POPULAR INC
Form 10-Q
August 10, 2009

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

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

(Exact name of registrant as specified in its charter)

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

(787) 765-9800

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

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

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

þ Yes o No

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

o Yes o No

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

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

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

o Yes þ No

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

POPULAR, INC.
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Forward-Looking Information

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

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

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

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

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

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

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

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

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

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

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POPULAR, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

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

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

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

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POPULAR, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY
(UNAUDITED)

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

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

Disclosure of changes in number of shares:

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

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

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POPULAR, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
(UNAUDITED)

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

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

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

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

Disclosure of accumulated other comprehensive loss:

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

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

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POPULAR, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

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

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

The accompanying notes are an integral part of these unaudited consolidated financial statements.
Note: The Consolidated Statements of Cash Flows for the six months ended June 30, 2009 and 2008 include the cash flows from operating, investing and financing activities associated with discontinued operations.

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Notes to Unaudited Consolidated Financial Statements

Note 1 Nature of Operations and Basis of Presentation

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

disclose how its involvement with a variable interest entity affects the reporting entity s financial statements. SFAS No. 167 will be effective as of the beginning of the first fiscal year that begins after November 15,

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Note 3 Discontinued Operations

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

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

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

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

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

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

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

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

PFH Discontinuance Restructuring Plan

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

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

(a) Severance, retention bonuses and

other benefits

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

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

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

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

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

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

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

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

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

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

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

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

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

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Note 5 Pledged Assets

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

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

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

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Note 6 Investment Securities Available-For-Sale

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Note 7 Investment Securities Held-to-Maturity

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

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

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

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

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

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

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

12 months or more

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

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

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	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 private label	244	13	231
Others	250		250
	$10,029	$185	$9,844

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

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

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

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

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

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

Note 8 Mortgage Servicing Rights

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

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

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

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

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

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

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

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

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

Residential mortgage loans serviced for others were $17.7 billion as of June 30, 2009 (December 31, 2008 $17.6 billion; June 30, 2008 $20.4 billion, including $8.2 billion related to the PFH discontinued operations).
Net mortgage servicing fees, a component of other service fees in the consolidated statements of operations, include the changes from period to period in the fair value of the MSRs, which may result from changes in the valuation model inputs or assumptions (principally reflecting changes in discount rates and prepayment speed assumptions) and other changes, representing changes due to collection / realization of expected cash flows. Mortgage servicing fees, excluding fair value adjustments, for the Corporation s continuing operations for the quarter and six months ended June 30, 2009 amounted to $11.3 million and $23.0 million, respectively, and $7.2 million and $14.4 million, respectively, for the quarter and six months ended June 30, 2008. The banking subsidiaries receive servicing fees based on a percentage of the outstanding loan balance. For the period ended June 30, 2009, those weighted average mortgage servicing fees were 0.26% (June 30, 2008 0.25%). Under these servicing agreements, the banking subsidiaries do not earn significant prepayment penalty fees on the underlying loans serviced.
The section below includes information on assumptions used in the valuation model of the MSRs, originated and purchased.
Banking subsidiaries
The Corporation s banking subsidiaries retain servicing responsibilities on the sale of wholesale mortgage loans and under pooling / selling arrangements of mortgage loans into mortgage-backed securities, primarily GNMA and FNMA securities. Substantially all mortgage loans securitized by the banking subsidiaries have fixed rates.
During the six months period ended June 30, 2009, the Corporation retained servicing rights on guaranteed mortgage securitizations (FNMA and GNMA) and whole loan sales involving approximately $805 million in principal balance outstanding. Gains of approximately $26.4 million were realized on these transactions during the six months period ended June 30, 2009.
Key economic assumptions used in measuring the servicing rights retained at the date of the residential mortgage loan securitizations and whole loan sales by the banking subsidiaries during the quarter ended June 30, 2009 and year ended December 31, 2008 were as follows:

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

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

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

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

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

The sensitivity analyses presented in the tables above for servicing rights are hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a 10 and 20 percent variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in the sensitivity tables included herein, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption. In reality, changes in one factor may result in changes in another (for example, increases in market interest rates may result in lower prepayments and increased credit losses), which might magnify or counteract the sensitivities.

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

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

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Note 9 Other Assets

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

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

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

Note 10 Derivative Instruments and Hedging

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

The use of derivatives is incorporated as part of the Corporation s overall interest rate risk management strategy to minimize significant unplanned fluctuations in earnings and cash flows that are caused by interest rate volatility. The Corporation s goal is to manage interest rate sensitivity by modifying the repricing or maturity characteristics of certain balance sheet assets and liabilities so that the net interest income is not, on a material basis, adversely affected

by movements in interest rates. The Corporation uses derivatives in its trading activities to facilitate customer transactions, to take proprietary positions and as a means of risk management. As a result of interest rate fluctuations, hedged fixed and variable interest rate assets and liabilities will appreciate or depreciate in fair value. The effect of this unrealized appreciation or depreciation is expected to be substantially offset by the Corporation s gains or losses on the derivative instruments that are linked to these hedged assets and liabilities. As a matter of policy, the Corporation does not use highly leveraged derivative instruments for interest rate risk management.

By using derivative instruments, the Corporation exposes itself to credit and market risk. If a counterparty fails to fulfill its performance obligations under a derivative contract, the Corporation s credit risk will equal the fair value gain in a derivative. Generally, when the fair value of a derivative contract is positive, this indicates that the counterparty owes the Corporation, thus creating a repayment risk for the Corporation. To manage the level of credit risk, the Corporation deals with counterparties of good credit standing, enters into master netting agreements whenever possible and, when appropriate, obtains collateral. The derivative assets include a $4.2 million negative adjustment as a result of the credit risk of the counterparty as of June 30, 2009. In the other hand, when the fair value of a derivative contract is negative, the Corporation owes the counterparty and, therefore, the fair value of derivative liabilities incorporates nonperformance risk or the risk that the obligation will not be fulfilled. The derivative liabilities include a $1.2 million positive adjustment related to the incorporation of the Corporation s own credit risk as of June 30, 2009.

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

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

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

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

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

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	As of December 31, 2008				
		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	$ 112,500	Other Assets	$ 6	Other Liabilities	$ 2,255
Interest rate swaps	200,000			Other Liabilities	2,380
Total derivatives designated as hedging instruments under SFAS No. 133	$ 312,500		$ 6		$ 4,635
Derivatives not designated as hedging instruments under SFAS No. 133:					
Forward contracts	$ 272,301	Trading Account Securities	$ 38	Other Liabilities	$ 4,733
Interest rate swaps associated with:					
- swaps with corporate clients	1,038,908	Other Assets	100,668		
- swaps offsetting position of corporate clients swaps	1,038,908			Other Liabilities	98,437
Foreign currency and exchange rate commitments with clients	377	Other Assets	18	Other Liabilities	15
Foreign currency and exchange rate commitments with counterparty	373	Other Assets	16	Other Liabilities	16
Interest rate caps	128,284	Other Assets	89		
Interest rate caps for the benefit of corporate clients	128,284			Other Liabilities	89
Indexed options on deposits	208,557	Other Assets	8,821		
Bifurcated embedded options	178,608			Other Liabilities	8,584
Total derivatives not designated as hedging instruments under SFAS No. 133	$2,994,600		$109,650		$111,874
	$3,307,100		$109,656		$116,509

Total derivative assets and liabilities

Cash Flow Hedges

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

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

	Quarter ended June 30, 2009				
(In thousands)	Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion)	Classification in the Statement of Operations of the Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Classification of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Forward commitments	$ (37)	Trading account profit	$ (1,586)		
Interest rate swaps		Interest expense	(1,883)		
Total cash flow hedges	$ (37)		$ (3,469)		

OCI Other Comprehensive Income

AOCI Accumulated Other Comprehensive Income

	Six months ended June 30, 2009				
				Classification of Gain (Loss)	Amount of Gain

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

OCI Other Comprehensive Income

AOCI Accumulated Other Comprehensive Income

Non-Hedging Activities

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

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

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

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Forward Contracts

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

Interest Rates Swaps and Foreign Currency and Exchange Rate Commitments

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

Interest Rate Caps

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

Note 11 Goodwill and Other Intangible Assets

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

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

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

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

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

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As of June 30, 2009, the Corporation had $6 million of identifiable intangibles, other than goodwill, with indefinite useful lives (December 31, 2008 $6 million; June 30, 2008 $17 million).
The following table reflects the components of other intangible assets subject to amortization:

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

During the quarter ended June 30, 2009, the Corporation recognized $2.4 million in amortization related to other intangible assets with definite useful lives (June 30, 2008 $2.5 million). During the six months ended June 30, 2009, the Corporation recognized $4.8 million in amortization related to other intangible assets with definite useful lives (June 30, 2008 $5.0 million).
The following table presents the estimated aggregate annual amortization of the intangible assets with definite useful lives for each of the following fiscal years:

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

Note 12 Fair Value Measurement
SFAS No. 157 Fair Value Measurements establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels in order to increase consistency and comparability in fair value measurements and disclosures. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

Level 1- Unadjusted quoted prices in active markets for identical assets or liabilities that the Corporation has the ability to access at the measurement date. Valuation on these instruments does not necessitate a significant degree of judgment since valuations are based on quoted prices that are readily available in an active market.
Level 2- Quoted prices other than those included in Level 1 that are observable either directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or that can be corroborated by observable market data for substantially the full term of the financial instrument.
Level 3- Inputs are unobservable and significant to the fair value measurement. Unobservable inputs reflect the Corporation s own assumptions about assumptions that market participants would use in pricing the asset or liability.

