POPULAR INC
Form 10-Q
May 11, 2009

Table of Contents

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 March 31, 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 the 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 282,034,819 shares outstanding as of May 6, 2009.

POPULAR, INC.
INDEX

	Page
Part I Financial Information	
Item 1. Financial Statements	
Unaudited Consolidated Statements of Condition as of March 31, 2009, December 31, 2008 and March 31, 2008	4
Unaudited Consolidated Statements of Operations for the quarters ended March 31, 2009 and 2008	5
Unaudited Consolidated Statements of Changes in Stockholders Equity for the quarters ended March 31, 2009 and 2008	6
Unaudited Consolidated Statements of Comprehensive Income for the quarters ended March 31, 2009 and 2008	7
Unaudited Consolidated Statements of Cash Flows for the quarters ended March 31, 2009 and 2008	8
Notes to Unaudited Consolidated Financial Statements	9
Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations	68
Item 3. Quantitative and Qualitative Disclosures about Market Risk	104
Item 4. Controls and Procedures	109
Part II Other Information	
Item 1. Legal Proceedings	109
Item 1A. Risk Factors	109
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	112
Item 5. Other Events	113
Item 6. Exhibits	113
Signatures	114

EX-3.1
EX-3.2
EX-12.1
EX-31.1
EX-31.2
EX-32.1
EX-32.2

Table of Contents

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. Factors that might cause such a difference include, but are not limited to: the rate of growth in the economy, 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; the relative strength or weakness of the consumer and commercial credit sectors and of the real estate markets; 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 Item 1A of Part II of this Quarterly Report on 10-Q 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 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.

Table of Contents

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

(In thousands, except share information)	March 31, 2009	December 31, 2008	March 31, 2008
ASSETS			
Cash and due from banks	$ 703,483	$ 784,987	$ 782,498
Money market investments:			
Federal funds sold	175,403	214,990	494,940
Securities purchased under agreements to resell	319,702	304,228	391,958
Time deposits with other banks	930,366	275,436	14,331
	1,425,471	794,654	901,229
Investment securities available-for-sale, at fair value:			
Pledged securities with creditors right to repledge	2,455,629	3,031,137	3,146,549
Other investment securities available-for-sale	4,508,609	4,893,350	4,512,959
Investment securities held-to-maturity, at amortized cost (fair value as of March 31, 2009 $314,580; December 31, 2008 $290,134; March 31, 2008 $376,306)	318,894	294,747	374,903
Other investment securities, at lower of cost or realizable value (realizable value as of March 31, 2009 $268,278; December 31, 2008 $255,830; March 31, 2008 $297,535)	222,013	217,667	252,157
Trading account securities, at fair value:			
Pledged securities with creditors right to repledge	533,665	562,795	494,839
Other trading securities	162,982	83,108	67,018
Loans held-for-sale measured at lower of cost or fair value	308,206	536,058	447,097
Loans measured at fair value pursuant to SFAS No. 159:			
Loans measured at fair value with creditors right to repledge			56,523
Other loans measured at fair value			870,297
Loans held-in-portfolio	25,355,753	25,857,237	26,742,124
Less Unearned income	117,767	124,364	184,815
Allowance for loan losses	1,057,125	882,807	579,379
	24,180,861	24,850,066	25,977,930
Premises and equipment, net	624,212	620,807	639,840
Other real estate	95,773	89,721	85,277
Accrued income receivable	142,114	156,227	215,454
Servicing assets (at fair value on March 31, 2009 $177,295; December 31, 2008 $176,034; March 31, 2008 $183,756)	181,095	180,306	188,558

Other assets (See Note 9)	1,177,078	1,115,597	2,110,675
Goodwill	606,440	605,792	630,764
Other intangible assets	50,867	53,163	67,032
Assets from discontinued operations (See Note 3)	12,036	12,587	
	$37,709,428	$ 38,882,769	$41,821,599
LIABILITIES AND STOCKHOLDERS EQUITY			
Liabilities:			
Deposits:			
Non-interest bearing	$ 4,372,366	$ 4,293,553	$ 4,253,885
Interest bearing	22,777,401	23,256,652	22,712,829
	27,149,767	27,550,205	26,966,714
Federal funds purchased and assets sold under agreements to repurchase	2,881,997	3,551,608	4,490,693
Other short-term borrowings	29,453	4,934	1,525,310
Notes payable at cost	3,399,063	3,386,763	4,190,169
Notes payable at fair value pursuant to SFAS No. 159			186,171
Other liabilities	1,104,813	1,096,338	990,822
Liabilities from discontinued operations (See Note 3)	12,421	24,557	
	34,577,514	35,614,405	38,349,879
Commitments and contingencies (See Note 16)			
Stockholders equity:			
Preferred stock, 30,000,000 shares authorized; 24,410,000 issued and outstanding as of March 31, 2009 and December 31, 2008 (March 31, 2008 7,475,000) (aggregate liquidation preference value of $1,521,875 as of March 31, 2009 and December 31, 2008; $186,875 as of March 31, 2008)	1,485,287	1,483,525	186,875
Common stock, $6 par value; 470,000,000 shares authorized in all periods presented; 282,034,819 shares issued (December 31, 2008 295,632,080; March 31, 2008 294,182,809) and 282,034,819 outstanding (December 31, 2008 282,004,713; March 31, 2008 280,547,741)	1,692,209	1,773,792	1,765,097
Surplus	496,455	621,879	570,548
(Accumulated deficit) retained earnings	(451,355)	(374,488)	1,113,089
Accumulated other comprehensive (loss), income, net of tax of ($61,563) (December 31, 2008 ($24,771); March 31, 2008 $19,446)	(90,682)	(28,829)	43,719
Treasury stock at cost (December 31, 2008 13,627,367 shares; March 31, 2008 13,635,068 shares)		(207,515)	(207,608)
	3,131,914	3,268,364	3,471,720
	$37,709,428	$ 38,882,769	$41,821,599

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

Table of Contents

POPULAR, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

(In thousands, except per share information)	Quarter ended March 31, 2009	2008
INTEREST INCOME:		
Loans	$ 401,768	$497,456
Money market investments	3,133	6,728
Investment securities	73,483	94,104
Trading account securities	10,808	13,554
	489,192	611,842
INTEREST EXPENSE:		
Deposits	148,039	194,940
Short-term borrowings	20,703	60,279
Long-term debt	47,964	20,864
	216,706	276,083
Net interest income	272,486	335,759
Provision for loan losses	372,529	161,236
Net interest income after provision for loan losses	(100,043)	174,523
Service charges on deposit accounts	53,741	51,087
Other service fees (See Note 17)	98,533	103,230
Net gain on sale and valuation adjustments of investment securities	176,146	50,228
Trading account profit	6,823	13,337
(Loss) gain on sale of loans and valuation adjustments on loans held-for-sale	(13,813)	14,267
Other operating income	13,301	32,602
	234,688	439,274
OPERATING EXPENSES:		
Personnel costs:		
Salaries	105,323	121,417
Pension and other benefits	39,968	34,551
	145,291	155,968
Net occupancy expenses	26,441	27,868
Equipment expenses	26,104	29,153
Other taxes	13,176	12,885
Professional fees	24,901	29,359
Communications	11,827	13,475
Business promotion	7,910	16,744
Printing and supplies	2,790	3,831

Other operating expenses	43,351	31,520
Amortization of intangibles	2,406	2,492
	304,197	323,295
(Loss) income from continuing operations before income tax	(69,509)	115,979
Income tax (benefit) expense	(26,933)	16,740
(Loss) income from continuing operations	(42,576)	99,239
(Loss) income from discontinued operations, net of tax	(9,946)	4,051
NET (LOSS) INCOME	($52,522)	$103,290
NET (LOSS) INCOME APPLICABLE TO COMMON STOCK	($77,200)	$100,312
(LOSSES) EARNINGS PER COMMON SHARE BASIC AND DILUTED:		
(Losses) earnings from continuing operations	($0.24)	$ 0.33
(Losses) earnings from discontinued operations	(0.03)	0.03
Net (losses) earnings per common share	($0.27)	$ 0.36
DIVIDENDS DECLARED PER COMMON SHARE	$ 0.02	$ 0.16

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

5

Table of Contents

POPULAR, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY
(UNAUDITED)

(In thousands)	Quarter ended March 31, 2009	2008
Preferred stock:		
Balance at beginning of year	$1,483,525	$ 186,875
Amortization of preferred stock discount 2008 Series C	1,762	
Balance at end of period	1,485,287	186,875
Common stock:		
Balance at beginning of year	1,773,792	1,761,908
Common stock issued under the Dividend Reinvestment Plan		3,189
Treasury stock retired	(81,583)	
Balance at end of period	1,692,209	1,765,097
Surplus:		
Balance at beginning of year	621,879	568,184
Common stock issued under the Dividend Reinvestment Plan		2,080
Stock options expense on unexercised options, net of forfeitures	132	284
Treasury stock retired	(125,556)	
Balance at end of period	496,455	570,548
(Accumulated deficit) retained earnings:		
Balance at beginning of year	(374,488)	1,319,467
Net (loss) income	(52,522)	103,290
Cumulative effect of accounting change adoption of SFAS No. 159		(261,831)
Cash dividends declared on common stock	(5,641)	(44,859)
Cash dividends declared on preferred stock	(16,942)	(2,978)
Amortization of preferred stock discount 2008 Series C	(1,762)	
Balance at end of period	(451,355)	1,113,089
Accumulated other comprehensive (loss) income:		
Balance at beginning of year	(28,829)	(46,812)
Other comprehensive (loss) income, net of tax	(61,853)	90,531
Balance at end of period	(90,682)	43,719
Treasury stock at cost:		
Balance at beginning of year	(207,515)	(207,740)
Purchase of common stock	(1)	(339)
Reissuance of common stock	377	471
Treasury stock retired	207,139	

Balance at end of period		(207,608)
Total stockholders equity	$3,131,914	$3,471,720

Disclosure of changes in number of shares:

	March 31, 2009	December 31, 2008	March 31, 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	
Shared issued (2008 Series C)		935,000	
Balance at end of period	24,410,000	24,410,000	7,475,000
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	531,411
Treasury stock retired	(13,597,261)		
Balance at end of period	282,034,819	295,632,080	294,182,809
Treasury stock		(13,627,367)	(13,635,068)
Common Stock outstanding	282,034,819	282,004,713	280,547,741

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

Table of Contents

POPULAR, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME (UNAUDITED)

(In thousands)	Quarter ended March 31, 2009	2008
Net (loss) income	($52,522)	$103,290
Other comprehensive (loss) income before tax:		
Foreign currency translation adjustment	120	219
Adjustment of pension and postretirement benefit plans	61,240	(37)
Unrealized holding gains on securities available-for-sale arising during the period	15,313	127,490
Reclassification adjustment for (gains) losses included in net (loss) income	(176,146)	1,312
Unrealized net losses on cash flow hedges	(1,586)	(5,070)
Reclassification adjustment for losses included in net (loss) income	2,414	1,501
	(98,645)	125,415
Income tax benefit (expense)	36,792	(34,884)
Total other comprehensive (loss) income, net of tax	(61,853)	90,531
Comprehensive (loss) income, net of tax	($114,375)	$193,821

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

(In thousands)	Quarter ended March 31, 2009	2008
Underfunding of pension and postretirement benefit plans	($22,783)	
Unrealized holding gains on securities available-for-sale arising during the period	(2,757)	($35,263)
Reclassification adjustment for (gains) losses included in net (loss) income	62,462	(901)
Unrealized net losses on cash flows hedges	618	1,869
Reclassification adjustment for losses included in net (loss) income	(748)	(589)
Income tax benefit (expense)	$ 36,792	($34,884)

Disclosure of accumulated other comprehensive loss:

(In thousands)	March 31, 2009	December 31, 2008	March 31, 2008
Foreign currency translation adjustment	($38,948)	($39,068)	($34,369)
Underfunding of pension and postretirement benefit plans	(198,969)	(260,209)	(51,176)

Tax effect	76,858	99,641	20,108
Net of tax amount	(122,111)	(160,568)	(31,068)
Unrealized gains on securities available-for-sale	89,141	249,974	155,894
Tax effect	(15,913)	(75,618)	(42,114)
Net of tax amount	73,228	174,356	113,780
Unrealized losses on cash flows hedges	(3,469)	(4,297)	(7,184)
Tax effect	618	748	2,560
Net of tax amount	(2,851)	(3,549)	(4,624)
Accumulated other comprehensive (loss) income, net of tax	($90,682)	($28,829)	$ 43,719

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

Table of Contents

POPULAR, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In thousands)	Quarter ended March 31, 2009	2008
Cash flows from operating activities:		
Net (loss) income	($52,522)	$ 103,290
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:		
Depreciation and amortization of premises and equipment	17,049	18,711
Provision for loan losses	372,529	168,222
Amortization of intangibles	2,406	2,492
Amortization and fair value adjustments of servicing assets	5,257	15,404
Net gain on sale and valuation adjustments of investment securities	(176,146)	(47,940)
(Gains) losses from changes in fair value related to instruments measured at fair value pursuant to SFAS No. 159	(816)	3,020
Net gain on disposition of premises and equipment	(76)	(1,323)
Net loss (gain) on sale of loans and valuation adjustments on loans held-for-sale	13,073	(68,745)
Net amortization of premiums and accretion of discounts on investments	4,288	6,086
Net amortization of premiums and deferred loan origination fees and costs	10,021	13,190
Earnings from investments under the equity method	(3,493)	(4,194)
Stock options expense	132	284
Deferred income taxes, net of valuation	(50,497)	(34,815)
Net disbursements on loans held-for-sale	(317,338)	(716,848)
Acquisitions of loans held-for-sale	(113,360)	(76,474)
Proceeds from sale of loans held-for-sale	26,901	526,534
Net decrease in trading securities	212,367	134,437
Net decrease (increase) in accrued income receivable	14,039	(10,906)
Net decrease (increase) in other assets	52,769	(84,473)
Net decrease in interest payable	(13,936)	(21,075)
Net increase (decrease) in postretirement benefit obligation	868	(362)
Net increase in other liabilities	46,550	34,975
Total adjustments	102,587	(143,800)
Net cash provided by (used in) operating activities	50,065	(40,510)
Cash flows from investing activities:		
Net (increase) decrease in money market investments	(630,817)	105,483
Purchases of investment securities:		
Available-for-sale	(2,939,134)	(120,932)
Held-to-maturity	(25,770)	(2,748,155)
Other	(17,701)	(88,720)
Proceeds from calls, paydowns, maturities and redemptions of investment securities:		
Available-for-sale	363,863	1,067,689

Held-to-maturity	1,669	2,859,246
Other	13,355	53,147
Proceeds from sale of investment securities available-for-sale	3,546,944	8,477
Proceeds from sale of other investment securities		49,252
Net repayments (disbursements) on loans	340,619	(253,856)
Proceeds from sale of loans	278,481	1,585,375
Acquisition of loan portfolios	(4,883)	(1,394)
Mortgage servicing rights purchased	(327)	(2,215)
Acquisition of premises and equipment	(23,186)	(81,111)
Proceeds from sale of premises and equipment	2,807	13,255
Proceeds from sale of foreclosed assets	34,915	29,086
Net cash provided by investing activities	940,835	2,474,627
Cash flows from financing activities:		
Net decrease in deposits	(396,730)	(1,346,959)
Net decrease in federal funds purchased and assets sold under agreements to repurchase	(669,611)	(946,572)
Net increase in other short-term borrowings	24,519	23,331
Payments of notes payable	(47,938)	(693,280)
Proceeds from issuance of notes payable	60,238	535,894
Dividends paid	(42,881)	(47,788)
Proceeds from issuance of common stock		5,269
Treasury stock acquired	(1)	(339)
Net cash used in financing activities	(1,072,404)	(2,470,444)
Net decrease in cash and due from banks	(81,504)	(36,327)
Cash and due from banks at beginning of period	784,987	818,825
Cash and due from banks at end of period	$ 703,483	$ 782,498

The accompanying notes are an integral part of these unaudited consolidated financial statements.
Note: The Consolidated Statements of Cash Flows for the quarter ended March 31, 2009 and 2008 include the cash flows from operating, investing and financing activities associated with discontinued operations.

Table of Contents

Notes to Unaudited Consolidated Financial Statements

Note 1 Nature of Operations and Basis of Presentation
Note 2 Adoption of New Accounting Standards and Issued But Not Yet Effective Accounting Standards
Note 3 Discontinued Operations
Note 4 Restrictions on Cash and Due from Banks and Certain Securities
Note 5 Pledged Assets
Note 6 Investment Securities Available-For-Sale
Note 7 Investment Securities Held-to-Maturity
Note 8 Mortgage Servicing Rights
Note 9 Other Assets
Note 10 Derivative Instruments and Hedging
Note 11 Goodwill and Other Intangible Assets
Note 12 Fair Value Measurement
Note 13 Borrowings
Note 14 Trust Preferred Securities
Note 15 Stockholders Equity
Note 16 Commitments, Contingencies and Guarantees
Note 17 Other Service Fees
Note 18 Pension and Postretirement Benefits
Note 19 Restructuring Plans
Note 20 Income Taxes
Note 21 Stock-Based Compensation
Note 22 (Loss) Earnings per Common Share
Note 23 Supplemental Disclosure on the Consolidated Statements of Cash Flows
Note 24 Segment Reporting
Note 25 Condensed Consolidating Financial Information of Guarantor and Issuers of Registered Guaranteed Securities

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. As the leading financial institution 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 transaction processing company, EVERTEC, continues to use its expertise in technology as a competitive advantage in its expansion throughout the United States, the Caribbean and Latin America, as well as internally servicing many of its subsidiaries system infrastructures and transactional processing businesses. Note 24 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 March 31, 2009, December 31, 2008 and March 31, 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 March 31, 2009.

Table of Contents

SFAS No. 160 Statement of Financial Accounting Standards No. 160, Noncontrolling Interest 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 significant 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.

FASB Staff Position FAS 140-3, Accounting for Transfers of Financial Assets and Repurchase Financing Transactions"(FSP 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 FAS 140-3 FSP did not have a significant impact on the Corporation s consolidated financial statements for the first quarter of 2009.

FASB Staff Position FAS 142-3, Determination of the Useful Life of Intangible Assets"(FSP 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 significant impact on the Corporation s consolidated financial statements for the quarter ended March 31, 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 significant impact on the Corporation s consolidated financial statements.

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)
FSP FAS 115-2 and FAS 124-2, issued in April 2009, eliminate the requirement for the entity to evaluate whether it has the intent and ability to hold an impaired security until maturity. Conversely, the new FSP requires the issuer to recognize an other-than-temporary impairment (OTTI) in the event that the entity intends to sell the impaired security or in the event that it is more likely than not that the entity will sell the security prior to recovery. In the event that the sale of the security in question prior to its maturity is not probable but the entity does not expect to recover its amortized cost basis in that security, then the entity will be required to recognize an OTTI. In the event that the recovery of the security s cost basis prior to maturity is not probable and an OTTI is recognized, the FSP provides that any component of the OTTI relating to a decline in the creditworthiness of the debtor should be reflected in results of operations, with the remainder being recognized in other comprehensive income. Conversely, in the event that the issuer determines that sale of the security in question prior to recovery is probable, then the entire OTTI will be recognized in earnings. On adoption, the 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 OTTI from retained earnings to accumulated other comprehensive income if the entity does not intend to sell the security and it is not more likely than not that the security will not be required to be sold before recovery. The Corporation elected to adopt FSP FAS 115-2 and FAS 124-2 for interim and annual reporting periods commencing with the quarter ended June 30, 2009. The Corporation is currently evaluating the potential impact of the adoption to its consolidated financial statements, but it is not expected to be significant.

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 will adopt FSP FAS 107-1 and APB 28-1 effective with the disclosures included into the consolidated financial statements for the quarter ended June 30, 2009. This FSP will only impact disclosure requirements and therefore will not impact the Corporation s financial condition or results of operations.

