	$59,851	$7,702,327	4.16%

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The following tables shows the Corporation s amortized cost, gross unrealized losses and market value of investment securities available-for-sale, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of June 30 2009, December 31, 2008 and June 30, 2008.

	AS OF JUNE 30, 2009		
	Less than 12 months		
(In thousands)	Amortized Cost	Gross Unrealized Losses	Market Value
Obligations of U.S. Government sponsored entities	$ 60,461	$ 174	$ 60,287
Obligations of Puerto Rico, States and political subdivisions	28,751	253	28,498
Collateralized mortgage obligations federal agencies	289,441	4,493	284,948
Collateralized mortgage obligations private label	20,302	869	19,433
Mortgage-backed securities	1,632,638	19,151	1,613,487
Equity securities	10,739	4,770	5,969
	$2,042,332	$29,710	$2,012,622

	12 months or more		
(In thousands)	Amortized Cost	Gross Unrealized Losses	Market Value
Obligations of Puerto Rico, States and political subdivisions	$ 57,547	$ 4,938	$ 52,609
Collateralized mortgage obligations federal agencies	491,393	7,634	483,759
Collateralized mortgage obligations private label	135,119	18,445	116,674
Mortgage-backed securities	46,397	413	45,984
Equity securities	2,323	227	2,096
	$732,779	$31,657	$701,122

	Total		
(In thousands)	Amortized Cost	Gross Unrealized Losses	Market Value
Obligations of U.S. Government sponsored entities	$ 60,461	$ 174	$ 60,287
Obligations of Puerto Rico, States and political subdivisions	86,298	5,191	81,107
Collateralized mortgage obligations federal agencies	780,834	12,127	768,707
Collateralized mortgage obligations private label	155,421	19,314	136,107
Mortgage-backed securities	1,679,035	19,564	1,659,471
Equity securities	13,062	4,997	8,065
	$2,775,111	$61,367	$2,713,744

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	AS OF DECEMBER 31, 2008		
	Less than 12 months		
(In thousands)	Amortized Cost	Gross Unrealized Losses	Market Value
Obligations of Puerto Rico, States and political subdivisions	$ 34,795	$ 303	$ 34,492
Collateralized mortgage obligations federal agencies	485,140	13,274	471,866
Collateralized mortgage obligations private label	59,643	15,315	44,328
Mortgage-backed securities	109,298	676	108,622
Equity securities	19,541	9,480	10,061
	$708,417	$39,048	$669,369

	12 months or more		
(In thousands)	Amortized Cost	Gross Unrealized Losses	Market Value
Obligations of Puerto Rico, States and political subdivisions	$ 44,011	$ 3,212	$ 40,799
Collateralized mortgage obligations federal agencies	423,137	16,645	406,492
Collateralized mortgage obligations private label	130,065	25,961	104,104
Mortgage-backed securities	206,472	3,146	203,326
Equity securities	29	12	17
	$803,714	$48,976	$754,738

		Total	
(In thousands)	Amortized Cost	Gross Unrealized Losses	Market Value
Obligations of Puerto Rico, States and political subdivisions	$ 78,806	$ 3,515	$ 75,291
Collateralized mortgage obligations federal agencies	908,277	29,919	878,358
Collateralized mortgage obligations private label	189,708	41,276	148,432
Mortgage-backed securities	315,770	3,822	311,948
Equity securities	19,570	9,492	10,078
	$1,512,131	$88,024	$1,424,107

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	AS OF JUNE 30, 2008 Less than 12 months		
(In thousands)	Amortized Cost	Gross Unrealized Losses	Market Value
U.S. Treasury securities	$ 277,645	$ 1,195	$ 276,450
Obligations of U.S. Government sponsored entities	2,104,165	10,781	2,093,384
Obligations of Puerto Rico, States and political subdivisions	31,745	112	31,633
Collateralized mortgage obligations federal agencies	793,703	7,759	785,944
Collateralized mortgage obligations private label	129,922	2,867	127,055
Mortgage-backed securities	277,464	3,388	274,076
Equity securities	27,268	13,634	13,634
	$3,641,912	$39,736	$3,602,176

	12 months or more		
(In thousands)	Amortized Cost	Gross Unrealized Losses	Market Value
Obligations of Puerto Rico, States and political subdivisions	$ 49,012	$ 1,724	$ 47,288
Collateralized mortgage obligations federal agencies	130,919	4,354	126,565
Collateralized mortgage obligations private label	87,737	6,099	81,638
Mortgage-backed securities	276,775	7,930	268,845
Equity securities	29	8	21
	$544,472	$20,115	$524,357

	Total		
(In thousands)	Amortized Cost	Gross Unrealized Losses	Market Value
U.S. Treasury securities	$ 277,645	$ 1,195	$ 276,450
Obligations of U.S. Government sponsored entities	2,104,165	10,781	2,093,384
Obligations of Puerto Rico, States and political subdivisions	80,757	1,836	78,921
Collateralized mortgage obligations federal agencies	924,622	12,113	912,509
Collateralized mortgage obligations private label	217,659	8,966	208,693
Mortgage-backed securities	554,239	11,318	542,921
Equity securities	27,297	13,642	13,655
	$4,186,384	$59,851	$4,126,533

Management evaluates investment securities for other-than-temporary (OTTI) declines in fair value on a quarterly basis. Once a decline in value is determined to be other-than- temporary, the value of the security is reduced and a corresponding charge to earnings is recognized for anticipated credit losses. The OTTI analysis requires management to consider various factors, which include, but are not limited to: (1) the length of time and the extent to which fair value has been less than the amortized cost basis, (2) the financial condition of the issuer or issuers, (3) actual collateral attributes (4) the payment structure of the debt security and the likelihood of the issuer being able to make payments, (5) any rating changes by a rating agency, (6) adverse conditions specifically related to the security, industry, or a geographic area, and (7) management s intent to sell the security or whether it is more likely than not that Popular would be required to sell the security before a forecasted recovery occurs.

At June 30, 2009, management performed its quarterly analysis of all securities with an unrealized loss and concluded no material individual securities were other-than-temporarily impaired. At June 30, 2009, the Corporation does not have the intent to sell securities in an unrealized loss position and it is not more likely than not that the Corporation will have to sell the investment securities prior to recovery of their amortized cost basis.

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The unrealized losses associated with Obligations of Puerto Rico, States and political subdivisions are primarily associated to approximately $45 million in Commonwealth of Puerto Rico Appropriation Bonds (Appropriation Bonds). The rating on these bonds by Moody s Investors Service (Moody s) is Ba1, one notch below investment grade, while Standard & Poor s (S&P) rates them as investment grade. During early June, S&P Rating Services affirmed its BBB- rating on the Commonwealth of Puerto Rico general obligations and appropriation debt outstanding, which indicates S&P s opinion that Puerto Rico s appropriation credit profile is not speculative grade. The outlook indicated by S&P is stable. These securities will continue to be monitored as part of management s ongoing OTTI assessments. Management expects to receive cash flows sufficient to recover the entire amortized cost basis of the securities.

The unrealized losses reported for Collateralized mortgage obligations federal agencies are principally associated to floating rate securities. These CMOs were issued by U.S. government-sponsored entities and agencies, primarily Federal National Mortgage Association (FNMA) and Federal Home Loan Mortgage Corporation (FHLMC), institutions which the government has affirmed its commitment to support, and Government National Mortgage Association (GNMA). The contractual cash flows of these securities are guaranteed by agencies of the U.S. Government. In the latter half of 2008, the U.S. Government provided substantial liquidity to FNMA and FHLMC to bolster their creditworthiness. These collateralized mortgage obligations are rated AAA by the major rating agencies and are backed by residential mortgages. The unrealized losses in this portfolio were primarily attributable to changes in interest rates and levels of market liquidity relative to when the investment securities were purchased and not due to credit quality of the securities.

The unrealized losses associated with private-label collateralized mortgage obligations are primarily related to securities backed by residential mortgages. The losses related primarily to adjustable rate mortgages with lower coupons. In addition to verifying the credit ratings for the private label CMOs, management analyzed the underlying mortgage loan collateral for these bonds. Various statistics or metrics were reviewed for each private-label CMO, including among others, the weighted average loan-to-value, FICO score, and delinquency and foreclosure rates of the underlying assets in the securities. As of June 30, 2009, there were no sub-prime or Alt-A securities in the Corporation s private-label CMO portfolios. For private-label CMOs with unrealized losses as of June 30, 2009, credit impairment was assessed using a cash flow model that estimates the cash flows on the underlying mortgages, using the security-specific collateral and transaction structure. The model estimates cash flows from the underlying mortgage loans and distributes those cash flows to various tranches of securities, considering the transaction structure and any subordination and credit enhancements that exist in that structure. The cash flow model incorporates actual cash flows through the current period and then projects the remaining cash flows using a number of assumptions, including default rates, loss severity and prepayment rates. Management s assessment also considered tests using more stressful parameters. Based on the assessments, management concluded that the tranches of the private-label CMOs held by the Corporation were not other-than-temporarily impaired at June 30, 2009, thus management expects to recover the amortized cost basis of the securities.

All of the Corporation s securities classified as mortgage-backed securities were issued by U.S. government-sponsored entities and agencies, primarily GNMA and FNMA, thus as previously expressed, have the guarantee or support of the U.S. government. These mortgage-backed securities are rated AAA by the major rating agencies and are backed by residential mortgages. Most of the MBS securities held as of June 30, 2009 with unrealized losses had been purchased at a premium during 2009 and although their fair values have declined, they continue to exceed the par value of the securities. The unrealized losses in this portfolio were generally attributable to changes in interest rates relative to when the investment securities were purchased and not due to credit quality of the securities.

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Proceeds from the sale of investment securities available-for-sale during the six months ended June 30, 2009 were $3.7 billion compared to $2.4 billion for the six months ended June 30, 2008. Gross realized gains and losses on the sale of securities available-for-sale for the quarter and six months ended June 30, 2009 and 2008 were as follows:

	Quarter ended June 30,		Six months ended June 30,	
(In thousands)	2009	2008	2009	2008
Gross realized gains	$1,645	$28,255	$184,380	$29,350
Gross realized losses	(235)		(235)	(119)
Total net gross realized gains	$1,410	$28,255	$184,145	$29,231

During the six months ended June 30, 2009, the Corporation recognized through earnings approximately $6.6 million in losses in equity securities classified as available-for-sale that management considered to be other-than-temporarily impaired. During the six months ended June 30, 2008, the Corporation recognized through earnings approximately $2.9 million in losses considered other-than-temporary on residual interests classified as available-for-sale, which are included as part of Loss from discontinued operations, net of tax in the consolidated statement of operations.
The following table states the names of issuers and the aggregate amortized cost and market value of the securities of such issuer (includes available-for-sale and held-to-maturity securities), in which the aggregate amortized cost of such securities exceeds 10% of stockholders equity. This information excludes securities of the U.S. Government agencies and corporations. Investments in obligations issued by a state of the U.S. and its political subdivisions and agencies, which are payable and secured by the same source of revenue or taxing authority, other than the U.S. Government, are considered securities of a single issuer.

	June 30, 2009		December 31, 2008		June 30, 2008	
(In thousands)	Amortized Cost	Market Value	Amortized Cost	Market Value	Amortized Cost	Market Value
FNMA	$ 1,230,691	$ 1,246,060	$ 1,198,645	$ 1,197,648	$ 1,137,288	$ 1,131,842
FHLB	1,465,847	1,532,656	4,389,271	4,651,249	4,506,509	4,521,314
Freddie Mac	999,435	1,006,425	884,414	875,493	816,570	810,182

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Note 7 Investment Securities Held-to-Maturity

The amortized cost, gross unrealized gains and losses and approximate market value (or fair value for certain investment securities where no market quotations are available) of investment securities held-to-maturity as of June 30, 2009, December 31, 2008 and June 30, 2008 were as follows:

	AS OF JUNE 30, 2009				
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value	Weighted Average Yield
Obligations of U.S. Government sponsored entities					
Within 1 year	$ 25,795	$ 14		$ 25,809	0.37%
Obligations of Puerto Rico, States and political subdivisions					
Within 1 year	106,985	7		106,992	2.67
After 1 to 5 years	109,245	79	$ 44	109,280	5.51
After 5 to 10 years	16,818	51	1,381	15,488	5.77
After 10 years	50,340		5,312	45,028	4.36
	283,388	137	6,737	276,788	4.25
Collateralized mortgage obligations private label					
After 10 years	231		13	218	5.45
Others					
Within 1 year	9,147			9,147	3.92
After 1 to 5 years	1,500			1,500	2.51
	10,647			10,647	3.72
	$320,061	$151	$6,750	$313,462	3.92%

	AS OF DECEMBER 31, 2008				
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value	Weighted Average Yield
Obligations of U.S. Government sponsored entities					
Within 1 year	$ 1,499	$ 1		$ 1,500	1.00%
Obligations of Puerto Rico, States and political subdivisions					
Within 1 year	106,910	8		106,918	2.82

After 1 to 5 years	108,860	351	$ 367	108,844	5.50
After 5 to 10 years	16,170	500	116	16,554	5.75
After 10 years	52,730	115	5,141	47,704	5.56
	284,670	974	5,624	280,020	4.52
Collateralized mortgage obligations private label					
After 10 years	244		13	231	5.45
Others					
Within 1 year	6,584	49		6,633	6.04
After 1 to 5 years	1,750			1,750	3.90
	8,334	49		8,383	5.59
	$294,747	$1,024	$5,637	$290,134	4.53%

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	AS OF JUNE 30, 2008				
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value	Weighted Average Yield
Obligations of U.S. Government sponsored entities					
Within 1 year	$ 34,084		$ 8	$ 34,076	2.01%
Obligations of Puerto Rico, States and political subdivisions					
Within 1 year	1,870	$ 6		1,876	4.96
After 1 to 5 years	113,705	143	9	113,839	4.75
After 5 to 10 years	15,902	131	105	15,928	5.73
After 10 years	54,375		1,452	52,923	5.00
	185,852	280	1,566	184,566	4.91
Collateralized mortgage obligations private label					
After 10 years	267		15	252	5.45
Others					
Within 1 year	7,286		1	7,285	7.59
After 1 to 5 years	4,994	38	1	5,031	5.50
	12,280	38	2	12,316	6.74
	$232,483	$318	$ 1,591	$231,210	4.58%

The following table shows the Corporation s amortized cost, gross unrealized losses and market value of investment securities held-to-maturity, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of June 30, 2009, December 31, 2008 and June 30, 2008:

	AS OF JUNE 30, 2009 Less than 12 months		
(In thousands)	Amortized Cost	Gross Unrealized Losses	Market Value
Obligations of Puerto Rico, States and political subdivisions	$68,400	$6,654	$61,746
Others	3,000		3,000
	$71,400	$6,654	$64,746

12 months or more

(In thousands)	Amortized Cost	Gross Unrealized Losses	Market Value
Obligations of Puerto Rico, States and political subdivisions	$ 645	$ 83	$ 562
Collateralized mortgage obligations private label	231	13	218
Others	250		250
	$1,126	$ 96	$1,030

(In thousands)	Amortized Cost	Total Gross Unrealized Losses	Market Value
Obligations of Puerto Rico, States and political subdivisions	$69,045	$6,737	$62,308
Collateralized mortgage obligations private label	231	13	218
Others	3,250		3,250
	$72,526	$6,750	$65,776

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(In thousands)	AS OF DECEMBER 31, 2008 Less than 12 months Amortized Cost	Gross Unrealized Losses	Market Value
Obligations of Puerto Rico, States and political subdivisions	$135,650	$5,452	$130,198
Others	250		250
	$135,900	$5,452	$130,448

(In thousands)	12 months or more Amortized Cost	Gross Unrealized Losses	Market Value
Obligations of Puerto Rico, States and political subdivisions	$ 9,535	$172	$9,363
Collateralized mortgage obligations private label	244	13	231
Others	250		250
	$10,029	$185	$9,844

(In thousands)	Total Amortized Cost	Gross Unrealized Losses	Market Value
Obligations of Puerto Rico, States and political subdivisions	$145,185	$5,624	$139,561
Collateralized mortgage obligations private label	244	13	231
Others	500		500
	$145,929	$5,637	$140,292

(In thousands)	AS OF JUNE 30, 2008 Less than 12 months Amortized Cost	Gross Unrealized Losses	Market Value
Obligations of U.S. Government sponsored entities	$34,085	$ 8	$34,077
Obligations of Puerto Rico, States and political subdivisions	41,694	1,566	40,128
	$75,779	$1,574	$74,205

	12 months or more		
(In thousands)	Amortized Cost	Gross Unrealized Losses	Market Value
Collateralized mortgage obligations private label	$ 267	$ 15	$ 252
Others	1,000	2	998
	$1,267	$ 17	$1,250

(In thousands)	Amortized Cost	Total Gross Unrealized Losses	Market Value
Obligations of U.S. Government sponsored entities	$34,085	$ 8	$34,077
Obligations of Puerto Rico, States and political subdivisions	41,694	1,566	40,128
Collateralized mortgage obligations private label	267	15	252
Others	1,000	2	998
	$77,046	$1,591	$75,455

As indicated in Note 6 to these consolidated financial statements, management evaluates investment securities for other-than-temporary (OTTI) declines in fair value on a quarterly basis.

The Obligations of Puerto Rico, States and political subdivisions classified as held-to-maturity as of June 30, 2009 are primarily associated with securities issued by municipalities of Puerto Rico and are generally not rated by a credit rating agency. The Corporation performs periodic credit quality reviews on these issuers. The decline in fair value at June 30, 2009 was attributable to changes in interest rates and not credit quality, thus no other-than-temporary decline in value was necessary to be recorded in these held-to-maturity securities as of June 30, 2009. At June 30, 2009, the Corporation does not have the intent to sell securities held-to-maturity and it is not more likely than not that the Corporation will have to sell these investment securities prior to recovery of their amortized cost basis.

Note 8 Mortgage Servicing Rights

The Corporation recognizes as assets the rights to service loans for others, whether these rights are purchased or result from asset transfers such as sales and securitizations.

Classes of mortgage servicing rights were determined based on the different markets or types of assets being serviced. The Corporation recognizes the servicing rights of its banking subsidiaries that are related to residential mortgage loans as a class of servicing rights. The mortgage servicing rights (MSRs) are measured at fair value. Prior to November 2008, PFH also held servicing rights to residential mortgage loan portfolios. These servicing rights were sold in the fourth quarter of 2008. The MSRs are segregated between loans serviced by the Corporation s banking subsidiaries and by PFH. PFH no longer services third-party loans due to the discontinuance of the business. Fair value determination is performed on a subsidiary basis, with assumptions varying in accordance with the types of assets or markets served.

The Corporation uses a discounted cash flow model to estimate the fair value of MSRs. The discounted cash flow model incorporates assumptions that market participants would use in estimating future net servicing income, including estimates of prepayment speeds, discount rate, cost to service, escrow account earnings, contractual servicing fee income, prepayment and late fees, among other considerations. Prepayment speeds are adjusted for the Corporation s loan characteristics and portfolio behavior.

The following tables present the changes in MSRs measured using the fair value method for the six months ended June 30, 2009 and June 30, 2008.

(In thousands)	Residential MSRs Banking subsidiaries
Fair value at January 1, 2009	$ 176,034
Purchases	727
Servicing from securitizations or asset transfers	13,661
Changes due to payments on loans (1)	(7,921)

Changes in fair value due to changes in valuation model inputs or assumptions		(1,693)
Fair value as of June 30, 2009	$	180,808

(1) Represents changes due to collection / realization of expected cash flows over time.