The Corporation maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. Fair value is based upon quoted market prices when available. If listed price or quotes are not available, the Corporation employs internally-developed models that primarily use

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market-based inputs including yield curves, interest rates, volatilities, and credit curves, among others. Valuation adjustments are limited to those necessary to ensure that the financial instrument s fair value is adequately representative of the price that would be received or paid in the marketplace. These adjustments include amounts that reflect counterparty credit quality, the Corporation s credit standing, constraints on liquidity and unobservable parameters that are applied consistently.

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

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

Fair Value on a Recurring Basis

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

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

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

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

Total	$ (117)	$ (117)

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

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

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

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

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

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

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

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

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Total	$518	$ (7)	$511	$ 2

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

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

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

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

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

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

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

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

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	Six months ended June 30, 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 June 30, 2008	Changes in unrealized gains (losses) included in earnings related to assets and liabilities still held as of June 30, 2008
Assets							
Continuing Operations							
Investment securities available-for-sale:							
Mortgage-backed securities	$ 39		$ 1		$ (2)	$ 38	
Total investment securities available-for-sale	$ 39		$ 1		$ (2)	$ 38	
Trading account securities:							
Collateralized mortgage obligations	$ 3					$ 3	
Residential mortgage-backed securities-federal agencies	227	$ 2			$ 72	301	$ 3(a)
Other	3				3	6	
Total trading account securities	$ 233	$ 2			$ 75	$ 310	$ 3
Mortgage servicing rights	$ 111	$ 1			$ 18	$ 130	$ 6(c)
Discontinued Operations	$ 4	$ (1)				$ 3	

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Total	$ 889	$889

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

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

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

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

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

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

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

Trading Account Securities and Investment Securities Available-for-Sale

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

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

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

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

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

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

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

Derivatives

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

Mortgage servicing rights

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

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

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

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

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

Other real estate owned and other foreclosed assets

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

Note 13 Fair Value of Financial Instruments

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

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

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

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

The fair values reflected herein have been determined based on the prevailing interest rate environment as of June 30, 2009 and December 31, 2008, respectively. In different interest rate environments, fair value estimates can differ significantly, especially for certain fixed rate financial instruments. In addition, the fair values presented do not attempt to estimate the value of the Corporation s fee generating businesses and anticipated future business activities, that is, they do not represent the Corporation s value as a going concern. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Corporation. The methods and assumptions used to estimate the fair values of significant financial instruments at June 30, 2009 and December 31, 2008 are described in the paragraphs below.

Short-term financial assets and liabilities have relatively short maturities, or no defined maturities, and little or no credit risk. The carrying amounts reported in the consolidated statements of condition approximate fair value because of the short-term maturity of those instruments or because they carry interest rates which approximate market. Included in this category are: cash and due from banks, federal funds sold and securities purchased under agreements to resell, time deposits with other banks, bankers acceptances, customers liabilities on acceptances, federal funds purchased and assets sold under agreements to repurchase, short-term borrowings, and acceptances outstanding. Resell and repurchase agreements with long-term maturities are valued using discounted cash flows based on market rates currently available for agreements with similar terms and remaining maturities.

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

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

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

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

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

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

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

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

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

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Note 14 Borrowings

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

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

Other short-term borrowings consisted of:

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

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

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Notes payable consisted of:

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

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

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

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

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Note 15 Trust Preferred Securities

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

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

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

(In thousands)

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

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

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

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

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

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

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

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

or a capital treatment event as set forth in the indentures relating to the capital securities, in each case subject to regulatory approval.

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

The capital securities of Popular Capital Trust I and Popular Capital Trust II are traded on the NASDAQ under the symbols BPOPN and BPOPM , respectively.

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

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Note 16 Stockholders Equity

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

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

The Corporation s authorized preferred stock may be issued in one or more series, and the shares of each series shall have such rights and preferences as shall be fixed by the Board of Directors when authorizing the issuance of that particular series. The Corporation s preferred stock outstanding as of June 30, 2009 consisted of:

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

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

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

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

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

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

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

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

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

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

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

Note 17 Commitments, Contingencies and Guarantees

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

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

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

As of June 30, 2009, the Corporation serviced $4.7 billion (December 31, 2008 $4.9 billion and June 30, 2008 $3.7 billion) in residential mortgage loans with credit recourse or other servicer-provided credit enhancement. In the event of any customer default, pursuant to the credit recourse provided, the Corporation is required to reimburse the

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third party investor for loss or repurchase the loan. The maximum potential amount of future payments that the Corporation would be required to make under the agreement in the event of nonperformance by the borrowers is equivalent to the total outstanding balance of the residential mortgage loans serviced. In the event of nonperformance, the Corporation has rights to the underlying collateral securing the mortgage loan, thus, historically, the losses associated to these guarantees have not been significant. As of June 30, 2009, the Corporation had reserves of approximately $13 million (December 31, 2008 $14 million and June 30, 2008 $7 million) to cover the estimated credit loss exposure. At June 30, 2009, the Corporation also serviced $13.0 billion (December 31, 2008 $12.7 billion and June 30, 2008 $16.7 billion) in mortgage loans without recourse or other servicer-provided credit enhancement. Although the Corporation may, from time to time, be required to make advances to maintain a regular flow of scheduled interest and principal payments to investors, including special purpose entities, this does not represent an insurance against losses. These loans serviced are mostly insured by FHA, VA, and others.

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

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

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

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

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

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

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

Legal Proceedings

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

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

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

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Note 18 Other Service Fees

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

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

Note 19 Pension and Postretirement Benefits

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

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

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

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

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

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

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

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

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

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

Note 20 Restructuring Plans

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

BPNA Restructuring Plan

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

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

(a) Severance, retention bonuses and other benefits

(b) Impairment on long-lived assets

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

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

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

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

The reserve balances as of June 30, 2009 were mostly related to lease terminations.
Additional restructuring costs expected to be incurred associated with this restructuring plan are estimated at $9.1 million.

E-LOAN 2008 Restructuring Plan

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

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

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

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

(a) Severance, retention bonuses and other benefits

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

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

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

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

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

Note 21 Income Taxes

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

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

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

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

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

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

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

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

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Note 22 Stock-Based Compensation

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

Stock Option Plan

Employees and directors of the Corporation or any of its subsidiaries were eligible to participate in the Stock Option Plan. The Board of Directors or the Compensation Committee of the Board had the absolute discretion to determine the individuals that were eligible to participate in the Stock Option Plan. This plan provides for the issuance of Popular, Inc. s common stock at a price equal to its fair market value at the grant date, subject to certain plan provisions. The shares are to be made available from authorized but unissued shares of common stock or treasury stock. The Corporation s policy has been to use authorized but unissued shares of common stock to cover each grant. The maximum option term is ten years from the date of grant. Unless an option agreement provides otherwise, all options granted are 20% exercisable after the first year and an additional 20% is exercisable after each subsequent year, subject to an acceleration clause at termination of employment due to retirement.

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

(Not in thousands)

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

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

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

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

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

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The stock options exercisable as of June 30, 2009 totaled 2,613,446 (June 30, 2008 - 2,738,512). There were no stock options exercised during the quarters and six-month periods ended June 30, 2009 and 2008. Thus, there was no intrinsic value of options exercised during the quarters and six-month periods ended June 30, 2009 and 2008.

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

For the quarter ended June 30, 2009, the Corporation recognized a credit of $0.1 million of stock option expense, with an income tax expense of $51 thousand (June 30, 2008 $0.3 million, with a tax benefit of $0.1 million). For the six months ended June 30, 2009, the Corporation recognized $27 thousand of stock option expense, with a tax benefit of $4 thousand (June 30, 2008 $0.6 million, with a tax benefit of $0.2 million). The total unrecognized compensation cost as of June 30, 2009 related to non-vested stock option awards was $0.2 million and is expected to be recognized over a weighted-average period of 6 months.

Incentive Plan

The Incentive Plan permits the granting of incentive awards in the form of Annual Incentive Awards, Long-term Performance Unit Awards, Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Units or Performance Shares. Participants in the Incentive Plan are designated by the Compensation Committee of the Board of Directors (or its delegate as determined by the Board). Employees and directors of the Corporation and / or any of its subsidiaries are eligible to participate in the Incentive Plan. The shares may be made available from common stock purchased by the Corporation for such purpose, authorized but unissued shares of common stock or treasury stock. The Corporation s policy with respect to the shares of restricted stock has been to purchase such shares in the open market to cover each grant.

Under the Incentive Plan, the Corporation has issued restricted shares, which become vested based on the employees continued service with Popular. Unless otherwise stated in an agreement, the compensation cost associated with the shares of restricted stock is determined based on a two-prong vesting schedule. The first part is vested ratably over five years commencing at the date of grant and the second part is vested at termination of employment after attainment of 55 years of age and 10 years of service. The five-year vesting part is accelerated at termination of employment after attaining 55 years of age and 10 years of service.

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

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

During the quarters and six-month periods ended June 30, 2009 and 2008, no shares of restricted stock were awarded to management under the Incentive Plan corresponding to the performance of 2008 and 2007.

Beginning in 2007, the Corporation authorized the issuance of performance shares, in addition to restricted shares, under the Incentive Plan. The performance shares award consists of the opportunity to receive shares of Popular, Inc. s common stock provided the Corporation achieves certain performance goals during a 3-year performance cycle. The

compensation cost associated with the performance shares will be recorded ratably over a three-year performance period. The performance shares will be granted at the end of the three-year period and will be vested at

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grant date, except when the participant s employment is terminated by the Corporation without cause. In such case, the participant will receive a pro-rata amount of shares calculated as if the Corporation would have met the performance goal for the performance period. As of June 30, 2009, 33,700 (June 30, 2008 6,217) shares have been granted under this plan to terminated employees.