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. This FSP will be effective for the

Corporation in the quarter ended June 30, 2009. The Corporation will be evaluating the potential impact of adopting this FSP.

SFAS No. 162 The Hierarchy of Generally Accepted Accounting Principles (SFAS No. 162)

SFAS No. 162, issued by the FASB in May 2008, identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements that are presented in conformity with generally accepted accounting principles in the United States. This statement is effective 60 days following the SEC s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles. Management does not expect SFAS No. 162 to have a material impact on the Corporation s consolidated financial statements. The Board does not expect that this statement will result in a change in current accounting practice. However, transition provisions have been provided in the unusual circumstance that the application of the provisions of this statement results in a change in accounting practice.

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. As of March 31, 2009, the Corporation continues its plans to dispose of any remaining assets of PFH.

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 March 31, 2009 and December 31, 2008 and as Loss from discontinued operations, net of 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 for the quarter ended March 31, 2008 do not reflect the reclassification of PFH s assets / liabilities to discontinued operations.

Total assets of the PFH discontinued operations amounted to $12 million as of March 31, 2009, compared to $13 million as of December 31, 2008. PFH s total assets amounted to $2.1 billion as of March 31, 2008, principally consisting of $1.3 billion in loans, of which $927 million were accounted at fair value pursuant to SFAS No. 159, and $338 million in deferred tax assets, $230 million in servicing advances and related assets, and $68 million in mortgage servicing rights. As disclosed in the 2008 Annual Report, the Corporation substantially sold these assets in late 2008. As of March 31, 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 March 31, 2009 consisted principally of $7 million in loans measured at fair value with an unpaid principal balance of $58 million.

The following table provides financial information for the discontinued operations for the quarter ended March 31, 2009 and 2008.

	Quarter ended	
($ in millions)	March 31, 2009	March 31, 2008
Net interest income	$ 0.9	$ 21.4
Provision for loan losses		7.0
Non-interest income	1.8	43.2
Operating expenses	6.0	49.2
Loss on disposition during the period		
Pre-tax (loss) income from discontinued operations	(3.3)	8.4
Income tax expense	6.6	4.4

(Loss) income from discontinued operations, net of tax	($9.9)	$ 4.0

Table of Contents

Management took a series of actions in 2008 to downsize and eventually discontinue the PFH s 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 following sections provide information on the PFH restructuring plans.

PFH Discontinuance Restructuring Plan

During the quarter ended March 31, 2009, the PFH Discontinuance Restructuring Plan resulted in charges, on a pre-tax basis, broken down as follows:

(In thousands)	Restructuring costs
Quarter ended:	
March 31, 2009	$ 895(a)
Total	$ 895

(a) Severance, retention bonuses and other employee benefits

As of March 31, 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
Total	$ 3,916	$ 5,019	$ 8,935

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.

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	895
Cash payments	(1,711)

Balance as of March 31, 2009	$ 2,612

PFH continues to employ 99 FTEs that are primarily providing loan portfolio servicing to affiliated companies and other FTEs that have been retained for a transition period. Additional restructuring costs could be incurred during 2009, but these are not expected to be significant to the Corporation s results of operations.

PFH Branch Network Restructuring Plan

The PFH Branch Network Restructuring Plan resulted from the closure of Equity One s consumer service branches during the first quarter of 2008. The Corporation did not incur and does not expect to incur additional restructuring costs related to the PFH Branch Network Restructuring Plan for the year 2009.

Table of Contents

The following table presents the activity in the accrued balances for the PFH Branch Network Restructuring Plan during 2009.

(In thousands)	Restructuring costs
Balance as of January 1, 2009	$ 1,879
Charges	
Cash payments	(734)
Balance as of March 31, 2009	$ 1,145

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 $694 million as of March 31, 2009 (December 31, 2008 $684 million; March 31, 2008 $655 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 March 31, 2009 and March 31, 2008 (December 31, 2008 securities with a market value of $0.3 million). These securities as of December 31, 2008 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 March 31, 2009, December 31, 2008, and March 31, 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 March 31, 2009, December 31, 2008 and March 31, 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 March 31, 2009, the Corporation had restricted cash of $2 million (December 31, 2008 $3 million; March 31, 2008 $4 million) to support a letter of credit related to a service settlement agreement.

At March 31, 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.

Note 5 Pledged Assets

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

(In thousands)	March 31, 2009	December 31, 2008	March 31, 2008
Investment securities available-for-sale, at fair value	$ 1,975,253	$ 2,470,591	$ 2,808,803
Investment securities held-to-maturity, at amortized cost	225,770	100,000	
Loans held-for-sale measured at lower of cost or market value	41,231	35,764	38,553
Loans measured at fair value pursuant to SFAS No. 159			193,781

Loans held-in-portfolio	7,837,478	8,101,999	7,586,260
	$10,079,732	$10,708,354	$10,627,397

15

Table of Contents

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.

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 March 31, 2009, December 31, 2008 and March 31, 2008 were as follows:

		AS OF MARCH 31, 2009		
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
U.S. Treasury securities	$ 29,859	$ 2,561		$ 32,420
Obligations of U.S. Government sponsored entities	1,578,821	78,041		1,656,862
Obligations of Puerto Rico, States and political subdivisions	104,006	407	$ 5,168	99,245
Collateralized mortgage obligations	1,792,623	19,654	50,257	1,762,020
Mortgage-backed securities	3,122,403	49,197	885	3,170,715
Equity securities	13,053	34	3,772	9,315
Others (corporate bonds)	234,332	744	1,415	233,661
	$6,875,097	$150,638	$61,497	$6,964,238

		AS OF DECEMBER 31, 2008		
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
U.S. Treasury securities	$ 456,551	$ 45,567		$ 502,118
Obligations of U.S. Government sponsored entities	4,539,778	267,230		4,807,008
Obligations of Puerto Rico, States and political subdivisions	104,157	348	$ 3,515	100,990
Collateralized mortgage obligations	1,716,985	9,926	71,195	1,655,716
Mortgage-backed securities	837,461	14,866	3,822	848,505
Equity securities	19,581	61	9,492	10,150
	$7,674,513	$337,998	$88,024	$7,924,487

		AS OF MARCH 31, 2008		
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
U.S. Treasury securities	$ 463,769	$ 18,219		$ 481,988
	4,582,861	154,438		4,737,299

Obligations of U.S. Government sponsored entities				
Obligations of Puerto Rico, States and political subdivisions	102,378	728	$ 1,894	101,212
Collateralized mortgage obligations	1,366,306	7,299	24,686	1,348,919
Mortgage-backed securities	956,964	8,000	6,390	958,574
Equity securities	28,550	884	704	28,730
Others	2,786			2,786
	$7,503,614	$189,568	$33,674	$7,659,508

16

Table of Contents

The following table 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 March 31 2009, December 31, 2008 and March 31, 2008.

	AS OF MARCH 31, 2009		
	Less than 12 months		
(In thousands)	Amortized Cost	Gross Unrealized Losses	Market Value
Obligations of Puerto Rico, States and political subdivisions	$ 42,415	$ 324	$ 42,091
Collateralized mortgage obligations	272,367	6,510	265,857
Mortgage-backed securities	36,601	280	36,321
Equity securities	7,907	3,713	4,194
Others	53,287	1,415	51,872
	$412,577	$12,242	$400,335

	12 months or more		
(In thousands)	Amortized Cost	Gross Unrealized Losses	Market Value
Obligations of Puerto Rico, States and political subdivisions	$ 44,143	$ 4,844	$ 39,299
Collateralized mortgage obligations	631,516	43,747	587,769
Mortgage-backed securities	82,371	605	81,766
Equity securities	1,808	59	1,749
	$759,838	$49,255	$710,583

	Total		
(In thousands)	Amortized Cost	Gross Unrealized Losses	Market Value
Obligations of Puerto Rico, States and political subdivisions	$ 86,558	$ 5,168	$ 81,390
Collateralized mortgage obligations	903,883	50,257	853,626
Mortgage-backed securities	118,972	885	118,087
Equity securities	9,715	3,772	5,943
Others	53,287	1,415	51,872
	$1,172,415	$ 61,497	$1,110,918

	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	544,783	28,589	516,194
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	553,202	42,606	510,596
Mortgage-backed securities	206,472	3,146	203,326
Equity securities	29	12	17
	$803,714	$48,976	$754,738

(In thousands)	Amortized Cost	Total Gross Unrealized Losses	Market Value
Obligations of Puerto Rico, States and political subdivisions	$ 78,806	$ 3,515	$ 75,291
Collateralized mortgage obligations	1,097,985	71,195	1,026,790
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

Table of Contents

(In thousands)	AS OF MARCH 31, 2008 Less than 12 months Amortized Cost	Gross Unrealized Losses	Market Value
Obligations of Puerto Rico, States and political subdivisions	$ 20,343	$ 22	$ 20,321
Collateralized mortgage obligations	628,360	16,343	612,017
Mortgage-backed securities	144,912	1,803	143,109
Equity securities	13,654	704	12,950
	$807,269	$18,872	$788,397

(In thousands)	12 months or more Amortized Cost	Gross Unrealized Losses	Market Value
Obligations of Puerto Rico, States and political subdivisions	$ 49,662	$ 1,872	$ 47,790
Collateralized mortgage obligations	176,527	8,343	168,184
Mortgage-backed securities	319,054	4,587	314,467
	$545,243	$14,802	$530,441

(In thousands)	Amortized Cost	Total Gross Unrealized Losses	Market Value
Obligations of Puerto Rico, States and political subdivisions	$ 70,005	$ 1,894	$ 68,111
Collateralized mortgage obligations	804,887	24,686	780,201
Mortgage-backed securities	463,966	6,390	457,576
Equity securities	13,654	704	12,950
	$1,352,512	$33,674	$1,318,838

The unrealized loss positions of available-for-sale securities as of March 31, 2009 are primarily associated with collateralized mortgage obligations (CMOs). Federal agency CMOs and private label CMOs represented 92% and 8%, respectively, of the CMOs portfolio available-for-sale as of March 31, 2009. The securities that made up the private label component of the CMO portfolio available-for-sale are each rated AAA by either Moody s and/or Standard & Poor s rating agencies. None of the securities are on negative watch or outlook, nor have their ratings changed from their respective issuance dates. The carrying value of the private label CMOs available-for-sale as of March 31, 2009 was approximately $138 million, net of unrealized losses of $35 million. 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. All of these CMOs securities were found to be in good credit condition. Since no observable credit quality issues were present in the Corporation s CMOs as of March 31, 2009, and management has the intent and ability to hold the CMOs for a reasonable period of time for a forecasted recovery of fair value up to (or beyond) the cost of these investments, management considered the unrealized losses to be temporary.

As of March 31, 2009, Obligations of Puerto Rico, States and political subdivisions include approximately $45 million in Commonwealth of Puerto Rico Appropriation Bonds (Appropriation Bonds) in the Corporation s investment securities portfolios. 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. As of March 31, 2009, these Appropriation Bonds represented approximately $5 million in net unrealized losses in the Corporation s investment securities portfolios. The Corporation is closely monitoring the political and economic situation of the Island as part of its evaluation of its available-for-sale portfolio for any declines in value that management may consider other-than-temporary. Management has the intent and ability to hold these investments for a reasonable period of time for a forecasted recovery of fair value up to (or beyond) the cost of these investments.

Proceeds from the sale of investment securities available-for-sale during the quarter ended March 31, 2009 were $3.5 billion. Gross realized gains on the sale of securities available-for-sale amounted to $182.7 million for the quarter ended March 31, 2009. There were no securities sold at a loss during the quarter ended March 31, 2009.

During the three months ended March 31, 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.

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.

	March 31, 2009		December 31, 2008		March 31, 2008	
(In thousands)	Amortized Cost	Market Value	Amortized Cost	Market Value	Amortized Cost	Market Value
FNMA	$1,226,321	$1,239,608	$1,198,645	$1,197,648	$1,156,383	$1,158,103
FHLB	1,466,561	1,540,697	4,389,271	4,651,249	4,725,045	4,875,028
Freddie Mac	909,344	915,635	884,414	875,493	794,885	790,067

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 March 31, 2009, December 31, 2008 and March 31, 2008 were as follows:

	AS OF MARCH 31, 2009			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Obligations of U.S. Government sponsored entities	$ 25,770		$ 54	$ 25,716
Obligations of Puerto Rico, States and political subdivisions	283,389	$125	4,384	279,130
Collateralized mortgage obligations	236		13	223
Others	9,499	12		9,511
	$318,894	$137	$4,451	$314,580

Table of Contents

	AS OF DECEMBER 31, 2008			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Obligations of U.S. Government sponsored entities	$ 1,499	$ 1		$ 1,500
Obligations of Puerto Rico, States and political subdivisions	284,670	974	$5,624	280,020
Collateralized mortgage obligations	244		13	231
Others	8,334	49		8,383
	$294,747	$1,024	$5,637	$290,134

	AS OF MARCH 31, 2008			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Obligations of U.S. Government sponsored entities	$288,601		$ 8	$288,593
Obligations of Puerto Rico, States and political subdivisions	74,918	$1,369	53	76,234
Collateralized mortgage obligations	283		16	267
Others	11,101	114	3	11,212
	$374,903	$1,483	$ 80	$376,306

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 March 31, 2009, December 31, 2008 and March 31, 2008:

	AS OF MARCH 31, 2009		
	Less than 12 months		
(In thousands)	Amortized Cost	Gross Unrealized Losses	Market Value
Obligations of U.S. Government sponsored entities	$ 25,770	$ 54	$ 25,716
Obligations of Puerto Rico, States and political subdivisions	145,224	1,724	143,500
Others	250		250
	$171,244	$1,778	$169,466

12 months or more
Gross

(In thousands)	Amortized Cost	Unrealized Losses	Market Value
Obligations of Puerto Rico, States and political subdivisions	$23,645	$2,660	$20,985
Collateralized mortgage obligations	236	13	223
Others	250		250
	$24,131	$2,673	$21,458

Table of Contents

(In thousands)	Amortized Cost	Total Gross Unrealized Losses	Market Value
Obligations of U.S. Government sponsored entities	$ 25,770	$ 54	$ 25,716
Obligations of Puerto Rico, States and political subdivisions	168,869	4,384	164,485
Collateralized mortgage obligations	236	13	223
Others	500		500
	$195,375	$4,451	$190,924

	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	$135,650	$5,452	$130,198
Others	250		250
	$135,900	$5,452	$130,448

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

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

	AS OF MARCH 31, 2008 Less than 12 months		
(In thousands)	Amortized Cost	Gross Unrealized Losses	Market Value
Obligations of U.S. Government sponsored entities	$38,601	$ 8	$38,593
Obligations of Puerto Rico, States and political subdivisions	10,555	53	10,502
Others	250	1	249
	$49,406	$ 62	$49,344

22

Table of Contents

	12 months or more		
(In thousands)	Amortized Cost	Gross Unrealized Losses	Market Value
Collateralized mortgage obligations	$ 283	$ 16	$ 267
Others	1,000	2	998
	$1,283	$ 18	$1,265

(In thousands)	Amortized Cost	Total Gross Unrealized Losses	Market Value
Obligations of U.S. Government sponsored entities	$38,601	$ 8	$38,593
Obligations of Puerto Rico, States and political subdivisions	10,555	53	10,502
Collateralized mortgage obligations	283	16	267
Others	1,250	3	1,247
	$50,689	$ 80	$50,609

Management believes that the unrealized losses in the held-to-maturity portfolio as of March 31, 2009 are temporary. The Corporation s management has the intent and ability to hold these investments until maturity.

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.

Table of Contents

The following tables present the changes in MSRs measured using the fair value method for the three months ended March 31, 2009 and March 31, 2008.

(In thousands)	Residential MSRs Banking subsidiaries
Fair value at January 1, 2009	$ 176,034
Purchases	327
Servicing from securitizations or asset transfers	5,719
Changes due to payments on loans (1)	(3,582)
Changes in fair value due to changes in valuation model inputs or assumptions	(1,203)
Fair value as of March 31, 2009	$ 177,295

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

	Residential MSRs		
(In thousands)	Banking subsidiaries	PFH	Total
Fair value at January 1, 2008	$110,612	$81,012	$191,624
Purchases	2,215		2,215
Servicing from securitizations or asset transfers	4,720		4,720
Changes due to payments on loans (1)	(2,876)	(7,277)	(10,153)
Changes in fair value due to changes in valuation model inputs or assumptions	847	(5,497)	(4,650)
Fair value as of March 31, 2008	$115,518	$68,238	$183,756

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

Residential mortgage loans serviced for others were $17.6 billion as of March 31, 2009 (December 31, 2008 $17.6 billion; March 31, 2008 $20.4 billion, including $8.8 billion by 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 amounted to $11.7 million for the quarter ended March 31, 2009 (March 31, 2008 $7.2 million). The banking subsidiaries receive average annual servicing fees based on a percentage of the outstanding loan balance. In the first quarter of 2009, those weighted average servicing fees were 0.27% for mortgage loans serviced (March 31, 2008 0.26%). 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 quarter ended March 31, 2009, the Corporation retained servicing rights on guaranteed mortgage securitizations (FNMA and GNMA) and whole loan sales involving approximately $335 million in principal balance outstanding. Losses of approximately $585 thousand were realized on these transactions during the quarter ended March 31, 2009.

Table of Contents

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 March 31, 2009 and year ended December 31, 2008 were:

	March 31, 2009	December 31, 2008
Prepayment speed	8.2%	11.6%
Weighted average life	12.2 years	8.6 years
Discount rate (annual rate)	10.9%	11.3%

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 were as follows:

	Originated MSRs	
(In thousands)	March 31, 2009	December 31, 2008
Fair value of retained interests	$ 99,397	$ 104,614
Weighted average life	9.6 years	10.2 years
Weighted average prepayment speed (annual rate)	10.5%	9.9%
Impact on fair value of 10% adverse change	($4,074)	($4,734)
Impact on fair value of 20% adverse change	($7,763)	($8,033)
Weighted average discount rate (annual rate)	12.53%	11.46%
Impact on fair value of 10% adverse change	($4,296)	($3,769)
Impact on fair value of 20% adverse change	($8,125)	($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)	March 31, 2009	December 31, 2008
Fair value of retained interests	$ 77,898	$ 71,420
Weighted average life of collateral	7.8 years	7.0 years
Weighted average prepayment speed (annual rate)	12.9%	14.4%
Impact on fair value of 10% adverse change	($4,309)	($3,880)
Impact on fair value of 20% adverse change	($7,510)	($7,096)
Weighted average discount rate (annual rate)	11.9%	10.6%
Impact on fair value of 10% adverse change	($3,648)	($2,277)
Impact on fair value of 20% adverse change	($6,238)	($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 March 31, 2009, the Corporation serviced $4.8 billion (December 31, 2008 $4.9 billion; March 31, 2008 $3.4 billion) in residential mortgage loans with credit recourse to the Corporation.

Table of Contents

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 March 31, 2009, the Corporation had recorded $128 million in mortgage loans on its financial statements related to this buy-back option program (December 31, 2008 $61 million; March 31, 2008 $51 million).

Note 9 Other Assets

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

(In thousands)	March 31, 2009	December 31, 2008	March 31, 2008
Net deferred tax assets (net of valuation allowance)	$ 364,499	$ 357,507	$ 694,431
Bank-owned life insurance program	226,695	224,634	217,589
Prepaid expenses	121,293	136,236	175,207
Derivative assets	100,809	109,656	82,285
Investments under the equity method	94,691	92,412	103,418
Trade receivables from brokers and counterparties	46,533	1,686	412,878
Securitization advances and related assets			229,994
Others	222,558	193,466	194,873
Total	$1,177,078	$1,115,597	$2,110,675

Note: Other assets from discontinued operations as of March 31, 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 following represents the major changes that occurred in the Corporation s derivative activities during the first quarter of 2009.