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	Residential MSRs		
(In thousands)	Banking subsidiaries	PFH	Total
Fair value at January 1, 2008	$110,612	$ 81,012	$191,624
Purchases	2,986		2,986
Servicing from securitizations or asset transfers	15,521		15,521
Changes due to payments on loans (1)	(5,618)	(13,180)	(18,798)
Changes in fair value due to changes in valuation model inputs or assumptions	6,390	(11,568)	(5,178)
Fair value as of June 30, 2008	$129,891	$ 56,264	$186,155

(1) Represents changes due to collection / realization of expected cash flows over time.

Residential mortgage loans serviced for others were $17.7 billion as of June 30, 2009 (December 31, 2008 $17.6 billion; June 30, 2008 $20.4 billion, including $8.2 billion related to the PFH discontinued operations).

Net mortgage servicing fees, a component of other service fees in the consolidated statements of operations, include the changes from period to period in the fair value of the MSRs, which may result from changes in the valuation model inputs or assumptions (principally reflecting changes in discount rates and prepayment speed assumptions) and other changes, representing changes due to collection / realization of expected cash flows. Mortgage servicing fees, excluding fair value adjustments, for the Corporation s continuing operations for the quarter and six months ended June 30, 2009 amounted to $11.3 million and $23.0 million, respectively, and $7.2 million and $14.4 million, respectively, for the quarter and six months ended June 30, 2008. The banking subsidiaries receive servicing fees based on a percentage of the outstanding loan balance. For the period ended June 30, 2009, those weighted average mortgage servicing fees were 0.26% (June 30, 2008 0.25%). Under these servicing agreements, the banking subsidiaries do not earn significant prepayment penalty fees on the underlying loans serviced.

The section below includes information on assumptions used in the valuation model of the MSRs, originated and purchased.

Banking subsidiaries

The Corporation s banking subsidiaries retain servicing responsibilities on the sale of wholesale mortgage loans and under pooling / selling arrangements of mortgage loans into mortgage-backed securities, primarily GNMA and FNMA securities. Substantially all mortgage loans securitized by the banking subsidiaries have fixed rates.

During the six months period ended June 30, 2009, the Corporation retained servicing rights on guaranteed mortgage securitizations (FNMA and GNMA) and whole loan sales involving approximately $805 million in principal balance outstanding. Gains of approximately $26.4 million were realized on these transactions during the six months period ended June 30, 2009.

Key economic assumptions used in measuring the servicing rights retained at the date of the residential mortgage loan securitizations and whole loan sales by the banking subsidiaries during the quarter ended June 30, 2009 and year ended December 31, 2008 were as follows:

	June 30, 2009	December 31, 2008
Prepayment speed	6.7%	11.6%
Weighted average life	15.0 years	8.6 years
Discount rate (annual rate)	10.9%	11.3%

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Key economic assumptions used to estimate the fair value of MSRs derived from sales and securitizations of mortgage loans performed by the banking subsidiaries and the sensitivity to immediate changes in those assumptions as of June 30, 2009 and December 31, 2008 were as follows:

	Originated MSRs	
(In thousands)	June 30, 2009	December 31, 2008
Fair value of retained interests	$94,879	$ 104,614
Weighted average life	7.3 years	10.2 years
Weighted average prepayment speed (annual rate)	13.7%	9.9%
Impact on fair value of 10% adverse change	$ (4,407)	$ (4,734)
Impact on fair value of 20% adverse change	$ (8,726)	$ (8,033)
Weighted average discount rate (annual rate)	12.75%	11.46%
Impact on fair value of 10% adverse change	$ (3,112)	$ (3,769)
Impact on fair value of 20% adverse change	$ (6,253)	$ (6,142)

The banking subsidiaries also own servicing rights purchased from other financial institutions. The fair value of purchased MSRs, their related valuation assumptions and the sensitivity to immediate changes in those assumptions as of period end were as follows:

	Purchased MSRs	
(In thousands)	June 30, 2009	December 31, 2008
Fair value of retained interests	$85,929	$ 71,420
Weighted average life of collateral	8.3 years	7.0 years
Weighted average prepayment speed (annual rate)	12.1%	14.4%
Impact on fair value of 10% adverse change	$ (4,801)	$ (3,880)
Impact on fair value of 20% adverse change	$ (8,191)	$ (7,096)
Weighted average discount rate (annual rate)	11.1%	10.6%
Impact on fair value of 10% adverse change	$ (4,050)	$ (2,277)
Impact on fair value of 20% adverse change	$ (6,742)	$ (4,054)

The sensitivity analyses presented in the tables above for servicing rights are hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a 10 and 20 percent variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in the sensitivity tables included herein, 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.

As of June 30, 2009, the Corporation serviced $4.7 billion (December 31, 2008 $4.9 billion; June 30, 2008 $3.7 billion) in residential mortgage loans with credit recourse to the Corporation.

Under the GNMA securitizations, the Corporation, as servicer, has the right to repurchase, at its option and without GNMA s prior authorization, any loan that is collateral for a GNMA guaranteed mortgage-backed security when certain delinquency criteria are met. At the time that individual loans meet GNMA s specified delinquency criteria and are eligible for repurchase, the Corporation is deemed to have regained effective control over these loans. At June 30, 2009, the Corporation had recorded $88 million in mortgage loans on its financial statements related to this buy-back option program (December 31, 2008 $61 million; June 30, 2008 $41 million).

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Note 9 Other Assets

The caption of other assets in the consolidated statements of condition consists of the following major categories:

(In thousands)	June 30, 2009	December 31, 2008	June 30, 2008
Net deferred tax assets (net of valuation allowance)	$ 390,467	$ 357,507	$ 807,884
Bank-owned life insurance program	228,675	224,634	219,867
Prepaid expenses	136,634	136,236	198,286
Investments under the equity method	91,558	92,412	108,008
Derivative assets	76,019	109,656	50,121
Trade receivables from brokers and counterparties	66,943	1,686	515,273
Securitization advances and related assets			299,519
Others	224,553	193,466	256,884
Total	$1,214,849	$1,115,597	$2,455,842

Note: Other assets from discontinued operations at June 30, 2009 and December 31, 2008 are presented as part of Assets from discontinued operations in the consolidated statements of condition. Refer to Note 3 to the consolidated financial statements for further information on the discontinued operations.

Note 10 Derivative Instruments and Hedging

Refer to Note 33 to the consolidated financial statements included in the 2008 Annual Report for a complete description of the Corporation s derivative activities.

The use of derivatives is incorporated as part of the Corporation s overall interest rate risk management strategy 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 income is not, on a material basis, adversely affected by movements in interest rates. The Corporation uses derivatives in its trading activities to facilitate customer transactions, to take proprietary positions and as a means of risk management. As a result of interest rate fluctuations, hedged fixed and variable interest rate assets and liabilities will appreciate or depreciate in fair 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. As a matter of policy, the Corporation does not use highly leveraged derivative instruments for interest rate risk management.

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. 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. The derivative assets include a $4.2 million negative adjustment as a result of the credit risk of the counterparty as of June 30, 2009. In the other hand, when the fair value of a derivative contract is negative, the Corporation owes the counterparty and, therefore, the fair value of derivative liabilities incorporates nonperformance risk or the risk that the obligation will not be fulfilled. The derivative liabilities include a $1.2 million positive adjustment related to the incorporation of the Corporation s own credit risk as of June 30, 2009.

Certain of the Corporation s derivative instruments contain provisions that require its senior debt to maintain an investment grade rating from certain major credit rating agencies. Under these derivative agreements, if the Corporation s senior debt rating falls below investment grade, the counterparties to the derivative instruments are entitled to request immediate payment or demand immediate and ongoing full overnight collateralization on derivative instruments in net liability positions. The credit contingent features underlying these agreements were

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triggered as of June 30, 2009 since the Corporation s senior debt was rated below investment grade. The aggregate fair value of all derivative instruments with credit-risk related contingent features that were in a liability position as of June 30, 2009 was $72 million. The Corporation has fully collateralized these positions by posting collateral of $79 million as of June 30, 2009.

Financial instruments designated as cash flow hedges or non-hedging derivatives outstanding as of June 30, 2009 and December 31, 2008 were as follows:

As of June 30, 2009					
		Derivative Assets		**Derivative Liabilities**	
(In thousands)	Notional Amount	Statement of Condition Classification	Fair Value	Statement of Condition Classification	Fair Value
Derivatives designated as hedging instruments under SFAS No. 133:					
Forward commitments	$ 179,755	Other Assets	$ 854	Other Liabilities	$ 891
Total derivatives designated as hedging instruments under SFAS No. 133	$ 179,755		$ 854		$ 891
Derivatives not designated as hedging instruments under SFAS No. 133:					
Forward contracts	$ 156,591	Trading Account Securities	$ 1,399	Other Liabilities	$ 45
Interest rate swaps associated with:					
- swaps with corporate clients	1,043,845	Other Assets	70,295	Other Liabilities	340
- swaps offsetting position of corporate clients swaps	1,043,845	Other Assets	340	Other Liabilities	73,589
Foreign currency and exchange rate commitments with clients	257			Other Liabilities	34
Foreign currency and exchange rate commitments with counterparty	255	Other Assets	36		
Interest rate caps and floors	139,969	Other Assets	250		
Interest rate caps and floors for the benefit of corporate clients	139,969			Other Liabilities	250
Indexed options on deposits	193,227	Other Assets	4,244		
Bifurcated embedded options	140,483			Other Liabilities	4,370

Total derivatives not designated as hedging instruments under SFAS No. 133	$2,858,441	$76,564	$78,628
Total derivative assets and liabilities	$3,038,196	$77,418	$79,519

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As of December 31, 2008

(In thousands)	Notional Amount	Derivative Assets: Statement of Condition Classification	Derivative Assets: Fair Value	Derivative Liabilities: Statement of Condition Classification	Derivative Liabilities: Fair Value
Derivatives designated as hedging instruments under SFAS No. 133:					
Forward commitments	$ 112,500	Other Assets	$ 6	Other Liabilities	$ 2,255
Interest rate swaps	200,000			Other Liabilities	2,380
Total derivatives designated as hedging instruments under SFAS No. 133	$ 312,500		$ 6		$ 4,635
Derivatives not designated as hedging instruments under SFAS No. 133:					
Forward contracts	$ 272,301	Trading Account Securities	$ 38	Other Liabilities	$ 4,733
Interest rate swaps associated with:					
- swaps with corporate clients	1,038,908	Other Assets	100,668		
- swaps offsetting position of corporate clients swaps	1,038,908			Other Liabilities	98,437
Foreign currency and exchange rate commitments with clients	377	Other Assets	18	Other Liabilities	15
Foreign currency and exchange rate commitments with counterparty	373	Other Assets	16	Other Liabilities	16
Interest rate caps	128,284	Other Assets	89		
Interest rate caps for the benefit of corporate clients	128,284			Other Liabilities	89
Indexed options on deposits	208,557	Other Assets	8,821		
Bifurcated embedded options	178,608			Other Liabilities	8,584
Total derivatives not designated as hedging instruments under SFAS No. 133	$2,994,600		$109,650		$111,874
	$3,307,100		$109,656		$116,509

Total derivative assets and liabilities

Cash Flow Hedges

The Corporation utilizes forward contracts to hedge the sale of mortgage-backed securities with duration terms over one month. Interest rate forwards 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. These forward contracts are hedging a forecasted transaction and thus qualify for cash flow hedge accounting in accordance with SFAS No. 133, as amended. Changes in the fair value of the derivatives are recorded in other comprehensive income. The amount included in accumulated other comprehensive income corresponding to these forward contracts is expected to be reclassified to earnings in the next twelve months. These contracts have a maximum remaining maturity of 79 days.

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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 which the hedged item is recorded and in the same period in which the forecasted transaction affects earnings, as presented in the table below:

Quarter ended June 30, 2009

(In thousands)	Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion)	Classification in the Statement of Operations of the Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Classification of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Forward commitments	$ (37)	Trading account profit	$ (1,586)		
Interest rate swaps		Interest expense	(1,883)		
Total cash flow hedges	$ (37)		$ (3,469)		

OCI Other Comprehensive Income

AOCI Accumulated Other Comprehensive Income

Six months ended June 30, 2009

	Classification of Gain (Loss)	Amount of Gain

(In thousands)	Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion)	Classification in the Statement of Operations of the Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)	(Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Forward commitments	$ (1,623)	Trading account profit	$ (3,503)		
Interest rate swaps		Interest expense	(2,380)		
Total cash flow hedges	$ (1,623)		$ (5,883)		

OCI Other Comprehensive Income

AOCI Accumulated Other Comprehensive Income

Non-Hedging Activities

For the quarter and six months ended June 30, 2009, the Corporation recognized a loss of $1.8 million and $14.1 million, respectively, related to its non-hedging derivatives, as detailed in the table below.

		Amount of Gain (Loss) Recognized in Income on Derivatives	
(In thousands)	Classification of Gain (Loss) Recognized in Income on Derivatives	Quarter ended June 30, 2009	Six months ended June 30, 2009
Forward contracts	Trading account profit	$ 1,204	$ (6,848)
Interest rate swap contracts	Other operating income	(1,554)	(5,524)
Credit derivatives		(2,599)	(2,599)

	Other operating income		
Foreign currency and exchange rate commitments	Interest expense	(3)	(2)
Foreign currency and exchange rate commitments	Other operating income	10	19
Indexed options	Interest expense	470	(746)
Bifurcated embedded options	Interest expense	698	1,575
Total		$ (1,774)	$ (14,125)

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Forward Contracts

The Corporation has forward contracts to sell mortgage-backed securities with terms lasting less than a month, which are accounted for as trading derivatives. Changes in their fair value are recognized in trading gains and losses.

Interest Rates Swaps and Foreign Currency and Exchange Rate Commitments

In addition to using derivative instruments as part of its interest rate risk management strategy, the Corporation also utilizes derivatives, such as interest rate swaps and foreign exchange contracts, in its capacity as an intermediary on behalf of its customers. The Corporation minimizes its market risk and credit risk by taking offsetting positions under the same terms and conditions with credit limit approvals and monitoring procedures. Market value changes on these swaps and other derivatives are recognized in income in the period of change.

Interest Rate Caps

The Corporation enters into interest rate caps as an intermediary on behalf of its customers and simultaneously takes offsetting positions under the same terms and conditions; thus minimizing its market and credit risks.

Note 11 Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill for the six months ended June 30, 2009 and 2008, allocated by reportable segments, were as follows (refer to Note 25 for the definition of the Corporation s reportable segments):

	2009				
(In thousands)	Balance as of January 1, 2009	Goodwill acquired	Purchase accounting adjustments	Other	Balance as of June 30, 2009
Banco Popular de Puerto Rico:					
Commercial Banking	$ 31,729			$111	$ 31,840
Consumer and Retail Banking	117,000		$ 1	544	117,545
Other Financial Services	8,330		(34)		8,296
Banco Popular North America:					
Banco Popular North America	404,237				404,237
E-LOAN					
EVERTEC	44,496		750		45,246
Total Popular, Inc.	$ 605,792		$ 717	$655	$607,164

	2008				
(In thousands)	Balance as of January 1, 2008	Goodwill acquired	Purchase accounting adjustments	Other	Balance as of June 30, 2008
Banco Popular de Puerto Rico:					
Commercial Banking	$ 35,371		$(115)		$ 35,256
Consumer and Retail Banking	136,407		(562)		135,845
Other Financial Services	8,621	$ 153		$ 3	8,777
Banco Popular North America:					
Banco Popular North America	404,237				404,237
E-LOAN					
EVERTEC	46,125	1,000		(2,414)	44,711

Total Popular, Inc.	$ 630,761	$ 1,153	$ (677)	$ (2,411)	$ 628,826

Purchase accounting adjustments consist of adjustments to the value of the assets acquired and liabilities assumed resulting from the completion of appraisals or other valuations, adjustments to initial estimates recorded for transaction costs, if any, and contingent consideration paid during a contractual contingency period. The purchase accounting adjustments in the EVERTEC reportable segment for the six months ended June 30, 2009 are related to contingency payments.

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As of June 30, 2009, the Corporation had $6 million of identifiable intangibles, other than goodwill, with indefinite useful lives (December 31, 2008 $6 million; June 30, 2008 $17 million).

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

	June 30, 2009		December 31, 2008		June 30, 2008	
(In thousands)	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Core deposits	$65,379	$27,560	$65,379	$24,130	$66,040	$26,141
Other customer relationships	8,816	5,152	8,839	4,585	9,852	4,803
Other intangibles	2,981	2,366	3,037	1,725	8,219	6,150
Total	$77,176	$35,078	$77,255	$30,440	$84,111	$37,094

During the quarter ended June 30, 2009, the Corporation recognized $2.4 million in amortization related to other intangible assets with definite useful lives (June 30, 2008 $2.5 million). During the six months ended June 30, 2009, the Corporation recognized $4.8 million in amortization related to other intangible assets with definite useful lives (June 30, 2008 $5.0 million).

The following table presents the estimated aggregate annual amortization of the intangible assets with definite useful lives for each of the following fiscal years:

(In thousands)	
Remaining 2009	$4,644
Year 2010	7,671
Year 2011	6,982
Year 2012	5,967
Year 2013	5,784
Year 2014	5,146

Note 12 Fair Value Measurement

SFAS No. 157 Fair Value Measurements establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels in order to increase consistency and comparability in fair value measurements and disclosures. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

Level 1- Unadjusted quoted prices in active markets for identical assets or liabilities that the Corporation has the ability to access at the measurement date. Valuation on these instruments does not necessitate a significant degree of judgment since valuations are based on quoted prices that are readily available in an active market.

Level 2- Quoted prices other than those included in Level 1 that are observable either directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or that can be corroborated by observable market data for substantially the full term of the financial instrument.

Level 3- Inputs are unobservable and significant to the fair value measurement. Unobservable inputs reflect the Corporation s own assumptions about assumptions that market participants would use in pricing the asset or liability.

The Corporation maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. Fair value is based upon quoted market prices when available. If listed price or quotes are not available, the Corporation employs internally-developed models that primarily use market-based inputs including yield curves, interest rates, volatilities, and credit curves, among others. Valuation adjustments are limited to those necessary to ensure that the financial instrument s fair value is adequately representative of the price that would be received or paid in the marketplace. These adjustments include amounts that reflect counterparty credit quality, the Corporation s credit standing, constraints on liquidity and unobservable parameters that are applied consistently.

The estimated fair value may be subjective in nature and may involve uncertainties and matters of significant judgment for certain financial instruments. Changes in the underlying assumptions used in calculating fair value could significantly affect the results.

The Corporation adopted the provisions of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value on a nonrecurring basis on January 1, 2009.