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

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

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

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

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Note 23 (Loss) Earnings per Common Share

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

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

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

Note 24 Supplemental Disclosure on the Consolidated Statements of Cash Flows

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

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

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

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

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Note 25 Segment Reporting

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

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

Banco Popular de Puerto Rico:

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

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

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

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

Banco Popular North America:

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

EVERTEC:

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

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

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

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

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

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

2009
For the quarter ended June 30, 2009

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

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For the quarter ended June 30, 2009

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

For the six months ended June 30, 2009

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

For the six months ended June 30, 2009

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

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

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2008
For the quarter ended June 30, 2008

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

For the quarter ended June 30, 2008

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

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

For the six months ended June 30, 2008

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

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

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For the six months ended June 30, 2008

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

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

2009

For the quarter ended June 30, 2009

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

For the six months ended June 30, 2009

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

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

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2008
For the quarter ended June 30, 2008

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

For the six months ended June 30, 2008

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

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

2009
For the quarter ended June 30, 2009

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

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

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For the six months ended June 30, 2009

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

2008

For the quarter ended June 30, 2008

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

For the six months ended June 30, 2008

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

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

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

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

* For purposes of the intersegment revenues disclosure, revenues include interest income (expense) related to internal funding and other income derived from intercompany transactions, mainly related to processing / information technology services.

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

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

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

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

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

(1) Does not include balance

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

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

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Note 26 Condensed Consolidating Financial Information of Guarantor and Issuers of Registered Guaranteed Securities

The following condensed consolidating financial information presents the financial position of Popular, Inc. Holding Company (PIHC) (parent only), Popular International Bank, Inc. (PIBI), Popular North America, Inc. (PNA), and all other subsidiaries of the Corporation as of June 30, 2009, December 31, 2008 and June 30, 2008, and the results of their operations and cash flows for the periods ended June 30, 2009 and 2008.

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

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

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

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

EVERTEC USA, Inc.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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(In thousands)	Popular, Inc. Holding Co.	PIBI Holding Co.	PNA Holding Co.	All other subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
Cash flows from financing activities:						
Net decrease in deposits				(1,075,560)	441,838	(633,722)
Net decrease in federal funds purchased and assets sold under agreements to repurchase	(44,471)			(643,411)	77,952	(609,930)
Net decrease in other short-term borrowings	(18,248)		(500)	(780,361)	796,000	(3,109)
Payments of notes payable			(797,880)	(6,192)		(804,072)
Proceeds from issuance of notes payable			1,031	60,000		61,031
Dividends paid to parent company				(73,625)	73,625	
Dividends paid	(71,438)					(71,438)
Treasury stock acquired	(13)					(13)
Capital contribution from parent		665,000	665,000	315,000	(1,645,000)	
Net cash used in financing activities	(134,170)	665,000	(132,349)	(2,204,149)	(255,585)	(2,061,253)
Net increase (decrease) in cash and due from banks	1,339	86	(7,286)	(115,870)	(1,404)	(123,135)
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	$ 1,341	$ 175	$ 382	$ 662,124	$ (2,170)	$ 661,852

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

(In thousands)	Popular, Inc. Holding Co.	PIBI Holding Co.	PNA Holding Co.	All other subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
Cash flows from operating activities:						
Net income (loss)	$ 127,540	$(70,246)	$ (87,224)	$ 129,662	$ 27,808	$ 127,540
Adjustments to reconcile net income to net cash provided by (used in) operating activities:						
Equity in undistributed (earnings) losses of subsidiaries	(28,739)	78,589	71,060		(120,910)	
Depreciation and amortization of premises and equipment	1,152		2	36,164		37,318
Provision for loan losses	40			358,822		358,862
Amortization of intangibles				4,982		4,982
Amortization and fair value adjustment of servicing assets				25,122		25,122
Net gain on sale and valuation adjustment of investment securities				(75,703)		(75,703)
Losses from changes in fair value related to instruments measured at fair value pursuant to SFAS No. 159				38,942		38,942
Net loss (gain) on disposition of premises and equipment	57			(3,168)		(3,111)
Net gain on sale of loans and valuation adjustments on loans held-for-sale				(67,292)		(67,292)
Net amortization of premiums and accretion of discounts on investments	(1,611)			14,267		12,656
Net amortization of premiums and deferred loan origination fees and costs				28,951		28,951
Losses (earnings) from investments under the equity	111	(7,154)	2,041	(125)	(1,772)	(6,899)

method						
Stock options expense	239			320		559
Deferred income taxes	(170)		(8,372)	(90,533)	15,239	(83,836)
Net disbursements on loans held-for-sale				(1,509,819)		(1,509,819)
Acquisitions of loans held-for-sale				(185,053)		(185,053)
Proceeds from sale of loans held-for-sale				1,006,208		1,006,208
Net decrease in trading securities				731,885	182	732,067
Net decrease (increase) in accrued income receivable	950	(57)	(7,566)	42,349	6,625	42,301
Net decrease (increase) in other assets	2,804	3,936	(12,149)	(260,052)	1,291	(264,170)
Net decrease in interest payable	(521)		(8,686)	(37,608)	(6,625)	(53,440)
Net increase in postretirement benefit obligation				203		203
Net (decrease) increase in other liabilities	(1,970)	(24)	14,972	(22,046)	(15,361)	(24,429)
Total adjustments	(27,658)	75,290	51,302	36,816	(121,331)	14,419
Net cash provided by (used in) operating activities	99,882	5,044	(35,922)	166,478	(93,523)	141,959
Cash flows from investing activities:						
Net (increase) decrease in money market investments	(388,800)	(38,400)	(56)	185,416	350,756	108,916
Purchases of investment securities:						
Available-for-sale		(181)		(3,427,479)		(3,427,660)
Held-to-maturity	(497,750)			(3,133,391)		(3,631,141)
Other				(136,775)		(136,775)
Proceeds from calls, paydowns, maturities and redemptions of investment securities:						
Available-for-sale				1,851,899		1,851,899
Held-to-maturity	669,000			3,215,838		3,884,838
Other				112,628		112,628
Proceeds from sale of investment securities available-for- sale		8,296		2,398,208		2,406,504
Proceeds from sale of other investment securities				49,330		49,330
Net (disbursements) repayments	(14,020)	25,150	1,207,321	(515,568)	(1,299,431)	(596,548)

on loans						
Proceeds from sale of loans				1,715,330		1,715,330
Acquisition of loan portfolios				(6,669)		(6,669)
Capital contribution to subsidiary	(1,512)				1,512	
Mortgage servicing rights purchased				(2,986)		(2,986)
Acquisition of premises and equipment	(118)			(97,910)		(98,028)
Proceeds from sale of premises and equipment				19,743		19,743
Proceeds from sale of foreclosed assets				51,684		51,684
Net cash (used in) provided by investing activities	(233,200)	(5,135)	1,207,265	2,279,298	(947,163)	2,301,065

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(In thousands)	Popular, Inc.	PIBI Holding	PNA	All other subsidiaries	Elimination	Popular, Inc.
Cash flows from financing activities:						
Net decrease in deposits				(1,160,743)	(37,769)	(1,198,512)
Net increase (decrease) in federal funds purchased and assets sold under agreements to repurchase			54,608	(440,896)	(312,300)	(698,588)
Net (decrease) increase in other short-term borrowings	(165,000)		(676,581)	75,380	601,432	(164,769)
Payments of notes payable			(549,745)	(1,393,747)	699,818	(1,243,674)
Proceeds from issuance of notes payable	198		7,621	624,367	(2,000)	630,186
Dividends paid to parent company				(89,900)	89,900	
Dividends paid	(98,685)					(98,685)
Proceeds from issuance of common stock	10,120					10,120
Proceeds from issuance of preferred stock	386,257				3,793	390,050
Treasury stock acquired	(59)			(299)		(358)
Capital contribution from parent				1,500	(1,500)	
Net cash provided by (used in) financing activities	132,831		(1,164,097)	(2,384,338)	1,041,374	(2,374,230)
Net (decrease) increase in cash and due from banks	(487)	(91)	7,246	61,438	688	68,794
Cash and due from banks at beginning of period	1,391	376	400	818,455	(1,797)	818,825
Cash and due from banks at end or period	$ 904	$285	$ 7,646	$ 879,893	$ (1,109)	$ 887,619

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Note 27 Exchange Offer

On June 29, 2009, the Corporation commenced an offer to issue up to 390 million shares of its common stock in exchange for its Series A preferred stock and Series B preferred stock and for the trust preferred securities referred to in the prospectus for the exchange offer referred to below (the Exchange Offer). In connection with the Exchange Offer, for each share of Series A preferred stock, share of Series B preferred stock or trust preferred security accepted in accordance with the terms of the Exchange Offer, the Corporation is offering to issue a number of shares of its common stock equal to the Exchange Value, set forth in the prospectus for the Exchange Offer, divided by the Relevant Price . The Relevant Price will be equal to the greater of (1) the average Volume Weighted Average Price, or VWAP , of a share of the Corporation s common stock during the five-trading day period ending on the second business day immediately preceding the expiration date of the Exchange Offer (which we currently expect to be August 18, 2009, unless the Exchange Offer is extended), determined as described in the prospectus for the Exchange Offer or (2) the Minimum Share Price of $2.50 per share of the Corporation s common stock. The expiration date for the Exchange Offer is August 20, 2009, unless the Corporation extends the Exchange Offer or terminates it early.