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 market value. The effect of this unrealized appreciation or depreciation is expected to be substantially offset by the Corporation s gains or losses on the derivative instruments that are linked to these hedged assets and liabilities. 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 $5.6 million negative adjustment as a result of the credit risk of the counterparty as of March 31, 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 $3.7 million positive adjustment related to the incorporation of the Corporation s own credit risk as of March 31, 2009.

Certain of the Corporation s derivative instruments contain provisions that require its debt to maintain an investment grade credit rating from each of the major credit rating agencies. If the Corporation s debt were to fall below investment grade, it would be in violation of these provisions, and the counterparties to the derivative instruments could request immediate payment or demand immediate and ongoing full overnight collateralization on derivative instruments in net liability positions. The aggregate fair value of all derivative instruments with credit-risk related contingent features that are in a liability position as of March 31, 2009, was $98 million for which the Corporation posted collateral of $91 million in the normal course of business. If the credit risk related contingent features underlying these agreements were triggered on March 31, 2009, the Corporation would be required to post an additional $2 million of collateral to its counterparties.

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

As of March 31, 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	$ 192,200	Other Assets	$ 7	Other Liabilities	$ 1,593
Interest rate swaps	200,000			Other Liabilities	1,883
Total derivatives designated as hedging instruments under SFAS No. 133	$ 392,200		$ 7		$ 3,476
Derivatives not designated as hedging instruments under SFAS No. 133:					
Forward contracts	$ 353,800	Trading Account Securities	$ 5	Other Liabilities	$ 4,352
Interest rate swaps associated with:					
swaps with corporate clients	1,041,715	Other Assets	97,840		
swaps offsetting position of corporate clients swaps	1,041,715			Other Liabilities	99,580
Foreign currency and exchange rate commitments with clients	1,005	Other Assets	15	Other Liabilities	185
Foreign currency and exchange rate commitments with counterparty	1,000	Other Assets	187	Other Liabilities	12
Interest rate caps	128,267		20		

		Other Assets			
Interest rate caps for benefit of corporate clients	128,267			Other Liabilities	20
Indexed options on deposits	185,907	Other Assets	2,740		
Bifurcated embedded options	162,765			Other Liabilities	3,700
Total derivatives not designated as hedging instruments under SFAS No. 133	$3,044,441		$100,807		$107,849
Total derivative assets and liabilities	$3,436,641		$100,814		$111,325

27

Table of Contents

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 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
Total derivative assets and liabilities	$ 3,307,100		$ 109,656		$ 116,509

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 securities 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.

The Corporation also has an interest rate swap contract to convert floating rate debt to fixed rate debt with the objective of minimizing the exposure to changes in cash flows due to changes in interest rates. This interest rate swap has a remaining maturity of 6 days.

Table of Contents

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:

As of March 31, 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	($1,586)	Trading account profit (loss)	($1,917)	Trading account profit (loss)	
Interest rate swaps		Interest expense	(497)		
Total cash flow hedges	($1,586)		($2,414)		

OCI Other Comprehensive Income
AOCI Accumulated Other Comprehensive Income

Non-Hedging Activities

For the quarter ended March 31, 2009, the Corporation recognized a loss of $12.4 million related to its non-hedging derivatives, as detailed in the table below.

	Quarter ended March 31, 2009	
	Classification of Gain (Loss) Recognized in Income	Amount of Gain (Loss) Recognized in Income on

(In thousands)	on Derivatives	Derivatives
Forward contracts	Trading account profit	($8,052)
Interest rate swap contracts	Other operating income	(3,970)
Foreign currency and exchange rate commitments	Interest expense	1
Foreign currency and exchange rate commitments	Other operating income	9
Indexed options	Interest expense	(1,216)
Bifurcated embedded options	Interest expense	877
Total		($12,351)

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.

Table of Contents

Note 11 Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill for the three months ended March 31, 2009 and 2008, allocated by reportable segments, were as follows (refer to Note 24 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 March 31, 2009
Banco Popular de Puerto Rico:					
Commercial Banking	$ 31,729				$ 31,729
Consumer and Retail Banking	117,000		$ 1		117,001
Other Financial Services	8,330		(103)		8,227
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		$ 648		$ 606,440

	2008				
(In thousands)	Balance as of January 1, 2008	Goodwill acquired	Purchase accounting adjustments	Other	Balance as of March 31, 2008
Banco Popular de Puerto Rico:					
Commercial Banking	$ 35,371		($115)		$ 35,256
Consumer and Retail Banking	136,407		(564)		135,843
Other Financial Services	8,621			$ 3	8,624
Banco Popular North America:					
Banco Popular North America	404,237				404,237
E-LOAN					
EVERTEC	46,125		700	(21)	46,804
Total Popular, Inc.	$ 630,761		$ 21	($18)	$ 630,764

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 quarter ended March 31, 2009 and 2008 were related to contingency payments.

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

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

March 31, 2009	December 31, 2008	March 31, 2008

(In thousands)	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Core deposits	$ 65,380	$ 25,846	$ 65,379	$ 24,130	$ 66,040	$ 24,490
Other customer relationships	8,816	4,792	8,839	4,585	10,396	4,583
Other intangibles	2,980	2,020	3,037	1,725	8,165	5,766
Total	$ 77,176	$ 32,658	$ 77,255	$ 30,440	$ 84,601	$ 34,839

30

Table of Contents

During the quarter ended March 31, 2009, the Corporation recognized $2.4 million, in amortization expense related to other intangible assets with definite lives (March 31, 2008 $2.5 million).

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

	(In thousands)
Remaining 2009	$7,038
Year 2010	7,681
Year 2011	6,992
Year 2012	5,972
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.

Table of Contents

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 March 31, 2009 and 2008:

	At March 31, 2009			
(In millions)	Level 1	Level 2	Level 3	Balance as of March 31, 2009
Assets				
Continuing Operations				
Investment securities available-for-sale	$5	$6,923	$ 36	$6,964
Trading account securities		413	284	697
Derivatives		101		101
Mortgage servicing rights			177	177
Discontinued Operations				
Loans measured at fair value pursuant to SFAS No. 159			5	5
Total	$5	$7,437	$502	$7,944
Liabilities				
Continuing Operations				
Derivatives		($111)		($111)
Total		($111)		($111)

	At March 31, 2008			
(In millions)	Level 1	Level 2	Level 3	Balance as of March 31, 2008
Assets				
Continuing Operations				
Investment securities available-for-sale	$24	$7,594	$ 39	$7,657
Trading account securities		282	245	527
Derivatives		82		82
Mortgage servicing rights			116	116
Discontinued Operations				
Residual interests available-for-sale			3	3
Residual interests trading			35	35
Mortgage servicing rights			68	68
			927	927

Loans measured at fair value pursuant to SFAS No. 159)				
Total	$24	$7,958	$1,433	$9,415
Liabilities				
Continuing Operations				
Derivatives		($90)		($90)
Discontinued Operations				
Derivatives		(5)		(5)
Notes payable measured at fair value pursuant to SFAS No. 159			($186)	(186)
Total		($95)	($186)	($281)

32

Table of Contents

The following tables present the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the quarters ended March 31, 2009 and 2008:

	Quarter ended March 31, 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 March 31, 2009	Changes in unrealized gains (losses) included in earnings related to assets and liabilities still held as of March 31, 2009
Assets							
Continuing Operations							
Investment securities available-for-sale	$ 37				($1)	$ 36	
Trading account securities	300	$ 2			(18)	284	$ 3(a)
Mortgage servicing rights	176	(5)			6	177	(1)(c)
Discontinued Operations							
Loans measured at fair value (SFAS No. 159)	5	1			(1)	5	(b)
Total	$518	($2)			($14)	$502	$ 2

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

operations

b) Gains (losses) are included in (Loss) income 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

Table of Contents

	Quarter ended March 31, 2008						
(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 March 31, 2008	Changes in unrealized gains (losses) included in earnings related to assets and liabilities still held as of March 31, 2008
Assets							
Continuing Operations							
Investment securities available-for-sale	$ 39		$ 1		($1)	$ 39	(a)
Trading account securities	233	$ 2			10	245	$ 2(b)
Mortgage servicing rights	111	(2)			7	116	1(d)
Discontinued Operations							
Residual interests available-for-sale	4	(1)				3	(c)
Residual interests trading	40	(3)			(2)	35	(8)(c)
Mortgage servicing rights	81	(13)				68	(6)(c)
Loans measured at fair value (SFAS No. 159)	987	(2)		($1)	(57)	927	8(c)
Total	$ 1,495	($19)	$ 1	($1)	($43)	$ 1,433	($3)
Liabilities							
Discontinued Operations							

Notes payable measured at fair value (SFAS No. 159)	($201)	($1)		$ 16	($186)	($1)(c)
Total	($201)	($1)		$ 16	($186)	($1)

a) Gains (losses) are included in Net gain on sale and valuation adjustments of investment securities in the statement of operations

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

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

d) 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 ended March 31, 2009 and 2008.

Table of Contents

Gains and losses (realized and unrealized) included in earnings for the quarters ended March 31, 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 March 31, 2009	
(In millions)	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	($5)	($1)
Trading account profit	2	3
Discontinued Operations		
(Loss) income from discontinued operations, net of tax	1	
Total	($2)	$ 2

	Quarter ended March 31, 2008	
(In millions)	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	($2)	$ 1
Trading account profit	2	2
Discontinued Operations		
(Loss) income from discontinued operations, net of tax	(20)	(7)
Total	($20)	($4)

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 quarters ended March 31, 2009 and 2008 and which were still included in the consolidated statement of condition as of March 31, 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.

(In millions)	Carrying value as of March 31, 2009 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)			$ 430	$ 430
Loans held-for-sale (2)			18	18
Other real estate owned (3)			30	30
Other foreclosed assets (3)			6	6
Discontinued Operations				
Loans held-for-sale (2)			2	2
Other real estate owned (3)			1	1
Total			$ 487	$ 487

(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.

Table of Contents

	Carrying value as of March 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)			$ 51	$51

(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).

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 Note 12 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.

Corporate securities and mutual funds: 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

Table of Contents

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.

Corporate bonds: Quoted prices for these security types are obtained from an active exchange market for similar instruments and are based on terms and conditions, liquidity, live market data, benchmark curves and bid-ask spreads. These corporate bonds are classified as Level 2.

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 were 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. Foreclosed assets are measured at the lower of their carrying amount or fair value less estimated costs to sell. Fair value 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 Borrowings

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

(In thousands)	March 31, 2009	December 31, 2008	March 31, 2008
Federal funds purchased		$ 144,471	$ 175,000
Assets sold under agreements to repurchase	$2,881,997	3,407,137	4,315,693
	$2,881,997	$3,551,608	$4,490,693

Other short-term borrowings consisted of:

(In thousands)	March 31, 2009	December 31, 2008	March 31, 2008
Advances with the FHLB paying interest at maturity at fixed rates ranging from 1.93% to 2.45%			$1,110,000
Advances under credit facilities with other institutions at fixed rates ranging from 3.40% to 4.94%			191,000
Unsecured borrowings with private investors at fixed rates ranging from 0.35% to 3.125%	$28,128	$ 3,548	
Term notes purchased paying interest at maturity at fixed rates ranging from 2.25% to 5.00%			57,807
Term funds purchased paying interest at maturity at fixed rates ranging from 2.95% to 3.09%			165,000
Other	1,325	1,386	1,503
	$29,453	$ 4,934	$1,525,310

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.

Table of Contents

Notes payable consisted of:

(In thousands)	March 31, 2009	December 31, 2008	March 31, 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% (March 31, 2008 2.51% to 6.98%)	$1,108,986	$1,050,741	$ 932,385
maturing in 2010 paying interest quarterly at a fixed rate of 5.10%	20,000	20,000	
Advances under revolving lines of credit with maturities ranging from 2008 to 2009 paying interest quarterly at floating rates ranging from 0.20% to 0.30% over the 3-month LIBOR rate			110,000
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 4.70% to 7.50% (March 31, 2008 3.88% to 6.85%)	961,122	995,027	2,026,059
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	3,233	3,777	6,116
Term notes with maturities ranging from 2009 through 2011 paying interest quarterly at a floating rate of 0.40% to 3.75% (March 31, 2008 0.40%) over the 3-month LIBOR rate	425,537	435,543	199,764
Secured borrowings at fair value paying interest monthly at fixed rates ranging from 6.04% to 7.04%			38,000
Secured borrowings at fair value paying interest monthly at floating rates ranging from 2.65% to 4.50% over the 1-month LIBOR rate			148,171
Notes linked to the S&P 500 Index maturing in 2008			34,002
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 14)	849,672	849,672	849,672
Other	27,413	28,903	29,071
	$3,399,063	$3,386,763	$4,376,340

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 March 31, 2009 and March 31, 2008, respectively, were as follows: 1-month LIBOR rate = 0.50% and 2.70%; 3-month LIBOR rate = 1.19% and 2.69%; 10-year U.S. Treasury note = 2.67% and 3.41%.

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. 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. Refer to the subsequent events below for information regarding certain additional repurchase rights granted during the second quarter of 2009 to certain investors.

Subsequent events

Included in the table above is $350 million in senior long-term debt with interest that adjusts in the event of senior debt rating downgrades. As a result of rating downgrades affected by one of the major rating agencies in April 2009, the cost of the senior debt will increase prospectively by an additional 75 basis points. The senior debt consists of term notes of $75 million with a fixed rate of 7.50% as of March 31, 2009, $25 million with a fixed rate of 7.16% as of March 31, 2009 and $250 million in term notes with floating rates at 3-month LIBOR plus 3.75% as of March 31, 2009. These term notes mature in 2011.

On September 10, 2008, the Corporation issued $250 million of its Floating Rate Notes due 2011 in a private offering to certain institutional investors pursuant to Rule 144A under the Securities Act of 1933. The Floating Rate Notes bear interest at a rate of 3-month LIBOR plus 4.50% (after adjustments due to Popular s senior debt rating downgrades) and mature on September 12, 2011. The interest rate on the Floating Rate Notes is subject to adjustment based on changes in the senior debt rating of Popular, Inc. and the holders of Floating Rate Notes have the right to require the Corporation to purchase the Floating Rate Notes, in whole or in part, on each quarterly interest payment date beginning on March 2010 at a price of 100% of the principal amount of the Floating Rate Notes purchased. On May 8, 2009, the Corporation entered into agreements with two of the investors that hold an aggregate amount of $175 million of Floating Rate Notes, which grant to these investors an additional right to require the Corporation to repurchase the Floating Rate Notes held by such investors, in whole or in part, on each of June 30, 2009, September 30, 2009, and December 31, 2009, at a price equal to 99% of the principal amount of the Floating Rate Notes purchased.

Note 14 Trust Preferred Securities

As of March 31, 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 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.

Table of Contents

(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.

Note 15 Stockholders Equity

On February 19, 2009, the Board of Directors of the Corporation resolved to retire 13,597,261 shares of the Corporation s common stock, $6 par value per share, 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 March 31, 2009 consists 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 $3.0 million for each of the quarters ended March 31, 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 $8.3 million for the quarter ended March 31, 2009.

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 March 31, 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. In February 2009, the Corporation paid cash dividends on the Series C Preferred Stock amounting to $9.1 million.

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

During the quarter ended March 31, 2009, cash dividends of $0.08 per common share outstanding amounting to $22.6 million were paid to shareholders of the Corporation s common stock (March 31, 2008 $0.16 per common share or $44.8 million). Dividends declared on the Corporation s common stock amounted to $0.02 per common share outstanding or $5.6 million for the quarter ended March 31, 2009 and are payable in April 2009 (March 31, 2008 $0.16 per common share or $44.9 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.

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.

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 March 31, 2009 (December 31, 2008 $392 million; March 31, 2008 $374 million). There were no transfers between the statutory reserve account and the retained earnings account during the quarter ended March 31, 2009 and 2008.

Subsequent event

At the Annual Meeting of Stockholders of Popular, Inc. held on May 1st, 2009, the stockholders approved an amendment to the Corporation s Certificate of Incorporation to increase the number of authorized shares of common stock of the Corporation from 470,000,000 shares to 700,000,000 shares.

At the annual meeting, the stockholders also approved an amendment to the Corporation s Certificate of Incorporation 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 will have no effect on the total dollar value of the Corporation s stockholders equity. As of March 31, 2009, the par value of the Corporation s common stock is reflected in the consolidated statement of condition by an amount equal to the number of shares of common stock issued and outstanding multiplied by the par value of $6.00. Upon filing the amendment to the Corporation s Certificate of Incorporation to decrease the par value of the common stock from $6.00 per share to $0.01 par value per share, 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). This reclassification from common stock to surplus will be reflected prospectively commencing with the consolidated statement of condition as of June 30, 2009. There will be no other effect on the Corporation s financial statements.

Note 16 Commitments, Contingencies and Guarantees

Commercial letters of credit and stand-by letters of credit amounted to $18 million and $189 million, respectively, as of March 31, 2009 (December 31, 2008 $19 million and $181 million; March 31, 2008 $15 million and $172 million). There were also other commitments outstanding and contingent liabilities, such as commitments to extend credit.

As of March 31, 2009, the Corporation recorded a liability of $0.7 million (December 31, 2008 - $0.7 million; March 31, 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 March 31, 2009, the Corporation serviced $4.8 billion (December 31, 2008 $4.9 billion and March 31, 2008 $3.4 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 third party investor. The maximum potential amount of future payments that the Corporation would be required to make under the agreement in the event of nonperformance by the borrowers is equivalent to the total outstanding balance of the residential mortgage loans serviced. In the event of nonperformance, the Corporation has rights to the underlying collateral securing the mortgage loan, thus, historically, the losses associated to these guarantees had not been significant. As of March 31, 2009, the Corporation had reserves of approximately $15 million (December 31, 2008 $14 million and March 31, 2008 $6 million) to cover the estimated credit loss exposure. At March 31, 2009, the Corporation also serviced $12.8 billion (December 31, 2008 $12.7 billion and March 31, 2008 $17.0 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, or the certificates arising in securitization transactions may be covered by a funds guaranty insurance policy.

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 March 31, 2009 do not require the repurchase of loans under credit recourse obligations. As of March 31, 2009, the Corporation has an indemnification reserve of approximately $15 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 and bear any subsequent loss related to 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.

During the quarter ended March 31, 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

$11.8 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.

Table of Contents

Popular, Inc. Holding Company (PIHC) fully and unconditionally guarantees certain borrowing obligations issued by certain of its wholly-owned consolidated subsidiaries totaling $1.7 billion as of March 31, 2009 (December 31, 2008 $1.7 billion and March 31, 2008 $3.1 billion). In addition, as of March 31, 2009, PIHC fully and unconditionally guaranteed $824 million of capital securities (December 31, 2008 and March 31, 2008 $824 million) issued by four wholly-owned issuing trust entities that have been deconsolidated pursuant to FIN No. 46R. Refer to Note 14 to the consolidated financial statements for further information.

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

Note 17 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 ended:

	March 31,	
(In thousands)	2009	2008
Debit card fees	$26,373	$ 25,370
Credit card fees and discounts	24,005	27,244
Processing fees	13,408	12,385
Insurance fees	12,004	12,406
Other fees	22,743	25,825
Total	$98,533	$103,230

Note 18 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 ended March 31, 2009 and 2008 were as follows:

	Pension Plans		Benefit Restoration Plans	
	March 31,		March 31,	
(In thousands)	2009	2008	2009	2008
Service cost	$ 2,443	$ 2,315	$ 225	$ 182
Interest cost	8,547	8,611	444	461
Expected return on plan assets	(6,877)	(10,169)	(318)	(420)
Amortization of prior service cost	44	67	(8)	(13)
Amortization of net loss	4,183		313	171
Net periodic cost	8,340	824	656	381

One-time settlement gain				
Curtailment loss (gain)	820		(341)	
Total cost	$ 9,160	$ 824	$ 315	$ 381

44

Table of Contents

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 three months ended March 31, 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 three months ended March 31, 2009, contributions made to the pension and restoration plans amounted to approximately $0.4 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 ended March 31, 2009 and 2008 were as follows:

	Quarters ended March 31,	
(In thousands)	2009	2008
Service cost	$ 549	$ 485
Interest cost	2,026	1,967
Amortization of prior service cost	(261)	(262)
Total net periodic cost	$2,314	$2,190

For the three months ended March 31, 2009, contributions made to the postretirement benefit plan amounted to approximately $0.9 million. The total contributions expected to be paid during the year 2009 for the postretirement benefit plan amount to approximately $6.1 million.