Fair Value on a Recurring Basis

The following fair value hierarchy tables present information about the Corporation s assets and liabilities measured at fair value on a recurring basis at June 30, 2009, December 31, 2008 and June 30, 2008:

	At June 30, 2009			
(In millions)	Level 1	Level 2	Level 3	Balance as of June 30, 2009
Assets				
Continuing Operations				
Investment securities available-for-sale:				
U.S. Treasury securities		$ 31		$ 31
Obligations of U.S. Government sponsored entities		1,756		1,756
Obligations of Puerto Rico, States and political subdivisions		99		99
Collateralized mortgage obligations federal agencies		1,673		1,673
Collateralized mortgage obligations private label		136		136
Mortgage-backed securities		3,508	$ 35	3,543
Equity securities	$3	5		8
Total investment securities available-for-sale	$3	$7,208	$ 35	$ 7,246
Trading account securities, excluding derivatives:				
Obligations of Puerto Rico, States and political subdivisions		$ 14		$ 14
Collateralized mortgage obligations		2	$ 5	7
Residential mortgage-backed securities federal agencies		163	284	447
Other		13	5	18
Total trading account securities		$ 192	$294	$ 486
Mortgage servicing rights			$181	$ 181
Derivatives (Refer to Note 10)		$ 77		$ 77
Discontinued Operations				
Loans measured at fair value pursuant to SFAS No. 159			$ 1	$ 1

Total	$3	$7,477	$511	$ 7,991
Liabilities				
Continuing Operations				
Derivatives (Refer to Note 10)		$ (80)		$ (80)
Total		$ (80)		$ (80)

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(In millions)	At December 31, 2008 Level 1	Level 2	Level 3	Balance as of December 31, 2008
Assets				
Continuing Operations				
Investment securities available-for-sale:				
U.S. Treasury securities		$ 502		$ 502
Obligations of U.S. Government sponsored entities		4,807		4,807
Obligations of Puerto Rico, States and political subdivisions		101		101
Collateralized mortgage obligations federal agencies		1,507		1,507
Collateralized mortgage obligations private label		149		149
Mortgage-backed securities		812	$ 37	849
Equity securities	$5	5		10
Total investment securities available-for-sale	$5	$7,883	$ 37	$ 7,925
Trading account securities, excluding derivatives:				
U.S. Treasury securities and obligations of U.S. Government sponsored entities		$ 3		$ 3
Obligations of Puerto Rico, States and political subdivisions		28		28
Collateralized mortgage obligations		2	$ 3	5
Residential mortgage-backed securities federal agencies		296	292	588
Commercial paper		5		5
Other		12	5	17
Total trading account securities		$ 346	$300	$ 646
Mortgage servicing rights			$176	$ 176
Derivatives (Refer to Note 10)		$ 110		110
Discontinued Operations				
Loans measured at fair value pursuant to SFAS No. 159			$ 5	$ 5
Total	$5	$8,339	$518	$ 8,862
Liabilities				
Continuing Operations				
Derivatives (Refer to Note 10)		$ (117)		$ (117)

Total	$ (117)	$ (117)

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(In millions)	At June 30, 2008 Level 1	Level 2	Level 3	Balance as of June 30, 2008
Assets				
Continuing Operations				
Investment securities available-for-sale:				
U.S. Treasury securities		$ 461		$ 461
Obligations of U.S. Government sponsored entities		4,605		4,605
Obligations of Puerto Rico, States and political subdivisions		125		125
Collateralized mortgage obligations federal agencies		1,399		1,399
Collateralized mortgage obligations private label		210		210
Mortgage-backed securities		846	$ 38	884
Equity securities	$10	5		15
Total investment securities available-for-sale	$10	$7,651	$ 38	$ 7,699
Trading account securities, excluding derivatives:				
U.S. Treasury securities and obligations of U.S. Government sponsored entities		$ 6		$ 6
Obligations of Puerto Rico, States and political subdivisions		27		27
Collateralized mortgage obligations		2	$ 3	5
Residential mortgage-backed securities federal agencies		88	301	389
Other		31	6	37
Total trading account securities		$ 154	$ 310	$ 464
Mortgage servicing rights			$ 130	$ 130
Derivatives (Refer to Note 10)		$ 51		51
Discontinued Operations				
Residual interests available-for-sale			$ 3	$ 3
Residual interests trading			35	35
Mortgage servicing rights			56	56
Loans measured at fair value pursuant to SFAS No. 159			845	845
Total	$10	$7,856	$1,417	$ 9,283
Liabilities				
Continuing Operations				

Derivatives (Refer to Note 10)	$	(59)			$	(59)
Discontinued Operations						
Notes payable measured at fair value pursuant to SFAS No. 159			$	(174)		(174)
Total	$	(59)	$	(174)	$	(233)

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The following tables present the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the quarters and six months ended June 30, 2009 and 2008:

(In millions)	Balance as of March 31, 2009	Gains (losses) included in earnings	Gains (losses) included in other comprehensive income	Increase (decrease) in accrued interest receivable / payable	Purchases, sales, issuances, settlements, paydowns and maturities (net)	Balance as of June 30, 2009	Changes in unrealized gains (losses) included in earnings related to assets and liabilities still held as of June 30, 2009
	Quarter ended June 30, 2009						
Assets							
Continuing Operations							
Investment securities available-for-sale:							
Mortgage- backed securities	$ 36				$ (1)	$ 35	
Total investment securities available-for-sale	$ 36				$ (1)	$ 35	
Trading account securities:							
Collateralized mortgage obligations	$ 3				$ 2	$ 5	
Residential mortgage- backed securities- federal agencies	276	$ (1)			9	284	$ 1(a)
Other	5					5	
Total trading account securities	$284	$ (1)			$ 11	$294	$ 1
Mortgage servicing rights	$177	$ (4)			$ 8	$181	$ (1)(b)
Discontinued Operations							

Loans measured at fair value pursuant to SFAS No. 159	$ 5		$ (4)	$ 1
Total	$502	$ (5)	$ 14	$511

a) Gains (losses) are included in Trading account profit in the statement of operations

b) Gains (losses) are included in Other service fees in the statement of operations

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	Six months ended June 30, 2009						
(In millions)	Balance as of January 1, 2009	Gains (losses) included in earnings	Gains (losses) included in other comprehensive income	Increase (decrease) in accrued interest receivable / payable	Purchases, sales, issuances, settlements, paydowns and maturities (net)	Balance as of June 30, 2009	Changes in unrealized gains (losses) included in earnings related to assets and liabilities still held as of June 30, 2009
Assets							
Continuing Operations							
Investment securities available-for-sale:							
Mortgage- backed securities	$ 37				$ (2)	$ 35	
Total investment securities available-for-sale	$ 37				$ (2)	$ 35	
Trading account securities:							
Collateralized mortgage obligations	$ 3				$ 2	$ 5	
Residential mortgage-backed securities-federal agencies	292	$ 1			(9)	284	$ 4(a)
Other	5					5	
Total trading account securities	$300	$ 1			$ (7)	$294	$ 4
Mortgage servicing rights	$176	$ (9)			$ 14	$181	$ (2)(c)
Discontinued Operations							
Loans measured at fair value pursuant to SFAS	$ 5	$ 1			$ (5)	$ 1	(b)

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Total	$518	$ (7)	$511	$ 2

a) Gains (losses) are included in Trading account profit in the statement of operations

b) Gains (losses) are included in Loss from discontinued operations, net of tax in the statement of operations

c) Gains (losses) are included in Other service fees in the statement of operations

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(In millions)	Quarter ended June 30, 2008 Balance as of March 31, 2008	Gains (losses) included in earnings	Gains (losses) included in other comprehensive income	Increase (decrease) in accrued interest receivable / payable	Purchases, sales, issuances, settlements, paydowns and maturities (net)	Balance as of June 30, 2008	Changes in unrealized gains (losses) included in earnings related to assets and liabilities still held as of June 30, 2008
Assets							
Continuing Operations							
Investment securities available-for-sale:							
Mortgage- backed securities	$ 39				$ (1)	$ 38	
Total investment securities available-for-sale	$ 39				$ (1)	$ 38	
Trading account securities:							
Collateralized mortgage obligations	$ 3					$ 3	
Residential mortgage-backed securities-federal agencies	236				$ 65	301	$ 1(a)
Other	6					6	
Total trading account securities	$ 245				$ 65	$ 310	$ 1
Mortgage servicing rights	$ 116	$ 3			$ 11	$ 130	$ 5(c)
Discontinued Operations							
	$ 3					$ 3	

Residual interests available-for-sale						
Residual interests trading	35	$ 2		$ (2)	35	(2)(b)
Mortgage servicing rights	68	(12)			56	(6)(b)
Loans measured at fair value pursuant to SFAS No. 159	927	(31)	$ (1)	(50)	845	(9)(b)
Total	$1,433	$ (38)	$ (1)	$ 23	$1,417	$ (11)
Liabilities Discontinued Operations						
Notes payable measured at fair value pursuant to SFAS No. 159	$ (186)	$ (5)		$ 17	$ (174)	$ (5)(b)
Total	$ (186)	$ (5)		$ 17	$ (174)	$ (5)

a) Gains (losses) are included in Trading account profit in the statement of operations

b) Gains (losses) are included in Loss from discontinued operations, net of tax in the statement of operations

c) Gains (losses) are included in Other service fees in the statement of operations

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(In millions)	Balance as of January 1, 2008	Gains (losses) included in earnings	Gains (losses) included in other comprehensive income	Increase (decrease) in accrued interest receivable / payable	Purchases, sales, issuances, settlements, paydowns and maturities (net)	Balance as of June 30, 2008	Changes in unrealized gains (losses) included in earnings related to assets and liabilities still held as of June 30, 2008
	Six months ended June 30, 2008						
Assets							
Continuing Operations							
Investment securities available-for-sale:							
Mortgage-backed securities	$ 39		$ 1		$ (2)	$ 38	
Total investment securities available-for-sale	$ 39		$ 1		$ (2)	$ 38	
Trading account securities:							
Collateralized mortgage obligations	$ 3					$ 3	
Residential mortgage-backed securities-federal agencies	227	$ 2			$ 72	301	$ 3(a)
Other	3				3	6	
Total trading account securities	$ 233	$ 2			$ 75	$ 310	$ 3
Mortgage servicing rights	$ 111	$ 1			$ 18	$ 130	$ 6(c)
Discontinued Operations							
	$ 4	$ (1)				$ 3	

Residual interests available-for-sale							
Residual interests trading	40	$ (2)			$ (3)	35	$ (10)(b)
Mortgage servicing rights	81	(25)				56	(11)(b)
Loans measured at fair value pursuant to SFAS No. 159	987	(33)		(2)	(107)	845	15(b)
Total	$1,495	$(58)	$ 1	$(2)	$ (19)	$1,417	$ 3
Liabilities							
Discontinued Operations							
Notes payable measured at fair value pursuant to SFAS No. 159	$ (201)	$ (6)			$ 33	$ (174)	$ (6)(b)
Total	$ (201)	$ (6)			$ 33	$ (174)	$ (6)

a) Gains (losses) are included in Trading account profit in the statement of operations

b) Gains (losses) are included in Loss from discontinued operations, net of tax in the statement of operations

c) Gains (losses) are included in Other service fees in the statement of operations

There were no transfers in and / or out of Level 3 for financial instruments measured at fair value on a recurring basis during the quarters and six months ended June 30, 2009 and 2008.

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Gains and losses (realized and unrealized) included in earnings for the quarters and six months ended June 30, 2009 and 2008 for Level 3 assets and liabilities included in the previous tables are reported in the consolidated statement of operations as follows:

	Quarter ended June 30, 2009		Six months ended June 30, 2009	
(In millions)	Total gains (losses) included in earnings	Change in unrealized gains (losses) relating to assets / liabilities still held at reporting date	Total gains (losses) included in earnings	Change in unrealized gains (losses) relating to assets / liabilities still held at reporting date
Continuing Operations				
Other service fees	$ (4)	$ (1)	$ (9)	$ (2)
Trading account profit	(1)	1	1	4
Discontinued Operations				
Loss from discontinued operations, net of tax			1	
Total	$ (5)		$ (7)	$ 2

	Quarter ended June 30, 2008		Six months ended June 30, 2008	
(In millions)	Total gains (losses) included in earnings	Change in unrealized gains (losses) relating to assets / liabilities still held at reporting date	Total gains (losses) included in earnings	Change in unrealized gains (losses) relating to assets / liabilities still held at reporting date
Continuing Operations				
Other service fees	$ 3	$ 5	$ 1	$ 6
Trading account profit		1	2	3
Discontinued Operations				
Loss from discontinued operations, net of tax	(46)	(22)	(67)	(12)
Total	$ (43)	$ (16)	$ (64)	$ (3)

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Additionally, the Corporation may be required to measure certain assets at fair value on a nonrecurring basis in accordance with generally accepted accounting principles. The adjustments to fair value usually result from the application of lower of cost or market accounting, identification of impaired loans requiring specific reserves under SFAS No. 114, or write-downs of individual assets. The following table presents financial and non-financial assets that were subject to a fair value measurement on a non-recurring basis during the six months ended June 30, 2009 and 2008 and which were still included in the consolidated statement of condition as of June 30, 2009 and 2008. The amounts disclosed represent the aggregate of the fair value measurements of those assets as of the end of the reporting period.

	Carrying value as of June 30, 2009			
(In millions)	Quoted prices in active markets for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3	Total
Assets				
Continuing Operations				
Loans (1)			$612	$612
Loans held-for-sale (2)			16	16
Other real estate owned (3)			51	51
Other foreclosed assets (3)			7	7
Discontinued Operations				
Loans held-for-sale (2)			1	1
Total			$687	$687

(1) Relates to certain impaired collateral dependent loans. The impairment was measured based on the fair value of the collateral, which is derived from appraisals that take into consideration prices in observed transactions involving similar assets in similar locations, in accordance with

the provisions of SFAS No. 114 (as amended by SFAS No. 118).

(2) Relates to lower of cost or fair value adjustments of loans held-for-sale and loans transferred from loans held-in-portfolio to loans held-for-sale. These adjustments were principally determined based on negotiated price terms for the loans.

(3) Represents the fair value of foreclosed real estate and other collateral owned that were measured at fair value.

	Carrying value as of December 31, 2008			
(In millions)	Quoted prices in active markets for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3	Total
Assets				
Continuing Operations				
Loans (1)			$ 523	$523
Loans held-for-sale (2)			364	364
Discontinued Operations				
Loans held-for-sale (2)			2	2

Total	$ 889	$889

(1) Relates to certain impaired collateral dependent loans. The impairment was measured based on the fair value of the collateral, which is derived from appraisals that take into consideration prices in observed transactions involving similar assets in similar locations, in accordance with the provisions of SFAS No. 114 (as amended by SFAS No. 118).

(2) Relates to lower of cost or fair value adjustments of loans held-for-sale and loans transferred from loans held-in-portfolio to loans held-for-sale. These adjustments were principally determined based on negotiated price terms for the loans.

	Carrying value as of June 30, 2008			
(In millions)	Quoted prices in active markets for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3	Total
Assets				
Continuing Operations				
Loans (1)			$ 426	$426
Discontinued Operations				
Loans held-for-sale (2)			5	5
Total			$ 431	$431

(1) Relates mostly to certain impaired collateral dependent loans. The impairment was measured based on the fair value of the collateral, which is derived from appraisals that take into consideration prices in observed transactions involving similar assets in similar locations, in accordance with the provisions of SFAS No. 114 (as amended by SFAS No. 118).

(2) Relates to lower of cost or fair value adjustments of loans held-for-sale and

loans transferred from loans held-in-portfolio to loans held-for-sale. These adjustments were principally determined based on negotiated price terms for the loans.

Following is a description of the Corporation s valuation methodologies used for assets and liabilities measured at fair value. The disclosure requirements exclude certain financial instruments and non-financial instruments. Accordingly, the aggregate fair value amounts of the financial instruments presented in these note disclosures do not represent management s estimate of the underlying value of the Corporation.

Trading Account Securities and Investment Securities Available-for-Sale

U.S. Treasury securities: The fair value of U.S. Treasury securities is based on yields that are interpolated from the constant maturity treasury curve. These securities are classified as Level 2.

Obligations of U.S. Government sponsored entities: The Obligations of U.S. Government sponsored entities include U.S. agency securities. The fair value of U.S. agency securities is based on an active exchange market and on quoted market prices for similar securities. The U.S. agency securities are classified as Level 2.

Obligations of Puerto Rico, States and political subdivisions: Obligations of Puerto Rico, States and political subdivisions include municipal bonds. The bonds are segregated and the like characteristics divided into specific sectors. Market inputs used in the evaluation process include all or some of the following: trades, bid price or spread, two sided markets, quotes, benchmark curves including but not limited to Treasury benchmarks, LIBOR and swap curves, market data feeds such as MSRB, discount and capital rates, and trustee reports. The municipal bonds are classified as Level 2.

Mortgage-backed securities: Certain agency mortgage-backed securities (MBS) are priced based on a bond s theoretical value from similar bonds defined by credit quality and market sector. Their fair value incorporates an option adjusted spread. The agency MBS are classified as Level 2. Other agency MBS such as GNMA Puerto Rico Serials are priced using an internally-prepared pricing matrix with quoted prices from local broker dealers. These particular MBS are classified as Level 3.

Collateralized mortgage obligations: Agency and private collateralized mortgage obligations (CMOs) are priced based on a bond s theoretical value from similar bonds defined by credit quality and market sector and for which fair value incorporates an option adjusted spread. The option adjusted spread model includes prepayment and volatility assumptions, ratings (whole loans collateral) and spread adjustments. These investment securities are classified as Level 2.

Equity securities: Equity securities with quoted market prices obtained from an active exchange market are classified as Level 1. Other equity securities that do not trade in highly liquid markets are classified as Level 2.

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Corporate securities and mutual funds (included as other in the trading account securities category): Quoted prices for these security types are obtained from broker dealers. Given that the quoted prices are for similar instruments or do not trade in highly liquid markets, the corporate securities and mutual funds are classified as Level 2. The important variables in determining the prices of Puerto Rico tax-exempt mutual fund shares are net asset value, dividend yield and type of assets in the fund. All funds trade based on a relevant dividend yield taking into consideration the aforementioned variables. In addition, demand and supply also affect the price. Corporate securities that trade less frequently or are in distress are classified as Level 3.

Derivatives

Interest rate swaps, interest rate caps and index options are traded in over-the-counter active markets. These derivatives are indexed to an observable interest rate benchmark, such as LIBOR or equity indexes, and are priced using an income approach based on present value and option pricing models using observable inputs. Other derivatives are exchange-traded, such as futures and options, or are liquid and have quoted prices, such as forward contracts or to be announced securities (TBAs). All of these derivatives are classified as Level 2. The non-performance risk is determined using internally-developed models that consider the collateral held, the remaining term, and the creditworthiness of the entity that bears the risk, and uses available public data or internally-developed data related to current spreads that denote their probability of default.

Mortgage servicing rights

Mortgage servicing rights (MSRs) do not trade in an active market with readily observable prices. MSRs are priced internally using a discounted cash flow model. The valuation model considers servicing fees, portfolio characteristics, prepayments assumptions, delinquency rates, late charges, other ancillary revenues, cost to service and other economic factors. Due to the unobservable nature of certain valuation inputs, the MSRs are classified as Level 3.

Loans held-in-portfolio considered impaired under SFAS No. 114 that are collateral dependent

The impairment is measured based on the fair value of the collateral, which is derived from appraisals that take into consideration prices in observed transactions involving similar assets in similar locations, in accordance with the provisions of SFAS No. 114 (as amended by SFAS No. 118). Currently, the associated loans considered impaired are classified as Level 3.

Loans measured at fair value pursuant to lower of cost or fair value adjustments

Loans measured at fair value on a nonrecurring basis pursuant to lower of cost or fair value were priced based on bids received from potential buyers, secondary market prices, and discounting cash flow models which incorporate internally-developed assumptions for prepayments and credit loss estimates. These loans are classified as Level 3.

Other real estate owned and other foreclosed assets

Other real estate owned includes real estate properties securing mortgage, consumer, and commercial loans. Other foreclosed assets include automobiles securing auto loans. The fair value of foreclosed assets may be determined using an external appraisal, broker price opinion or an internal valuation. These foreclosed assets are classified as Level 3 given certain internal adjustments that may be made to external appraisals.

Note 13 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.

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Derivatives are considered financial instruments and their carrying value equals fair value. For disclosures about the fair value of derivative instruments refer to Note 10 to the consolidated financial statements.

For those financial instruments with no quoted market prices available, fair values have been estimated using present value calculations 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 June 30, 2009 and December 31, 2008, respectively. In different interest rate environments, fair value estimates can differ significantly, especially for certain fixed rate financial instruments. 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 methods and assumptions used to estimate the fair values of significant financial instruments at June 30, 2009 and December 31, 2008 are described in the paragraphs below.