In connection with the Exchange Offer, at the Corporation s request, the U.S. Treasury has agreed to exchange all $935 million of its outstanding shares of Series C Preferred Stock of the Corporation for $935 million of New Trust Preferred Securities. The New Trust Preferred Securities will have a distribution rate of 5% until December 5, 2013 and 9% thereafter (which is the same as the dividend rate on the Series C Preferred Stock). The sole asset and only source of funds to make payments on the New Trust Preferred Securities will be perpetual junior subordinated indebtedness issued by the Corporation to the new trust. The Corporation expects to complete the exchange with the U.S. Treasury promptly following the completion of the Exchange Offer. The Corporation s agreement with the U.S. Treasury to exchange the Series C Preferred Stock into newly issued trust preferred securities is subject to certain closing conditions, including the completion of the Exchange Offer and related transactions causing the increase in the Corporation s Tier 1 common equity described in the prospectus for the Exchange Offer and the completion of definitive documentation acceptable to the U.S. Treasury.

For further discussion of these and other matters related to the Corporation, its capital needs and the Exchange Offer, refer to the registration statement (including the prospectus and related Exchange Offer materials) the Corporation has filed with the SEC related to the Exchange Offer.

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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, 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. The Corporation, through its subsidiary EVERTEC, provides transaction processing services throughout the Caribbean and Latin America, as well as internally servicing many of its subsidiaries system infrastructures and transactional processing businesses. Note 25 to the consolidated financial statements presents information about the Corporation s business segments. The operations of PFH, the Corporation s consumer and mortgage lending subsidiary in the U.S. mainland, 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 $183.2 million for the quarter ended June 30, 2009, compared with net income of $24.3 million in the same quarter of 2008. For the six months ended June 30, 2009, the Corporation s net loss totaled $235.7 million, compared to net income of $127.5 million for the same period in 2008. Table A provides selected financial data and performance indicators for the quarters and six months ended June 30, 2009 and 2008. As indicated in previous fillings with the SEC, in 2008, the Corporation discontinued the operations of its U.S. mainland-based subsidiary Popular Financial Holdings (PFH), and thus, the results of PFH are presented as part of Loss 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 $176.6 million for the quarter ended June 30, 2009, compared with a net income of $59.2 million for the quarter ended June 30, 2008. For the six months ended June 30, 2009, the Corporation s net loss from continuing operations totaled $219.2 million, compared to net income of $158.4 million for the same period in 2008.

Increased credit losses from the weakening economy have negatively affected the capital and earnings of Popular. Like many financial institutions, Popular has experienced significant declines in the value of collateral for real estate loans and heightened credit losses, which have resulted in record levels of non-performing assets, charge-offs and foreclosures.

The principal items impacting the continuing operations financial results for the quarter ended June 30, 2009, when compared to the quarter ended June 30, 2008, were as follows:

- The main factor driving the Corporation s net losses in the first two quarters of 2009 has been the increasing credit costs from several segments of the loan portfolio. Persistent adverse changes in the economy and negative trends in employment levels and property values in the markets in which the Corporation operates have continued to negatively affect the Corporation s provision for loan losses in the second quarter of 2009. The

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provision for loan losses totaled $349.4 million or 134% of net charge-offs for the quarter ended June 30, 2009, compared with $189.2 million or 167% of net charge-offs for the second quarter of 2008. The increase in the provision for loan losses for the quarter ended June 30, 2009, compared to the same quarter in 2008, was the result of higher general reserve requirements for commercial loans, construction loans, U.S. mainland non-conventional residential mortgages and home equity lines of credit, combined with specific reserves recorded for loans considered impaired under SFAS No. 114 Accounting by Creditors for Impairment of a Loan . The allowance for loan losses to loans held-in-portfolio was 4.66% at June 30, 2009, compared to 3.43% at December 31, 2008 and 2.47% at June 30, 2008.

A decrease in net interest income of $47.2 million for the second quarter of 2009, compared with the same quarter in 2008, was primarily due to lower average balances of interest-earning assets, principally loans. The Corporation s borrowings also decreased, driven by the reduction in earning assets they fund. Contributing to the reduction in net interest income was the decrease by the Federal Reserve (Fed) of the federal funds target rate from 2.00% in June 30, 2008 to between 0% and 0.25% at June 30, 2009. This reduction in short-term market rates impacted the yield of several of the Corporation s earning assets during that period, including the yield on commercial and construction loans with floating or adjustable rates and floating rate collateralized mortgage obligations, as well as the yield of newly originated loans in a declining interest rate environment. On the positive side, the decrease in rates contributed to the decrease in the cost of interest-bearing deposits and short-term borrowings. Other factors impacting negatively the Corporation s net interest income for the quarter ended June 30, 2009, when compared with the same quarter in 2008, were the increase in non-performing loans with their related reversal of interest, and the exiting of several loan origination activities in the U.S. mainland operations.

The decrease in non-interest income from continuing operations for the quarter ended June 30, 2009 of $10.0 million, compared with the same quarter in 2008, was principally due to losses on the sale and valuation adjustments on loans held-for-sale, lower investment banking fees, and higher losses on derivative instruments, among other factors. These unfavorable variances were partially offset by higher net gains on the sale and valuation adjustments of investment securities of $25.4 million.

Operating expenses for the quarter ended June 30, 2009 remained at levels close to those recognized during the same quarter of the previous year. Increases in FDIC deposit insurance premiums were partially offset by lower personnel costs and business promotion expenses that resulted from the downsizing of the U.S. mainland operations and cost control initiatives, among the principal reasons.

Income tax expense of $5.4 million in the second quarter of 2009, compared to income tax benefit of $12.6 million in the second quarter of 2008. The variance was primarily due to the fact that in the second quarter of 2008 the Corporation was recording a tax benefit on the Corporation s U.S. mainland operations. Commencing in the second half of 2008, the Corporation began to record a valuation allowance on the deferred tax assets of the Corporation s U.S. mainland operations, thus there were no tax benefits recognized in 2009 in the U.S. operations.

The discontinued operations of PFH in the U.S. mainland reported a net loss of $6.6 million for the quarter ended June 30, 2009, compared to a net loss of $34.9 million for the quarter ended June 30, 2008. Refer to the Discontinued Operations section of this MD&A for further information.

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TABLE A
Financial Highlights

Financial Condition Highlights	At June 30,			Average for the six months**		
(In thousands)	2009	2008	Variance	2009	2008	Variance
Money market investments	$ 951,647	$ 897,796	$ 53,851	$ 1,325,160	$ 677,101	$ 648,059
Investment and trading securities	8,268,625	8,675,029	(406,404)	8,324,541	9,050,373	(725,832)
Loans	24,848,909*	27,631,678	(2,782,769)	25,432,055	26,549,687	(1,117,632)
Total earning assets	34,069,181*	37,204,503	(3,135,322)	35,081,756	36,277,161	(1,195,405)
Total assets	36,498,792	41,678,594	(5,179,802)	37,738,595	41,774,824	(4,036,229)
Deposits	26,913,485	27,115,728	(202,243)	27,204,865	27,275,700	(70,835)
Borrowings	5,587,225	10,000,259	(4,413,034)	6,357,331	7,720,864	(1,363,533)
Stockholders equity	2,899,701	3,705,994	(806,293)	3,057,332	3,425,003	(367,671)

Operating Highlights	Second Quarter			Six months ended June 30,		
(In thousands, except per share information)	2009	2008	Variance	2009	2008	Variance
Net interest income	$ 283,060	$330,297	$ (47,237)	$ 555,546	$666,056	$(110,510)
Provision for loan losses	349,444	189,165	160,279	721,973	350,401	371,572
Non-interest income	225,839	235,798	(9,959)	560,570	500,549	60,021
Operating expenses	330,645	330,338	307	634,842	653,633	(18,791)
(Loss) income from continuing operations before income tax	(171,190)	46,592	(217,782)	(240,699)	162,571	(403,270)
Income tax expense (benefit)	5,393	(12,581)	17,974	(21,540)	4,159	(25,699)
(Loss) income from continuing operations	(176,583)	59,173	(235,756)	(219,159)	158,412	(377,571)
Loss from discontinued operations, net of income tax	(6,599)	(34,923)	28,324	(16,545)	(30,872)	14,327
Net (loss) income	$(183,182)	$ 24,250	$(207,432)	$(235,704)	$127,540	$(363,244)
Net (loss) income applicable to common stock	$(207,810)	$ 18,247	$(226,057)	$(285,010)	$118,559	$(403,569)
(Losses) earnings per common share:						
Basic and diluted (losses) earnings from continuing operations	$ (0.71)	$ 0.19	$ (0.90)	$ (0.95)	$ 0.52	$ (1.47)
Basic and diluted losses from discontinued operations	$ (0.03)	$ (0.13)	$ 0.10	$ (0.06)	$ (0.10)	$ 0.04
Basic and diluted (losses) earnings Total	$ (0.74)	$ 0.06	$ (0.80)	$ (1.01)	$ 0.42	$ (1.43)

Selected Statistical Information	Second Quarter		Six months ended June 30,	
	2009	2008	2009	2008

Common Stock Data Market price				
High	$ 3.66	$13.06	$ 5.52	$14.07
Low	2.19	6.59	1.47	6.59
End	2.20	6.59	2.20	6.59
Book value per share at period end	5.01	11.10	5.01	11.10
Dividends declared per share		0.16	0.02	0.32
Profitability Ratios Return on assets	(1.98%)	0.24%	(1.26%)	0.61%
Return on common equity	(53.48)	2.08	(35.08)	7.11
Net interest spread (taxable equivalent)	3.04	3.47	2.97	3.44
Net interest margin (taxable equivalent)	3.49	3.94	3.42	3.94
Capitalization Ratios Average equity to assets	8.10%	8.61%	8.10%	8.20%
Tier I capital to risk adjusted assets	10.73	10.50	10.73	10.50
Total capital to risk adjusted assets	12.02	11.77	12.02	11.77
Leverage ratio	8.26	8.52	8.26	8.52

* Excludes assets from discontinued operations as of June 30, 2009 as follows: $1 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 June 30, 2008 were retrospectively adjusted to conform to the June 30, 2009 presentation.