Note 19 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 mid-2009. The following table details the expenses recognized during the quarter ended March 31, 2009 that were associated with this particular restructuring plan.

(In thousands)	March 31, 2009
Personnel costs	$ 2,920(a)
Other operating expenses	453(b)
Total	$ 3,373

(a) Severance, retention bonuses and

other benefits

(b) Impairment on long-lived assets

Table of Contents

As of March 31, 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
Total	$ 5,934	$17,115	$23,049

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

(In thousands)	March 31, 2009
Balance as of January 1, 2009	$ 10,852
Charges	3,373
Payments made during the quarter	(4,585)
Balance as of March 31, 2009	$ 9,640

The reserve balances at March 31, 2009 were mostly related to lease terminations.
Additional restructuring costs expected to be incurred associated with this restructuring plan are estimated at $10 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 are being transferred to BPNA and EVERTEC. The 2008 E-LOAN Restructuring Plan is expected to be completed by mid-2009.

The following table details the expenses recognized during the quarter ended March 31, 2009 that were associated with the E-LOAN 2008 Restructuring Plan.

(In thousands)	March 31, 2009
Personnel costs	$ 1,818(a)
Total restructuring costs	$ 1,818

(a) Severance, retention bonuses and other benefits

As of March 31, 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 and trademark	Restructuring Costs	Total
Year ended December 31, 2008	$ 18,867	$ 3,131	$21,998
Quarter ended March 31, 2009		1,818	1,818
Total	$ 18,867	$ 4,949	$23,816

46

Table of Contents

The following table presents the activity in the reserve for restructuring costs associated with the E-LOAN 2008 Restructuring Plan for the quarter ended March 31, 2009.

(In thousands)	
Balance as of January 1, 2009	$ 3,015
Charges	1,818
Payments made during the quarter	(1,528)
Balance at March 31, 2009	$ 3,305

Additional restructuring costs expected to be incurred associated with this restructuring plan are estimated at $2 million.

The E-LOAN Restructuring Plan charges are part of the results of the BPNA reportable segment.

Note 20 Income Taxes

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

	Quarter ended	
(In millions)	March 31, 2009	March 31, 2008
Balance as of beginning of year	$45.2	$22.2
Additions for tax positions during the quarter	1.7	1.4
Reductions as a result of settlements	(0.6)	
Balance as of end of quarter	$46.3	$23.6

As of March 31, 2009, the related accrued interest approximated $5.4 million (March 31, 2008 $3.2 million). Management determined that as of March 31, 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 $44.7 million as of March 31, 2009 (March 31, 2008 $22.3 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 March 31, 2009, the following years remain subject to examination in the U.S. Federal jurisdiction - 2007 and thereafter; and in the Puerto Rico jurisdiction 2003 and thereafter. The U.S. Internal Revenue Service (IRS) commenced an examination of the Corporation s U.S. operations tax return for 2007. As of March 31, 2009, the IRS has not proposed any adjustment as a result of the audit. 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.

Table of Contents

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

(In thousands)	March 31, 2009	December 31, 2008
Deferred tax assets:		
Tax credits available for carryforward and other credits available	$ 11,666	$ 74,676
Net operating losses carryforward available	685,896	670,326
Deferred compensation	1,999	2,628
Postretirement and pension benefits	128,157	149,027
Deferred loan origination fees	8,131	8,603
Allowance for loan losses	454,846	368,690
Deferred gains	17,782	18,307
Unearned income	499	600
Unrealized losses on derivatives	255	500
Intercompany deferred gains	8,344	11,263
SFAS. No 159 Fair value option	13,140	13,132
Other temporary differences	34,984	34,223
Total gross deferred tax assets	1,365,699	1,351,975
Deferred tax liabilities:		
Differences between assigned values and the tax basis of the assets and liabilities recognized in purchase business combinations	21,980	21,017
Deferred loan origination costs	11,113	11,228
Accelerated depreciation	9,364	9,348
Unrealized net gain on trading and available-for-sale securities	27,555	78,761
Other temporary differences	17,046	13,232
Total gross deferred tax liabilities	87,058	133,586
Gross deferred tax assets less liabilities	1,278,641	1,218,389
Less: Valuation allowance	915,693	861,018
Net deferred tax assets	$ 362,948	$ 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 March 31, 2009. For purposes of assessing the realization of the deferred tax assets in the U.S. mainland, this

cumulative taxable loss position 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 March 31, 2009, the Corporation s U.S. mainland operations deferred tax assets amounted to $902 million with a valuation allowance of $916 million. The additional valuation allowance of $14 million is related to a deferred tax liability on the indefinite-lived intangible assets, mainly at BPNA. Management will reassess the realization of the deferred tax assets each reporting period.

Note 21 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

Table of Contents

(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 March 31, 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 March 31, 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	1,461,849	$ 15.83	3.49	1,461,849	$ 15.83
$ 19.25 - $27.20	1,476,657	$ 25.22	5.23	1,380,779	$ 25.09
$ 14.39 - $27.20	2,938,506	$ 20.55	4.37	2,842,628	$ 20.33

The aggregate intrinsic value of options outstanding as of March 31, 2009 was $0.2 million (March 31, 2008 $3.8 million). There was no intrinsic value of options exercisable as of March 31, 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	(19,819)	24.85
Expired	(7,518)	27.20
Outstanding as of March 31, 2009	2,938,506	$ 20.55

The stock options exercisable as of March 31, 2009 totaled 2,842,628 (March 31, 2008 2,751,500). There were no stock options exercised during the quarters ended March 31, 2009 and 2008. Thus, there was no intrinsic value of options exercised during the quarters ended March 31, 2009 and 2008.

There were no new stock option grants issued by the Corporation under the Stock Option Plan during 2008 and 2009.

Table of Contents

For the quarter ended March 31, 2009, the Corporation recognized $0.1 million of stock option expense, with a tax benefit of $56 thousand (March 31, 2008 $0.3 million, with a tax benefit of $0.1 million). The total unrecognized compensation cost as of March 31, 2009 related to non-vested stock option awards was $0.4 million and is expected to be recognized over a weighted-average period of 1 year.

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	(77,900)	22.28
Forfeited	(247)	19.95
Non-vested as of March 31, 2009	170,192	$ 23.09

During the quarters ended March 31, 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 March 31, 2009, 23,299 (March 31, 2008   1,069) shares have been granted under this plan to terminated employees.

During the quarter ended March 31, 2009, the Corporation recognized $0.2 million of restricted stock expense related to management incentive awards, with a tax benefit of $68 thousand (March 31, 2008 $0.9 million, with a tax benefit of $0.3 million). The fair market value of the restricted stock vested was $1.7 million at grant date and

Table of Contents

$0.3 million at vesting date. This triggers a shortfall of $1.4 million that was recorded as an additional income tax expense since the Corporation does not have any surplus due to windfalls. During this period, the Corporation recognized a credit of $0.1 million of performance shares expense, with an income tax expense of $78 thousand due to the reversal of the 2008 Grant (March 31, 2008 $0.4 million, with a tax benefit of $0.2 million). The total unrecognized compensation cost related to non-vested restricted stock awards and performance shares to members of management as of March 31, 2009 was $9.7 million and is expected to be recognized over a weighted-average period of 2.10 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	22,311	2.62
Vested	(22,311)	2.62
Forfeited		
Non-vested as of March 31, 2009		

During the quarter ended March 31, 2009, the Corporation granted 22,311 (March 31, 2008 3,422) 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 (March 31, 2008 $115 thousand, with a tax benefit of $45 thousand). The fair value at vesting date of the restricted stock vested during the quarter ended March 31, 2009 for directors was $59 thousand.

Note 22 (Loss) Earnings per Common Share

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

	Quarter ended March 31,		
(In thousands, except share information)	2009		2008
Net (loss) income from continuing operations	($42,576)	$	99,239
Net (loss) income from discontinued operations	(9,946)		4,051
Less: Preferred stock dividends	22,916		2,978
Less: Preferred stock discount amortization	1,762		
Net (loss) income applicable to common stock	($77,200)	$	100,312

Average common shares outstanding	281,834,434		280,254,814
Average potential common shares			
Average common shares outstanding assuming dilution	281,834,434		280,254,814
Basic and diluted EPS from continuing operations	($0.24)	$	0.33
Basic and diluted EPS from discontinued operations	(0.03)		0.03
Basic and diluted EPS	($0.27)	$	0.36

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,

51

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 ended March 31, 2009, there were 2,938,506 weighted average antidilutive stock options outstanding (March 31, 2008 3,079,580). Additionally, the Corporation has outstanding 20,932,836 warrants issued to purchase shares of common stock, which have an antidilutive effect as of March 31, 2009.

Note 23 Supplemental Disclosure on the Consolidated Statements of Cash Flows

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

(In thousands)	March 31, 2009	March 31, 2008
Non-cash activities:		
Loans transferred to other real estate	$ 30,631	$ 22,757
Loans transferred to other property	9,897	10,937
Total loans transferred to foreclosed assets	40,528	33,694
Transfers from loans held-in-portfolio to loans held-for-sale	732	122,886
Transfers from loans held-for-sale to loans held-in-portfolio	16,174	28,573
Loans securitized into investment securities (a)	311,104	321,168
Recognition of mortgage servicing rights on securitizations or asset transfers	5,719	4,720
Treasury stock retired	207,139	

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

Note 24 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 March 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 ended March 31, 2008 to exclude results from discontinued operations and to conform them to the March 31, 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 March 31, 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 segments 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, Popular Mortgage and Popular Finance. This latter subsidiary ceased originating loans during the fourth quarter of 2008 and was merged into BPPR in early 2009. 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.

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 March 31, 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 quarter ended March 31, 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 ended March 31, 2009 and 2008 exclude the results of operations of the discontinued business of PFH. Segment assets as of March 31, 2009 also exclude the assets of the discontinued operations.

Table of Contents

2009
For the quarter ended March 31, 2009

(In thousands)	Banco Popular de Puerto Rico	Banco Popular North America	EVERTEC	Intersegment Eliminations
Net interest income (expense)	$ 216,162	$ 76,520	($245)	
Provision for loan losses	151,334	221,195		
Non-interest income	310,821	3,771	61,528	($36,269)
Amortization of intangibles	1,284	911	211	
Depreciation expense	10,155	2,847	3,479	(18)
Other operating expenses	187,483	77,847	42,600	(36,169)
Income tax (benefit) expense	(3,084)	(9,033)	5,112	(32)
Net income (loss)	$ 179,811	($213,476)	$ 9,881	($50)
Segment Assets	$24,720,327	$12,214,139	$243,289	($68,609)

For the quarter ended March 31, 2009

(In thousands)	Total Reportable Segments	Corporate	Eliminations	Total Popular, Inc.
Net interest income (expense)	$ 292,437	($20,217)	$ 266	$ 272,486
Provision for loan losses	372,529			372,529
Non-interest income (loss)	339,851	(3,595)	(1,525)	334,731
Amortization of intangibles	2,406			2,406
Depreciation expense	16,463	586		17,049
Other operating expenses	271,761	14,950	(1,969)	284,742
Income tax benefit	(7,037)	(20,173)	277	(26,933)
Net loss	($23,834)	($19,175)	$ 433	($42,576)
Segment Assets	$37,109,146	$6,222,909	($5,634,663)	$37,697,392

Table of Contents

2008

For the quarter ended March 31, 2008

(In thousands)	Banco Popular de Puerto Rico	Banco Popular North America	EVERTEC	Intersegment Eliminations
Net interest income (expense)	$ 244,672	$ 95,440	($235)	
Provision for loan losses	102,479	58,717		
Non-interest income	177,686	53,822	69,710	($37,663)
Amortization of intangibles	743	1,515	234	
Depreciation expense	10,467	3,594	3,710	(18)
Other operating expenses	187,329	90,674	48,263	(37,505)
Income tax expense (benefit)	22,512	(3,265)	5,506	(54)
Net income (loss)	$ 98,828	($1,973)	$ 11,762	($86)
Segment Assets	$26,741,251	$12,743,671	$240,216	($110,499)

For the quarter ended March 31, 2008

(In thousands)	Total Reportable Segments	Corporate	Eliminations	Total Popular, Inc.
Net interest income (expense)	$ 339,877	($4,470)	$ 352	$ 335,759
Provision for loan losses	161,196	40		161,236
Non-interest income	263,555	2,742	(1,546)	264,751
Amortization of intangibles	2,492			2,492
Depreciation expense	17,753	584		18,337
Other operating expenses	288,761	15,701	(1,996)	302,466
Income tax expense (benefit)	24,699	(8,274)	315	16,740
Net income (loss)	$ 108,531	($9,779)	$ 487	$ 99,239
Segment Assets	$39,614,639	$8,178,137(a)	($5,971,177)	$41,821,599

(a) Includes $2,065 million in assets from PFH.

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

2009

For the quarter ended March 31, 2009

(In thousands)	Commercial Banking	Consumer and Retail Banking	Other Financial Services	Eliminations	Total Banco Popular de Puerto Rico
Net interest income	$ 74,495	$ 138,279	$ 3,220	$ 168	$ 216,162
Provision for loan losses	94,863	56,471			151,334
Non-interest income	77,042	213,031	20,990	(242)	310,821
Amortization of intangibles	76	1,032	176		1,284
Depreciation expense	5,070	4,753	332		10,155
Other operating expenses	49,955	123,195	14,387	(54)	187,483
Income tax (benefit) expense	(24,505)	18,527	2,899	(5)	(3,084)
Net income	$ 26,078	$ 147,332	$ 6,416	($15)	$ 179,811
Segment Assets	$10,500,488	$17,839,568	$517,035	($4,136,764)	$24,720,327

2008
For the quarter ended March 31, 2008

(In thousands)	Commercial Banking	Consumer and Retail Banking	Other Financial Services	Eliminations	Total Banco Popular de Puerto Rico
Net interest income	$ 93,358	$ 148,390	$ 2,787	$ 137	$ 244,672
Provision for loan losses	56,868	45,611			102,479
Non-interest income	25,401	127,681	24,630	(26)	177,686
Amortization of intangibles	30	572	141		743
Depreciation expense	3,527	6,627	313		10,467
Other operating expenses	47,029	123,059	17,303	(62)	187,329
Income tax (benefit) expense	(530)	19,377	3,581	84	22,512
Net income	$ 11,835	$ 80,825	$ 6,079	$ 89	$ 98,828
Segment Assets	$11,583,207	$19,299,029	$689,414	($4,830,399)	$26,741,251

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

2009
For the quarter ended March 31, 2009

(In thousands)	Banco Popular North America	E-LOAN	Eliminations	Total Banco Popular North America
Net interest income	$ 70,914	$ 5,269	$ 337	$ 76,520
Provision for loan losses	186,552	34,643		221,195
Non-interest income (loss)	8,869	(5,074)	(24)	3,771
Amortization of intangibles	911			911
Depreciation expense	2,535	312		2,847
Other operating expenses	69,944	7,903		77,847
Income tax benefit	(1,410)	(7,623)		(9,033)
Net loss	($178,749)	($35,040)	$ 313	($213,476)
Segment Assets	$12,730,112	$ 715,761	($1,231,734)	$12,214,139

2008
For the quarter ended March 31, 2008

Total

(In thousands)	Banco Popular North America	E-LOAN	Eliminations	Banco Popular North America
Net interest income	$ 88,467	$ 6,646	$ 327	$ 95,440
Provision for loan losses	32,281	26,436		58,717
Non-interest income	45,923	8,004	(105)	53,822
Amortization of intangibles	1,065	450		1,515
Depreciation expense	3,113	481		3,594
Other operating expenses	72,994	17,677	3	90,674
Income tax expense (benefit)	9,120	(12,462)	77	(3,265)
Net income (loss)	$ 15,817	($17,932)	$ 142	($1,973)
Segment Assets	$13,002,164	$1,167,297	($1,425,790)	$12,743,671

Table of Contents

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

INTERSEGMENT REVENUES*	Quarter ended	
(In thousands)	March 31, 2009	March 31, 2008
Banco Popular de Puerto Rico:		
Commercial Banking	($1)	$ 479
Consumer and Retail Banking	(2)	1,109
Other Financial Services	(68)	(33)
Banco Popular North America:		
Banco Popular North America	11	(1,584)
E-LOAN		(627)
EVERTEC	(36,209)	(37,007)
Total intersegment revenues from continuing operations	($36,269)	($37,663)

* 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:

Geographic Information	Quarter ended	
(In thousands)	March 31, 2009	March 31, 2008
Revenues (1)		
Puerto Rico	$507,130	$422,602
United States	59,083	145,918
Other	41,004	31,990
Total consolidated revenues from continuing operations	$607,217	$600,510

(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)	March 31, 2009	December 31, 2008	March 31, 2008
Selected Balance Sheet Information: (1)			
Puerto Rico			
Total assets	$24,067,736	$24,886,736	$25,537,660
Loans	14,979,412	15,160,033	15,724,666
Deposits	16,659,788	16,737,693	16,495,197
Mainland United States			
Total assets	$12,499,283	$12,713,357	$14,981,418
Loans	9,862,219	10,417,840	11,485,471
Deposits	9,428,140	9,662,690	9,208,348
Other			
Total assets	$ 1,130,373	$ 1,270,089	$ 1,302,521
Loans	704,561	691,058	721,089
Deposits (2)	1,061,839	1,149,822	1,263,169

(1) Does not include balance sheet information of the discontinued operations for the periods

ended March 31, 2009 and December 31, 2008.

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

57

Table of Contents

Note 25 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 March 31, 2009, December 31, 2008 and March 31, 2008, and the results of their operations and cash flows for the periods ended March 31, 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., Popular FS, LLC and E-LOAN, Inc.; and
- EVERTEC USA, Inc.

PIHC fully and unconditionally guarantees all registered debt securities and preferred stock 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 March 31, 2009, BPPR could have declared a dividend of approximately $82 million (December 31, 2008 $32 million; March 31, 2008 $75 million) without the approval of the Federal Reserve Board. As of March 31, 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.