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 because of the short-term maturity of those instruments or because they carry interest rates which approximate market. 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, federal funds purchased and assets sold under agreements to repurchase, short-term borrowings, and acceptances outstanding. Resell and repurchase agreements with long-term maturities are valued using discounted cash flows based on market rates currently available for agreements with similar terms and remaining maturities.

Trading and investment securities, except for investments classified as other investment securities in the consolidated statement of condition, are financial instruments that regularly trade on secondary markets. The estimated fair value of these securities was determined using either market prices or dealer quotes, where available, or quoted market prices of financial instruments with similar characteristics. Trading account securities and securities available-for-sale are reported at their respective fair values in the consolidated statements of condition since they are marked-to-market for accounting purposes. These instruments are detailed in the consolidated statements of condition and in Notes 6 and 7.

The estimated fair value for loans held-for-sale is based on secondary market prices. The fair values of the loans held-in-portfolio 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 interest rate terms, credit quality and vintage. Generally, the fair values were estimated based on an exit price by discounting scheduled cash flows for the segmented groups of loans using a discount rate that considers interest, credit and expected return by market participant under current market conditions. Additionally, prepayment, default and recovery assumptions have been applied in the mortgage loan portfolio valuations. Generally accepted accounting principles do not require a fair valuation of the lease financing portfolio, therefore it is included in the loans total at its carrying amount.

The fair value of deposits with no stated maturity, such as non-interest bearing demand deposits, savings, NOW, and money market accounts is, for purposes 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 being offered on certificates with similar maturities. The value of these deposits in a transaction between willing parties is in part dependent of the buyer s ability to reduce the servicing cost and the attrition that sometimes occurs. Therefore, the amount a buyer would be willing to pay for these deposits could vary significantly from the presented fair value.

Long-term borrowings were valued using discounted cash flows, based on market rates currently available for debt with similar terms and remaining maturities and in certain instances using quoted market rates for similar instruments at June 30, 2009 and December 31, 2008.

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As part of the fair value estimation procedures of certain liabilities, including repurchase agreements (regular and structured) and FHLB advances, the Corporation considered, where applicable, the collaterization levels as part of its evaluation of non-performance risk.

Commitments to extend credit were 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. 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 were:

	June 30, 2009		December 31, 2008	
(In thousands)	Carrying amount	Fair value	Carrying amount	Fair value
Financial Assets:				
Cash and money market investments	$ 1,613,499	$ 1,613,499	$ 1,579,641	$ 1,579,641
Trading securities	487,182	487,182	645,903	645,903
Investment securities available-for-sale	7,246,459	7,246,459	7,924,487	7,924,487
Investment securities held-to-maturity	320,061	313,462	294,747	290,134
Other investment securities	214,923	216,551	217,667	255,830
Loans held-for-sale	242,847	249,856	536,058	541,576
Loans held-in-portfolio, net	23,459,823	21,330,133	24,850,066	17,383,956
Financial liabilities:				
Deposits	$26,913,485	$27,083,828	$27,550,205	$27,793,826
Federal funds purchased			144,471	144,471
Assets sold under agreements to repurchase	2,941,678	3,075,859	3,407,137	3,592,236
Short-term borrowings	1,825	1,825	4,934	4,934
Notes payable	2,643,722	2,229,924	3,386,763	3,257,491

(In thousands)	Notional amount	Fair Value	Notional Amount	Fair Value
Commitments to extend credit	$7,196,232	$ 449	$7,116,977	$ 943
Letters of credit	186,078	3,047	199,795	3,938

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Note 14 Borrowings

The composition of federal funds purchased and assets sold under agreements to repurchase was as follows:

(In thousands)	June 30, 2009	December 31, 2008	June 30, 2008
Federal funds purchased		$ 144,471	$ 625,000
Assets sold under agreements to repurchase	$2,941,678	3,407,137	4,113,677
	$2,941,678	$3,551,608	$4,738,677

Other short-term borrowings consisted of:

(In thousands)	June 30, 2009	December 31, 2008	June 30, 2008
Advances with the FHLB paying interest at maturity at fixed rates ranging from 2.23% to 2.40%			$ 675,000
Advances under credit facilities with other institutions at fixed rates ranging from 2.50% to 2.94%			214,000
Unsecured borrowings with private investors at a fixed rate of 0.40%	$ 500	$ 3,548	
Term notes purchased paying interest at maturity at fixed rates ranging from 2.20% to 3.40%			6,453
Term funds purchased paying interest at fixed rates ranging from 2.26% to 2.45%			439,000
Other	1,325	1,386	2,757
	$1,825	$ 4,934	$1,337,210

Note: Refer to the Corporation s Form 10-K for the year ended December 31, 2008, for rates and maturity information corresponding to the borrowings outstanding as of such date.

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Notes payable consisted of:

(In thousands)	June 30, 2009	December 31, 2008	June 30, 2008
Advances with the FHLB:			
-with maturities ranging from 2010 through 2015 paying interest at monthly fixed rates ranging from 1.48% to 5.06% (June 30, 2008 - 2.67% to 6.98%)	$1,107,216	$1,050,741	$ 961,817
-maturing in 2010 paying interest quarterly at a fixed rate of 5.10% (June 30, 2008 - 5.04% to 6.55%)	20,000	20,000	65,000
Advances under revolving lines of credit with maturities ranging from 2008 to 2009 paying interest quarterly at floating rates ranging from 0.20% to 0.27% over the 3-month LIBOR rate.			85,000
Term notes maturing in 2030 paying interest monthly at fixed rates ranging from 3.00% to 6.00%	3,100	3,100	3,100
Term notes with maturities ranging from 2009 to 2013 paying interest semiannually at fixed rates ranging from 5.20% to 9.75% (June 30, 2008 - 3.88% to 6.85%)	383,720	995,027	1,519,021
Term notes with maturities ranging from 2009 to 2013 paying interest monthly at a floating rate of 3.00% over the 10-year U.S. Treasury note rate	2,678	3,777	5,358
Term notes maturing in 2011 paying interest quarterly at a floating rate of 6.00% (June 30, 2008 - 0.40%) over the 3-month LIBOR rate	250,000	435,543	199,822
Secured borrowings at fair value paying interest monthly at fixed rates ranging from 6.04% to 7.04%			35,224
Secured borrowings at fair value paying interest monthly at floating rates ranging from 2.53% to 3.38% over the 1-month LIBOR rate			138,501
Notes linked to the S&P 500 Index maturing in 2008			32,838
Junior subordinated deferrable interest debentures with maturities ranging from 2027 to 2034 with fixed interest rates ranging from 6.13% to 8.33% (Refer to Note 15)	849,672	849,672	849,672
Other	27,336	28,903	29,019
	$2,643,722	$3,386,763	$3,924,372

Note: Refer to the Corporation s Form 10-K for the year ended December 31, 2008, for rates and maturity information corresponding to the borrowings outstanding as of such date. Key index rates as of June 30, 2009 and June 30, 2008, respectively, were as follows: 1-month LIBOR rate =0.31% and 2.46%; 3-month LIBOR rate = 0.60% and 2.78%; 10-year U.S. Treasury note = 3.54% and 3.97%.

The holders of $25 million of certain of the Corporation s fixed-rate notes and $250 million of the Corporation s floating rate notes have the right to require the Corporation to purchase the notes on each quarterly interest payment date beginning in March 2010. The holders of $175 million of those floating-rate notes also have the right to require the Corporation to repurchase the notes, in whole or in part, on each of September 30, 2009, and December 31, 2009, at a price equal to 99% of their principal amount. These notes were issued by the Corporation in 2008 and mature in 2011, subject to the right of investors to require their earlier repurchase by the Corporation.

Included in the table above is $350 million in term notes with interest that adjusts in the event of senior debt rating downgrades. As a result of rating downgrades by the major rating agencies in April 2009 and June 2009, the cost of the senior debt increased prospectively by an additional 225 basis points. The senior debt consists of term notes of $75 million with a fixed rate of 9.75% as of June 30, 2009, $25 million with a fixed rate of 9.41% as of June 30, 2009 and $250 million in term notes with floating rates at 3-month LIBOR plus 6.00% as of June 30, 2009. These term notes mature in 2011.

Note 15 Trust Preferred Securities

As of June 30, 2009 and 2008, the Corporation had established four trusts for the purpose of issuing trust preferred securities (the capital securities) to the public. The proceeds from such issuances, together with the proceeds of the related issuances of common securities of the trusts (the common securities), were used by the trusts to purchase junior subordinated deferrable interest debentures (the junior subordinated debentures) issued by the Corporation. The sole assets of the trusts consisted of the junior subordinated debentures of the Corporation and the related accrued interest receivable. These trusts are not consolidated by the Corporation under the provisions of FIN No. 46(R).

The junior subordinated debentures are included by the Corporation as notes payable in the consolidated statements of condition, while the common securities issued by the issuer trusts are included as other investment securities. The common securities of each trust are wholly-owned, or indirectly wholly-owned, by the Corporation.

Financial data pertaining to the trusts as of June 30, 2009, December 31, 2008 and June 30, 2008 follows:

(In thousands)

Issuer	BanPonce Trust I	Popular Capital Trust I	Popular North America Capital Trust I	Popular Capital Trust II
Issuance date	February 1997	October 2003	September 2004	November 2004
Capital securities	$ 144,000	$ 300,000	$ 250,000	$ 130,000
Distribution rate	8.327%	6.700%	6.564%	6.125%
Common securities	$ 4,640	$ 9,279	$ 7,732	$ 4,021
Junior subordinated debentures aggregate liquidation amount	$ 148,640	$ 309,279	$ 257,732	$ 134,021
Stated maturity date	February 2027	November 2033	September 2034	December 2034
Reference notes	(a),(c),(e),(f),(g)	(b),(d),(f)	(a),(c),(f)	(b),(d),(f)

(a) Statutory business trust that is wholly-owned by Popular North America (PNA) and indirectly wholly-owned by the Corporation.

(b) Statutory business trust that is wholly-owned by the Corporation.

(c) The obligations of PNA under the junior subordinated debentures and its guarantees of the capital securities under the trust are fully and unconditionally guaranteed on a subordinated basis by the Corporation to the extent set forth in the applicable guarantee agreement.

(d) These capital securities are fully and unconditionally guaranteed on a subordinated basis by the Corporation to the extent set forth in the applicable guarantee agreement.

(e) The original issuance was for $150 million. The Corporation had reacquired $6 million of the 8.327% capital securities.

(f) The Corporation has the right, subject to any required prior approval from the Federal

Reserve, to redeem after certain dates or upon the occurrence of certain events mentioned below, the junior subordinated debentures at a redemption price equal to 100% of the principal amount, plus accrued and unpaid interest to the date of redemption. The maturity of the junior subordinated debentures may be shortened at the option of the Corporation prior to their stated maturity dates (i) on or after the stated optional redemption dates stipulated in the agreements, in whole at any time or in part from time to time, or (ii) in whole, but not in part, at any time within 90 days following the occurrence and during the continuation of a tax event, an investment company event or a capital treatment event as set forth in the indentures relating to the capital securities, in each case subject to regulatory approval.

(g) Same as (f) above, except that the investment company event does not apply for early redemption.

The capital securities of Popular Capital Trust I and Popular Capital Trust II are traded on the NASDAQ under the symbols BPOPN and BPOPM , respectively.
The outstanding trust preferred securities are subject to the Exchange Offer described in Note 27 to these consolidated financial statements, which is expected to change the outstanding amount of the trust preferred securities. Also, in connection with the Exchange Offer described in Note 27 to these consolidated financial statements, the U.S. Treasury has agreed with the Corporation that the U.S. Treasury will exchange all of its outstanding shares of Series C Preferred Stock (described in Note 16 Stockholders Equity) for $935 million of newly issued trust preferred securities (the New Trust Preferred Securities).

Note 16 Stockholders Equity

On May 1, 2009, the stockholders of the Corporation approved an amendment to the Corporation s Certificate of Incorporation to increase the number of authorized shares of common stock from 470,000,000 shares to 700,000,000 shares. The stockholders also approved to decrease the par value of the common stock of the Corporation from $6 per share to $0.01 per share. The decrease in the par value of the Corporation s common stock had no effect on the total dollar value of the Corporation s stockholders equity. During the quarter ended June 30, 2009, the Corporation transferred an amount equal to the product of the number of shares issued and outstanding and $5.99 (the difference between the old and new par values), from the common stock account to surplus (additional paid-in capital).

On February 19, 2009, the Board of Directors of the Corporation resolved to retire 13,597,261 shares of the Corporation s common stock that were held by the Corporation as treasury shares. It is the Corporation s accounting policy to account, at retirement, for the excess of the cost of the treasury stock over its par value entirely to surplus. The impact of the retirement is depicted in the accompanying Consolidated Statement of Changes in Stockholders Equity.

The Corporation s authorized preferred 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 s preferred stock outstanding as of June 30, 2009 consisted of:

6.375% non-cumulative monthly income preferred stock, 2003 Series A, no par value, liquidation preference value of $25 per share. Cash dividends declared and paid on the 2003 Series A Preferred Stock amounted to approximately $3.0 million for each of the quarters ended June 30, 2009, and 2008 and $6.0 million for each of the six-month periods ended June 30, 2009 and 2008.

8.25% non-cumulative monthly income preferred stock, 2008 Series B, no par value, liquidation preference value of $25 per share. Cash dividends declared and paid on the 2008 Series B Preferred Stock amounted to approximately $8.3 million for the quarter ended June 30, 2009 (June 30, 2008 $3.0 million) and $16.5 million for the six months ended June 30, 2009 (June 30, 2008 $3.0 million).

Fixed rate cumulative perpetual preferred stock, Series C, $1,000 liquidation preference per share issued to the U.S. Department of Treasury (U.S. Treasury) in December 2008, under the Capital Purchase Program established by the U.S. Treasury pursuant to the Troubled Asset Relief Program (TARP). The Corporation also issued to the U.S. Treasury a warrant to purchase 20,932,836 shares of Popular s common stock at an exercise price of $6.70 per share, which continues outstanding in full as of June 30, 2009.

The shares of Series C Preferred Stock qualify as Tier I regulatory capital and pay cumulative dividends quarterly (February 15, May 15, August 15 and November 15) at a rate of 5% per annum for the first five years, and 9% per annum thereafter. The Corporation paid cash dividends on the Series C Preferred Stock amounting to $11.7 million and $20.8 million during the quarter and six months ended June 30, 2009, respectively.

Refer to the 2008 Annual Report for details on the terms of each class of preferred stock.

During the quarter ended June 30, 2009, cash dividends of $0.02 per common share outstanding amounting to $5.6 million were paid to shareholders of the Corporation s common stock (June 30, 2008 $0.16 per common share or $44.9 million). During the six months ended June 30, 2009, cash dividends of $0.10 per common share outstanding amounting to $28.2 million were paid to shareholders of the Corporation s common stock (June 30, 2008 $0.32 per common share or $89.7 million).

The dividends paid to holders of the Corporation s preferred stock must be declared by the Corporation s Board of Directors. On a regular basis, the Board reviews various factors when considering the payment of dividends on the Corporation s outstanding preferred stock, including its capital levels, recent and projected financial results and liquidity. The Board is not obligated to declare dividends and, except for the Series C Preferred Stock issued under the TARP Capital Purchase Program, dividends do not accumulate in the event they are not paid.

In June 2009, the Corporation announced the suspension of dividends on the Corporation s common stock and Series A and B preferred stock.

The Corporation s common stock ranks junior to all series of preferred stock as to dividend rights and/or as to rights on liquidation, dissolution or winding up of the Corporation. All series of preferred stock are pari passu. Dividends on each series of preferred stock are payable if declared. The Corporation s ability to declare or pay dividends on, or purchase, redeem or otherwise acquire, its common stock is subject to certain restrictions in the event that the Corporation fails to pay or set aside full dividends on the preferred stock for the latest dividend period. The ability of the Corporation to pay dividends in the future is limited by TARP requirements, legal availability of funds, recent and projected financial results, capital levels and liquidity of the Corporation, general business conditions and other factors deemed relevant by the Corporation s Board of Directors.

On June 29, 2009, the Corporation commenced an offer to issue up to 390 million shares of its common stock in exchange for its Series A preferred stock and Series B preferred stock and for the trust preferred securities described in Note 15 Trust Preferred Securities. Refer to Note 27 to these consolidated financial statements for information on the Exchange Offer. Also, in connection with the Corporation s Exchange Offer (described in Note 27 Exchange Offer), the U.S. Treasury has agreed with the Corporation that the U.S. Treasury will exchange all of its outstanding shares of Series C Preferred Stock for $935 million of the New Trust Preferred Securities.

The Banking Act of the Commonwealth of Puerto Rico requires that a minimum of 10% of BPPR s net income for the year be transferred to a statutory reserve account until such statutory reserve equals the total of paid-in capital on common and preferred stock. Any losses incurred by a bank must first be charged to retained earnings and then to the reserve fund. Amounts credited to the reserve fund may not be used to pay dividends without the prior consent of the Puerto Rico Commissioner of Financial Institutions. The failure to maintain sufficient statutory reserves would preclude BPPR from paying dividends. BPPR s statutory reserve fund totaled $392 million as of June 30, 2009 (December 31, 2008 $392 million; June 30, 2008 $374 million). There were no transfers between the statutory reserve account and the retained earnings account during the quarters and six months ended June 30, 2009 and 2008.

Note 17 Commitments, Contingencies and Guarantees

Commercial letters of credit and stand-by letters of credit amounted to $18 million and $168 million, respectively, as of June 30, 2009 (December 31, 2008 $19 million and $181 million; June 30, 2008 $21 million and $163 million). There were also other commitments outstanding and contingent liabilities, such as commitments to extend credit.

As of June 30, 2009, the Corporation recorded a liability of $0.6 million (December 31, 2008 $0.7 million and June 30, 2008 $0.6 million), which represents the fair value of the obligations undertaken in issuing the guarantees under stand-by letters of credit. The fair value approximates the fee received from the customer for issuing such commitments. These fees are deferred and are recognized over the commitment period. The liability was included as part of other liabilities in the consolidated statements of condition. The contract amounts in stand-by letters of credit outstanding represent the maximum potential amount of future payments the Corporation could be required to make under the guarantees in the event of nonperformance by the customers. These stand-by letters of credit are used by the customer as a credit enhancement and typically expire without being drawn upon. The Corporation s stand-by letters of credit are generally 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. Management does not anticipate any material losses related to these instruments.

The Corporation securitizes mortgage loans into guaranteed mortgage-backed securities subject to limited, and in certain instances, lifetime credit recourse on the loans that serve as collateral for the mortgage-backed securities. Also, from time to time, the Corporation may sell loans subject to certain representations and warranties from the Corporation to the purchaser. These representations and warranties may relate to borrower creditworthiness, loan documentation, collateral, prepayment and early payment defaults. The Corporation may be required to repurchase the loans under the credit recourse agreements or representation and warranties. Generally, the Corporation retains the right to service the loans when securitized or sold with credit recourse.

As of June 30, 2009, the Corporation serviced $4.7 billion (December 31, 2008 $4.9 billion and June 30, 2008 $3.7 billion) in residential mortgage loans with credit 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

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third party investor for loss or repurchase the loan. 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, historically, the losses associated to these guarantees have not been significant. As of June 30, 2009, the Corporation had reserves of approximately $13 million (December 31, 2008 $14 million and June 30, 2008 $7 million) to cover the estimated credit loss exposure. At June 30, 2009, the Corporation also serviced $13.0 billion (December 31, 2008 $12.7 billion and June 30, 2008 $16.7 billion) 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.