Total assets amounted to $36.5 billion as of June 30, 2009, compared with $38.9 billion as of December 31, 2008 and $41.7 billion as of June 30, 2008. The decline in total assets, when compared to December 31, 2008, was principally in loans held-in-portfolio by $1.1 billion. 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 United States mainland, the Corporation has seen a reduction in the volume of loans. Total assets and loans shown in Table A for the period ended June 30, 2008 include $2.0 billion and $1.2 billion, respectively, pertaining to the operations of PFH.

Refer to Table I 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 principally in repurchase agreements and unsecured senior debt. 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 funding sources and an update on the Corporation s credit ratings by the major rating agencies.

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Regulatory capital requirements for banking institutions are based on Tier 1 and Total capital, which include both common stock and certain qualifying preferred stock, and trust preferred securities. 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 Tier 1 common equity and Tier 1 common equity to risk-weighted assets ratio of banking institutions.

As part of the U.S. Government s Financial Stability Plan, on February 25, 2009, the U.S. Treasury announced preliminary details of its Capital Assistance Program, or the CAP . To implement the CAP, the Board of Governors of the Federal Reserve System (the Federal Reserve), the Federal Reserve Banks, the FDIC and the Office of the Comptroller of the Currency commenced a review, referred to as the Supervisory Capital Assessment Program (the SCAP), of the capital of the 19 largest U.S. banking institutions. Popular was not included in the group of 19 banking institutions reviewed under the SCAP. On May 7, 2009, Federal banking regulators announced the results of the SCAP and determined that 10 of the 19 banking institutions were required to raise additional capital and to submit a capital plan to their Federal banking regulators by June 8, 2009 for their review.

Even though the Corporation was not one of the banking institutions included in the SCAP, management has closely assessed the announced SCAP results, particularly noting that (1) the SCAP credit loss assumptions applied to regional banking institutions included in the SCAP are based on a more adverse economic and credit scenario and (2) Federal banking regulators are focused on the composition of regulatory capital. Specifically, the regulators have indicated that voting common equity should be the dominant element of Tier 1 capital and have established a 4% Tier 1 common/risk-weighted assets ratio as a threshold for determining capital needs. While the SCAP results are not applicable to the Corporation, they do express general regulatory expectations.

Although the Corporation is well-capitalized based on a ratio of Tier 1 capital to risk-weighted assets of 10.73% as of June 30, 2009, management believes that an improvement in the composition of the Corporation s regulatory capital, including Tier 1 common equity, will better position the Corporation in a more adverse economic and credit scenario. As a result, the Corporation is conducting the Exchange Offer described in the Exchange Offer and Dividends on Preferred Stock and Distributions on Trust Preferred Securities section of this MD&A and Note 27 to the consolidated financial statements. The Exchange Offer was originally structured to increase the Corporation s Tier 1 common equity by up to approximately $1.1 billion based on the High Participation Scenario (as described in the prospectus for the Exchange Offer). Recent losses have continued to reduce the Corporation s Tier 1 common equity. The Corporation s Tier 1 common/risk-weighted assets ratio was 2.45% as of June 30, 2009. See Reconciliation of Non-GAAP Financial Measure section in this MD&A for a reconciliation of Tier 1 common to common stockholders equity and a discussion of our use of this non-GAAP financial measure in this report.

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.

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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 II, 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 and preferred stock are traded on the National Association of Securities Dealers Automated Quotations (NASDAQ) system under the symbols BPOP, BPOPO and BPOPP.

The information included in this report may contain certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on management s current expectations and involve certain risks and uncertainties that may cause actual results to differ materially from those expressed in forward-looking statements. Various factors, some of which are beyond Popular s control, could cause actual results to differ materially from those expressed in, or implied by, such forward-looking statements. Factors that might cause such a difference include, but are not limited to:

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

For a discussion of such factors and certain risks and uncertainties to which the Corporation is subject, see the Corporation s Annual Report on Form 10-K for the year ended December 31, 2008 as well as its filings with the U.S. Securities and Exchange Commission. Other than to the extent required by applicable law, including the requirements of applicable securities laws, the Corporation assumes no obligation to update any forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of such statements.

ADOPTION OF NEW ACCOUNTING STANDARDS AND ISSUED BUT NOT YET EFFECTIVE ACCOUNTING STANDARDS

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

SFAS No. 141(R), issued in December 2007, establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in an acquiree, including the recognition and measurement of goodwill acquired in a business combination. The Corporation is required to apply SFAS No. 141(R) to all business combinations completed on or after January 1, 2009. For business combinations in which the acquisition date was before the effective date, the provisions of SFAS No. 141(R) will apply to the subsequent accounting for deferred income tax valuation allowances and income tax contingencies and will require any changes in those amounts to be recorded in earnings. SFAS

No. 141(R) has not had a material effect on the consolidated financial statements of the Corporation as of June 30, 2009.

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

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

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

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

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

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

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

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

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

SFAS No. 167, issued in June 2009, amends the consolidating guidance applicable to variable interest entities and changes how a reporting entity determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a reporting entity is required to consolidate another entity is based on, among other things, the other entity s purpose and design and the reporting entity s ability to direct the activities of the other entity that most significantly impact the other entity s economic performance. The amendments to the consolidated guidance affect all entities currently within the scope of FIN 46(R), as well as qualifying special-purpose entities (QSPEs) that are currently excluded from the scope of FIN 46(R). SFAS

No. 167 will require a reporting entity to provide additional disclosures about its involvement with variable interest entities and any significant changes in risk exposure due to that involvement. A reporting entity will be required to disclose how its involvement with a variable interest entity affects the reporting entity s financial

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statements. SFAS No. 167 will be effective as of the beginning of the first fiscal year that begins after November 15, 2009. The Corporation is currently evaluating the potential impact of the adoption to its consolidated financial statements; however, it is not expected that it will have a material impact on the Corporation s consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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.

Refer to the Adoption of New Accounting Standards and Issued But Not Yet Effective Accounting Standards section in this MD&A for a description of two newly adopted accounting standards which impact the fair value measurement of financial instruments, including recognition accounting in the statement of operations. These standards included (a) FASB Staff Position FAS 115-2 and FAS 124-2 Recognition and Presentation of Other-Than-Temporary Impairments and (b) 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. As previously indicated, the adoption of these FSPs did not have a significant impact in the Corporation s financial condition and results of operations.

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The Corporation s assessment of the allowance for loan losses is determined in accordance with regulatory guidance, Statement of Financial Accounting Standards No. 5, Accounting for Contingencies (SFAS No. 5) and Statement of Financial Accounting Standards No. 114, Accounting by Creditors for Impairment of a Loan (SFAS No. 114). Specifically pertaining to SFAS No. 5, during this quarter the Corporation enhanced its assessment by establishing a more granular segmentation of loans with similar risk characteristics, reducing the historical base loss periods employed, and strengthening the analysis pertaining to the environmental factors considered. A more detailed description of the process used to estimate the allowance for loan losses is included in the Credit Risk Management and Loan Quality section of this MD&A. The provision for loan losses charged to current operations is based on this determination.

NET INTEREST INCOME

Net interest income from continuing operations, on a taxable equivalent basis, is presented with its different components on Tables B and C for the quarter and six-month periods ended June 30, 2009 as compared with the same periods 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 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 and six-month periods. The taxable equivalent computation considers the interest expense disallowance required by the Puerto Rico tax law.

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 and six-month periods ended June 30, 2009 included a favorable impact of $6.8 million and $12.3 million, respectively, consisting principally of the net result of the 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 and six-month periods ended June 30, 2008 was $4.4 million and $9.5 million, respectively.

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TABLE B
Analysis of Levels & Yields on a Taxable Equivalent Basis for Continuing Operations
Quarter ended June 30,

Average Volume			Average Yields / Costs				Interest			Variance Attributable to	
2009	2008	Variance	2009	2008	Variance		2009	2008	Variance	Rate	Volume
($ in millions)							(In thousands)				
$ 1,283	$ 575	$ 708	0.74%	2.43%	(1.69%)	Money market investments	$ 2,381	$ 3,476	$ (1,095)	$ (1,209)	$ 114
7,535	7,936	(401)	4.69	5.05	(0.36)	Investment securities	88,341	100,137	(11,796)	(1,943)	(9,853)
741	758	(17)	6.47	6.93	(0.46)	Trading securities	11,945	13,042	(1,097)	(817)	(280)
9,559	9,269	290	4.30	5.04	(0.74)		102,667	116,655	(13,988)	(3,969)	(10,019)
15,383	15,712	(329)	4.93	6.03	(1.10)	Loans: Commercial *	189,207	235,720	(46,513)	(41,678)	(4,835)
746	1,109	(363)	8.30	8.07	0.23	Leasing	15,486	22,379	(6,893)	617	(7,510)
4,499	4,783	(284)	6.48	7.20	(0.72)	Mortgage	72,882	86,064	(13,182)	(8,252)	(4,930)
4,410	4,942	(532)	9.91	10.30	(0.39)	Consumer	109,116	126,717	(17,601)	(6,390)	(11,211)
25,038	26,546	(1,508)	6.19	7.12	(0.93)		386,691	470,880	(84,189)	(55,703)	(28,486)
$34,597	$35,815	$(1,218)	5.67%	6.58%	(0.91%)	Total earning assets	$489,358	$587,535	$(98,177)	$(59,672)	$(38,505)
$ 4,837	$ 5,103	$ (266)	1.12%	1.82%	(0.70%)	Interest bearing deposits: NOW and money market**	$ 13,463	$ 23,103	$ (9,640)	$ (8,333)	$ (1,307)
5,562	5,621	(59)	0.96	1.51	(0.55)	Savings	13,282	21,050	(7,768)	(7,285)	(483)
12,288	12,140	148	3.32	4.10	(0.78)	Time deposits	101,707	123,892	(22,185)	(25,783)	3,598
22,687	22,864	(177)	2.27	2.96	(0.69)		128,452	168,045	(39,593)	(41,401)	1,808
2,898	5,478	(2,580)	2.30	2.96	(0.66)	Short-term borrowings	16,631	40,312	(23,681)	(14,716)	(8,965)
3,046	2,053	993	5.65	5.21	0.44	Medium and long-term debt	42,903	26,604	16,299	2,483	13,816

28,631	30,395	(1,764)	2.63	3.11	(0.48)	Total interest bearing liabilities	187,986	234,961	(46,975)	(53,634)	6,659
4,289	4,130	159				Non-interest bearing demand deposits					
1,677	1,290	387				Other sources of funds					
$34,597	$35,815	$(1,218)	2.18%	2.64%	(0.46%)						
			3.49%	3.94%	(0.45%)	Net interest margin					
						Net interest income on a taxable equivalent basis	301,372	352,574	(51,202)	$ (6,038)	$(45,164)
			3.04%	3.47%	(0.43%)	Net interest spread					
						Taxable equivalent adjustment	18,312	22,277	(3,965)		
						Net interest income	$283,060	$330,297	$(47,237)		

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.