Table of Contents

POPULAR, INC.
CONDENSED CONSOLIDATING STATEMENT OF CONDITION
MARCH 31, 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	$ 1,100	$ 64	$ 7,685	$ 696,327	($1,693)	$ 703,483
Money market investments	39,801	41,301	233,420	1,423,560	(312,611)	1,425,471
Investment securities available-for-sale, at fair value	436,513	4,502		6,523,223		6,964,238
Investment securities held-to-maturity, at amortized cost	455,770	1,250		291,874	(430,000)	318,894
Other investment securities, at lower of cost or realizable value	14,425	1	12,392	195,195		222,013
Trading account securities, at fair value				696,647		696,647
Investment in subsidiaries	2,493,412	106,585	1,305,682		(3,905,679)	
Loans held-for-sale measured at lower of cost or fair value				308,206		308,206
Loans held-in-portfolio	512,600			25,364,875	(521,722)	25,355,753
Less Unearned income				117,767		117,767
Allowance for loan losses	60			1,057,065		1,057,125
	512,540			24,190,043	(521,722)	24,180,861
Premises and equipment, net	21,392		127	602,693		624,212
Other real estate	74			95,699		95,773
Accrued income receivable	1,921	115	2,483	140,129	(2,534)	142,114

Servicing assets				181,095		181,095
Other assets	29,218	68,640	21,253	1,085,813	(27,846)	1,177,078
Goodwill				606,440		606,440
Other intangible assets	554			50,313		50,867
Assets from discontinued operations				12,036		12,036
	$ 4,006,720	$ 222,458	$ 1,583,042	$ 37,099,293	($5,202,085)	$ 37,709,428
LIABILITIES AND STOCKHOLDERS EQUITY						
Liabilities:						
Deposits:						
Non-interest bearing				$ 4,374,001	($1,635)	$ 4,372,366
Interest bearing				23,050,212	(272,811)	22,777,401
				27,424,213	(274,446)	27,149,767
Federal funds purchased and assets sold under agreements to repurchase				2,921,797	(39,800)	2,881,997
Other short-term borrowings	$ 37,549		$ 10,302	501,324	(519,722)	29,453
Notes payable at cost	793,300		1,445,031	1,162,732	(2,000)	3,399,063
Subordinated notes				430,000	(430,000)	
Other liabilities	43,957	$ 115	49,189	1,042,136	(30,584)	1,104,813
Liabilities from discontinued operations				12,421		12,421
	874,806	115	1,504,522	33,494,623	(1,296,552)	34,577,514
Stockholders equity:						
Preferred stock	1,485,287					1,485,287
Common stock	1,692,209	3,961	2	52,318	(56,281)	1,692,209
Surplus	487,661	2,301,193	2,184,964	4,291,726	(8,769,089)	496,455
Accumulated deficit	(442,561)	(2,030,846)	(2,097,149)	(697,357)	4,816,558	(451,355)
Accumulated other comprehensive loss, net of tax	(90,682)	(51,965)	(9,297)	(42,017)	103,279	(90,682)
	3,131,914	222,343	78,520	3,604,670	(3,905,533)	3,131,914
	$ 4,006,720	$ 222,458	$ 1,583,042	$ 37,099,293	($5,202,085)	$ 37,709,428

Table of Contents

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
Trading account securities, at fair value				645,903		645,903
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
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)
Treasury stock, at cost	(207,515)			(377)	377	(207,515)
Accumulated other comprehensive (loss) income, net of tax	(28,829)	(71,132)	(22,612)	33,460	60,284	(28,829)
	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

Table of Contents

POPULAR, INC.
CONDENSED CONSOLIDATING STATEMENT OF CONDITION
MARCH 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	$ 3,982	$ 226	$ 405	$ 782,101	($4,216)	$ 782,498
Money market investments	63,503	34,300	12,057	901,229	(109,860)	901,229
Investment securities available-for-sale, at fair value		23,354		7,636,154		7,659,508
Investment securities held-to-maturity, at amortized cost	456,488	1,250		347,165	(430,000)	374,903
Other investment securities, at lower of cost or realizable value	14,425	1	12,392	225,339		252,157
Trading account securities, at fair value				561,857		561,857
Investment in subsidiaries	2,701,524	389,630	1,562,260		(4,653,414)	
Loans held-for-sale measured at lower of cost or fair value				447,097		447,097
Loans measured at fair value pursuant to SFAS No. 159				926,820		926,820
Loans held-in-portfolio	862,917		1,655,075	26,747,207	(2,523,075)	26,742,124
Less Unearned income				184,815		184,815
Allowance for loan losses	60			579,319		579,379
	862,857		1,655,075	25,983,073	(2,523,075)	25,977,930
Premises and equipment, net	23,255		131	616,454		639,840
Other real estate				85,277		85,277
Accrued income receivable	879	117	8,729	215,198	(9,469)	215,454
Servicing assets				188,558		188,558
Other assets	37,133	64,473	61,442	1,976,673	(29,046)	2,110,675

Goodwill				630,764		630,764
Other intangible assets	554			66,478		67,032
	$4,164,600	$ 513,351	$3,312,491	$41,590,237	($7,759,080)	$41,821,599
LIABILITIES AND STOCKHOLDERS EQUITY						
Liabilities:						
Deposits:						
Non-interest bearing				$ 4,258,043	($4,158)	$ 4,253,885
Interest bearing				22,747,286	(34,457)	22,712,829
				27,005,329	(38,615)	26,966,714
Federal funds purchased and assets sold under agreements to repurchase				4,566,095	(75,402)	4,490,693
Other short-term borrowings	$ 140,000	$ 75	$ 124,807	2,299,503	(1,039,075)	1,525,310
Notes payable at cost	477,302		2,744,195	2,452,672	(1,484,000)	4,190,169
Notes payable at fair value				186,171		186,171
Subordinated notes				430,000	(430,000)	
Other liabilities	75,578	59	78,474	874,709	(37,998)	990,822
	692,880	134	2,947,476	37,814,479	(3,105,090)	38,349,879
Stockholders equity:						
Preferred stock	186,875					186,875
Common stock	1,765,097	3,961	2	51,619	(55,582)	1,765,097
Surplus	565,547	851,193	734,964	2,809,595	(4,390,751)	570,548
Retained earnings (accumulated deficit)	1,118,090	(306,908)	(369,618)	832,906	(161,381)	1,113,089
Accumulated other comprehensive income (loss), net of tax	43,719	(35,029)	(333)	82,130	(46,768)	43,719
Treasury stock, at cost	(207,608)			(492)	492	(207,608)
	3,471,720	513,217	365,015	3,775,758	(4,653,990)	3,471,720
	$4,164,600	$ 513,351	$3,312,491	$41,590,237	($7,759,080)	$41,821,599

Table of Contents

POPULAR, INC.
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE QUARTER ENDED MARCH 31, 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	$ 40,625				($40,625)	
Loans	1,558		$ 7	$ 401,531	(1,328)	$ 401,768
Money market investments	75	$ 296	2,126	3,134	(2,498)	3,133
Investment securities	10,879	35	223	69,361	(7,015)	73,483
Trading account securities				10,808		10,808
	53,137	331	2,356	484,834	(51,466)	489,192
INTEREST EXPENSE:						
Deposits				150,459	(2,420)	148,039
Short-term borrowings	70		41	21,980	(1,388)	20,703
Long-term debt	12,814		22,944	19,506	(7,300)	47,964
	12,884		22,985	191,945	(11,108)	216,706
Net interest income (loss)	40,253	331	(20,629)	292,889	(40,358)	272,486
Provision for loan losses				372,529		372,529
Net interest income (loss) after provision for loan losses	40,253	331	(20,629)	(79,640)	(40,358)	(100,043)
Service charges on deposit accounts				53,741		53,741
Other service fees				99,321	(788)	98,533
Net (loss) gain on sale and valuation adjustments of investment securities		(6,589)		182,735		176,146
				6,823		6,823

Trading account profit						
Loss on sale of loans and valuation adjustments on loans held-for-sale				(13,813)		(13,813)
Other operating income (loss)	8	3,568	(408)	10,871	(738)	13,301
	40,261	(2,690)	(21,037)	260,038	(41,884)	234,688
OPERATING EXPENSES:						
Personnel costs:						
Salaries	5,248	92		99,983		105,323
Pension, profit sharing and other benefits	2,404	20		37,544		39,968
	7,652	112		137,527		145,291
Net occupancy expenses	654	8	1	25,778		26,441
Equipment expenses	760		2	25,342		26,104
Other taxes	832			12,344		13,176
Professional fees	3,167	3		23,256	(1,525)	24,901
Communications	92	4	5	11,726		11,827
Business promotion	237			7,673		7,910
Printing and supplies	8			2,782		2,790
Other operating expenses	(12,938)	(100)	(93)	56,926	(444)	43,351
Amortization of intangibles				2,406		2,406
	464	27	(85)	305,760	(1,969)	304,197
Income (loss) before income tax and equity in losses of subsidiaries	39,797	(2,717)	(20,952)	(45,722)	(39,915)	(69,509)
Income tax expense (benefit)	257	15	(1,628)	(25,854)	277	(26,933)
Income (loss) before equity in losses of subsidiaries	39,540	(2,732)	(19,324)	(19,868)	(40,192)	(42,576)
Equity in undistributed losses of subsidiaries	(82,116)	(220,994)	(202,461)		505,571	
Net loss from continuing operations	(42,576)	(223,726)	(221,785)	(19,868)	465,379	(42,576)

Net loss from discontinued operations, net of tax				(9,946)		(9,946)
Equity in undistributed losses of discontinued operations	(9,946)	(9,946)	(9,946)		29,838	
NET LOSS	($52,522)	($233,672)	($231,731)	($29,814)	$ 495,217	($52,522)

62

Table of Contents

POPULAR, INC.
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE QUARTER ENDED MARCH 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
INTEREST AND DIVIDEND INCOME:						
Dividend income from subsidiaries	$ 44,900				($44,900)	
Loans	6,897	$ 219	$ 35,090	$ 497,864	(42,614)	$ 497,456
Money market investments	82	106	180	7,751	(1,391)	6,728
Investment securities	8,709	316	223	91,872	(7,016)	94,104
Trading account securities				13,554		13,554
	60,588	641	35,493	611,041	(95,921)	$ 611,842
INTEREST EXPENSE:						
Deposits				195,041	(101)	194,940
Short-term borrowings	2,020		9,853	63,485	(15,079)	60,279
Long-term debt	8,284		36,552	12,168	(36,140)	20,864
	10,304		46,405	270,694	(51,320)	276,083
Net interest income (loss)	50,284	641	(10,912)	340,347	(44,601)	335,759
Provision for loan losses	40			161,196		161,236
Net interest income after provision for loan losses	50,244	641	(10,912)	179,151	(44,601)	174,523
Service charges on deposit accounts				51,087		51,087
Other service fees				104,040	(810)	103,230
Net gain on sale and valuation adjustments of investment securities				50,228		50,228
Trading account profit				13,337		13,337

Gain on sale of loans and valuation adjustments on loans held-for-sale				14,267		14,267
Other operating (loss) income	(35)	3,550	4	29,819	(736)	32,602
	50,209	4,191	(10,908)	441,929	(46,147)	439,274
OPERATING EXPENSES:						
Personnel costs:						
Salaries	6,084	91		115,477	(235)	121,417
Pension, profit sharing and other benefits	1,509	23		33,081	(62)	34,551
	7,593	114		148,558	(297)	155,968
Net occupancy expenses	629	7	1	27,231		27,868
Equipment expenses	849			28,304		29,153
Other taxes	439			12,446		12,885
Professional fees	4,156	3	90	26,359	(1,249)	29,359
Communications	122	5	9	13,339		13,475
Business promotion	289			16,455		16,744
Printing and supplies	23			3,808		3,831
Other operating expenses	(14,057)	(100)	53	46,073	(449)	31,520
Amortization of intangibles				2,492		2,492
	43	29	153	325,065	(1,995)	323,295
Income (loss) before income tax and equity in earnings (losses) of subsidiaries	50,166	4,162	(11,061)	116,864	(44,152)	115,979
Income tax expense (benefit)	1,668		(3,651)	18,431	292	16,740
Income (loss) before equity in earnings (losses) of subsidiaries	48,498	4,162	(7,410)	98,433	(44,444)	99,239
Equity in undistributed earnings (losses) of subsidiaries	50,741	(6,393)	(4,623)		(39,725)	
Net income (loss) from continuing operations	99,239	(2,231)	(12,033)	98,433	(84,169)	99,239
Net income from discontinued operations, net of tax				4,051		4,051

Equity in undistributed earnings of discontinued operations	4,051	4,051	4,051		(12,153)	
NET INCOME (LOSS)	$ 103,290	$ 1,820	($7,982)	$ 102,484	($96,322)	$ 103,290

63

Table of Contents

POPULAR, INC.
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE QUARTER ENDED MARCH 31, 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	($52,522)	($233,672)	($231,731)	($29,814)	$ 495,217	($52,522)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:						
Equity in undistributed losses of subsidiaries	92,062	230,940	212,408		(535,410)	
Depreciation and amortization of premises and equipment	584		1	16,464		17,049
Provision for loan losses				372,529		372,529
Amortization of intangibles				2,406		2,406
Amortization and fair value adjustment of servicing assets				5,257		5,257
Net loss (gain) on sale and valuation adjustment of investment securities		6,589		(182,735)		(176,146)
Gains from changes in fair value related to instruments measured at fair value pursuant to SFAS No. 159				(816)		(816)
Net gain on disposition of premises and equipment	(1)			(75)		(76)
Net loss on sale of loans and valuation adjustments on loans held-for-sale				13,073		13,073
	151			4,137		4,288

Net amortization of premiums and accretion of discounts on investments						
Net amortization of premiums and deferred loan origination fees and costs				10,021		10,021
(Earnings) losses from investments under the equity method	(9)	(3,568)	408	194	(518)	(3,493)
Stock options expense	125			7		132
Deferred income taxes, net of valuation	257			(50,339)	(415)	(50,497)
Net disbursements on loans held-for-sale				(317,338)		(317,338)
Acquisitions of loans held-for-sale				(113,360)		(113,360)
Proceeds from sale of loans held-for-sale				26,901		26,901
Net decrease in trading securities				212,367		212,367
Net (increase) decrease in accrued income receivable	(889)	359	(622)	64,753	(49,562)	14,039
Net decrease (increase) in other assets	5,797	15	(129)	46,864	222	52,769
Net (decrease) increase in interest payable	(1,777)		4,691	(66,412)	49,562	(13,936)
Net increase in postretirement benefit obligation				868		868
Net (decrease) increase in other liabilities	(2,402)	(2)	(23,497)	72,131	320	46,550
Total adjustments	93,898	234,333	193,260	116,897	(535,801)	102,587
Net cash provided by (used in) operating activities	41,376	661	(38,471)	87,083	(40,584)	50,065
Cash flows from investing activities:						
Net decrease (increase) in money market investments	49,893	(686)	216,826	(629,040)	(267,810)	(630,817)
Purchases of investment securities:						
Available-for-sale	(245,096)			(2,694,038)		(2,939,134)
Held-to-maturity	(25,770)					(25,770)

Other				(17,701)		(17,701)
Proceeds from calls, paydowns, maturities and redemptions of investment securities:						
Available-for-sale				363,863		363,863
Held-to-maturity	1,500			169		1,669
Other				13,355		13,355
Proceeds from sale of investment securities available-for- sale				3,546,944		3,546,944
Net repayments on loans	314,611		12,800	360,106	(346,898)	340,619
Proceeds from sale of loans				278,481		278,481
Acquisition of loan portfolios				(4,883)		(4,883)
Capital contribution to subsidiary			(200,000)		200,000	
Transfer of shares of a subsidiary	(42,971)		42,971			
Mortgage servicing rights purchased				(327)		(327)
Acquisition of premises and equipment	(72)			(23,114)		(23,186)
Proceeds from sale of premises and equipment	153			2,654		2,807
Proceeds from sale of foreclosed assets	47			34,868		34,915
Net cash provided by (used in) investing activities	52,295	(686)	72,597	1,231,337	(414,708)	940,835
Cash flows from financing activities:						
Net decrease in deposits				(613,692)	216,962	(396,730)
Net decrease in federal funds purchased and assets sold under agreements to repurchase	(44,471)			(675,020)	49,880	(669,611)
Net (decrease) increase in other short-term borrowings	(5,220)		9,802	(326,961)	346,898	24,519
Payments of notes payable			(44,149)	(3,789)		(47,938)
			238	60,000		60,238

Proceeds from issuance of notes payable					
Dividends paid to parent company			(40,625)	40,625	
Dividends paid	(42,881)				(42,881)
Treasury stock acquired	(1)				(1)

Table of Contents

(In thousands)	Popular, Inc. Holding Co.	PIBI Holding Co.	PNA Holding Co.	All other subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
Capital contribution from parent				200,000	(200,000)	
Net cash used in financing activities	(92,573)		(34,109)	(1,400,087)	454,365	(1,072,404)
Net increase (decrease) in cash and due from banks	1,098	(25)	17	(81,667)	(927)	(81,504)
Cash and due from banks at beginning of period	2	89	7,668	777,994	(766)	784,987
Cash and due from banks at end of period	$ 1,100	$ 64	$ 7,685	$ 696,327	($1,693)	$ 703,483

Table of Contents

POPULAR, INC.
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE QUARTER ENDED MARCH 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
Cash flows from operating activities:						
Net income (loss)	$ 103,290	$ 1,820	($7,982)	$ 102,484	($96,322)	$ 103,290
Adjustments to reconcile net income to net cash provided by (used in) operating activities:						
Equity in undistributed earnings of subsidiaries	(54,792)	2,342	572		51,878	
Depreciation and amortization of premises and equipment	583		1	18,127		18,711
Provision for loan losses	40			168,182		168,222
Amortization of intangibles				2,492		2,492
Amortization and fair value adjustment of servicing assets				15,404		15,404
Net gain on sale and valuation adjustment of investment securities				(47,940)		(47,940)
Losses from changes in fair value related to instruments measured at fair value pursuant to SFAS No. 159				3,020		3,020
Net gain on disposition of premises and equipment				(1,323)		(1,323)
Net gain on sale of loans and valuation adjustments on loans held-for-sale				(68,745)		(68,745)
Net amortization of premiums and accretion of discounts on investments	(1,476)			7,562		6,086
Net amortization of premiums and deferred loan origination fees and costs				13,190		13,190
Losses (earnings) from investments under the equity method	35	(3,550)	(4)	(162)	(513)	(4,194)
Stock options expense	110			174		284
Deferred income taxes	29		(3,651)	(31,485)	292	(34,815)
				(716,848)		(716,848)

Net disbursements on loans held-for-sale						
Acquisitions of loans held-for-sale				(76,474)		(76,474)
Proceeds from sale of loans held-for-sale				526,534		526,534
Net decrease in trading securities				134,756	(319)	134,437
Net decrease (increase) in accrued income receivable	796	(54)	(8,251)	(11,047)	7,650	(10,906)
Net decrease (increase) in other assets	628	11	(9,579)	(76,356)	823	(84,473)
Net increase (decrease) in interest payable	1,944		13,533	(28,902)	(7,650)	(21,075)
Net decrease in postretirement benefit obligation				(362)		(362)
Net increase (decrease) in other liabilities	2,447	(59)	29	33,616	(1,058)	34,975
Total adjustments	(49,656)	(1,310)	(7,350)	(136,587)	51,103	(143,800)
Net cash provided by (used in) operating activities	53,634	510	(15,332)	(34,103)	(45,219)	(40,510)
Cash flows from investing activities:						
Net (increase) decrease in money market investments	(17,103)	(34,000)	(11,906)	181,983	(13,491)	105,483
Purchases of investment securities:						
Available-for-sale		(181)		(120,751)		(120,932)
Held-to-maturity	(418,383)			(2,329,772)		(2,748,155)
Other				(88,720)		(88,720)
Proceeds from calls, paydowns, maturities and redemptions of investment securities:						
Available-for-sale				1,067,689		1,067,689
Held-to-maturity	589,500			2,269,746		2,859,246
Other				53,147		53,147
Proceeds from sale of investment securities available-for- sale		8,296		181		8,477
Proceeds from sale of other investment securities				49,252		49,252
Net (disbursements) repayments on loans	(137,530)	25,150	1,237,246	(180,026)	(1,198,696)	(253,856)
Proceeds from sale of loans				1,585,375		1,585,375
Acquisition of loan portfolios				(1,394)		(1,394)
Mortgage servicing rights purchased				(2,215)		(2,215)
	(67)			(81,044)		(81,111)

Acquisition of premises and equipment						
Proceeds from sale of premises and equipment				13,255		13,255
Proceeds from sale of foreclosed assets				29,086		29,086
Net cash provided by (used in) investing activities	16,417	(735)	1,225,340	2,445,792	(1,212,187)	2,474,627
Cash flows from financing activities:						
Net decrease in deposits				(1,310,533)	(36,426)	(1,346,959)
Net decrease in federal funds purchased and assets sold under agreements to repurchase			(168,892)	(825,177)	47,497	(946,572)
Net (decrease) increase in other short-term borrowings	(25,000)	75	(1,030,967)	578,527	500,696	23,331
Payments of notes payable			(17,500)	(1,376,099)	700,319	(693,280)
Proceeds from issuance of notes payable	99		7,356	530,439	(2,000)	535,894
Dividends paid to parent company				(44,900)	44,900	
Dividends paid	(47,788)					(47,788)
Proceeds from issuance of common stock	5,269					5,269

(In thousands)	Popular, Inc. Holding Co.	PIBI Holding Co.	PNA Holding Co.	All other subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
Treasury stock acquired	(40)			(299)		(339)
Net cash (used in) provided by financing activities	(67,460)	75	(1,210,003)	(2,448,042)	1,254,986	(2,470,444)
Net increase (decrease) in cash and due from banks	2,591	(150)	5	(36,353)	(2,420)	(36,327)
Cash and due from banks at beginning of period	1,391	376	400	818,454	(1,796)	818,825
Cash and due from banks at end of period	$ 3,982	$ 226	$ 405	$ 782,101	($4,216)	$ 782,498

Table of Contents

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This report includes management s discussion and analysis (MD&A) of the consolidated financial position and financial performance of Popular, Inc. and its subsidiaries (the Corporation or Popular). All accompanying tables, financial statements and notes included elsewhere in this report should be considered an integral part of this analysis.