As disclosed in the 2008 Annual Report, during 2008, the Corporation provided indemnifications for the breach of certain representations or warranties in connection with certain sales of assets by the discontinued operations of PFH. Generally, the primary indemnifications included:

- Indemnification for breaches of certain key representations and warranties, including corporate authority, due organization, required consents, no liens or encumbrances, compliance with laws as to origination and servicing, no litigation relating to violation of consumer lending laws, and absence of fraud.

- Indemnification for breaches of all other representations including general litigation, general compliance with laws, ownership of all relevant licenses and permits, compliance with the seller s obligations under the pooling and servicing agreements, lawful assignment of contracts, valid security interest, good title and all files and documents are true and complete in all material respects, among others.

Certain of the representations and warranties covered under these indemnifications expire within a definite time period; others survive until the expiration of the applicable statute of limitations, and others do not expire. Certain of the indemnifications are subject to a cap or maximum aggregate liability defined as a percentage of the purchase price. In the event of a breach of a representation, the Corporation may be required to repurchase the loan. The indemnifications outstanding as of June 30, 2009 do not require the repurchase of loans under credit recourse obligations. As of June 30, 2009, the Corporation has an indemnification reserve of approximately $19 million for potential future claims under the indemnity clauses (December 31, 2008 $16 million), which is reported as part of Liabilities from discontinued operations in the consolidated statement of condition. If there is a breach of a representation or warranty, the Corporation may be required to repurchase the loan. Popular, Inc. Holding Company and Popular North America have agreed to guarantee certain obligations of PFH with respect to the indemnification obligations. In addition, the Corporation has agreed to restrict $10 million in cash or cash equivalents for a period of one year expiring in November 2009 to cover any such obligations related to the major sale transaction that involved the sale of loans representing approximately $1.0 billion in principal balance during 2008.

The Corporation has also established reserves for representations and warranties on sold loans by its subsidiary E-LOAN (the Company). As such, although the risk of loss or default is generally assumed by the investors, the Company is required to make certain representations relating to borrower creditworthiness, loan documentation and collateral. To the extent that the Company does not comply with such representations, it may be required to repurchase loans or indemnify investors for any related losses or borrower defaults. In connection with a majority of its loan sale agreements, E-LOAN is also responsible for ensuring that the borrower makes a minimum number of payments on each loan, or the Company may be required to refund the premium paid to it by the loan purchaser. These reserves, which are included as part of other liabilities in the consolidated statement of condition, amounted to $15 million at June 30, 2009.

During the six months ended June 30, 2009, the Corporation sold a lease financing portfolio of approximately $0.3 billion. In conjunction with this sale, the Corporation recognized an indemnification reserve of approximately $12 million to provide for any losses on the breach of certain representations and warranties included in the sale agreement. This reserve is included as part of other liabilities in the consolidated statement of condition.

Popular, Inc. Holding Company (PIHC) fully and unconditionally guarantees certain borrowing obligations issued by certain of its wholly-owned consolidated subsidiaries totaling $974 million as of June 30, 2009 (December 31, 2008 $1.7 billion and June 30, 2008 $2.5 billion). In addition, as of June 30, 2009, PIHC fully and unconditionally guaranteed $824 million of capital securities (December 31, 2008 and June 30, 2008 $824 million) issued by four wholly-owned issuing trust entities that have been deconsolidated pursuant to FIN No. 46R. Refer to Note 15 to the consolidated financial statements for further information.

Legal Proceedings

The Corporation is a defendant in a number of legal proceedings arising in the ordinary course of business. Based on the opinion of legal counsel, management believes that the final disposition of these matters, except for the matters described below which are in very early stages and management cannot currently predict their outcome, will not have a material adverse effect on the Corporation s business, results of operations, financial condition and liquidity.

Between May 14, 2009 and August 10, 2009, five putative class actions and one derivative claim were filed in the United States District Court for the District of Puerto Rico, against Popular, Inc. and certain of its directors and officers. Two of the class actions (Hoff v. Popular, Inc., et al. and Otero v. Popular, Inc., et al.) purport to be on behalf of purchasers of our securities between January 23, 2008 and January 22, 2009 and allege that the defendants violated Section 10(b) of the Exchange Act, and Rule 10b-5 promulgated thereunder, and Section 20(a) of the Exchange Act by issuing a series of allegedly false and/or misleading statements and/or omitting to disclose material facts necessary to make statements made by us not false and misleading. The Otero action also alleges that the defendants violated Section 11, Section 12(a)(2) and Section 15 of the Securities Act by making allegedly untrue statements and/or omitting to disclose material facts necessary to make statements made by us not false and misleading in connection with the offering of the Series B Preferred Stock in May 2008. These securities class action complaints seek class certification, an award of compensatory damages and reasonable costs and expenses, including counsel fees. These two actions have now been consolidated. The remaining class actions (Walsh v. Popular, Inc. et al.; Montanez v. Popular, Inc., et al.; and Dougan v. Popular, Inc., et al.) purport to be on behalf of employees participating in the Popular, Inc. U.S.A. 401(k) Savings and Investment Plan and the Popular, Inc. Puerto Rico Savings and Investment Plan between January 23, 2008 and the dates of the complaints to recover losses pursuant to Sections 409, 502(a)(2) and 502(a)(3) of the Employee Retirement Income Security Act (ERISA) against the Corporation, certain directors, officers and members of plan committees, each of whom is alleged to be a plan fiduciary. The complaints allege that the defendants breached their alleged fiduciary obligations by, among other things, failing to eliminate Popular stock as an investment alternative in the plans. The complaints seek to recover alleged losses to the plans and equitable relief, including injunctive relief and a constructive trust, along with costs and attorneys fees. These ERISA actions have now been consolidated. The derivative claim (Garcia v. Carrion, et al.) is brought purportedly for the benefit of nominal defendant Popular, Inc. against certain executive officers and directors and alleges breaches of fiduciary duty, waste of assets and abuse of control in connection with our issuance of allegedly false and misleading financial statements and financial reports and the offering of the Series B Preferred Stock. The derivative complaint seeks a judgment that the action is a proper derivative action, an award of damages and restitution, and costs and disbursements, including reasonable attorneys fees, costs and expenses.

At this early stage, it is not possible for management to assess the probability of an adverse outcome, or reasonably estimate the amount of any potential loss. It is possible that the ultimate resolution of these matters, if unfavorable, may be material to the Corporation s results of operations.

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Note 18 Other Service Fees

The caption of other service fees in the consolidated statements of operations consists of the following major categories that exceed one percent of the aggregate of total interest income plus non-interest income for the quarters and six-months ended:

	Quarter ended June 30,		Six months ended June 30,	
(In thousands)	2009	2008	2009	2008
Debit card fees	$ 27,508	$ 26,340	$ 53,881	$ 51,710
Credit card fees and discounts	23,449	27,282	47,454	54,526
Processing fees	13,727	13,158	27,135	25,543
Insurance fees	12,547	13,470	24,551	25,876
Sale and administration of investment products	9,694	8,079	17,023	19,076
Other fees	15,512	19,788	30,926	34,616
Total	$102,437	$108,117	$200,970	$211,347

Note 19 Pension and Postretirement Benefits

The Corporation has noncontributory defined benefit pension plans and supplementary benefit pension plans for regular employees of certain of its subsidiaries.

In February 2009, BPPR s non-contributory defined pension and benefit restoration plans (the Plans) were frozen with regards to all future benefit accruals after April 30, 2009. This action was taken by the Corporation to generate significant cost savings in light of the severe economic downturn and decline in the Corporation s financial performance; this measure will be reviewed periodically as economic conditions and the Corporation s financial situation improve. The pension obligation and the assets were remeasured as of February 28, 2009. The impact of the plans curtailment was included in the first quarter of 2009 as disclosed in the table below.

The components of net periodic pension cost for the quarters and six months ended June 30, 2009 and 2008 were as follows:

	Pension Plans				Benefit Restoration Plans			
	Quarters ended June 30,		Six months ended June 30,		Quarters ended June 30,		Six months ended June 30,	
(In thousands)	2009	2008	2009	2008	2009	2008	2009	2008
Service cost	$ 887	$ 2,315	$ 3,330	$ 4,630	$ 116	$ 182	$ 341	$ 364
Interest cost	8,042	8,611	16,589	17,222	390	461	834	922
Expected return on plan assets	(6,222)	(10,169)	(13,099)	(20,338)	(307)	(420)	(625)	(840)
Amortization of prior service cost		67	44	134		(13)	(8)	(26)
Amortization of net loss	3,204		7,387		185	172	498	343
Net periodic cost	5,911	824	14,251	1,648	384	382	1,040	763
Curtailment gain			820				(341)	

Total cost	$ 5,911	$ 824	$ 15,071	$ 1,648	$ 384	$ 382	$ 699	$ 763

The Plans experienced a steep decline in the fair value of plan assets for the year ended December 31, 2008, which resulted in a significant increase in the actuarial loss component of accumulated other comprehensive income as of December 31, 2008. The increase in net periodic pension cost, shown above, for the six months ended June 30, 2009 versus the same period in 2008 was primarily due to the amortization of actuarial loss into pension expense and a lower expected return on plan assets.

For the six months ended June 30, 2009, contributions made to the pension and restoration plans amounted to approximately $3.8 million. The total contributions expected to be paid during the year 2009 for the pension and restoration plans amount to approximately $18.2 million.

The Corporation also provides certain health care benefits for retired employees of certain subsidiaries. The components of net periodic postretirement benefit cost for the quarters and six months ended June 30, 2009 and 2008 were as follows:

(In thousands)	Quarters ended June 30, 2009	Quarters ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
Service cost	$ 549	$ 485	$1,098	$ 970
Interest cost	2,026	1,967	4,052	3,934
Amortization of prior service cost	(262)	(262)	(523)	(524)
Total net periodic cost	$2,313	$2,190	$4,627	$4,380

For the six months ended June 30, 2009, contributions made to the postretirement benefit plan amounted to approximately $1.9 million. The total contributions expected to be paid during the year 2009 for the postretirement benefit plan amount to approximately $6.1 million.

Note 20 Restructuring Plans

As indicated in the 2008 Annual Report, on October 17, 2008, the Board of Directors of Popular, Inc. approved two restructuring plans for the BPNA reportable segment. The objective of the restructuring plans is to improve profitability in the short-term, increase liquidity and lower credit costs and, over time, achieve a greater integration with corporate functions in Puerto Rico.

BPNA Restructuring Plan

The restructuring plan for BPNA s banking operations (the BPNA Restructuring Plan) contemplates the following measures: closing, consolidating or selling approximately 40 underperforming branches in all existing markets; the shutting down, sale or downsizing of lending businesses that do not generate deposits or fee income; and the reduction of general expenses associated with functions supporting the aforementioned branch and balance sheet initiatives. The Corporation expects to complete the BPNA Restructuring Plan by the end of 2009. The following table details the expenses recognized during the quarter and six months ended June 30, 2009 that were associated with this particular restructuring plan.

(In thousands)	Quarter ended June 30, 2009	Six months ended June 30, 2009
Personnel costs	$ 1,358(a)	$ 4,278(a)
Net occupancy expenses	73	73
Other operating expenses		453(b)
Total restructuring costs	$ 1,431	$ 4,804

(a) Severance, retention bonuses and other benefits

(b) Impairment on long-lived assets

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As of June 30, 2009, the BPNA Restructuring Plan has resulted in combined charges for 2008 and 2009, broken down as follows:

(In thousands)	Impairments on long-lived assets	Restructuring costs	Total
Year ended December 31, 2008	$ 5,481	$ 14,195	$19,676
Quarter ended			
March 31, 2009	453	2,920	3,373
June 30, 2009		1,431	1,431
Total	$ 5,934	$ 18,546	$24,480

The following table presents the activity during 2009 in the reserve for restructuring costs associated with the BPNA Restructuring Plan.

(In thousands)	Restructuring Costs
Balance as of January 1, 2009	$ 10,852
Charges during the quarter ended March 31, 2009	3,373
Cash payments	(4,585)
Balance at March 31, 2009	$ 9,640
Charges during the quarter ended June 30, 2009	1,431
Cash payments	(3,262)
Balance as of June 30, 2009	$ 7,809

The reserve balances as of June 30, 2009 were mostly related to lease terminations.

Additional restructuring costs expected to be incurred associated with this restructuring plan are estimated at $9.1 million.

E-LOAN 2008 Restructuring Plan

The E-LOAN 2008 Restructuring Plan involved E-LOAN ceasing to operate as a direct lender, an event that occurred in late 2008. E-LOAN continues to market deposit accounts under its name for the benefit of BPNA and offers loan customers the option of being referred to a trusted consumer lending partner. As part of the 2008 plan, all operational and support functions were transferred to BPNA and EVERTEC. The 2008 E-LOAN Restructuring Plan is expected to be substantially completed by the end of the third quarter of 2009. As of June 30, 2009, E-LOAN s workforce totaled 61 FTEs.

The following table details the expenses recognized during the quarter and six months ended June 30, 2009 that were associated with the E-LOAN 2008 Restructuring Plan.

(In thousands)	Quarter ended June 30, 2009	Six months ended June 30, 2009

Personnel costs	$	885(a)	$	2,703(a)
Total restructuring costs	$	885	$	2,703

(a) Severance, retention bonuses and other benefits

As of June 30, 2009, the E-LOAN 2008 Restructuring Plan has resulted in combined charges for 2008 and 2009, broken down as follows:

(In thousands)	Impairments on long-lived assets	Restructuring costs	Total
Year ended December 31, 2008	$ 18,867	$ 3,131	$21,998
Quarter ended			
March 31, 2009		1,818	1,818
June 30, 2009		885	885
Total	$ 18,867	$ 5,834	$24,701

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The following table presents the activity in the reserve for restructuring costs associated with the E-LOAN 2008 Restructuring Plan for the six months ended June 30, 2009.

(In thousands)	Restructuring Costs
Balance as of January 1, 2009	$ 3,015
Charges during the quarter ended March 31, 2009	1,818
Cash payments	(1,528)
Balance at March 31, 2009	$ 3,305
Charges during the quarter ended June 30, 2009	885
Cash payments	(1,708)
Balance as of June 30, 2009	$ 2,482

The reserve balance as of June 30, 2009 was mostly associated with personnel costs.
Additional restructuring costs expected to be incurred associated with this restructuring plan are estimated at $0.2 million.
The E-LOAN Restructuring Plan charges are part of the results of the BPNA reportable segment.

Note 21 Income Taxes

The reconciliation of unrecognized tax benefits, including accrued interest, was as follows:

(In millions)	2009	2008
Balance as of January 1	$45.2	$22.2
Additions for tax positions January - March	1.7	1.4
Reductions as a result of settlements January - March	(0.6)	
Balance as of March 31	$46.3	$23.6
Additions for tax positions April - June	2.2	4.4
Reductions as a result of settlements April - June		
Balance as of June 30	$48.5	$28.0

As of June 30, 2009, the related accrued interest approximated $6.3 million (June 30, 2008 - $3.6 million).
Management determined that as of June 30, 2009 and 2008 there was no need to accrue for the payment of penalties.
After consideration of the effect on U.S. federal tax of unrecognized U.S. state tax benefits, the total amount of unrecognized tax benefits, including U.S. and Puerto Rico, that if recognized, would affect the Corporation s effective tax rate, was approximately $46.8 million as of June 30, 2009 (June 30, 2008 $26.7 million).
The amount of unrecognized tax benefits may increase or decrease in the future for various reasons including adding amounts for current tax year positions, expiration of open income tax returns due to the statutes of limitation, changes in management s judgment about the level of uncertainty, status of examinations, litigation and legislative activity and the addition or elimination of uncertain tax positions.
The Corporation and its subsidiaries file income tax returns in Puerto Rico, the U.S. federal jurisdiction, various U.S. states and political subdivisions, and foreign jurisdictions. As of June 30, 2009, the following years remain subject to examination in the U.S. Federal jurisdiction 2007 and thereafter; and in the Puerto Rico jurisdiction 2004 and thereafter. The U.S. Internal Revenue Service (IRS) commenced an examination of the Corporation s U.S. operations

tax return for 2007 which is still in process. Although the outcomes of the tax audits are uncertain, the Corporation believes that adequate amounts of tax and interest have been provided for any adjustments that are expected to result from open years. The Corporation does not anticipate a significant change to the total amount of unrecognized tax benefits within the next 12 months.

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The following table presents the components of the Corporation s deferred tax assets and liabilities.

(In thousands)	June 30, 2009	December 31, 2008
Deferred tax assets:		
Tax credits available for carryforward and other credits available	$ 11,463	$ 74,676
Net operating losses carryforward available	770,146	670,326
Deferred compensation	1,899	2,628
Postretirement and pension benefits	127,661	149,027
Deferred loan origination fees	8,461	8,603
Allowance for loan losses	485,642	368,690
Deferred gains	14,621	18,307
Unearned income	499	600
Unrealized losses on derivatives		500
Intercompany deferred gains	8,103	11,263
SFAS. No 159 - Fair value option		13,132
Other temporary differences	37,111	34,223
Total gross deferred tax assets	1,465,606	1,351,975
Deferred tax liabilities:		
Differences between assigned values and the tax basis of the assets and liabilities recognized in purchase business combinations	23,464	21,017
Deferred loan origination costs	10,728	11,228
Accelerated depreciation	7,782	9,348
Unrealized net gain on securities available-for-sale	16,787	78,761
Unrealized gain on derivatives	1,418	
Other temporary differences	17,465	13,232
Total gross deferred tax liabilities	77,644	133,586
Gross deferred tax assets less liabilities	1,387,962	1,218,389
Less: Valuation allowance	997,559	861,018
Net deferred tax assets	$ 390,403	$ 357,371

SFAS No.109 states that a deferred tax asset should be reduced by a valuation allowance if based on the weight of all available evidence, it is more likely than not (a likelihood of more than 50%) that some portion or the entire deferred tax asset will not be realized. The valuation allowance should be sufficient to reduce the deferred tax asset to the amount that is more likely than not to be realized. The determination of whether a deferred tax asset is realizable is based on weighing all available evidence, including both positive and negative evidence. SFAS No. 109 provides that the realization of deferred tax assets, including carryforwards and deductible temporary differences, depends upon the existence of sufficient taxable income of the same character during the carryback or carryforward period. SFAS No.109 requires the consideration of all sources of taxable income available to realize the deferred tax asset, including the future reversal of existing temporary differences, future taxable income exclusive of reversing temporary differences and carryforwards, taxable income in carryback years and tax-planning strategies.

The Corporation s U.S. mainland operations are in a cumulative loss position for the three-year period ended June 30, 2009. For purposes of assessing the realization of the deferred tax assets in the U.S. mainland, this cumulative taxable loss position in recent years is considered significant negative evidence and has caused the Corporation to conclude that it will not be able to realize the related deferred tax assets in the future. As of June 30, 2009, the Corporation s U.S. mainland operations net deferred tax assets amounted to $983 million with a valuation allowance of $998 million. The additional valuation allowance of $15 million is related to a deferred tax liability on the indefinite-lived intangible assets, mainly at BPNA. Management will continue to reassess the realization of the deferred tax assets each reporting period.

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Note 22 Stock-Based Compensation

The Corporation maintained a Stock Option Plan (the Stock Option Plan), which permitted the granting of incentive awards in the form of qualified stock options, incentive stock options, or non-statutory stock options of the Corporation. In April 2004, the Corporation s shareholders adopted the Popular, Inc. 2004 Omnibus Incentive Plan (the Incentive Plan), which replaced and superseded the Stock Option Plan. Nevertheless, all outstanding award grants under the Stock Option Plan continue to remain in effect at June 30, 2009 under the original terms of the Stock Option Plan.