As shown in Table B, the decrease in net interest income, on a taxable equivalent basis, reflects a reduction in the Corporation s average earning assets. Several factors contributed to this decrease as described below:

The decrease in the commercial and construction loan portfolio took place mainly as a result of lower origination activity and an increase in loan charge-offs.

The decrease in the lease portfolio is mainly the result of the Corporation s decision to exit the leasing business in the U.S. mainland operations. A substantial portion of the lease portfolio from Popular Equipment Finance was sold during the first quarter of 2009.

The mortgage loan portfolio has been impacted by the Corporation s decision to exit certain mortgage loan

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rigination activity, such as the non-conventional mortgages and the E-LOAN loan origination platform in the U.S. mainland.

The consumer loan portfolio has been impacted by: the sale of the E-LOAN auto loan portfolio during the latter part of the second quarter of 2008, a slowdown in the auto loan origination activity in Puerto Rico, and the run-off of the E-LOAN home equity lines of credit (HELOCs) and closed-end second mortgage portfolio.

The Corporations also experienced compression in the net interest margin, on a taxable equivalent basis. The factors that contributed to this reduction were as follows:

The FED lowered the federal funds target rate from 2.00% in June 30, 2008 to between 0% and 0.25% at June 30, 2009. This reduction in market rates impacted the yield of several of the Corporation s earning assets during that period. These assets include commercial and construction loans of which 66% have floating or adjustable rates, floating rate home equity lines of credit and credit cards, floating rate collateralized mortgage obligations, as well as the origination of loans in a low interest rate environment.

Increase in non-performing loans and its related interest accrual reversal. This increase impacted mainly the commercial, construction and mortgage loans portfolios.

Market risk management strategies have generated a higher balance of short-term investments at lower rates, thus pressuring the net interest income.

The net interest income benefited from a reduction in the cost of both short-term borrowings and interest bearing liabilities. This reduction was in part due to management s decision to reduce the rates of certain non-maturity deposit accounts as well as maturities of high cost certificates of deposits being renewed at lower rates.

As shown in Table C, net interest income on a taxable equivalent basis for the six months ended June 30, 2009 was also impacted by the reasons described above for the quarterly results.

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TABLE C
Analysis of Levels & Yields on a Taxable Equivalent Basis
Six-month period ended June 30,

Average Volume			Average Yields / Costs				Interest			Variance Attributable to	
2009	2008	Variance	2009	2008	Variance		2009	2008	Variance	Rate	Volume
($ in millions)							(In thousands)				
$ 1,325	$ 677	$ 648	0.84%	3.27%	(2.43%)	Money market investments	$ 5,517	$ 11,004	$ (5,487)	$ (6,455)	$ 968
7,592	8,275	(683)	4.72	5.11	(0.39)	Investment securities	179,093	211,263	(32,170)	(6,135)	(26,035)
733	775	(42)	6.74	7.18	(0.44)	Trading securities	24,506	27,690	(3,184)	(1,723)	(1,461)
9,650	9,727	(77)	4.34	5.14	(0.80)		209,116	249,957	(40,841)	(14,313)	(26,528)
15,578	15,601	(23)	4.99	6.42	(1.43)	Loans: Commercial *	385,399	498,273	(112,874)	(111,089)	(1,785)
844	1,115	(271)	8.39	8.05	0.34	Leasing	35,377	44,900	(9,523)	1,811	(11,334)
4,516	4,851	(335)	6.68	7.29	(0.61)	Mortgage	150,925	176,788	(25,863)	(14,136)	(11,727)
4,494	4,983	(489)	9.94	10.23	(0.29)	Consumer	222,307	253,837	(31,530)	(11,035)	(20,495)
25,432	26,550	(1,118)	6.28	7.36	(1.08)		794,008	973,798	(179,790)	(134,449)	(45,341)
$35,082	$36,277	$(1,195)	5.75%	6.77%	(1.02%)	Total earning assets	$1,003,124	$1,223,755	$(220,631)	$(148,762)	$(71,869)
$ 4,832	$ 4,938	$ (106)	1.22%	2.00%	(0.78%)	Interest bearing deposits: NOW and money market **	$ 29,170	$ 49,155	$ (19,985)	$ (19,057)	$ (928)
5,570	5,631	(61)	1.02	1.62	(0.60)	Savings	28,250	45,234	(16,984)	(15,796)	(1,188)
12,553	12,554	(1)	3.52	4.30	(0.78)	Time deposits	219,071	268,596	(49,525)	(52,810)	3,285
22,955	23,123	(168)	2.43	3.16	(0.73)		276,491	362,985	(86,494)	(87,663)	1,169
3,124	5,884	(2,760)	2.41	3.44	(1.03)	Short-term borrowings	37,334	100,591	(63,257)	(34,918)	(28,339)
3,233	1,837	1,396	5.67	5.20	0.47	Medium and long-term debt	90,867	47,468	43,399	4,498	38,901

29,312	30,844	(1,532)	2.78	3.33	(0.55)	Total interest bearing liabilities	404,692	511,044	(106,352)	(118,083)	11,731
4,250	4,153	97				Non-interest bearing demand deposits					
1,520	1,280	240				Other sources of funds					
$35,082	$36,277	$(1,195)	2.33%	2.83%	(0.50%)						
			3.42%	3.94%	(0.52%)	Net interest margin					
						Net interest income on a taxable equivalent basis	598,432	712,711	(114,279)	$ (30,679)	$(83,600)
			2.97%	3.44%	(0.47%)	Net interest spread					
						Taxable equivalent adjustment	42,886	46,655	(3,769)		
						Net interest income	$ 555,546	$ 666,056	$(110,510)		

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.

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

PROVISION FOR LOAN LOSSES

The provision for loan losses for the continuing operations totaled $349.4 million, or 134% of net charge-offs, for the quarter ended June 30, 2009, compared with $189.2 million, or 167% of net charge-offs for the second quarter of 2008. The increase in the provision for loan losses for the quarter ended June 30, 2009 compared to the same quarter in 2008 was the result of higher general reserve requirements for commercial loans, construction loans, U.S. mainland non-conventional residential mortgages and home equity lines of credit, combined with specific reserves recorded for loans considered impaired under SFAS No. 114. Net charge-offs from the continuing operations for the quarter ended June 30, 2009, when compared with the second quarter in 2008, increased mainly in construction

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loans, consumer loans (principally U.S. mainland home equity lines of credit), commercial loans and mortgage loans. Provision and net charge-offs information for prior periods was retrospectively adjusted to exclude discontinued operations for comparative purposes.

The provision for loan losses for the continuing operations totaled $722.0 million, or 157% of net charge-offs, for the six months ended June 30, 2009, compared with $350.4 million, or 170% of net charge-offs for the six months ended June 30, 2008. Similar factors to those described for the quarterly results primarily influenced the variance for the six-month period ended June 30, 2009 compared to the same period in the previous year.

Information on net charge-offs, non-performing assets and the allowance for loan losses is provided in the Credit Risk Management and Loan Quality section of this MD&A.

NON-INTEREST INCOME

Refer to Table D for a breakdown on non-interest income from continuing operations by major categories for the quarters and six months ended June 30, 2009 and 2008.