OVERVIEW

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 is a financial services provider with operations in Puerto Rico, the United States, the Caribbean and Latin America. As the leading financial institution in Puerto Rico, the Corporation offers 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. 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 transaction processing company, EVERTEC, continues to use its expertise in technology as a competitive advantage in its expansion throughout the United States, the Caribbean and Latin America, as well as internally servicing many of its subsidiaries system infrastructures and transactional processing businesses. Note 24 to the consolidated financial statements presents information about the Corporation s business segments. The operations of PFH, the Corporation s consumer and mortgage lending subsidiary in the U.S., were discontinued in the later part of 2008. Refer to Note 3 and the Discontinued Operations section of this MD&A for additional information.

The Corporation reported a net loss of $52.5 million for the quarter ended March 31, 2009, compared with net income of $103.3 million in the same quarter of 2008. Table A provides selected financial data and performance indicators for the quarters ended March 31, 2009 and 2008. As indicated in previous filings with the SEC, in 2008, the Corporation discontinued the operations of its U.S.-based subsidiary Popular Financial Holdings (PFH), and thus, the results of PFH are presented as part of (Loss) income from discontinued operations, net of income tax in Table A. The Corporation retrospectively adjusted certain information, principally that impacting the statement of operations, to present in a separate line item the results from discontinued operations from prior periods presented in this Form 10-Q for comparability purposes. The discussions in this MD&A pertain to Popular, Inc. s continuing operations, unless otherwise indicated.

The Corporation s continuing operations reported a net loss of $42.6 million for the quarter ended March 31, 2009, compared with a net income of $99.2 million for the quarter ended March 31, 2008. The principal items impacting the continuing operations financial results for the quarter ended March 31, 2009, when compared to the quarter ended March 31, 2008, were as follows:

- Non-interest income was higher by $70.0 million, which was mostly driven by gains on the sale of investment securities of $182.7 million ($155.3 million after tax) in the first quarter of 2009 associated with the sale of $3.4 billion of investment securities by BPPR. The restructuring of the investment portfolio in the first quarter of 2009 was undertaken to improve the Corporation s regulatory capital position. Refer to the Statement of Condition section of this MD&A for management s principal considerations in determining to sell investment securities in the first quarter of 2009, as well as a general description of the transactions.

- Income tax benefit of $26.9 million in the first quarter of 2009, compared to income tax expense of $16.7 million in the first quarter of 2008.

- Total operating expenses were $19.1 million lower in the quarter ended March 31, 2009, compared with the first quarter of 2008. Operating expenses for the first quarter of 2009 included $5.2 million in charges related to BPNA and E-LOAN s restructuring plans announced in the fourth quarter of 2008. The reduction was

principally related to lower personnel and business promotion expenses as a result of a reduction in

headcount resulting from the restructuring plans in place at BPNA and E-LOAN as well as cost saving strategies implemented across the Corporation, partially offset by higher pension costs.

The favorable variances described above were partially offset by:

An increase in the provision for loan losses of $211.3 million when compared with the quarter ended March 31, 2008. The increase in the provision for loan losses resulted principally from higher net-charge offs by $105.6 million when compared to the same quarter of 2008. The provision for loan losses was kept at a high level due to higher general reserves and a greater volume of impaired loans with specific reserves under SFAS No.114 Accounting by Creditors for Impairment of a Loan . The allowance for loan losses to loans held-in-portfolio was 4.19% at March 31, 2009, compared to 2.18% at March 31, 2008.

A decrease in net interest income of $63.3 million, principally due to a lower net interest yield and a reduction in interest earning assets.

The discontinued operations of Popular Financial Holdings (PFH) in the U.S. mainland reported a net loss of $9.9 million for the quarter ended March 31, 2009, compared to a net income of $4.0 million for the quarter ended March 31, 2008. As of March 31, 2009, PFH holds a loan portfolio measured at fair value of $7 million and other miscellaneous assets, including other real estate. Refer to the Discontinued Operations section of this MD&A for further information.

Total assets amounted to $37.7 billion as of March 31, 2009, compared with $38.9 billion as of December 31, 2008. The decline was principally in investment securities available-for-sale by $1.0 billion, principally due to the aforementioned restructuring of the portfolio. Loans held-in-portfolio amounted to $25.2 billion as of March 31, 2009, compared with $25.7 billion as of December 31, 2008. The current financial environment has required the Corporation to strengthen its underwriting standards and ensure that it prices the loans appropriately. As a result of this challenging financial environment, together with caution being exercised by customers, and management s decision to exit selected businesses on the mainland United States, the Corporation has seen a reduction in the volume of loan applications. Total assets and loans shown in Table A for the period ended March 31, 2008, include $2.1 billion and $1.3 billion, respectively, pertaining to the operations of PFH.

Refer to Table H in the Financial Condition section of this MD&A for the percentage allocation of the composition of the Corporation s financing to total assets. The reduction in borrowings from December 31, 2008 was directly associated to the reduction in earning assets. The Corporation continues to rely in the same funding sources as those described in the 2008 Annual Report. Refer to the Liquidity Risk section of this MD&A for an update on the Corporation s credit ratings by the major rating agencies.

Regulatory capital requirements for banking institutions are based on Tier I and Total capital, which include both common stock and certain qualifying preferred stock. Nonetheless, as overall economic conditions in general and credit quality in particular have continued to worsen, there has been an increasing regulatory and market focus on the tangible common equity of banking institutions. Tangible common equity equals a banking institution s total stockholders equity minus equity attributable to preferred securities and minus intangibles (including goodwill). Although the Corporation s regulatory ratios remain well above the standard for a well capitalized banking institution, recent losses have reduced the Corporation s tangible common equity substantially. The Corporation s tangible common equity at March 31, 2009 totaled $989 million or 2.67% of total tangible assets (tangible common equity ratio), compared to $1.1 billion or 2.95% at December 31, 2008, and $2.6 billion or 6.29% at March 31, 2008. The Corporation will continue to explore options to increase its tangible common equity and its tangible common equity ratio.

In February 2009, the Board reduced the quarterly common stock dividend to $0.02 per common share from the previous $0.08 per common share. This reduction will help preserve approximately $68 million in capital per year. The dividend payment to common and preferred stock shareholders is reviewed on a quarterly or monthly basis, as applicable, and could be restricted due to capital levels. The Corporation s issuance of senior preferred shares to the U.S. Treasury under the TARP Capital Purchase Program (TARP) also imposes restrictions on its ability to pay dividends under certain conditions.

Table of Contents

TABLE A
Financial Highlights
Financial Condition Highlights

(In thousands)	At March 31, 2009	2008	Variance	Average for the three months** 2009	2008	Variance
Money market investments	$ 1,425,471	$ 901,229	$ 524,242	$ 1,367,413	$ 778,600	$ 588,813
Investment and trading securities	8,201,792	8,848,425	(646,633)	8,373,879	9,407,220	(1,033,341)
Loans	25,546,192*	27,931,226	(2,385,034)	25,830,240	26,553,618	(723,378)
Total earning assets	35,173,455*	37,680,880	(2,507,425)	35,571,532	36,739,438	(1,167,906)
Total assets	37,709,428	41,821,599	(4,112,171)	38,436,913	42,704,707	(4,267,794)
Deposits	27,149,767	26,966,714	183,053	27,436,228	27,557,154	(120,926)
Borrowings	6,310,513	10,392,343	(4,081,830)	6,774,776	7,910,617	(1,135,841)
Stockholders equity	3,131,914	3,471,720	(339,806)	3,112,934	3,331,531	(218,597)

Operating Highlights

(In thousands, except per share information)	First Quarter 2009	2008	Variance
Net interest income	$ 272,486	$335,759	($63,273)
Provision for loan losses	372,529	161,236	211,293
Non-interest income	334,731	264,751	69,980
Operating expenses	304,197	323,295	(19,098)
(Loss) income from continuing operations before income tax	(69,509)	115,979	(185,488)
Income tax (benefit) expense	(26,933)	16,740	(43,673)
(Loss) income from continuing operations, net of income tax	(42,576)	99,239	(141,815)
(Loss) income from discontinued operations, net of income tax	(9,946)	4,051	(13,997)
Net (loss) income	($52,522)	$103,290	($155,812)
Net (loss) income applicable to common stock	($77,200)	$100,312	($177,512)
(Losses) earnings per common share:			
Basic and diluted (losses) earnings from continuing operations	($0.24)	$ 0.33	($0.57)
Basic and diluted (losses) earnings from discontinued operations	($0.03)	$ 0.03	($0.06)
Basic and diluted (losses) earnings Total	($0.27)	$ 0.36	($0.63)

Selected Statistical Information

	First Quarter	
	2009	2008
Common Stock Data Market price		
High	$ 5.52	$14.07
Low	1.47	8.90
End	2.16	11.66
Book value per share at period end	5.84	11.71
Dividends declared per share	0.02	0.16
Dividend payout ratio	N.M.	44.67%
Profitability Ratios Return on assets	(0.55%)	0.97%
Return on common equity	(19.13)	12.83
Net interest spread (taxable equivalent)	2.89	3.40
Net interest margin (taxable equivalent)	3.35	3.93
Capitalization Ratios Average equity to assets	8.10%	7.80%
Tier I capital to risk adjusted assets	11.16	9.55
Total capital to risk adjusted assets	12.44	10.82
Leverage ratio	8.54	7.43

* Excludes assets from discontinued operations as of March 31, 2009 as follows: $7 million in loans and earning assets. These are included as part of Assets from discontinued operations in the consolidated statement of condition as of such date.

** Excludes averages of assets / liabilities from discontinued operations. Averages for March 31, 2008 were retrospectively adjusted to

conform to the
March 31, 2009
presentation.

N.M. refers to
not meaningful .

The Federal Reserve Board has been recently conducting stress tests on the top 19 bank holding companies in the United States to ascertain if they have adequate capital to confront a hypothetical stressful economic environment. The Corporation is not among the bank holding companies being reviewed. However, banking regulators may decide at a future time to perform similar tests on other bank holding companies, including us. As a result of a potential review, regulators may require that the Corporation increase its capital.

Table of Contents

TARP funds have been applied to a number of uses, including without limitation, investments in the Corporation s banking subsidiaries, purchases of marketable securities, loans to the Corporation s banking subsidiaries and satisfaction of the Corporation s obligations. The Corporation has continued its lending activities in a disciplined and prudent manner in the different markets it serves, despite the difficult general economic conditions of such markets. The Corporation approved, in the aggregate, approximately $1.9 billion in new, renewed or restructured credit facilities during the quarter ended March 31, 2009.

The Corporation, like other financial institutions, is subject to a number of risks, many of which are outside of management s control, though efforts are made to manage those risks while optimizing returns. Among the risks assumed are: (1) market risk, which is the risk that changes in market rates and prices will adversely affect the Corporation s financial condition or results of operations, (2) liquidity risk, which is the risk that the Corporation will have insufficient cash or access to cash to meet operating needs and financial obligations, (3) credit risk, which is the risk that loan customers or other counterparties will be unable to perform their contractual obligations, and (4) operational risk, which is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. In addition, the Corporation is subject to legal, compliance and reputational risks, among others.

As a financial services company, the Corporation s earnings are significantly affected by general business and economic conditions. Lending and deposit activities and fee income generation are influenced by the level of business spending and investment, consumer income, spending and savings, capital market activities, competition, customer preferences, interest rate conditions and prevailing market rates on competing products. The Corporation continuously monitors general business and economic conditions, industry-related indicators and trends, competition, interest rate volatility, credit quality indicators, loan and deposit demand, operational and systems efficiencies, revenue enhancements and changes in the regulation of financial services companies. The Corporation operates in a highly regulated environment and may be adversely affected by changes in federal and local laws and regulations. Also, competition with other financial institutions could adversely affect its profitability.

The description of the Corporation s business contained in Item 1 of the Corporation s Form 10-K for the year ended December 31, 2008, while not all inclusive, discusses additional information about the business of the Corporation and risk factors, many beyond the Corporation s control that, in addition to the other information in this Form 10-Q, including Item 1A of Part III; readers should consider.

Further discussion of operating results, financial condition and credit, market and liquidity risks is presented in the narrative and tables included herein.

The shares of the Corporation s common stock and Series A and Series B preferred stock are traded on the National Association of Securities Dealers Automated Quotations (NASDAQ) system under the symbols BPOP, BPOPO and BPOPP.

RECENT ACCOUNTING PRONOUNCEMENTS AND INTERPRETATIONS ADOPTED AND NOT ISSUED BUT NOT YET EFFECTIVE

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 March 31, 2009.

SFAS No. 160 Statement of Financial Accounting Standards No. 160, Noncontrolling Interest 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 significant 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.

FASB Staff Position FAS 140-3, Accounting for Transfers of Financial Assets and Repurchase Financing Transactions"(FSP 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 FAS 140-3 FSP did not have a significant impact on the Corporation s consolidated financial statements for the first quarter of 2009.

FASB Staff Position FAS 142-3, Determination of the Useful Life of Intangible Assets"(FSP 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 significant impact on the Corporation s consolidated financial statements for the quarter ended March 31, 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 significant impact on the Corporation s consolidated financial statements.

Table of Contents

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)

FSP FAS 115-2 and FAS 124-2, issued in April 2009, eliminate the requirement for the entity to evaluate whether it has the intent and ability to hold an impaired security until maturity. Conversely, the new FSP requires the issuer to recognize an other-than-temporary impairment (OTTI) in the event that the entity intends to sell the impaired security or in the event that it is more likely than not that the entity will sell the security prior to recovery. In the event that the sale of the security in question prior to its maturity is not probable but the entity does not expect to recover its amortized cost basis in that security, then the entity will be required to recognize an OTTI. In the event that the recovery of the security s cost basis prior to maturity is not probable and an OTTI is recognized, the FSP provides that any component of the OTTI relating to a decline in the creditworthiness of the debtor should be reflected in results of operations, with the remainder being recognized in other comprehensive income. Conversely, in the event that the issuer determines that sale of the security in question prior to recovery is probable, then the entire OTTI will be recognized in earnings. On adoption, the 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 OTTI from retained earnings to accumulated other comprehensive income if the entity does not intend to sell the security and it is not more likely than not that the security will not be required to be sold before recovery. The Corporation elected to adopt FSP FAS 115-2 and FAS 124-2 for interim and annual reporting periods commencing with the quarter ended June 30, 2009. The Corporation is currently evaluating the potential impact of the adoption to its consolidated financial statements, but it is not expected to be significant.

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 will adopt FSP FAS 107-1 and APB 28-1 effective with the disclosures included into the consolidated financial statements for the quarter ended June 30, 2009. This FSP will only impact disclosure requirements and therefore will not impact the Corporation s financial condition or results of operations.

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. This FSP will be effective for the

Table of Contents

Corporation in the quarter ended June 30, 2009. The Corporation will be evaluating the potential impact of adopting this FSP.

Table of Contents

SFAS No. 162 The Hierarchy of Generally Accepted Accounting Principles (SFAS No. 162)

SFAS No. 162, issued by the FASB in May 2008, identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements that are presented in conformity with generally accepted accounting principles in the United States. This statement is effective 60 days following the SEC s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles. Management does not expect SFAS No. 162 to have a material impact on the Corporation s consolidated financial statements. The Board does not expect that this statement will result in a change in current accounting practice. However, transition provisions have been provided in the unusual circumstance that the application of the provisions of this statement results in a change in accounting practice.

CRITICAL ACCOUNTING POLICIES / ESTIMATES

The accounting and reporting policies followed by the Corporation and its subsidiaries conform to generally accepted accounting principles in the United States of America and general practices within the financial services industry. Various elements of the Corporation s accounting policies, by their nature, are inherently subject to estimation techniques, valuation assumptions and other subjective assessments. These estimates are made under facts and circumstances at a point in time and changes in those facts and circumstances could produce actual results that differ from those estimates.

Management has discussed the development and selection of the critical accounting policies and estimates with the Corporation s Audit Committee. The Corporation has identified as critical accounting policies those related to Fair Value Measurement of Financial Instruments, Loans and Allowance for Loan Losses, Income Taxes, Goodwill and Trademark and Pension and Postretirement Benefit Obligations. For a summary of the Corporation s critical accounting policies and estimates, refer to that particular section in the MD&A included in Popular, Inc. s 2008 Financial Review and Supplementary Information to Stockholders, incorporated by reference in Popular, Inc. s Annual Report on Form 10-K for the year ended December 31, 2008 (the 2008 Annual Report). Also, refer to Note 1 to the consolidated financial statements included in the 2008 Annual Report for a summary of the Corporation s significant accounting policies.

NET INTEREST INCOME

Net interest income from continuing operations, on a taxable equivalent basis, is presented with its different components on Table B for the period ended March 31, 2009 as compared with the same period in 2008, segregated by major categories of interest earning assets and interest bearing liabilities.

The interest earning assets include the investment securities and loans that are exempt from income tax, principally in Puerto Rico. The main sources of tax-exempt interest income are investments in obligations of the U.S. Government, some U.S. Government agencies and sponsored entities of the Puerto Rico Commonwealth and its agencies, and assets held by the Corporation s international banking entities, which are partially tax exempt under Puerto Rico laws. To facilitate the comparison of all interest related to these assets, the interest income has been converted to a taxable equivalent basis, using the applicable statutory income tax rates at each respective quarter. The taxable equivalent computation considers the interest expense disallowance required by the Puerto Rico tax law.

Table of Contents

Average outstanding securities balances are based upon amortized cost excluding any unrealized gains or losses on securities available-for-sale. Non-accrual loans have been included in the respective average loans and leases categories. Loan fees collected and costs incurred in the origination of loans are deferred and amortized over the term of the loan as an adjustment to interest yield. Interest income for quarter ended March 31, 2009 included favorable impact of $5.5 million, consisting principally of amortization of loan origination costs and fees, amortization of net premiums on loans purchased, and prepayment penalties and late payment charges. The favorable impact for the quarter ended March 31, 2008 was $5.1 million.