Stock Option Plan

Employees and directors of the Corporation or any of its subsidiaries were eligible to participate in the Stock Option Plan. The Board of Directors or the Compensation Committee of the Board had the absolute discretion to determine the individuals that were eligible to participate in the Stock Option 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 shares are to be made available from authorized but unissued shares of common stock or treasury stock. The Corporation s policy has been to use authorized but unissued shares of common stock to cover each grant. The maximum option term is 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, subject to an acceleration clause at termination of employment due to retirement.

The following table presents information on stock options outstanding as of June 30, 2009:

(Not in thousands)

Exercise Price Range per Share	Options Outstanding	Weighted-Average Exercise Price of Options Outstanding	Weighted-Average Remaining Life of Options Outstanding In Years	Options Exercisable (fully vested)	Weighted-Average Exercise Price of Options Exercisable
$14.39 - $18.50	1,325,463	$ 15.84	3.24	1,325,463	$ 15.84
$19.25 - $27.20	1,376,965	$ 25.23	4.99	1,287,983	$ 25.09
$14.39 - $27.20	2,702,428	$ 20.62	4.13	2,613,446	$ 20.40

The aggregate intrinsic value of options outstanding as of June 30, 2009 was $0.2 million (June 30, 2008 $2.1 million). There was no intrinsic value of options exercisable as of June 30, 2009 and 2008.

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

(Not in thousands)	Options Outstanding	Weighted-Average Exercise Price
Outstanding at January 1, 2008	3,092,192	$ 20.64
Granted		
Exercised		
Forfeited	(40,842)	26.29
Expired	(85,507)	19.67
Outstanding as of December 31, 2008	2,965,843	$ 20.59
Granted		
Exercised		

Forfeited	(46,657)	26.20
Expired	(216,758)	19.06
Outstanding as of June 30, 2009	2,702,428	$ 20.62

The stock options exercisable as of June 30, 2009 totaled 2,613,446 (June 30, 2008 - 2,738,512). There were no stock options exercised during the quarters and six-month periods ended June 30, 2009 and 2008. Thus, there was no intrinsic value of options exercised during the quarters and six-month periods ended June 30, 2009 and 2008.
There were no new stock option grants issued by the Corporation under the Stock Option Plan during 2008 and 2009.
For the quarter ended June 30, 2009, the Corporation recognized a credit of $0.1 million of stock option expense, with an income tax expense of $51 thousand (June 30, 2008 $0.3 million, with a tax benefit of $0.1 million). For the six months ended June 30, 2009, the Corporation recognized $27 thousand of stock option expense, with a tax benefit of $4 thousand (June 30, 2008 $0.6 million, with a tax benefit of $0.2 million). The total unrecognized compensation cost as of June 30, 2009 related to non-vested stock option awards was $0.2 million and is expected to be recognized over a weighted-average period of 6 months.

Incentive Plan

The Incentive Plan permits the granting of incentive awards in the form of Annual Incentive Awards, Long-term Performance Unit Awards, Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Units or Performance Shares. Participants in the Incentive Plan are designated by the Compensation Committee of the Board of Directors (or its delegate as determined by the Board). Employees and directors of the Corporation and / or any of its subsidiaries are eligible to participate in the Incentive Plan. The shares may be made available from common stock purchased by the Corporation for such purpose, authorized but unissued shares of common stock or treasury stock. The Corporation s policy with respect to the shares of restricted stock has been to purchase such shares in the open market to cover each grant.
Under the Incentive Plan, the Corporation has issued restricted shares, which become vested based on the employees continued service with Popular. Unless otherwise stated in an agreement, the compensation cost associated with the shares of restricted stock is determined based on a two-prong vesting schedule. The first part is vested ratably over five years commencing at the date of grant and the second part is vested at termination of employment after attainment of 55 years of age and 10 years of service. The five-year vesting part is accelerated at termination of employment after attaining 55 years of age and 10 years of service.
The following table summarizes the restricted stock activity under the Incentive Plan and related information to members of management:

(Not in thousands)	Restricted Stock	Weighted-Average Grant Date Fair Value
Non-vested at January 1, 2008	303,686	$ 22.37
Granted		
Vested	(50,648)	20.33
Forfeited	(4,699)	19.95
Non-vested as of December 31, 2008	248,339	$ 22.83
Granted		
Vested	(104,279)	21.94
Forfeited	(3,518)	19.95
Non-vested as of June 30, 2009	140,542	$ 23.56

During the quarters and six-month periods ended June 30, 2009 and 2008, no shares of restricted stock were awarded to management under the Incentive Plan corresponding to the performance of 2008 and 2007.
Beginning in 2007, the Corporation authorized the issuance of performance shares, in addition to restricted shares, under the Incentive Plan. The performance shares award consists of the opportunity to receive shares of Popular, Inc. s common stock provided the Corporation achieves certain performance goals during a 3-year performance cycle. The

compensation cost associated with the performance shares will be recorded ratably over a three-year performance period. The performance shares will be granted at the end of the three-year period and will be vested at grant date, except when the participant s employment is terminated by the Corporation without cause. In such case, the participant will receive a pro-rata amount of shares calculated as if the Corporation would have met the performance goal for the performance period. As of June 30, 2009, 33,700 (June 30, 2008 6,217) shares have been granted under this plan to terminated employees.

During the quarter ended June 30, 2009, the Corporation recognized $0.6 million of restricted stock expense related to management incentive awards, with a tax benefit of $0.2 million (June 30, 2008 - $0.3 million, with a tax benefit of $0.1 million). For the six-month period ended June 30, 2009, the Corporation recognized $0.8 million of restricted stock expense related to management incentive awards, with a tax benefit of $0.3 million (June 30, 2008 $1.2 million, with a tax benefit of $0.5 million). The fair market value of the restricted stock vested was $1.8 million at grant date and $0.3 million at vesting date. This triggers a shortfall of $1.5 million that was recorded as an additional income tax expense at the applicable income tax rate net of deferred tax asset valuation allowance since the Corporation does not have any surplus due to windfalls. During the quarter ended June 30, 2009, the Corporation recognized $0.4 million of performance share expense, with a tax benefit of $99 thousand. During the quarter ended June 30, 2008, the Corporation recognized $0.5 million of performance share expense, with a tax benefit of $0.2 million. During the six-month period ended June 30, 2009, the Corporation recognized $0.2 million of performance share expense, with a tax benefit of $21 thousand (June 30, 2008 $0.9 million, with a tax benefit of $0.3 million). The total unrecognized compensation cost related to non-vested restricted stock awards and performance shares to members of management as of June 30, 2009 was $9.6 million and is expected to be recognized over a weighted-average period of 1.85 years.

The following table summarizes the restricted stock under the Incentive Plan and related information to members of the Board of Directors:

(Not in thousands)	Restricted Stock	Weighted-Average Grant Date Fair Value
Non-vested at January 1, 2008		
Granted	56,025	10.75
Vested	(56,025)	10.75
Forfeited		
Non-vested as of December 31, 2008		
Granted	173,923	3.26
Vested	(173,923)	3.26
Forfeited		
Non-vested as of June 30, 2009		

During the quarter ended June 30, 2009, the Corporation granted 151,612 (June 30, 2008 - 41,926) shares of restricted stock to members of the Board of Directors of Popular, Inc. and BPPR, which became vested at grant date. During this period, the Corporation recognized $0.1 million of restricted stock expense related to these restricted stock grants, with a tax benefit of $47 thousand (June 30, 2008 $0.1 million, with a tax benefit of $46 thousand). For the six-month period ended June 30, 2009, the Corporation granted 173,923 (June 30, 2008 45,348) shares of restricted stock to members of the Board of Directors of Popular, Inc. and BPPR, which became vested at grant date. During the six-month period ended June 30, 2009, the Corporation recognized $0.2 million of restricted stock expense related to these restricted stock grants, with a tax benefit of $94 thousand (June 30, 2008 $0.2 million, with a tax benefit of $91 thousand). The fair value at vesting date of the restricted stock vested during 2009 for directors was $0.6 million.

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Note 23 (Loss) Earnings per Common Share

The computation of (loss) earnings per common share (EPS) follows:

	Quarter ended June 30,				Six months ended June 30,			
(In thousands, except share information)		2009		2008		2009		2008
Net (loss) income from continuing operations	$	(176,583)	$	59,173	$	(219,159)	$	158,412
Net loss from discontinued operations		(6,599)		(34,923)		(16,545)		(30,872)
Less: Preferred stock dividends		22,915		6,003		45,831		8,981
Less: Preferred stock discount accretion		1,713				3,475		
Net (loss) income applicable to common stock	$	(207,810)	$	18,247	$	(285,010)	$	118,559
Average common shares outstanding		281,888,394		280,773,513		281,861,563		280,514,164
Average potential common shares								
Average common shares outstanding assuming dilution		281,888,394		280,773,513		281,861,563		280,514,164
Basic and diluted EPS from continuing operations	$	(0.71)	$	0.19	$	(0.95)	$	0.52
Basic and diluted EPS from discontinued operations		(0.03)		(0.13)		(0.06)		(0.10)
Basic and diluted EPS	$	(0.74)	$	0.06	$	(1.01)	$	0.42

Potential common shares consist of common stock issuable under the assumed exercise of stock options and under restricted stock awards 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 is added as incremental shares to the actual number of shares outstanding to compute diluted earnings per share. Warrants and stock options that result in lower potential shares issued than shares purchased under the treasury stock method are not included in the computation of dilutive earnings per share since their inclusion would have an antidilutive effect in earnings per share. For the quarter and six-month period ended June 30, 2009, there were 2,702,428 and 2,819,169 weighted average antidilutive stock options outstanding, respectively (June 30, 2008 3,057,279 and 3,068,430). Additionally, the Corporation has outstanding 20,932,836 warrants issued to purchase shares of common stock, which have an antidilutive effect as of June 30, 2009.

Note 24 Supplemental Disclosure on the Consolidated Statements of Cash Flows

Additional disclosures on non-cash activities for the six-month period are listed in the following table:

(In thousands)	June 30, 2009	June 30, 2008
Non-cash activities:		

Loans transferred to other real estate	$ 71,766	$ 52,926
Loans transferred to other property	19,757	21,219
Total loans transferred to foreclosed assets	91,523	74,145
Transfers from loans held-in-portfolio to loans held-for-sale	29,332	422,103
Transfers from loans held-for-sale to loans held-in-portfolio	91,985	35,482
Loans securitized into investment securities (a)	759,532	1,033,032
Recognition of mortgage servicing rights on securitizations or asset transfers	13,661	15,521
Treasury stock retired	207,139	
Change in par value of common stock	1,689,389	

(a) Includes loans securitized into investment securities and subsequently sold before quarter end.

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Note 25 Segment Reporting

The Corporation s corporate structure consists of three reportable segments Banco Popular de Puerto Rico, Banco Popular North America and EVERTEC. These reportable segments pertain only to the continuing operations of Popular, Inc. As previously indicated in Note 3 to the consolidated financial statements, the operations of Popular Financial Holdings, which were considered a reportable segment in June 2008, were discontinued in the third quarter of 2008. Also, a corporate group has been defined to support the reportable segments. The Corporation retrospectively adjusted information in the statements of operations for the quarter and six months ended June 30, 2008 to exclude results from discontinued operations and to conform them to the June 30, 2009 presentation.

Management determined the reportable segments based on the internal reporting used to evaluate performance and to assess where to allocate resources. The segments were determined based on the organizational structure, which focuses primarily on the markets the segments serve, as well as on the products and services offered by the segments.

Banco Popular de Puerto Rico:

Given that Banco Popular de Puerto Rico constitutes a significant portion of the Corporation s results of operations and total assets as of June 30, 2009, additional disclosures are provided for the business areas included in this reportable segment, as described below:

Commercial banking represents the Corporation s banking operations conducted at BPPR, which are targeted mainly to corporate, small and middle size businesses. It includes aspects of the lending and depository businesses, as well as other finance and advisory services. BPPR allocates funds across business areas based on duration matched transfer pricing at market rates. This area also incorporates income related with the investment of excess funds, as well as a proportionate share of the investment function of BPPR.

Consumer and retail banking represents the branch banking operations of BPPR which focus on retail clients. It includes the consumer lending business operations of BPPR, as well as the lending operations of Popular Auto and Popular Mortgage. Popular Auto focuses on auto and lease financing, while Popular Mortgage focuses principally in residential mortgage loan originations. The consumer and retail banking area also incorporates income related with the investment of excess funds from the branch network, as well as a proportionate share of the investment function of BPPR.

Other financial services include the trust and asset management service units of BPPR, the brokerage and investment banking operations of Popular Securities, and the insurance agency and reinsurance businesses of Popular Insurance, Popular Insurance V.I., Popular Risk Services, and Popular Life Re. Most of the services that are provided by these subsidiaries generate profits based on fee income.

Banco Popular North America:

Banco Popular North America s reportable segment consists of the banking operations of BPNA, E-LOAN, Popular Equipment Finance, Inc. and Popular Insurance Agency, U.S.A. Popular Equipment Finance, Inc. sold a substantial portion of its lease financing portfolio during the quarter ended March 31, 2009 and also ceased originations as part of BPNA s strategic plan. BPNA operates through a retail branch network in the U.S. mainland, while E-LOAN supports BPNA s deposit gathering through its online platform. All direct lending activities at E-LOAN were ceased during the fourth quarter of 2008. Popular Insurance Agency, U.S.A. offers investment and insurance services across the BPNA branch network.

EVERTEC:

This reportable segment includes the financial transaction processing and technology functions of the Corporation, including EVERTEC, with offices in Puerto Rico, Florida, the Dominican Republic and Venezuela; EVERTEC USA, Inc. incorporated in the United States; and ATH Costa Rica, S.A., EVERTEC LATINOAMERICA, SOCIEDAD ANONIMA and T.I.I. Smart Solutions Inc. located in Costa Rica. In addition, this reportable segment includes the equity investments in Consorcio de Tarjetas Dominicanas, S.A. (CONTADO) and Servicios Financieros, S.A. de C.V. (Serfinsa), which operate in the Dominican Republic and El Salvador, respectively. This segment provides processing and technology services to other units of the Corporation as well as to third parties, principally other financial institutions in Puerto Rico, the Caribbean and Central America.

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The Corporate group consists primarily of the holding companies: Popular, Inc., Popular North America and Popular International Bank, excluding the equity investments in CONTADO and Serfinsa, which due to the nature of their operations are included as part of the EVERTEC segment. The Corporate group also includes the expenses of the four administrative corporate areas that are identified as critical for the organization: Finance, Risk Management, Legal and People, and Communications.

For segment reporting purposes, the impact of recording the valuation allowance on deferred tax assets of the U.S. operations was assigned to each legal entity within PNA (including PNA holding company as an entity) based on each entity s net deferred tax asset at December 31, 2008 and June 30, 2009, except for PFH. The impact of recording the valuation allowance at PFH was allocated among continuing and discontinued operations. The portion attributed to the continuing operations was based on PFH s net deferred tax asset balance at January 1, 2008. The valuation allowance on deferred taxes, as it relates to the operating losses of PFH for the year 2008 and six months ended June 30, 2009, was assigned to the discontinued operations.

The tax impact in results of operations for PFH attributed to the recording of the valuation allowance assigned to continuing operations was included as part of the Corporate group for segment reporting purposes since it does not relate to any of the legal entities of the BPNA reportable segment. PFH is no longer considered a reportable segment.

The accounting policies of the individual operating segments are the same as those of the Corporation. Transactions between reportable segments are primarily conducted at market rates, resulting in profits that are eliminated for reporting consolidated results of operations.

The results of operations included in the tables below for the quarters and six months ended June 30, 2009 and 2008 exclude the results of operations of the discontinued business of PFH. Segment assets as of June 30, 2009 also exclude the assets of the discontinued operations.

2009

For the quarter ended June 30, 2009

(In thousands)	Banco Popular de Puerto Rico	Banco Popular North America	EVERTEC	Intersegment Eliminations
Net interest income (expense)	$ 216,906	$ 80,821	$ (236)	
Provision for loan losses	181,659	167,785		
Non-interest income	185,433	5,726	70,482	$(36,866)
Amortization of intangibles	1,315	910	208	
Depreciation expense	9,730	2,732	3,516	(4)
Other operating expenses	200,380	88,561	41,484	(36,700)
Income tax expense	2,425	788	6,953	(66)
Net income (loss)	$ 6,830	$ (174,229)	$ 18,085	$ (96)
Segment Assets	$24,248,498	$11,633,079	$260,222	$(47,848)

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For the quarter ended June 30, 2009

(In thousands)	Total Reportable Segments	Corporate	Eliminations	Popular, Inc.
Net interest income (expense)	$ 297,491	$ (14,698)	$ 267	$ 283,060
Provision for loan losses	349,444			349,444
Non-interest income	224,775	2,993	(1,929)	225,839
Amortization of intangibles	2,433			2,433
Depreciation expense	15,974	580		16,554
Other operating expenses	293,725	19,469	(1,536)	311,658
Income tax expense (benefit)	10,100	(4,645)	(62)	5,393
Net loss	$ (149,410)	$ (27,109)	$ (64)	$ (176,583)
Segment Assets	$ 36,093,951	$5,429,459	$(5,028,070)	$36,495,340

For the six months ended June 30, 2009

(In thousands)	Banco Popular de Puerto Rico	Banco Popular North America	EVERTEC	Intersegment Eliminations
Net interest income (expense)	$ 433,068	$ 157,341	$ (481)	
Provision for loan losses	332,993	388,980		
Non-interest income	496,254	9,497	132,010	$ (73,135)
Amortization of intangibles	2,599	1,821	419	
Depreciation expense	19,885	5,579	6,995	(22)
Other operating expenses	387,863	166,408	84,084	(72,869)
Income tax (benefit) expense	(659)	(8,245)	12,065	(98)
Net income (loss)	$ 186,641	$ (387,705)	$ 27,966	$ (146)

For the six months ended June 30, 2009

(In thousands)	Total Reportable Segments	Corporate	Eliminations	Popular, Inc.
Net interest income (expense)	$ 589,928	$ (34,915)	$ 533	$ 555,546
Provision for loan losses	721,973			721,973
Non-interest income (loss)	564,626	(602)	(3,454)	560,570

Amortization of intangibles	4,839			4,839
Depreciation expense	32,437	1,166		33,603
Other operating expenses	565,486	34,419	(3,505)	596,400
Income tax expense (benefit)	3,063	(24,818)	215	(21,540)
Net loss	$ (173,244)	$ (46,284)	$ 369	$ (219,159)

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2008
For the quarter ended June 30, 2008

(In thousands)	Banco Popular de Puerto Rico	Banco Popular North America	EVERTEC	Intersegment Eliminations
Net interest income (expense)	$ 243,211	$ 92,363	$ (234)	
Provision for loan losses	107,755	81,410		
Non-interest income	185,072	29,275	65,862	$ (37,919)
Amortization of intangibles	765	1,506	219	
Depreciation expense	10,537	3,674	3,570	(18)
Other operating expenses	197,188	94,146	44,002	(37,307)
Income tax expense (benefit)	19,553	(24,779)	4,346	(232)
Net income (loss)	$ 92,485	$ (34,319)	$ 13,491	$ (362)
Segment Assets	$ 26,524,462	$12,873,833	$ 249,160	$ (119,035)

For the quarter ended June 30, 2008

(In thousands)	Total Reportable Segments	Corporate	Eliminations	Popular, Inc.
Net interest income (expense)	$ 335,340	$ (5,342)	$ 299	$ 330,297
Provision for loan losses	189,165			189,165
Non-interest income (loss)	242,290	(373)	(6,119)	235,798
Amortization of intangibles	2,490			2,490
Depreciation expense	17,763	569		18,332
Other operating expenses	298,029	15,087	(3,600)	309,516
Income tax benefit	(1,112)	(12,027)	558	(12,581)
Net income (loss)	$ 71,295	$ (9,344)	$ (2,778)	$ 59,173
Segment Assets	$ 39,528,420	$ 7,915,418(a)	$(5,765,244)	$41,678,594

(a) Includes $2,013 million in assets from PFH.