TABLE D

Non-Interest Income

	Quarters ended June 30,			Six months ended June 30,		
(In thousands)	2009	2008	$ Variance	2009	2008	$ Variance
Service charges on deposit accounts	$ 53,463	$ 51,799	$ 1,664	$107,204	$102,886	$ 4,318
Other service fees:						
Debit card fees	27,508	26,340	1,168	53,881	51,710	2,171
Credit card fees and discounts	23,449	27,282	(3,833)	47,454	54,526	(7,072)
Processing fees	13,727	13,158	569	27,135	25,543	1,592
Insurance fees	12,547	13,470	(923)	24,551	25,876	(1,325)
Sale and administration of investment products	9,694	8,079	1,615	17,023	19,076	(2,053)
Mortgage servicing fees, net of fair value adjustments	6,552	10,087	(3,535)	13,432	15,216	(1,784)
Trust fees	3,121	3,052	69	6,104	6,132	(28)
Other fees	5,839	6,649	(810)	11,390	13,268	(1,878)
Total other service fees	102,437	108,117	(5,680)	200,970	211,347	(10,377)
Net gain on sale and valuation adjustments of investment securities	53,705	28,334	25,371	229,851	78,562	151,289
Trading account profit	16,839	18,541	(1,702)	23,662	31,878	(8,216)
(Loss) gain on sale of loans and valuation adjustments on loans held-for-sale	(13,453)	4,907	(18,360)	(27,266)	19,174	(46,440)
	12,848	24,100	(11,252)	26,149	56,702	(30,553)

Other operating income						
Total non-interest income	$225,839	$235,798	$ (9,959)	$560,570	$500,549	$ 60,021

Non-interest income for the quarter and six-month periods ended June 30, 2009 and 2008 was positively impacted by higher net gains on sales of investment securities, as shown on the table below:

	Quarter ended June 30,			Six months ended June 30,		
(In thousands)	2009	2008	$ Variance	2009	2008	$ Variance
Net gain on sale of investment securities	$53,705	$28,334	$25,371	$236,440	$78,562	$157,878
Valuation adjustments of investment securities				(6,589)		(6,589)
Total	$53,705	$28,334	$25,371	$229,851	$78,562	$151,289

Net gain on sale of investment securities for 2009 consist principally of $52.3 million in gains from the sale of equity securities in the second quarter of 2009 by BPPR and EVERTEC reportable segments, and $182.7 million in gains derived from the sale of $3.4 billion in U.S. Treasury notes and U.S. agencies during the first quarter of 2009 by BPPR. These results compare to $28.3 million in capital gains realized from the sale of $2.4 billion in U.S. agency securities during the second quarter of 2008 and gains of approximately $49.3 million in the first quarter of

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2008 caused by the redemption of VISA shares of common stock held by the Corporation.

The Corporation recorded $6.6 million in other-than-temporary impairments related to equity securities during the six-month period ended June 30, 2009. No other-than-temporary impairments on investment securities were recognized by the Corporation s continuing operations during the six-month period ended June 30, 2008.

The favorable variance in gains on the sale of investment securities were offset by the following unfavorable variances in non-interest income for the quarters and six months ended June 30, 2009 and 2008:

losses associated to the sales of loans in 2009, compared to gains in 2008, as detailed in the following table:

	Quarter ended June 30,			Six months ended June 30,		
(In thousands)	2009	2008	$ Variance	2009	2008	$ Variance
(Loss) gain on sales of loans	$(13,070)	$4,779	$(17,849)	$(23,558)	$19,046	$(42,604)
Lower of cost or market valuation adjustment on loans held-for-sale	(383)	128	(511)	(3,708)	128	(3,836)
Total	$(13,453)	$4,907	$(18,360)	$(27,266)	$19,174	$(46,440)

The decrease in gains on sales of loans for the quarter ended June 30, 2009, when compared to the same period of the previous year, was mainly the result of increases in representation and warranty reserves for loans previously sold by E-LOAN given an upward trend in repurchase requests and loss severities in the current economic environment. The unfavorable variance for the quarter was also impacted by lower volume of loans sold by E-LOAN, which stopped originating loans in the fourth quarter of 2008. In addition, the variance for the six-month period was also influenced by the impact of the sale of approximately $0.3 billion in lease financings by Popular Equipment Finance, a subsidiary of BPNA, during the first quarter of 2009, which resulted in a loss in the first quarter of 2009 of approximately $13.8 million.

lower other operating income during the quarter and six months ended June 30, 2009 by $11.3 million and $30.6 million, respectively, when compared to the same periods of the previous year, which reflect the impact of higher derivative losses including unfavorable credit risk adjustments, lower investment banking fees in the Corporation s broker-dealer subsidiary due to lower volume of government debt offerings underwritten, lower gains on the sales of real estate properties in the Puerto Rico banking subsidiary, and the gain recognized during the second quarter of 2008 on the sale of substantially all assets of EVERTEC s health processing division. Also contributing to the decrease in other operating income for the six-month period ended June 30, 2009, compared with the same period of 2008, were $12.8 million in gains on the sale of six retail bank branches of BPNA in Texas during the first quarter of 2008.

lower total other service fees during the quarter and six months ended June 30, 2009, compared with the same periods of the previous year, which are detailed in Table D. The decline was mainly in credit card fees because 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. The unfavorable variance in mortgage servicing was due to a reduction in the fair value of the servicing rights due to higher run-off rate of the portfolio and higher prepayment speeds, partially offset by higher servicing fees due to the growth in the portfolio of loans serviced for others by the continuing operations, which rose by approximately $5.5 billion from June 30, 2008 to June 30, 2009. Refer to Note 8 to the consolidated financial statements for additional information on mortgage servicing rights.

lower trading account profit for the six months ended June 30, 2009 compared with the same period in 2008, mainly due to lower realized gains on the sale of mortgage-backed securities.

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OPERATING EXPENSES

Refer to Table E for a breakdown of operating expenses by major categories for the quarter and six months ended June 30, 2009, compared with the same periods in the previous year.

TABLE E

Operating Expenses

	Quarter ended June 30,			Six months ended June 30,		
(In thousands)	2009	2008	$ Variance	2009	2008	$ Variance
Personnel costs	$136,206	$155,317	$(19,111)	$281,497	$311,285	$(29,788)
Net occupancy expenses	26,024	26,840	(816)	52,465	54,708	(2,243)
Equipment expenses	25,202	28,854	(3,652)	51,306	58,007	(6,701)
Other taxes	13,084	13,719	(635)	26,260	26,604	(344)
Professional fees	27,048	27,825	(777)	51,949	57,184	(5,235)
Communications	12,386	12,088	298	24,213	25,563	(1,350)
Business promotion	9,946	18,104	(8,158)	17,856	34,848	(16,992)
Printing and supplies	3,017	3,663	(646)	5,807	7,494	(1,687)
FDIC deposit insurance	36,331	2,270	34,061	45,448	4,612	40,836
Other operating expenses	38,968	39,168	(200)	73,202	68,346	4,856
Amortization of intangibles	2,433	2,490	(57)	4,839	4,982	(143)
Total	$330,645	$330,338	$ 307	$634,842	$653,633	$(18,791)

Operating expenses for the quarter and six months ended June 30, 2009 included approximately $2.3 million and $7.5 million, respectively, 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 June 30, 2009			For the six months ended June 30, 2009		
(In thousands)	BPNA Restructuring Plan	E-LOAN 2008 Restructuring Plan	Total	BPNA Restructuring Plan	E-LOAN 2008 Restructuring Plan	Total
Personnel costs	$1,358	$ 885	$2,243	$4,278	$ 2,703	$6,981
Net occupancy expenses	73		73	73		73
Other operating expenses				453		453
Total	$1,431	$ 885	$2,316	$4,804	$ 2,703	$7,507

The decrease in personnel costs for the continuing operations was primarily the result of a reduction in headcount from 10,956 FTEs as of June 30, 2008 to 9,832 FTEs as of June 30, 2009. BPNA and E-LOAN were the principal contributors to this reduction with a decrease of 814 FTE s on a combined basis. There was also a reduction in headcount at BPPR and EVERTEC due to cost control initiatives, which included lower headcount from attrition. Also, there were lower incentive compensation and commissions. Furthermore, in February 2009, the Corporation

suspended its matching contributions to the Puerto Rico and U.S. mainland subsidiaries savings and investment plans as part of the actions taken to control costs, as well as froze the BPPR s pension plan with regards to all future benefit accruals after April 30, 2009.

The reduction in equipment and business promotion resulted principally from cost control measures on expenditures in general as well as the downsizing of the Corporation s U.S. mainland operations.

The increase in FDIC deposit insurance premiums includes the impact of a $16.7 million special assessment in the second quarter of 2009. For a discussion of factors that influenced this increase and the special assessment, refer to Item 1A. Risk Factors in this Form 10-Q, particularly the risk factor captioned Increases in FDIC insurance premiums may have a material adverse affect on the Corporation s earnings .

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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.

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 run-off mode. Also, the Corporation downsized the following businesses related to its U.S. mainland 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 and six months ended June 30, 2009 that were associated with this particular restructuring plan. As of June 30, 2009, the reserve for restructuring costs associated with the BPNA Restructuring Plan amounted to $8 million. During the second quarter of 2009, restructuring charges associated to the BPNA Restructuring Plan amounted to $1.4 million and were principally for severance costs. As of June 30, 2009, the BPNA Restructuring Plan has resulted in combined charges for 2008 and 2009 of approximately $24.5 million. An additional $9.1 million in associated costs are expected to be incurred in 2009. Refer to Note 20 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 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 1,611 at June 30, 2009, compared to 2,173 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 were transferred to BPNA and EVERTEC. The 2008 E-LOAN Restructuring Plan is expected to be substantially completed by the end of the third quarter of 2009. As of June 30, 2009, E-LOAN s workforce totaled 61 FTEs, compared to 312 as of June 30, 2008.

As of June 30, 2009, the accrual for restructuring costs associated with the E-LOAN 2008 Restructuring Plan amounted to $2 million. Restructuring charges associated to the E-LOAN 2008 Restructuring Plan amounted to $0.9 million for the quarter ended June 30, 2009 and consisted principally of severance costs. As of June 30, 2009, the E-LOAN 2008 Restructuring Plan has resulted in combined charges for 2008 and 2009 of approximately $24.7 million. An additional $0.2 million in associated costs are expected to be incurred in 2009. Refer to Note 20 to the consolidated financial statements for a detail of the activity in the reserve for restructuring costs and a breakdown of charges.

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

INCOME TAXES

Income tax expense for the continuing operations amounted to $5.4 million for the quarter ended June 30, 2009, compared with income tax benefit of $12.6 million for the same quarter of 2008. During the second quarter of 2009, a valuation allowance was recorded on the deferred tax assets (DTA) of the Corporation s U.S. mainland operations originated during the quarter, thus offsetting the tax benefits derived from the operating losses. During the second quarter of 2008 the Corporation was recording a tax benefit on the Corporation s U.S. mainland operations.