TABLE B

Analysis of Levels & Yields on a Taxable Equivalent Basis for Continuing Operations

Quarter ended March 31,

	Average Volume		Average Yields / Costs				Interest			Variance Attributable	
	2008	Variance	2009	2008	Variance		2009	2008	Variance	Rate	Vo
millions)									(In thousands)		
7	$ 779	$ 588	0.93%	3.89%	(2.96%)	Money market investments	$ 3,136	$ 7,528	($4,392)	($5,220)	$
8	8,614	(966)	4.75	5.16	(0.41)	Investment securities	90,752	111,126	(20,374)	(5,000)	(1
6	793	(67)	7.02	7.43	(0.41)	Trading securities	12,561	14,648	(2,087)	(879)	
1	10,186	(445)	4.38	5.24	(0.86)		106,449	133,302	(26,853)	(11,099)	(1
						Loans:					
5	15,490	285	5.04	6.82	(1.78)	Commercial *	196,192	262,553	(66,361)	(70,444)	
1	1,121	(180)	8.45	8.03	0.42	Leasing	19,890	22,521	(2,631)	1,122	
4	4,918	(384)	6.89	7.38	(0.49)	Mortgage	78,044	90,724	(12,680)	(5,853)	
0	5,024	(444)	9.97	10.16	(0.19)	Consumer	113,191	127,119	(13,928)	(4,695)	
0	26,553	(723)	6.37	7.60	(1.23)		407,317	502,917	(95,600)	(79,870)	(1
1	$36,739	($1,168)	5.82%	6.95%	(1.13%)	Total earning assets	$513,766	$636,219	($122,453)	($90,969)	($3
						Interest bearing deposits:					
6	$ 4,773	$ 53	1.32%	2.19%	(0.87%)	NOW and money market**	$ 15,707	$ 26,022	($10,315)	($10,891)	
8	5,641	(63)	1.09	1.72	(0.63)	Savings	15,024	24,171	(9,147)	(8,407)	
2	12,967	(145)	3.71	4.49	(0.78)	Time deposits	117,308	144,747	(27,439)	(27,287)	
6	23,381	(155)	2.58	3.35	(0.77)		148,039	194,940	(46,901)	(46,585)	
3	6,289	(2,936)	2.50	3.85	(1.35)	Short-term borrowings	20,703	60,279	(39,576)	(21,502)	(1
2	1,622	1,800	5.68	5.18	0.50	Medium and long-term debt	47,964	20,864	27,100	2,016	2
1	31,292	(1,291)	2.93	3.55	(0.62)	Total interest bearing liabilities	216,706	276,083	(59,377)	(66,071)	
0	4,176	34				Non-interest bearing demand deposits					
0	1,271	89				Other sources of funds					
1	$36,739	($1,168)	2.47%	3.02%	(0.55%)						

3.35%	3.93%	(0.58%)	Net interest margin					
			Net interest income on a taxable equivalent basis	297,060	360,136	(63,076)	($24,898)	($3
2.89%	3.40%	(0.51%)	Net interest spread					
			Taxable equivalent adjustment	24,574	24,377	197		
			Net interest income	$272,486	$335,759	($63,273)		

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

* Includes commercial construction loans.

** Includes interest bearing demand deposits corresponding to certain government entities in Puerto Rico.

Table of Contents

As shown in Table B, the decrease in average earning assets was mainly due to a decline in the average volume of investment securities. This was principally the result of the sale of $3.4 billion of investment securities available for sale during the first quarter of 2009, mostly U.S. agency securities (FHLB notes). The Corporation invested $2.3 billion during the quarter ended March 31, 2009, primarily in GNMA mortgage-backed securities. The loan portfolio average balance decreased in the mortgage, consumer and lease financing categories, influenced by a slowdown in loan origination activity. Also, the decline in the mortgage loan portfolio was primarily related to the banking operations of BPPR, which, during the second quarter of 2008, completed the securitization of $307 million in residential mortgage loans into FNMA mortgage-backed securities that were subsequently sold. The decrease in mortgage loans was also impacted by the exiting of the loan origination activity in E-LOAN and of BPNA s non-conventional mortgage loan origination unit. The decline in the lease financing portfolio related to the sale, during the first quarter of 2009, of approximately $0.3 billion in loans by Popular Equipment Finance, a subsidiary of BPNA, and to the decrease in the Puerto Rico leasing portfolio due to the above mentioned slowdown in origination activity. The reduction in the consumer portfolio was related to the sale of auto loans by E-LOAN in the second quarter of 2008 and to the exiting of the auto loans lending activity in the Corporation s U.S. operations. E-LOAN exited all loan origination activities, thus also impacting the volume of home equity lines of credit (HELOCs). Furthermore, the decline in average consumer loans was related to a decrease in the volume of personal loans originated by the Puerto Rico operations. The increase in commercial loans was mostly reflected in construction loans, and principally related to loans to builders and developers of multi-unit construction projects serving both residential and business sectors. The credit performance of these loans will continue to challenge the Corporation in the current economic environment; however the performance of these loans is being closely monitored. The Corporation s short-term borrowings decreased related to the reduction in earning assets, while long-term borrowings increased due to the issuance of notes in private offerings to institutional investors in 2008.

Contributing to the decrease in net interest income was the decrease by the Federal Reserve (FED) of the federal funds target rate from 2.25% in March 31, 2008 to between 0% and 0.25% at March 31, 2009. This reduction in market rates impacted the yield of several of the Corporation s earning assets during that period, as well as the origination of new loans in a low interest rate environment. Earning assets impacted by the decline in rates by the FED included commercial and construction loans of which 67% have floating or adjustable rates, and floating rate collateralized mortgage obligations. On the positive side, the decrease in rates contributed to the decrease in the cost of short-term borrowings and interest-bearing deposits. Other factors impacting negatively the Corporation s net interest income is the increase in nonperforming loans and the exiting of several loan origination activities in the U.S. mainland operations, which are described in the Restructuring Plans section of this MD&A.

PROVISION FOR LOAN LOSSES

The provision for loan losses for the continuing operations totaled $372.5 million, or 188% of net charge-offs, for the quarter ended March 31, 2009, compared with $161.2 million, or 174% for the first quarter of 2008. The provision for loan losses for the quarter ended March 31, 2009, when compared with the first quarter of 2008, reflects higher net charge-offs by $105.6 million, mainly in construction loans by $44.8 million, consumer loans by $25.6 million (mainly home equity lines of credit), mortgage loans by $22.1 million and commercial loans by $13.0 million. The increase in the provision for loan losses for the quarter ended March 31, 2009 compared to the same quarter in 2008 was the result of higher general reserve requirements for commercial loans, construction loans, U.S. non-conventional residential mortgages and home equity lines of credit, combined with specific reserves recorded for loans considered impaired under SFAS No. 114. Provision and net charge-offs information for prior periods was retrospectively adjusted to exclude discontinued operations for comparative purposes.

Further information on net charge-offs and non-performing assets is provided in the Credit Risk Management and Loan Quality section of this MD&A.

Table of Contents

NON-INTEREST INCOME

Non-interest income from continuing operations totaled $334.7 million for the quarter ended March 31 2009, compared with $264.8 million for the quarter ended March 31, 2008, an increase of $69.9 million, or 26%.
Refer to Table C for a breakdown on non-interest income from continuing operations by major categories for the quarters ended March 31, 2009 and 2008.

TABLE C
Non-Interest Income

	Quarters ended March 31,		
(In thousands)	2009	2008	$ Variance
Service charges on deposit accounts	$ 53,741	$ 51,087	$ 2,654
Other service fees:			
Debit card fees	26,373	25,370	1,003
Credit card fees and discounts	24,005	27,244	(3,239)
Processing fees	13,408	12,385	1,023
Insurance fees	12,004	12,406	(402)
Sale and administration of investment products	7,329	10,997	(3,668)
Mortgage servicing fees, net of fair value adjustments	6,880	5,129	1,751
Trust fees	2,983	3,080	(97)
Other fees	5,551	6,619	(1,068)
Total other service fees	98,533	103,230	(4,697)
Net gain on sale and valuation adjustments of investment securities	176,146	50,228	125,918
Trading account profit	6,823	13,337	(6,514)
(Loss) gain on sale of loans and valuation adjustments on loans held-for-sale	(13,813)	14,267	(28,080)
Other operating income	13,301	32,602	(19,301)
Total non-interest income	$334,731	$264,751	$ 69,980

The increase in non-interest income for the quarter ended March 31, 2009, compared with the same quarter in the previous year, was mostly impacted by an increase in the net gain on sale and valuation adjustments of investment securities. This increase was mostly associated to $182.7 million in gains derived from the sale of $3.4 billion in U.S. Treasury notes and U.S. agencies securities by BPPR in the first quarter of 2009, compared to gains of approximately $49.3 million in the same quarter of the previous year caused by the redemption by Visa of shares of common stock held by the Corporation. The gain on sale of investment securities of the first quarter of 2009 was partially offset by other-than-temporary impairments of $6.6 million related to equity securities. Refer to the Statement of Condition section of this MD&A for management s main considerations in determining to sell investment securities in the first quarter of 2009.

Table of Contents

The increase in non-interest income resulting from the gains on sale of investment securities was partially offset by the following unfavorable variances in non-interest income:

As shown in the breakdown below, there were losses on the sale of loans in the first quarter of 2009, compared with gains in the same quarter of the previous year. Popular Equipment Finance, a subsidiary of BPNA s reportable segment, recognized a loss on sale and valuation adjustments on loans held-for-sale of approximately $13.8 million in the quarter ended March 31, 2009, mostly resulting from the recognition of an indemnification reserve to provide for any losses on the breach of certain representations and warranties related to the sale of approximately $0.3 billion in lease financings. The unfavorable variance was also impacted by lower gains on the sale of loans by E-LOAN, which stopped originating loans in the fourth quarter of 2008. During 2008, E-LOAN originated and sold first mortgage loans that qualified for sale to Government Sponsored Entities (GSEs) and sold a portfolio of auto loans.

	Quarter ended March 31,		
(In thousands)	2009	2008	$ Variance
(Loss) gain on sale of loans	($10,488)	$14,267	($24,755)
Lower of cost or market valuation adjustment on loans held-for-sale	(3,325)		(3,325)
Total	($13,813)	$14,267	($28,080)

Decline in other operating income which reflects the impact of $12.8 million in gains on the sale of the U.S. banking subsidiary s retail bank branches in Texas during the first quarter of 2008 and $4.0 million in net losses related to changes in non-performance credit risk adjustments in the fair value of the derivatives held by the Corporation as of March 31, 2009, compared with December 31, 2008.

Lower trading account profit by $6.5 million due to lower realized gains on mortgage-backed securities included in the trading portfolio of $22.3 million mainly due to lower volume sold, partially offset by higher unrealized gains on mortgage-backed securities of $18.4 million held for trading purposes.

Other service fees for the quarter ended March 31, 2009, decreased by 5% or $4.7 million when compared to the same quarter of the previous year. A detail of other service fees by category is shown in Table C. There was a reduction in credit card fees as a result of lower merchant income due to reduced volume of purchases and lower late payment fees mainly from lower volume of accounts subject to the fee. There were also lower sale and administration fees in the broker/dealer subsidiary, principally in retail commissions on the sale of bonds.

OPERATING EXPENSES

Operating expenses for the continuing operations totaled $304.2 million for the quarter ended March 31, 2009, a decrease of $19.1 million or 6% compared with the same quarter in 2008. Refer to Table D for a breakdown of operating expenses by major categories.

TABLE D

Operating Expenses

	Quarter ended March 31,		
(In thousands)	2009	2008	$ Variance
Personnel costs	$145,291	$155,969	($10,678)
Net occupancy expenses	26,441	27,868	(1,427)
Equipment expenses	26,104	29,153	(3,049)

Other taxes	13,176	12,885	291
Professional fees	24,901	29,359	(4,458)
Communications	11,827	13,475	(1,648)
Business promotion	7,910	16,744	(8,834)
Printing and supplies	2,790	3,831	(1,041)
Other operating expenses	43,351	31,520	11,831
Amortization of intangibles	2,406	2,492	(86)
Total	$304,197	$323,296	($19,099)

79

Table of Contents

Operating expenses for the quarter ended March 31, 2009 included approximately $5.2 million in costs associated to the restructuring plans in place at BPNA and E-LOAN that were commenced during 2008. To facilitate the comparative analysis, below are details on the restructuring plans that pertained to the continuing operations.

		For the quarter ended March 31, 2009	
(In thousands)	BPNA Restructuring Plan	E-LOAN 2008 Restructuring Plan	Total
Personnel costs	$2,920	$ 1,818	$4,738
Other operating expenses (Impairment on long-lived assets)	453		453
Total	$3,373	$ 1,818	$5,191

Isolating the impact of these restructuring related costs, operating expenses totaled $299.0 million for the quarter ended March 31, 2009, compared to $323.3 million for the quarter ended March 31, 2008.

Isolating the impact of the restructuring charges indicated above, personnel expenses for the quarter ended March 31, 2009 decreased by 10%, compared with the same quarter of the previous year. The decrease in personnel costs for the continuing operations was primarily the result of a reduction in headcount from 10,991 full time equivalent employees (FTEs) as of March 31, 2008 to 10,080 FTEs as of March 31, 2009. BPNA and E-LOAN were the principal contributors to this reduction with a decrease of 676 FTE s on a combined basis. Also, there were lower accruals for incentive compensation and commissions. The cost savings from the reduction in FTE s and incentive compensation was partially offset by an increase in pension plan expenses of $8.3 million and in health insurance costs. BPPR s pension plan experienced a steep decline in the fair value of its 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 for the three months ended March 31, 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. In February 2009, BPPR s pension plan was frozen with regards to all future benefit accruals after April 30, 2009. This should result in a reduced pension cost prospectively. In February 2009, the Corporation suspended its matching contributions to the Puerto Rico and U.S. subsidiaries savings and investment plans as part of the actions taken to control costs.

The reduction in business promotion resulted principally from cost control measures on marketing expenditures in general as well as the downsizing of the Corporation s U.S. operations. BPPR contributed in part to this decline with a reduction in expenses relating to the customer incentive points program PREMIA.

Professional fees for the first quarter of 2009 decreased mainly as a result of a reduction in loan origination costs, such as appraisals, title recording and document preparation fees at E-LOAN, accompanied by a reduction in temporary workforce and professional services at this subsidiary. Also, there were lower consulting and programming fees.

For the quarter ended March 31, 2009, other operating expenses were higher by 38% when compared to the same period of the previous year mainly due to higher FDIC insurance assessments in BPPR and BPNA, along with increases in repossessed property expenses, losses on disposition of assets, and in the reserves recorded for unfunded loan commitments, among others.

RESTRUCTURING PLANS (for the continuing operations)

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.

Table of Contents

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 branch and balance sheet initiatives. The BPNA Restructuring Plan also contemplates greater integration with the corporate functions in Puerto Rico.

As part of the BPNA Restructuring Plan, the Corporation exited certain businesses including, among the principal ones, those related to the origination of non-conventional mortgages, equipment lease financing, business loans to professionals, multifamily lending, mixed-used commercial loans and credit cards. The Corporation holds the existing portfolios of the exited businesses in a runoff mode. Also, the Corporation downsized the following businesses related to its U.S. banking operations: business banking, SBA lending, and consumer / mortgage lending.

The table, previously presented in the Operating Expenses section above, details the expenses recorded by the Corporation during the quarter ended March 31, 2009 that were associated with this particular restructuring plan. As of March 31, 2009, the reserve for restructuring costs associated with the BPNA Restructuring Plan amounted to $9.6 million. During the first quarter of 2009, restructuring charges associated to the BPNA Restructuring Plan amounted to $3.4 million and were principally for severance costs. As of March 31, 2009, the BPNA Restructuring Plan has resulted in combined charges for 2008 and 2009 of approximately $23.0 million. An additional $10 million in associated costs are expected to be incurred in 2009. Refer to Note 19 to the consolidated financial statements for a detail of the activity in the reserve for restructuring costs and a breakdown of charges.

All restructuring efforts at BPNA are expected to result in approximately $50 million in recurrent annual cost savings. The majority of the savings are related to personnel costs since the restructuring plan incorporates a headcount reduction of approximately 640 full-time equivalent employees (FTEs), or 30% of BPNA s workforce. Management expects the headcount reduction to be achieved by the third quarter of 2009. As a result of the BPNA Restructuring Plan FTE s at BPNA were 1,692 at March 31, 2009, compared to 2,147 at the same date in the previous year.

E-LOAN 2008 Restructuring Plan

In October 2008, the Corporation s Board of Directors approved a restructuring plan for E-LOAN (the E-LOAN 2008 Restructuring Plan), which involved E-LOAN to cease operating 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 are being transferred to BPNA and EVERTEC. The 2008 E-LOAN Restructuring Plan is expected to be completed by mid-2009. As of March 31, 2009, E-LOAN s workforce totaled 121 FTEs, compared to 342 as of March 31, 2008.

As of March 31, 2009, the accrual for restructuring costs associated with the E-LOAN 2008 Restructuring Plan amounted to $3.3 million. Restructuring charges associated to the E-LOAN 2008 Restructuring Plan amounted to $1.8 million for the quarter ended March 31, 2009 and consisted principally of severance costs. As of March 31, 2009, the E-LOAN 2008 Restructuring Plan has resulted in combined charges for 2008 and 2009 of approximately $23.8 million. An additional $2 million in associated costs are expected to be incurred in 2009. Refer to Note 19 to the consolidated financial statements for a detail of the activity in the reserve for restructuring costs and a breakdown of charges.

The costs related to the E-LOAN Restructuring Plan are part of the results of the BPNA reportable segment.

INCOME TAXES

Income tax benefit for the continuing operations amounted to $26.9 million for the quarter ended March 31, 2009, compared with income tax expense of $16.7 million for the same quarter of 2008. During the first quarter of 2009, a valuation allowance was recorded on the deferred tax assets (DTA) of the Corporation s U.S. operations originated during the quarter, thus offsetting the tax benefits derived from the operating losses. Also, the Corporation recognized a reversal of the DTA valuation allowance recognized during 2008 as a result of an income tax reimbursement amounting to $28.4 million received from the U.S. Internal Revenue Service. The reimbursement pertained to carryback losses of 2005 and 2006.

Furthermore, the income tax for the quarter ended March 31, 2009 was favorably impacted by an increase in income subject to a lower preferential tax rate on capital gains applicable to Puerto Rico corporations for the first quarter of 2009 as compared to the same quarter of 2008. Also, on March 9, 2009, several amendments or additions to the Puerto Rico Internal Revenue Code were adopted, including a temporary five percent special surtax over the tax liability of all corporations doing business in Puerto Rico for years beginning on January 1, 2009 thru December 31, 2011. This increase in tax rate resulted in an income tax benefit as a result of adjusting the deferred tax assets to reflect the increase in the tax rate.

The components of the income tax benefit for the continuing operations for the quarter ended March 31, 2009 were as follows:

(In thousands)	Amount	% of pre-tax income
Computed income tax at statutory rates	($28,464)	40.95%
Benefits of net tax exempt interest income	(15,762)	22.7
Effect of income subject to preferential tax rate	(46,765)	67.3
Deferred tax asset valuation allowance	60,313	(86.8)
Difference in tax rates due to multiple jurisdictions	14,258	(20.5)
State taxes and others	(10,513)	15.1
Income tax benefit	($26,933)	38.75%

Refer to Note 20 to the consolidated financial statements for a breakdown of the Corporation s deferred tax assets as of March 31, 2009.

REPORTABLE SEGMENT RESULTS

The Corporation s reportable segments for managerial reporting purposes consist of Banco Popular de Puerto Rico, EVERTEC and Banco Popular North America. These reportable segments pertain only to the continuing operations of Popular, Inc. Also, a Corporate group has been defined to support the reportable segments. For managerial reporting purposes, the costs incurred by the Corporate group are not allocated to the reportable segments. For a description of the Corporation s reportable segments, including additional financial information and the underlying management accounting process, refer to Note 24 to the consolidated financial statements.

The Corporate group had a net loss of $19.2 million in the first quarter of 2009, compared with a net loss of $9.8 million in the same quarter of 2008. The factors that mostly contributed to this variance were higher net interest losses of approximately $15.7 million and net realized losses on the sale and valuation adjustment of investment securities of approximately $6.6 million due to other-than-temporary impairments related to equity securities in the first quarter of 2009. The variance in net interest loss was principally the result of investing part of the proceeds from the sale of PFH assets from 2008 in lower yielding, short-term assets until the funds can be used to repay long-term debt at a higher cost maturing in 2009, thus resulting in a negative spread.

Highlights on the earnings results for the reportable segments are discussed below.