For the six months ended June 30, 2008

(In thousands)	Banco Popular de Puerto Rico	Banco Popular North America	EVERTEC	Intersegment Eliminations

Net interest income (expense)	$ 487,883	$ 187,803	$ (469)	
Provision for loan losses	210,234	140,127		
Non-interest income	362,758	83,097	135,572	$ (75,582)
Amortization of intangibles	1,508	3,021	453	
Depreciation expense	21,004	7,268	7,280	(36)
Other operating expenses	384,517	184,820	92,265	(74,812)
Income tax expense (benefit)	42,065	(28,044)	9,852	(286)
Net income (loss)	$ 191,313	$ (36,292)	$ 25,253	$ (448)

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For the six months ended June 30, 2008

(In thousands)	Total Reportable Segments	Corporate	Eliminations	Popular, Inc.
Net interest income (expense)	$ 675,217	$ (9,812)	$ 651	$666,056
Provision for loan losses	350,361	40		350,401
Non-interest income	505,845	2,369	(7,665)	500,549
Amortization of intangibles	4,982			4,982
Depreciation expense	35,516	1,153		36,669
Other operating expenses	586,790	30,788	(5,596)	611,982
Income tax expense (benefit)	23,587	(20,301)	873	4,159
Net income (loss)	$ 179,826	$(19,123)	$(2,291)	$158,412

Additional disclosures with respect to the Banco Popular de Puerto Rico reportable segment are as follows:

2009

For the quarter ended June 30, 2009

(In thousands)	Commercial Banking	Consumer and Retail Banking	Other Financial Services	Eliminations	Total Banco Popular de Puerto Rico
Net interest income	$ 73,823	$ 139,947	$ 2,965	$ 171	$ 216,906
Provision for loan losses	122,606	59,053			181,659
Non-interest income	27,585	131,776	26,274	(202)	185,433
Amortization of intangibles	27	1,079	209		1,315
Depreciation expense	3,663	5,756	311		9,730
Other operating expenses	53,617	130,241	16,601	(79)	200,380
Income tax (benefit) expense	(31,664)	29,899	4,168	22	2,425
Net (loss) income	$ (46,841)	$ 45,695	$ 7,950	$ 26	$ 6,830
Segment Assets	$10,158,302	$17,310,758	$669,492	$(3,890,054)	$24,248,498

For the six months ended June 30, 2009

(In thousands)	Commercial Banking	Consumer and Retail Banking	Other Financial Services	Eliminations	Total Banco Popular de Puerto Rico
Net interest income	$148,318	$278,226	$ 6,185	$ 339	$433,068

Provision for loan losses	217,469	115,524			332,993
Non-interest income	104,627	344,807	47,264	(444)	496,254
Amortization of intangibles	103	2,111	385		2,599
Depreciation expense	8,733	10,509	643		19,885
Other operating expenses	103,572	253,436	30,988	(133)	387,863
Income tax (benefit) expense	(56,169)	48,426	7,067	17	(659)
Net (loss) income	$ (20,763)	$193,027	$ 14,366	$ 11	$186,641

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2008
For the quarter ended June 30, 2008

(In thousands)	Commercial Banking	Consumer and Retail Banking	Other Financial Services	Eliminations	Total Banco Popular de Puerto Rico
Net interest income	$ 88,401	$ 151,596	$ 3,070	$ 144	$ 243,211
Provision for loan losses	61,150	46,605			107,755
Non-interest income	35,755	118,265	31,145	(93)	185,072
Amortization of intangibles	31	572	162		765
Depreciation expense	3,825	6,416	296		10,537
Other operating expenses	55,244	123,846	18,194	(96)	197,188
Income tax (benefit) expense	(5,875)	20,025	5,334	69	19,553
Net income	$ 9,781	$ 72,397	$ 10,229	$ 78	$ 92,485
Segment Assets	$11,461,433	$19,066,945	$791,390	$(4,795,306)	$26,524,462

For the six months ended June 30, 2008

(In thousands)	Commercial Banking	Consumer and Retail Banking	Other Financial Services	Eliminations	Total Banco Popular de Puerto Rico
Net interest income	$181,759	$299,986	$ 5,857	$ 281	$487,883
Provision for loan losses	118,018	92,216			210,234
Non-interest income	61,156	245,946	55,775	(119)	362,758
Amortization of intangibles	61	1,144	303		1,508
Depreciation expense	7,352	13,043	609		21,004
Other operating expenses	102,273	246,905	35,497	(158)	384,517
Income tax (benefit) expense	(6,405)	39,402	8,915	153	42,065
Net income	$ 21,616	$153,222	$ 16,308	$ 167	$191,313

Additional disclosures with respect to the Banco Popular North America reportable segment are as follows:

2009
For the quarter ended June 30, 2009

(In thousands)	Banco Popular North America	E-LOAN	Eliminations	Total Banco Popular North America
Net interest income	$ 78,817	$ 1,702	$ 302	$ 80,821

Provision for loan losses	131,823	35,962		167,785
Non-interest income (loss)	17,934	(12,194)	(14)	5,726
Amortization of intangibles	910			910
Depreciation expense	2,437	295		2,732
Other operating expenses	83,324	5,235	2	88,561
Income tax expense	788			788
Net loss	$ (122,531)	$ (51,984)	$ 286	$ (174,229)
Segment Assets	$12,188,040	$651,805	$(1,206,766)	$11,633,079

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For the six months ended June 30, 2009

(In thousands)	Banco Popular North America	E-LOAN	Eliminations	Total Banco Popular North America
Net interest income	$ 149,731	$ 6,971	$ 639	$ 157,341
Provision for loan losses	318,375	70,605		388,980
Non-interest income (loss)	26,803	(17,268)	(38)	9,497
Amortization of intangibles	1,821			1,821
Depreciation expense	4,972	607		5,579
Other operating expenses	153,268	13,138	2	166,408
Income tax benefit	(622)	(7,623)		(8,245)
Net loss	$ (301,280)	$ (87,024)	$ 599	$ (387,705)

2008

For the quarter ended June 30, 2008

(In thousands)	Banco Popular North America	E-LOAN	Eliminations	Total Banco Popular North America
Net interest income	$ 84,666	$ 7,350	$ 347	$ 92,363
Provision for loan losses	55,066	26,344		81,410
Non-interest income	26,246	3,263	(234)	29,275
Amortization of intangibles	1,057	449		1,506
Depreciation expense	3,205	469		3,674
Other operating expenses	73,976	20,167	3	94,146
Income tax benefit	(9,723)	(15,094)	38	(24,779)
Net loss	$ (12,669)	$ (21,722)	$ 72	$ (34,319)
Segment Assets	$ 13,151,497	$1,053,195	$(1,330,859)	$12,873,833

For the six months ended June 30, 2008

(In thousands)	Banco Popular North America	E-LOAN	Eliminations	Total Banco Popular North America
Net interest income	$ 173,133	$ 13,996	$ 674	$ 187,803
Provision for loan losses	87,347	52,780		140,127

Non-interest income	72,169	11,267	(339)	83,097
Amortization of intangibles	2,122	899		3,021
Depreciation expense	6,318	950		7,268
Other operating expenses	146,970	37,844	6	184,820
Income tax benefit	(603)	(27,556)	115	(28,044)
Net income (loss)	$ 3,148	$ (39,654)	$ 214	$ (36,292)

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A breakdown of intersegment eliminations, particularly revenues, by segment in which the revenues are recorded follows:

(In thousands)	Quarter ended June 30, 2009	Quarter ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
INTERSEGMENT REVENUES*				
Banco Popular de Puerto Rico:				
Commercial Banking	$ 1	$ 211		$ 690
Consumer and Retail Banking	2	491		1,600
Other Financial Services	(62)	(97)	$ (130)	(130)
Banco Popular North America:				
Banco Popular North America	8	(697)	19	(2,281)
E-LOAN				(627)
EVERTEC	(36,815)	(37,827)	(73,024)	(74,834)
Total intersegment revenues from continuing operations	$(36,866)	$(37,919)	$(73,135)	$(75,582)

* 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 processing / information technology services.

A breakdown of revenues and selected balance sheet information by geographical area follows:

(In thousands)	Quarter ended June 30, 2009	Quarter ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
Geographic Information				
Revenues (1)				
Puerto Rico	$406,155	$426,504	$ 913,285	$ 849,106

United States	69,915	112,910	128,998	258,828
Other	32,829	26,681	73,833	58,671
Total consolidated revenues from continuing operations	$508,899	$566,095	$1,116,116	$1,166,605

(1) Total revenues include net interest income, service charges on deposit accounts, other service fees, net gain (loss) on sale and valuation adjustments of investment securities, trading account profit (loss), gain (loss) on sale of loans and valuation adjustments on loans held-for-sale, and other operating income.

(In thousands)	June 30, 2009	December 31, 2008	June 30, 2008
Selected Balance Sheet Information: (1)			
Puerto Rico			
Total assets	$23,460,745	$24,886,736	$25,352,860
Loans	14,622,320	15,160,033	15,442,742
Deposits	16,896,704	16,737,693	16,462,795
Mainland United States			
Total assets	$11,900,910	$12,713,357	$15,033,702
Loans	9,511,048	10,417,840	11,524,665
Deposits	8,880,892	9,662,690	9,342,281
Other			
Total assets	$ 1,133,685	$ 1,270,089	$ 1,292,032
Loans	715,541	691,058	664,271
Deposits (2)	1,135,889	1,149,822	1,310,652

(1) Does not include balance

sheet information of the discontinued operations for the periods ended June 30, 2009 and December 31, 2008.

(2) Represents deposits from BPPR operations located in the U.S. and British Virgin Islands.

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Note 26 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) (parent only), Popular International Bank, Inc. (PIBI), Popular North America, Inc. (PNA), and all other subsidiaries of the Corporation as of June 30, 2009, December 31, 2008 and June 30, 2008, and the results of their operations and cash flows for the periods ended June 30, 2009 and 2008.

PIBI is an operating subsidiary of PIHC and is the holding company of its wholly-owned subsidiaries: ATH Costa Rica S.A., EVERTEC LATINOAMERICA, SOCIEDAD ANONIMA, T.I.I. Smart Solutions Inc., Popular Insurance V.I., Inc. and PNA.

PNA is an operating subsidiary of PIBI and is the holding company of its wholly-owned subsidiaries:

- PFH, including its wholly-owned subsidiaries Equity One, Inc., and Popular Mortgage Servicing, Inc.;

- Banco Popular North America (BPNA), including its wholly-owned subsidiaries Popular Equipment Finance, Inc., Popular Insurance Agency, U.S.A., and E-LOAN, Inc.; and

- EVERTEC USA, Inc.

PIHC fully and unconditionally guarantees all registered debt securities issued by PNA.

The principal source of income for the PIHC consists of dividends from BPPR. As members subject to the regulations of the Federal Reserve System, BPPR and BPNA must obtain the approval of the Federal Reserve Board for any dividend if the total of all dividends declared by each entity during the calendar year would exceed the total of its net income for that year, as defined by the Federal Reserve Board, combined with its retained net income for the preceding two years, less any required transfers to surplus or to a fund for the retirement of any preferred stock. The payment of dividends by BPPR may also be affected by other regulatory requirements and policies, such as the maintenance of certain minimum capital levels. As of June 30, 2009, BPPR could have declared a dividend of approximately $77 million (December 31, 2008 $32 million; June 30, 2008 $110 million) without the approval of the Federal Reserve Board. As of June 30, 2009, BPNA was required to obtain the approval of the Federal Reserve Board to declare a dividend. The Corporation has never received dividend payments from its U.S. subsidiaries. Refer to Popular, Inc. s Form 10-K for the year ended December 31, 2008 for further information on dividend restrictions imposed by regulatory requirements and policies on the payment of dividends by BPPR and BPNA.

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POPULAR, INC.
CONDENSED CONSOLIDATING STATEMENT OF CONDITION
JUNE 30, 2009
(UNAUDITED)

(In thousands)	Popular, Inc. Holding Co.	PIBI Holding Co.	PNA Holding Co.	All other subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
ASSETS						
Cash and due from banks	$ 1,341	$ 175	$ 382	$ 662,124	$ (2,170)	$ 661,852
Money market investments	11,729	47,185	308	951,611	(59,186)	951,647
Investment securities available-for-sale, at fair value	197,125	3,115		7,046,219		7,246,459
Investment securities held-to-maturity, at amortized cost	455,794	1,250		293,017	(430,000)	320,061
Other investment securities, at lower of cost or realizable value	14,425	1	12,392	188,105		214,923
Trading account securities, at fair value				487,182		487,182
Investment in subsidiaries	2,915,614	577,113	1,238,697		(4,731,424)	
Loans held-for-sale measured at lower of cost or fair value				242,847		242,847
Loans held-in-portfolio	53,225		4,300	24,732,416	(72,620)	24,717,321
Less Unearned income				111,259		111,259
Allowance for loan losses	60			1,146,179		1,146,239
	53,165		4,300	23,474,978	(72,620)	23,459,823
Premises and equipment, net	17,936		127	596,303		614,366
Other real estate	74			105,479		105,553
Accrued income receivable	981	144	311	134,710	(168)	135,978
Servicing assets				184,189		184,189
Other assets	91,245	67,255	18,832	1,069,808	(32,291)	1,214,849
Goodwill				607,164		607,164

Other intangible assets	554			47,893		48,447
Assets from discontinued operations				3,452		3,452
	$3,759,983	$ 696,238	$ 1,275,349	$36,095,081	$ (5,327,859)	$36,498,792
LIABILITIES AND STOCKHOLDERS EQUITY						
Liabilities:						
Deposits:						
Non-interest bearing				$ 4,410,977	$ (2,112)	$ 4,408,865
Interest bearing				22,552,078	(47,458)	22,504,620
				26,963,055	(49,570)	26,913,485
Federal funds purchased and assets sold under agreements to repurchase				2,953,406	(11,728)	2,941,678
Other short-term borrowings	$ 24,520			47,925	(70,620)	1,825
Notes payable at cost	793,300		$ 692,092	1,160,330	(2,000)	2,643,722
Subordinated notes				430,000	(430,000)	
Other liabilities	42,462	$ 97	42,086	1,032,409	(32,599)	1,084,455
Liabilities from discontinued operations				13,926		13,926
	860,282	97	734,178	32,601,051	(596,517)	33,599,091
Stockholders equity:						
Preferred stock	1,487,000					1,487,000
Common stock	2,820	3,961	2	52,322	(56,285)	2,820
Surplus	2,176,963	2,966,193	2,849,964	4,365,510	(10,172,873)	2,185,757
Accumulated deficit	(650,371)	(2,223,211)	(2,302,924)	(855,291)	5,372,632	(659,165)
Accumulated other comprehensive loss, net of tax	(116,700)	(50,802)	(5,871)	(68,511)	125,184	(116,700)
Treasury stock, at cost	(11)					(11)
	2,899,701	696,141	541,171	3,494,030	(4,731,342)	2,899,701
	$3,759,983	$ 696,238	$ 1,275,349	$36,095,081	$ (5,327,859)	$36,498,792

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POPULAR, INC.
CONDENSED CONSOLIDATING STATEMENT OF CONDITION
DECEMBER 31, 2008
(UNAUDITED)

(In thousands)	Popular, Inc. Holding Co.	PIBI Holding Co.	PNA Holding Co.	All other subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
ASSETS						
Cash and due from banks	$ 2	$ 89	$ 7,668	$ 777,994	$ (766)	$ 784,987
Money market investments	89,694	40,614	450,246	794,521	(580,421)	794,654
Investment securities available-for-sale, at fair value	188,893	5,243		7,730,351		7,924,487
Investment securities held-to-maturity, at amortized cost	431,499	1,250		291,998	(430,000)	294,747
Other investment securities, at lower of cost or realizable value	14,425	1	12,392	190,849		217,667
Trading account securities, at fair value				645,903		645,903
Investment in subsidiaries	2,611,053	324,412	1,348,241		(4,283,706)	
Loans held-for-sale measured at lower of cost or fair value				536,058		536,058
Loans held-in-portfolio	827,284		12,800	25,885,773	(868,620)	25,857,237
Less Unearned income				124,364		124,364
Allowance for loan losses	60			882,747		882,807
	827,224		12,800	24,878,662	(868,620)	24,850,066
Premises and equipment, net	22,057		128	598,622		620,807
Other real estate	47			89,674		89,721
Accrued income receivable	1,033	474	1,861	204,955	(52,096)	156,227
Servicing assets				180,306		180,306
Other assets	35,664	64,881	21,532	995,550	(2,030)	1,115,597
Goodwill				605,792		605,792
Other intangible assets	554			52,609		53,163

Assets from discontinued operations				12,587		12,587
	$4,222,145	$ 436,964	$ 1,854,868	$38,586,431	$(6,217,639)	$38,882,769
LIABILITIES AND STOCKHOLDERS EQUITY						
Liabilities:						
Deposits:						
Non-interest bearing				$ 4,294,221	$ (668)	$ 4,293,553
Interest bearing				23,747,393	(490,741)	23,256,652
				28,041,614	(491,409)	27,550,205
Federal funds purchased and assets sold under agreements to repurchase	$ 44,471			3,596,817	(89,680)	3,551,608
Other short-term borrowings	42,769		$ 500	828,285	(866,620)	4,934
Notes payable at cost	793,300		1,488,942	1,106,521	(2,000)	3,386,763
Subordinated notes				430,000	(430,000)	
Other liabilities	73,241	$ 117	68,490	1,008,427	(53,937)	1,096,338
Liabilities from discontinued operations				24,557		24,557
	953,781	117	1,557,932	35,036,221	(1,933,646)	35,614,405
Stockholders equity:						
Preferred stock	1,483,525					1,483,525
Common stock	1,773,792	3,961	2	52,318	(56,281)	1,773,792
Surplus	613,085	2,301,193	2,184,964	4,050,514	(8,527,877)	621,879
Accumulated deficit	(365,694)	(1,797,175)	(1,865,418)	(585,705)	4,239,504	(374,488)
Accumulated other comprehensive (loss) income, net of tax	(28,829)	(71,132)	(22,612)	33,460	60,284	(28,829)
Treasury stock, at cost	(207,515)			(377)	377	(207,515)
	3,268,364	436,847	296,936	3,550,210	(4,283,993)	3,268,364
	$4,222,145	$ 436,964	$ 1,854,868	$38,586,431	$(6,217,639)	$38,882,769

POPULAR, INC.
CONDENSED CONSOLIDATING STATEMENT OF CONDITION
JUNE 30, 2008
(UNAUDITED)