Banco Popular de Puerto Rico

The Banco Popular de Puerto Rico reportable segment reported net income of $179.8 million for the quarter ended March 31, 2009, an increase of $81.0 million, or 82%, when compared with the same quarter in the previous year, primarily associated with an increase in non-interest income for the quarter, partially offset by higher provision for loan losses and lower net interest income. The Corporation s banking operations in Puerto Rico have been adversely impacted by the prolonged economic recession being experienced by the Puerto Rico economy, principally affecting the Corporation s lending areas and credit losses. The main factors that contributed to the variance in the results for the quarter ended March 31, 2009, when compared to the first quarter of 2008, included:

lower net interest income by $28.5 million, or 12%, primarily due to a lower net interest yield by 22 basis points, which was principally driven by the reduction in the yield of earning assets, principally commercial and construction loans. This decline can be attributed to two main factors: (1) the reduction in rates by the FED as described in the Net Interest Income section of this MD&A and (2) an increase in non-performing loans. Also, the BPPR reportable segment experienced a decrease in the yield of investment securities. Partially offsetting this unfavorable impact to net interest income, was a reduction in the Corporation s average cost of funds driven by a reduction in the cost of deposits and short-term borrowings due to the decrease in rates by the FED and management s actions to lower the rates paid on certain deposits. Also, the unfavorable variance in net interest income was associated with a decline in the average volume of investment securities by approximately $1.1 billion and in the loan portfolio by approximately $0.6 billion, in part due to the slowdown of loan origination activity. This negative impact from the reduction in the average volume of earning assets was partially offset by a reduction in the average volume of short-term borrowings by $1.4 billion, mostly in repurchase agreements.

higher provision for loan losses by $48.9 million, or 48%, primarily related to the construction and consumer loan portfolios. The Banco Popular de Puerto Rico reportable segment experienced an increase of $28.7 million in net charge-offs for the quarter ended March 31, 2009, compared to the same quarter in the previous year, principally associated with an increase in construction loans by $23.9 million and consumer loans by $8.0 million. As of March 31, 2009, there were $773 million of SFAS No. 114 impaired loans in the BPPR reportable segment with a related allowance for loan losses of $179 million, compared to $357 million and $80 million, respectively, as of March 31, 2008. The ratio of allowance for loan losses to loans held-in-portfolio for the Banco Popular de Puerto Rico reportable segment was 3.89% as of March 31, 2009, compared with 2.57% as of March 31, 2008. The provision for loan losses represented 171% of net charge-offs for the first quarter of 2009, compared with 172% of net charge-offs in the same period of 2008. The annualized net charge-offs to average loans held-in-portfolio for the Banco Popular de Puerto Rico operations was 2.26% for the quarter ended March 31, 2009, compared with 1.46% in the same quarter of the previous year.

higher non-interest income by $133.1 million, or 75%, mainly due to a favorable variance in the caption of net gain on sale and valuation adjustments of investment securities, principally associated with the sale of $3.4 billion of investment securities by Banco Popular de Puerto Rico during the first quarter of 2009, partially offset by the gain on the redemption of Visa shares in 2008, as previously explained in the Non-Interest Income section of this MD&A. This favorable variance was offset in part by lower trading account profits by $6.5 million, principally related to the mortgage banking operations, and lower other service fees by $5.0 million, mostly as a result of lower income from the sale and administration of investment products and credit card fees. As explained in Note 24 to the financial statements, management distributes a proportionate share of the investment function of BPPR between the commercial banking and the consumer and retail banking businesses of BPPR. In the additional disclosures of the Banco Popular de Puerto Rico reportable segment presented in Note 24, the capital gain specifically related to the sale of the investment securities available-for-sale in the quarter ended March 31, 2009 was distributed $50.7 million ($43.1 million after tax) to

the commercial banking business and $132.0 million ($112.2 million after tax) to the consumer and retail banking business of BPPR.

higher operating expenses by $0.4 million, or less than 1%. The increase in pension plan expenses and health insurance costs were significantly offset by lower incentive compensation and commissions as previously explained in the Operating Expenses section of this MD&A.

lower income taxes by $25.6 million due to an income tax benefit of $3.1 million in the first quarter of 2009 compared to an income tax expense of $22.5 million in the same quarter of the previous year. The variance was due to higher income subject to capital gain preferential tax rate and an adjustment of $10.3 million to increase the deferred tax asset as a result of the change in tax rate from 39% to 40.95%. Refer to the Income Taxes section of this MD&A.

EVERTEC

EVERTEC s net income for the quarter ended March 31, 2009 totaled $9.9 million, a decrease of 16% compared with the results of the same quarter in the previous year.

The principal factors that contributed to the variance in results for the quarter ended March 31, 2009, when compared with the first quarter of 2008, included:

lower non-interest income by $8.2 million, or 12%, primarily due to lower gain on sales of securities of $7.6 million as a result of the gain on redemption of Visa shares of common stock held by ATH Costa Rica during the first quarter of 2008;

lower operating expenses by $5.9 million, or 11%, primarily due to lower personnel, professional fees and other operating expenses; and

lower income tax expense by $0.4 million, or 7%.

Banco Popular North America

Banco Popular North America reported a net loss of $213.5 million for the quarter ended March 31, 2009, compared to a net loss of $2.0 million for the first quarter of 2008. The main factors that contributed to the quarterly variance in this reportable segment included:

lower net interest income by $18.9 million, or 20%, which was mainly due to lower interest income on loans, principally commercial loans, partially offset by a reduction in deposit expenses, including internet deposits;

higher provision for loan losses by $162.5 million, principally as a result of higher general reserve requirements for commercial loans, construction loans, U.S. non-conventional residential mortgages and home equity lines of credit, combined with specific reserves recorded for loans considered impaired under SFAS No. 114. There were higher net charge-offs in construction loans by $20.9 million, mortgage loans by $20.6 million, commercial loans by $18.4 million and consumer loans by $17.6 million. As of March 31, 2009, there were $369 million of SFAS No. 114 impaired loans in the Banco Popular North America reportable segment with a related allowance for loan losses of $100 million, compared to $77 million and $11 million, respectively, at March 31, 2008. The increase in the provision for loan losses considers inherent losses in the portfolios evidenced by an increase in non-performing loans in this reportable segment by $318 million, when compared to March 31, 2008. The ratio of allowance for loan losses to loans held-in-portfolio for the Banco Popular North America reportable segment was 4.68% as of March 31, 2009, compared with 1.51% as of March 31, 2008. The provision for loan losses represented 201% of net charge-offs for the first quarter of 2009, compared with 178% of net charge-offs in the same period of 2008. The annualized net charge-offs to average loans held-in-portfolio for the Banco Popular North America operations was 4.50% for the quarter ended March 31, 2009, compared with 1.32% in the same quarter of the previous year.

lower non-interest income by $50.1 million, or 93%, mainly due to losses on sale of loans and valuation adjustments of $20.5 million compared to gains of $14.0 million during the first quarter of 2008. The losses in the first quarter of 2009 were related to the aforementioned sale of $0.3 billion in loans by Popular Equipment Finance. As explained in the Non-Interest Income section of this MD&A, there were also lower gains on the sale of loans by E-LOAN.

lower operating expenses by $14.2 million, or 15%. E-LOAN s expenses were reduced by $10.4 million principally in personnel costs, professional fees, business promotion, equipment expenses, communications,

amortization of intangibles and net occupancy expenses. Also contributing to this variance were lower personnel costs by $3.3 million and other operating expenses at the banking subsidiary. Refer to the Restructuring Plans section of this MD&A for details on the costs incurred to date related to the BPNA and E-LOAN restructuring plans.

Table of Contents

higher income tax benefit of $5.8 million was mainly due to a reversal of a portion of the DTA valuation allowance recognized in 2008 because on an income tax reimbursement that pertained to carryback losses from previous years, as described in the Income Taxes section of this MD&A.

FINANCIAL CONDITION

Assets

As of March 31, 2009 total assets were $37.7 billion, which included $12 million from the discontinued operations, compared to $38.9 billion and $13 million, respectively, at December 31, 2008. Total assets at March 31, 2008 were $41.8 billion. The decline from December 31, 2008 to March 31, 2009 was primarily due to the sale of investment securities and lower volume of loans. Total assets as of March 31, 2008 included $2.1 billion pertaining to PFH. Refer to the consolidated financial statements included in this report for the Corporation s consolidated statements of condition and to Table A for financial highlights on major line items of the statements of condition.

Table E provides a breakdown of the Corporation s investment securities available-for-sale and held-to-maturity on a combined basis. Notes 6 and 7 to the consolidated financial statements provide additional information by investment categories of the unrealized gains / losses with respect to the Corporation s available-for-sale and held-to-maturity investment securities portfolio.

TABLE E

Breakdown of Investment Securities Available-for-Sale and Held-to-Maturity

(In millions)	March 31, 2009	December 31, 2008	Variance	March 31, 2008	Variance
U.S. Treasury securities	$ 32.4	$ 502.1	($469.7)	$ 482.0	($449.6)
Obligations of U.S. Government sponsored entities	1,682.6	4,808.5	(3,125.9)	5,025.9	(3,343.3)
Obligations of Puerto Rico, States and political subdivisions	382.6	385.7	(3.1)	176.1	206.5
Collateralized mortgage obligations	1,762.3	1,656.0	106.3	1,349.2	413.1
Mortgage-backed securities	3,170.7	848.5	2,322.2	958.6	2,212.1
Equity securities	9.3	10.1	(0.8)	28.7	(19.4)
Others	243.2	8.3	234.9	13.9	229.3
Total	$7,283.1	$8,219.2	($936.1)	$8,034.4	($751.3)

The decline in the Corporation s available-for-sale and held-to-maturity investment portfolios from December 31, 2008 to the end of the first quarter of 2009 was mainly associated with the aforementioned sale of $3.4 billion from the investment securities available for sale portfolio, principally of U.S. agency securities (FHLB notes), and maturities of securities. The Corporation invested $2.3 billion during the quarter ended March 31, 2009, primarily in GNMA mortgage-backed securities.

The impact of the restructuring of the investment securities portfolio was to:

- Strengthen common equity by realizing a gain that was subject to market risk, if bond prices were to decline;
- Increase the Corporation s regulatory capital ratios;
- Redeploy most of the proceeds in securities with a risk weighting of 0% for regulatory capital purposes, as compared to the 20% risk-weighting which applied to the FHLB notes sold; and

Mitigate the impact of the portfolio s restructuring on net interest income, by reinvesting most of the sale proceeds in a higher-yielding asset class. The average yield of the securities sold was 4.09%, and the average life was 4.2 years. The GNMA mortgage-backed securities acquired have an expected average yield of approximately 4.3% and an average life of approximately 4 years.

Similar factors contributed to the decrease in investment securities from March 31, 2008 to the same date in 2009. The Corporation holds investment securities primarily for liquidity, yield enhancement and interest rate risk management. The portfolio primarily includes very liquid, high quality debt securities. The vast majority of these investment securities, or approximately 96%, are rated the equivalent of AAA by the major rating agencies. The mortgage-backed securities (MBS) and collateralized mortgage obligations (CMOs) are investment grade

Table of Contents

securities, all of which are rated AAA by at least one of the three major rating agencies as of March 31, 2009. All MBS held by the Corporation and approximately 92% of the CMOs held as of March 31, 2009 are guaranteed by government sponsored entities.

As of March 31, 2009, the investment securities available-for-sale portfolio was in an unrealized net gain position of $89 million (before tax), principally from U.S. Agency and mortgage-backed securities. As shown in Note 6 to the consolidated financial statements, securities in an unrealized loss position were principally collateralized mortgage obligations. Federal agency CMOs and private label CMOs represented 92% and 8%, respectively, of the CMOs portfolio available-for-sale as of March 31, 2009. The securities that made up the private label component of the CMO portfolio available-for-sale are each rated AAA by either Moody s and/or Standard & Poor s rating agencies. None of the securities are on negative watch or outlook, nor have their ratings changed from their respective issuance dates. The carrying value of the private label CMOs available-for-sale as of March 31, 2009 was approximately $138 million, net of unrealized losses of $35 million. 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. All of these CMOs securities were found to be in good credit condition. Since no observable credit quality issues were present in the Corporation s CMOs as of March 31, 2009, and management has the intent and ability to hold the CMOs for a reasonable period of time for a forecasted recovery of fair value up to (or beyond) the cost of these investments, management considered the unrealized losses to be temporary.

Money market investments increased from $795 million at December 31, 2008 to $1.4 billion at March 31, 2009 and are primarily in the form of time deposits with other banks. The funds derived principally from the proceeds from the sale of investment securities.

A breakdown of the Corporation s loan portfolio, the principal category of earning assets, at period-end, is presented in Table F. As of March 31, 2009 and December 31, 2008, total loans from the discontinued operations amounted to $7 million, all of which were accounted at fair value. PFH had $1.3 billion in loans as of March 31, 2008.

TABLE F

Loans Ending Balances (including loans held-for-sale and loans at fair value)

(In thousands)	March 31, 2009	December 31, 2008	Variance March 31, 2009 Vs. December 31, 2008	March 31, 2008	Variance March 31, 2009 Vs. March 31, 2008
Commercial	$13,412,344	$13,687,060	($274,716)	$13,713,952	($301,608)
Construction	2,156,435	2,212,813	(56,378)	1,995,416	161,019
Lease financing	773,934	1,080,810	(306,876)	1,103,418	(329,484)
Mortgage (1)	4,733,535	4,639,464	94,071	5,959,899	(1,226,364)
Consumer	4,469,944	4,648,784	(178,840)	5,158,541	(688,597)
Total loans (2)	$25,546,192	$26,268,931	($722,739)	$27,931,226	($2,385,034)

(1) Includes residential construction loans

(2) Loans disclosed as of March 31, 2008 include PFH s loan portfolios. Loans reported as of March 31, 2009 and December 31, 2008 exclude the discontinued operations of PFH.

The decrease in commercial and construction loan portfolios from December 31, 2008 and March 31, 2008 to March 31, 2009 reflected the slowdown in origination activity and increased loan charge-offs as a result of the downturn in the real estate market, and deteriorated economic environment and credit quality. Also, as previously described in the Corporation s 2008 Annual Report and in the Restructuring Plans section of this MD&A, the Corporation s U.S. banking operations exited and downsized certain loan origination channels, thus impacting negatively the volume of loan originations.

The decline in the lease financing portfolio from December 31, 2008 to March 31, 2009 was primarily the result of the sale of a lease financing portfolio from Popular Equipment Finance, as described in the Non-Interest Income

Table of Contents

section of this MD&A. This also impacted the variance from March 31, 2008. Also, there was also a slowdown in originations in the Puerto Rico operations.

The decline in the consumer loan portfolio from December 31, 2008 to March 31, 2009 was mainly in personal and auto loans and home equity lines of credit. There was a lower volume of personal and auto loans in the Banco Popular de Puerto Rico reportable segment due to current economic conditions. Auto loan originations have reduced, but the Puerto Rico operations have maintained their market share. Furthermore, there were reductions in the consumer loan portfolio of BPNA, including E-LOAN, primarily due to the runoff mode of its auto loan portfolios and HELOCs without any concentrated lending efforts in these products. The decline in the consumer loan portfolio from March 31, 2008 to the same date in 2009 was also influenced by the decline in the loan portfolio of PFH due to the significant sales executed in 2008 and the discontinuance of the business. PFH had $154 million in consumer loans as of March 31, 2008. Furthermore, E-LOAN sold approximately $101 million in auto loans in the second quarter of 2008.

The mortgage loan portfolio as of March 31, 2009 increased 2% when compared with December 31, 2008, principally in the Banco Popular de Puerto Rico reportable segment, partially offset by a reduction at BPNA since the subsidiary ceased originating non-conventional mortgage loans as part of the BPNA Restructuring Plan. When compared with the total loan portfolio as of March 31, 2008, mortgage loans declined $1.2 billion principally due to PFH s mortgage loan portfolio that approximated $1.0 billion as of such date.

Table G provides a breakdown of the Other Assets caption presented in the consolidated statements of condition.

TABLE G

Breakdown of Other Assets

(In thousands)	March 31, 2009	December 31, 2008	Variance March 31, 2009 Vs. December 31, 2008	March 31, 2008	Variance March 31, 2009 Vs. March 31, 2008
Net deferred tax assets (net of valuation allowance)	$ 364,499	$ 357,507	$ 6,992	$ 694,431	($329,932)
Bank-owned life insurance program	226,695	224,634	2,061	217,589	9,106
Prepaid expenses	121,293	136,236	(14,943)	175,207	(53,914)
Derivative assets	100,809	109,656	(8,847)	82,285	18,524
Investments under the equity method	94,691	92,412	2,279	103,418	(8,727)
Trade receivables from brokers and counterparties	46,533	1,686	44,847	412,878	(366,345)
Securitization advances and related assets				229,994	(229,994)
Others	222,558	193,466	29,092	194,873	27,685
Total	$1,177,078	$1,115,597	$ 61,481	$2,110,675	($933,597)

Note: Other assets from discontinued operations at March 31, 2009 and December 31, 2008 are presented as part of Assets from discontinued operations in the consolidated statements of condition. Other assets of the PFH operations as of March 31, 2008, which are included in the table above, amounted to $603 million, and consisted principally of $338 million in deferred tax assets and $230 million in securitization advances and related assets.

The decline in other assets from March 31, 2008 to the same date in 2009 was principally as a result of PFH. Refer to the footnote in Table G for the main components of PFH s other assets. PFH s securitization advances and related assets were part of the sale effectuated in the fourth quarter of 2008. The reduction in the deferred tax assets was the result of recording in 2008 a full valuation allowance on the deferred tax assets of the Corporation s U.S. operations as described in Note 20 to the consolidated financial statements. The trade receivables from brokers and counterparties consisted primarily of mortgage-backed securities sold prior to quarter-end March 31, 2008, with a settlement date in April 2008.

Table of Contents

Deposits, borrowings and capital

The composition of the Corporation s financing to total assets as of March 31, 2009 and December 31, 2008 is included in Table H as follows:

TABLE H

Financing to Total Assets

(Dollars in millions)	March 31, 2009	December 31, 2008	% increase (decrease) from December 31, 2008 to March 31, 2009	% of total assets March 31, 2009	% of total assets December 31, 2008
Non-interest bearing deposits	$ 4,372	$ 4,294	1.8%	11.6%	11.1%
Interest-bearing core deposits	15,707	15,647	0.4	41.7	40.2
Other interest-bearing deposits	7,070	7,609	(7.1)	18.7	19.6
Federal funds and repurchase agreements	2,882	3,552	(18.9)	7.6	9.1
Other short-term borrowings	29	5	480	0.1	
Notes payable	3,399	3,387	0.4	9.0	8.7
Others	1,118	1,121	(0.3)	3.0	2.9
Stockholders equity	3,132	3,268	(4.2)	8.3	8.4

A breakdown of the Corporation s deposits at period-end is included in Table I.

TABLE I

Deposits Ending Balances

(In thousands)	March 31, 2009	December 31, 2008	Variance March 31, 2009 Vs. December 31, 2008	March 31, 2008	Variance March 31, 2009 Vs. March 31, 2008
Demand deposits *	$ 4,936,682	$ 4,849,387	$ 87,295	$ 4,789,983	$ 146,699
Savings, NOW and money market deposits	9,744,582	9,554,866	189,716	10,019,208	(274,626)
Time deposits	12,468,503	13,145,952	(677,449)	12,157,523	310,980
Total	$27,149,767	$27,550,205	($400,438)	$26,966,714	$ 183,053

* Includes interest and non-interest bearing demand deposits.

Brokered certificates of deposit totaled $2.7 billion as of March 31, 2009, $3.1 billion as of December 31, 2008 and $2.5 billion as of March 31, 2008. As of March 31, 2009, brokered certificates of deposits represented 10% of total deposits, compared with 11% as of year-end 2008. Brokered certificates of deposit, which are typically sold through

an intermediary to small r