(In thousands)	Popular, Inc. Holding Co.	PIBI Holding Co.	PNA Holding Co.	All other Subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
ASSETS						
Cash and due from banks	$ 904	$ 285	$ 7,646	$ 879,893	$ (1,109)	$ 887,619
Money market investments	435,200	38,700	207	897,796	(474,107)	897,796
Investment securities available-for-sale, at fair value		10,077		7,692,250		7,702,327
Investment securities held-to-maturity, at amortized cost	456,490	1,250		204,743	(430,000)	232,483
Other investment securities, at lower of cost or realizable value	14,425	1	12,392	213,913		240,731
Trading account securities, at fair value				499,989	(501)	499,488
Investment in subsidiaries	2,546,533	306,970	1,485,245		(4,338,748)	
Loans held-for-sale measured at lower of cost or market value				337,552		337,552
Loans measured at fair value pursuant to SFAS No. 159				844,892		844,892
Loans held-in-portfolio	739,360		1,685,000	26,633,984	(2,422,340)	26,636,004
Less Unearned income				186,770		186,770
Allowance for loan losses	60			652,670		652,730
	739,300		1,685,000	25,794,544	(2,422,340)	25,796,504
Premises and equipment, net	22,679		131	610,640		633,450
Other real estate	47			102,762		102,809
Accrued income receivable	725	119	8,044	162,829	(8,443)	163,274
Servicing assets				190,778		190,778
Other assets	34,320	63,450	66,159	2,335,114	(43,201)	2,455,842

Goodwill				628,826		628,826
Other intangible assets	554			63,669		64,223
	$4,251,177	$ 420,852	$3,264,824	$41,460,190	$(7,718,449)	$41,678,594
LIABILITIES AND STOCKHOLDERS EQUITY						
Liabilities:						
Deposits:						
Non-interest bearing				$ 4,483,338	$ (1,051)	$ 4,482,287
Interest bearing				22,672,348	(38,907)	22,633,441
				27,155,686	(39,958)	27,115,728
Federal funds purchased and assets sold under agreements to repurchase			$ 223,500	4,950,377	(435,200)	4,738,677
Other short-term borrowings			479,193	1,796,357	(938,340)	1,337,210
Notes payable at cost	$ 476,639		2,212,215	2,546,294	(1,484,501)	3,750,647
Notes payable at fair value				173,725		173,725
Subordinated notes				430,000	(430,000)	
Other liabilities	68,544	$ 93	69,684	769,568	(51,276)	856,613
	545,183	93	2,984,592	37,822,007	(3,379,275)	37,972,600
Stockholders equity:						
Preferred stock	586,875					586,875
Common stock	1,767,721	3,961	2	51,819	(55,782)	1,767,721
Surplus	554,306	851,193	734,964	2,810,895	(4,388,258)	563,100
Retained earnings (accumulated deficit)	1,095,167	(378,975)	(448,860)	815,083	3,958	1,086,373
Accumulated other comprehensive loss, net of tax	(90,448)	(55,420)	(5,874)	(39,122)	100,416	(90,448)
Treasury stock, at cost	(207,627)			(492)	492	(207,627)
	3,705,994	420,759	280,232	3,638,183	(4,339,174)	3,705,994
	$4,251,177	$ 420,852	$3,264,824	$41,460,190	$(7,718,449)	$41,678,594

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POPULAR, INC.
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE QUARTER ENDED JUNE 30, 2009
(UNAUDITED)

(In thousands)	Popular, Inc. Holding Co.	PIBI Holding Co.	PNA Holding Co.	All other subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
INTEREST AND DIVIDEND INCOME:						
Dividend income from subsidiaries	$ 33,000				$ (33,000)	
Loans	4,203		$ 32	$ 382,015	(4,006)	$ 382,244
Money market investments	16	$ 296	30	2,381	(342)	2,381
Investment securities	10,595	13	224	72,002	(7,016)	75,818
Trading account securities				10,603		10,603
	47,814	309	286	467,001	(44,364)	471,046
INTEREST EXPENSE:						
Deposits				128,776	(324)	128,452
Short-term borrowings	27		(14)	20,624	(4,006)	16,631
Long-term debt	13,136		17,412	19,656	(7,301)	42,903
	13,163		17,398	169,056	(11,631)	187,986
Net interest income (loss)	34,651	309	(17,112)	297,945	(32,733)	283,060
Provision for loan losses				349,444		349,444
Net interest income (loss) after provision for loan losses	34,651	309	(17,112)	(51,499)	(32,733)	(66,384)
Service charges on deposit accounts				53,463		53,463
Other service fees				103,983	(1,546)	102,437
Net gain on sale and valuation adjustments of investment securities	950			52,755		53,705
Trading account profit				16,839		16,839
				(13,453)		(13,453)

Loss on sale of loans and valuation adjustments on loans held-for-sale						
Other operating income (loss)	675	4,791	(3,091)	10,855	(382)	12,848
	36,276	5,100	(20,203)	172,943	(34,661)	159,455
OPERATING EXPENSES:						
Personnel costs:						
Salaries	6,464	97		100,518		107,079
Pension, profit sharing and other benefits	1,891	15		27,221		29,127
	8,355	112		127,739		136,206
Net occupancy expenses	634	7	1	25,382		26,024
Equipment expenses	814		1	24,387		25,202
Other taxes	1,011			12,073		13,084
Professional fees	3,824	4	(61)	24,423	(1,142)	27,048
Communications	124	5	8	12,249		12,386
Business promotion	269			9,677		9,946
Printing and supplies	27			2,990		3,017
FDIC deposit insurance				36,331		36,331
Other operating expenses	(10,517)	(100)	111	49,868	(394)	38,968
Amortization of intangibles				2,433		2,433
	4,541	28	60	327,552	(1,536)	330,645
Income (loss) before income tax and equity in losses of subsidiaries	31,735	5,072	(20,263)	(154,609)	(33,125)	(171,190)
Income tax (benefit) expense	(1,483)	14	1,984	4,940	(62)	5,393
Income (loss) before equity in losses of subsidiaries	33,218	5,058	(22,247)	(159,549)	(33,063)	(176,583)
Equity in undistributed losses of subsidiaries	(209,801)	(190,825)	(176,929)		577,555	
Loss from continuing operations	(176,583)	(185,767)	(199,176)	(159,549)	544,492	(176,583)
Loss from discontinued				(6,599)		(6,599)

operations, net of income tax						
Equity in undistributed losses of discontinued operations	(6,599)	(6,599)	(6,599)		19,797	
NET LOSS	$(183,182)	$(192,366)	$(205,775)	$(166,148)	$564,289	$(183,182)

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POPULAR, INC.
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE QUARTER ENDED JUNE 30, 2008
(UNAUDITED)

(In thousands)	Popular, Inc. Holding Co.	PIBI Holding Co.	PNA Holding Co.	All other subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
INTEREST AND DIVIDEND INCOME:						
Dividend income from subsidiaries	$ 45,000				$ (45,000)	
Loans	5,876		$ 23,502	$ 466,321	(29,123)	$ 466,576
Money market investments	475	$ 299	15	3,511	(824)	3,476
Investment securities	7,367	316	224	81,863	(7,015)	82,755
Trading account securities				12,451		12,451
	58,718	615	23,741	564,146	(81,962)	565,258
INTEREST EXPENSE:						
Deposits				168,343	(298)	168,045
Short-term borrowings	589		4,520	42,777	(7,574)	40,312
Long-term debt	8,283		30,483	17,227	(29,389)	26,604
	8,872		35,003	228,347	(37,261)	234,961
Net interest income (loss)	49,846	615	(11,262)	335,799	(44,701)	330,297
Provision for loan losses				189,165		189,165
Net interest income (loss) after provision for loan losses	49,846	615	(11,262)	146,634	(44,701)	141,132
Service charges on deposit accounts				51,799		51,799
Other service fees				114,429	(6,312)	108,117
Net gain on sale and valuation adjustments of investment securities				28,334		28,334
Trading account profit				18,541		18,541
				4,907		4,907

Gain on sale of loans and valuation adjustments on loans held-for-sale						
Other operating (loss) income	(76)	3,604	(2,045)	23,775	(1,158)	24,100
	49,770	4,219	(13,307)	388,419	(52,171)	376,930
OPERATING EXPENSES:						
Personnel costs:						
Salaries	5,909	106		116,357	(1,774)	120,598
Pension, profit sharing and other benefits	1,414	19		33,296	(10)	34,719
	7,323	125		149,653	(1,784)	155,317
Net occupancy expenses	614	8	1	26,217		26,840
Equipment expenses	892			27,962		28,854
Other taxes	461			13,258		13,719
Professional fees	3,289	2	90	25,877	(1,433)	27,825
Communications	73	4	9	12,002		12,088
Business promotion	482			17,622		18,104
Printing and supplies	19			3,644		3,663
FDIC deposit insurance				2,270		2,270
Other operating expenses	(12,683)	(101)	68	52,267	(383)	39,168
Amortization of intangibles				2,490		2,490
	470	38	168	333,262	(3,600)	330,338
Income (loss) before income tax and equity in earnings (losses) of subsidiaries	49,300	4,181	(13,475)	55,157	(48,571)	46,592
Income tax benefit	(1,003)		(4,721)	(6,944)	87	(12,581)
Income (loss) before equity in earnings (losses) of subsidiaries	50,303	4,181	(8,754)	62,101	(48,658)	59,173
Equity in undistributed earnings (losses) of subsidiaries	8,870	(41,324)	(35,565)		68,019	
Income (loss) from continuing operations	59,173	(37,143)	(44,319)	62,101	19,361	59,173
Loss from discontinued operations, net of income tax				(34,923)		(34,923)

Equity in undistributed losses of discontinued operations	(34,923)	(34,923)	(34,923)		104,769	
NET INCOME (LOSS)	$ 24,250	$(72,066)	$(79,242)	$ 27,178	$124,130	$ 24,250

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POPULAR, INC.
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE SIX MONTHS ENDED JUNE 30, 2009
(UNAUDITED)

(In thousands)	Popular, Inc. Holding Co.	PIBI Holding Co.	PNA Holding Co.	All other subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
INTEREST AND DIVIDEND INCOME:						
Dividend income from subsidiaries	$ 73,625				$ (73,625)	
Loans	5,761		$ 39	$ 783,546	(5,334)	$ 784,012
Money market investments	91	$ 592	2,156	5,515	(2,840)	5,514
Investment securities	21,474	48	447	141,363	(14,031)	149,301
Trading account securities				21,411		21,411
	100,951	640	2,642	951,835	(95,830)	960,238
INTEREST EXPENSE:						
Deposits				279,235	(2,744)	276,491
Short-term borrowings	97		27	42,604	(5,394)	37,334
Long-term debt	25,950		40,356	39,162	(14,601)	90,867
	26,047		40,383	361,001	(22,739)	404,692
Net interest income (loss)	74,904	640	(37,741)	590,834	(73,091)	555,546
Provision for loan losses				721,973		721,973
Net interest income (loss) after provision for loan losses	74,904	640	(37,741)	(131,139)	(73,091)	(166,427)
Service charges on deposit accounts				107,204		107,204
Other service fees				203,304	(2,334)	200,970
Net gain (loss) on sale and valuation adjustments of investment securities	950	(6,589)		235,490		229,851
Trading account profit				23,662		23,662
				(27,266)		(27,266)

Loss on sale of loans and valuation adjustments on loans held-for-sale						
Other operating income (loss)	683	8,359	(3,499)	21,726	(1,120)	26,149
	76,537	2,410	(41,240)	432,981	(76,545)	394,143
OPERATING EXPENSES:						
Personnel costs:						
Salaries	11,712	189		200,501		212,402
Pension, profit sharing and other benefits	4,295	35		64,765		69,095
	16,007	224		265,266		281,497
Net occupancy expenses	1,288	15	2	51,160		52,465
Equipment expenses	1,574		3	49,729		51,306
Other taxes	1,843			24,417		26,260
Professional fees	6,991	7	(61)	47,679	(2,667)	51,949
Communications	216	9	13	23,975		24,213
Business promotion	506			17,350		17,856
Printing and supplies	35			5,772		5,807
FDIC deposit insurance				45,448		45,448
Other operating expenses	(23,455)	(200)	18	97,677	(838)	73,202
Amortization of intangibles				4,839		4,839
	5,005	55	(25)	633,312	(3,505)	634,842
Income (loss) before income tax and equity in losses of subsidiaries	71,532	2,355	(41,215)	(200,331)	(73,040)	(240,699)
Income tax (benefit) expense	(1,226)	29	356	(20,914)	215	(21,540)
Income (loss) before equity in losses of subsidiaries	72,758	2,326	(41,571)	(179,417)	(73,255)	(219,159)
Equity in undistributed losses of subsidiaries	(291,917)	(411,819)	(379,390)		1,083,126	
Loss from continuing operations	(219,159)	(409,493)	(420,961)	(179,417)	1,009,871	(219,159)
Loss from discontinued				(16,545)		(16,545)

operations, net of income tax						
Equity in undistributed losses of discontinued operations	(16,545)	(16,545)	(16,545)		49,635	
NET LOSS	$(235,704)	$(426,038)	$(437,506)	$(195,962)	$1,059,506	$(235,704)

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POPULAR, INC.
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE SIX MONTHS ENDED JUNE 30, 2008
(UNAUDITED)

(In thousands)	Popular, Inc. Holding Co.	PIBI Holding Co.	PNA Holding Co.	All other subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
INTEREST AND DIVIDEND INCOME:						
Dividend income from subsidiaries	$ 89,900				$ (89,900)	
Loans	12,773	$ 219	$ 58,592	$ 964,185	(71,737)	$ 964,032
Money market investments	557	405	195	11,262	(2,215)	10,204
Investment securities	16,076	632	447	173,735	(14,031)	176,859
Trading account securities				26,005		26,005
	119,306	1,256	59,234	1,175,187	(177,883)	1,177,100
INTEREST EXPENSE:						
Deposits				363,384	(399)	362,985
Short-term borrowings	2,609		14,373	106,262	(22,653)	100,591
Long-term debt	16,567		67,035	29,395	(65,529)	47,468
	19,176		81,408	499,041	(88,581)	511,044
Net interest income (loss)	100,130	1,256	(22,174)	676,146	(89,302)	666,056
Provision for loan losses	40			350,361		350,401
Net interest income (loss) after provision for loan losses	100,090	1,256	(22,174)	325,785	(89,302)	315,655
Service charges on deposit accounts				102,886		102,886
Other service fees				218,469	(7,122)	211,347
Net gain on sale and valuation adjustments of investment securities				78,562		78,562
Trading account profit				31,878		31,878

Gain on sale of loans and valuation adjustments on loans held-for-sale				19,174		19,174
Other operating (loss) income	(111)	7,154	(2,041)	53,594	(1,894)	56,702
	99,979	8,410	(24,215)	830,348	(98,318)	816,204
OPERATING EXPENSES:						
Personnel costs:						
Salaries	11,993	197		231,834	(2,009)	242,015
Pension, profit sharing and other benefits	2,923	42		66,377	(72)	69,270
	14,916	239		298,211	(2,081)	311,285
Net occupancy expenses	1,243	15	2	53,448		54,708
Equipment expenses	1,741			56,266		58,007
Other taxes	900			25,704		26,604
Professional fees	7,445	5	180	52,236	(2,682)	57,184
Communications	195	9	18	25,341		25,563
Business promotion	771			34,077		34,848
Printing and supplies	42			7,452		7,494
FDIC deposit insurance				4,612		4,612
Other operating expenses	(26,740)	(201)	121	95,998	(832)	68,346
Amortization of intangibles				4,982		4,982
	513	67	321	658,327	(5,595)	653,633
Income (loss) before income tax and equity in earnings (losses) of subsidiaries	99,466	8,343	(24,536)	172,021	(92,723)	162,571
Income tax expense (benefit)	665		(8,372)	11,487	379	4,159
Income (loss) before equity in earnings (losses) of subsidiaries	98,801	8,343	(16,164)	160,534	(93,102)	158,412
Equity in undistributed earnings (losses) of subsidiaries	59,611	(47,717)	(40,188)		28,294	
Income (loss) from continuing operations	158,412	(39,374)	(56,352)	160,534	(64,808)	158,412
				(30,872)		(30,872)

Loss from discontinued operations, net of income tax						
Equity in undistributed losses of discontinued operations	(30,872)	(30,872)	(30,872)		92,616	
NET INCOME (LOSS)	$127,540	$(70,246)	$(87,224)	$ 129,662	$ 27,808	$ 127,540

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POPULAR, INC.
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2009 (UNAUDITED)

(In thousands)	Popular, Inc. Holding Co.	PIBI Holding Co.	PNA Holding Co.	All other subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
Cash flows from operating activities:						
Net loss	$(235,704)	$(426,038)	$(437,506)	$ (195,962)	$ 1,059,506	$ (235,704)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:						
Equity in undistributed losses of subsidiaries	308,462	428,364	395,935		(1,132,761)	
Depreciation and amortization of premises and equipment	1,164		2	32,437		33,603
Provision for loan losses				721,973		721,973
Amortization of intangibles				4,839		4,839
Amortization and fair value adjustment of servicing assets				10,505		10,505
Net (gain) loss on sale and valuation adjustment of investment securities	(950)	6,589		(235,490)		(229,851)
Gains from changes in fair value related to instruments measured at fair value pursuant to SFAS No. 159				(1,141)		(1,141)
Net loss (gain) on disposition of premises and equipment	2,959			(1,188)		1,771
Net loss on sale of loans and valuation adjustments on loans held-for-sale				32,472		32,472
Net amortization of premiums and	319			7,169		7,488

accretion of discounts on investments						
Net amortization of premiums and deferred loan origination fees and costs				22,831		22,831
(Earnings) losses from investments under the equity method	(683)	(8,359)	3,499	33	(870)	(6,380)
Stock options expense	47			(2)		45
Deferred income taxes, net of valuation	(1,669)		1,576	(74,105)	215	(73,983)
Net disbursements on loans held-for-sale				(685,500)		(685,500)
Acquisitions of loans held-for-sale				(209,814)		(209,814)
Proceeds from sale of loans held-for-sale				43,875		43,875
Net decrease in trading securities				911,066		911,066
Net (increase) decrease in accrued income receivable	(1,076)	330	1,550	20,677	(1,928)	19,553
Net decrease (increase) in other assets	6,952	5,791	(799)	70,652	(45,612)	36,984
Net increase (decrease) in interest payable	383		(5,228)	(27,216)	1,928	(30,133)
Net increase in postretirement benefit obligation				2,404		2,404
Net (decrease) increase in other liabilities	(242)	(20)	(20,375)	35,754	45,938	61,055
Total adjustments	315,666	432,695	376,160	682,231	(1,133,090)	673,662
Net cash provided by (used in) operating activities	79,962	6,657	(61,346)	486,269	(73,584)	437,958
Cash flows from investing activities:						
Net decrease (increase) in money market investments	77,965	(6,571)	449,938	(157,090)	(521,235)	(156,993)
Purchases of investment securities:						
Available-for-sale	(249,603)			(3,713,375)		(3,962,978)

Held-to-maturity	(25,770)			(2,558)		(28,328)
Other				(22,243)		(22,243)
Proceeds from calls, paydowns, maturities and redemptions of investment securities:						
Available-for-sale	9,704			837,240		846,944
Held-to-maturity	1,500			1,633		3,133
Other				24,988		24,988
Proceeds from sale of investment securities available-for- sale	175,692			3,571,875		3,747,567
Proceeds from sale of other investment securities				44,425		44,425
Net repayments on loans	773,986		8,500	684,285	(796,000)	670,771
Proceeds from sale of loans				304,468		304,468
Acquisition of loan portfolios				(18,260)		(18,260)
Capital contribution to subsidiary	(665,000)	(665,000)	(315,000)		1,645,000	
Transfer of shares of a subsidiary	(42,971)		42,971			
Mortgage servicing rights purchased				(727)		(727)
Acquisition of premises and equipment	(156)			(37,585)		(37,741)
Proceeds from sale of premises and equipment	153			8,647		8,800
Proceeds from sale of foreclosed assets	47			76,287		76,334
Net cash provided by (used in) investing activities	55,547	(671,571)	186,409	1,602,010	327,765	1,500,160

(In thousands)	Popular, Inc. Holding Co.	PIBI Holding Co.	PNA Holding Co.	All other subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
Cash flows from financing activities:						