Also, during the second quarter 2009, there was an increase in income subject to a lower preferential tax rate on capital gains applicable to Puerto Rico corporations as compared to the same quarter of 2008. Offsetting that gain was a reduction in exempt interest income, net of disallowance of expenses attributed to such exempt income, and an increase in income tax expense in BPPR as a result of having higher capital gain income than taxable income during this quarter.

The components of the income tax expense (benefit) for the continuing operations were as follows:

	Quarter ended June 30, 2009		Six months ended June 30, 2009	
(In thousands)	Amount	% of pre-tax income	Amount	% of pre-tax income
Computed income tax at statutory rates	$(70,103)	40.95%	$ (98,567)	40.95%
Benefits of net tax exempt interest income	(11,094)	6.48	(26,856)	11.16
Effect of income subject to preferential tax rate	(12,508)	7.31	(59,273)	24.63
Deferred tax asset valuation allowance	84,916	(49.60)	145,229	(60.34)
Difference in tax rates due to multiple jurisdictions	8,218	(4.80)	22,476	(9.34)
State taxes and others	5,964	(3.49)	(4,549)	1.89
Income tax expense (benefit)	$ 5,393	(3.15%)	$ (21,540)	8.95%

Income tax benefit amounted to $21.5 million for the six-month period ended June 30, 2009, compared with income tax expense of $4.2 million for the same period in 2008. The variance between periods was primarily due to higher income subject to a lower preferential tax rate on capital gains applicable to Puerto Rico corporations for 2009 as compared to 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. These reductions were partially offset by a decrease in exempt interest income, net of disallowance of expenses attributed to such exempt income, and by an increase in income tax expense as a result of having higher capital gain income than taxable income.

Refer to Note 21 to the consolidated financial statements for a breakdown of the Corporation s deferred tax assets as of June 30, 2009.

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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 25 to the consolidated financial statements.

The Corporate group had a net loss of $27.1 million in the second quarter of 2009, compared with a net loss of $9.3 million in the same quarter of 2008. The factors that mostly contributed to this variance were higher net interest expense by approximately $9.4 million and lower income tax benefit by $7.4 million. The variance in net interest expense was principally the result of higher cost on senior debt due to rate increases resulting from downgrades on Popular s debt ratings, which is explained in the Liquidity section of this MD&A. The Corporate group had net losses of $46.3 million for the six months ended June 30, 2009, compared with net losses of $19.1 million for the same period in 2008. Similar factors influenced the year-to-date variances.

Highlights on the results of operations for the reportable segments are discussed below.

Banco Popular de Puerto Rico

The Banco Popular de Puerto Rico reportable segment reported net income of $6.8 million for the quarter ended June 30, 2009, a decrease of $85.7 million, or 93%, when compared with the same quarter in the previous year. 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 June 30, 2009, when compared to the second quarter of 2008, included:

- lower net interest income by $26.3 million, or 11%, primarily due to a lower net interest yield, 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 and in the loan portfolio, in part due to the slowdown of loan origination activity and increased levels of loan charge-offs. 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;
- higher provision for loan losses by $73.9 million, or 69%, primarily related to the construction, consumer and commercial loan portfolios. The BPPR reportable segment experienced an increase of $68.8 million in net charge-offs for the quarter ended June 30, 2009, compared to the same quarter in the previous year, principally associated with an increase in construction loan net charge-offs by $48.0 million, consumer loans by $12.0 million and commercial loans by $8.2 million. As of June 30, 2009, there were $991 million of SFAS No. 114 impaired loans in the BPPR reportable segment with a related allowance for loan losses of $207 million, compared to $556 million and $108 million, respectively, as of June 30, 2008. Non-performing loans in this reportable segment increased by $703 million from June 30, 2008 to the same date in 2009, mainly related to construction loans. The ratio of allowance for loan losses to loans held-in-portfolio for the BPPR reportable segment was 4.26% as of June 30, 2009, compared with 2.86% as of June 30, 2008. The provision for loan losses represented 131% of net charge-offs for the second quarter of 2009, compared with 154% of net charge-offs in the same period of 2008. The annualized net charge-offs to average loans held-in-portfolio for the BPPR reportable segment was 3.61% for the quarter ended June 30, 2009, compared with 1.73% in the same quarter of the previous year;

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higher non-interest income by $0.4 million. There were higher gains on the sale of investment securities in the second quarter of 2009 by $16.6 million, which was mostly the net impact of the aforementioned gain on the sale of equity securities in the second quarter of 2009, compared to the gains on the sale of U.S. agency securities in the second quarter of 2008. These transactions were described in the Non-Interest Income section of this MD&A. This favorable variance was partially offset by lower other service fees by $11.3 million, principally in credit card fees, fees on the sale and administration of investment products, and an unfavorable change in the fair value of servicing rights. Other operating income also decreased mainly due to lower investment banking fees in the Corporation s broker-dealer subsidiary due to lower volume of government debt offerings underwritten and lower gains on the sales of real estate properties in the Puerto Rico banking subsidiary. As explained in Note 25 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 BPPR reportable segment presented in Note 25, the results of the consumer and retail banking business of BPPR include a $44.4 million gain on the aforementioned sale of investment securities;

higher operating expenses by $2.9 million, or 1%, mainly due to higher FDIC deposit insurance premiums, partially offset by lower personnel costs, business promotion, professional fees and other operating taxes, among others; and

lower income taxes by $17.1 million, or 88%. Refer to the Income Taxes section of this MD&A.

Net income for the six months ended June 30, 2009 totaled $186.6 million, a decrease of $4.7 million, or 2%, compared with the same period in the previous year. These results reflected:

lower net interest income by $54.8 million, or 11%;

higher provision for loan losses by $122.8 million, or 58%;

higher non-interest income by $133.5 million, or 37%, which was mainly due to higher gains on the sale of investment securities by $157.4 million. In the additional disclosures of the BPPR reportable segment presented in Note 25, the capital gain specifically related to the sale of the investment securities available-for-sale in the six months ended June 30, 2009 was distributed $50.8 million to the commercial banking business and $176.4 million to the consumer and retail banking business of BPPR. The transactions that impacted this variance were described in the Non-Interest Income section of this MD&A;

higher operating expenses by $3.3 million, or less than 1%; and

income tax benefit of $0.7 million for the six months ended June 30, 2009 compared to an income tax expense of $42.1 million for the same period in the previous year.

EVERTEC

EVERTEC s net income for the quarter ended June 30, 2009 totaled $18.1 million, an increase of $4.6 million, or 34%, 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 June 30, 2009, when compared with the second quarter of 2008, included:

higher non-interest income by $4.6 million, or 7%, primarily due to a gain of $7.9 million on the sale of the equity securities during the second quarter of 2009 and to higher electronic transaction processing fees mainly related to the automated teller machine (ATM) network, point-of-sale (POS) terminals, and higher business process outsourcing. These positive variances were partially offset by lower income derived from Information Technology (IT) consulting services and by the impact in the second quarter of 2008 of a gain of approximately $1.7 million related to the sale of substantially all assets of EVERTEC s health processing division in exchange for an equity participation in the acquiring company;

lower operating expenses by $2.6 million, or 5%, primarily due to lower personnel costs; and

higher income tax expense by $2.6 million, or 60%.

Net income for the six months ended June 30, 2009 totaled $28.0 million, an increase of $2.7 million, or 11%, compared with the same period in the previous year. These results reflected:

lower non-interest income by $3.6 million, or 3%;

lower operating expenses by $8.5 million, or 9%; and
higher income tax expense by $2.2 million, or 22%.

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Banco Popular North America

Banco Popular North America reported a net loss of $174.2 million for the quarter ended June 30, 2009, compared to a net loss of $34.3 million for the second quarter of 2008. The main factors that contributed to the quarterly variance in this reportable segment included:

lower net interest income by $11.5 million, or 12%, which was mainly due to lower interest income on loans, partially offset by a reduction in deposit expenses, including internet deposits;

higher provision for loan losses by $86.4 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 $23.4 million, commercial by $21.3 million, consumer loans by $19.8 million and mortgage loans by $14.3 million. As of June 30, 2009, there were $454 million of SFAS No. 114 impaired loans in the Banco Popular North America reportable segment with a related allowance for loan losses of $106 million, compared to $84 million and $15 million, respectively, at June 30, 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 $393 million, when compared to June 30, 2008. The ratio of allowance for loan losses to loans held-in-portfolio for the Banco Popular North America reportable segment was 5.32% as of June 30, 2009, compared with 1.84% as of June 30, 2008. The provision for loan losses represented 138% of net charge-offs for the second quarter of 2009, compared with 188% 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 5.14% for the quarter ended June 30, 2009, compared with 1.72% in the same quarter of the previous year;

lower non-interest income by $23.5 million, or 80%, mainly due to losses on sale of loans and valuation adjustments of $14.0 million compared to gains of $4.5 million during the second quarter of 2008. The losses in the second quarter of 2009 were mainly as a result of an increase in indemnification reserves associated to loans sold;

lower operating expenses by $7.1 million, or 7%. This variance was principally the result of lower personnel costs by $14.6 million and business promotion by $5.0 million; partially offset by higher other operating expenses mainly due to higher FDIC deposit insurance premiums. 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; and

income tax expense of $0.8 million in the second quarter of 2009 compared to an income tax benefit of $24.8 million in the second quarter of 2008. An income tax benefit was recorded for the second quarter of 2008, while no tax benefits were recognized in 2009. Commencing in the second half of 2008, the Corporation began to record a valuation allowance on the deferred tax assets of the operations of the BPNA reportable segment.

Net loss for the six months ended June 30, 2009 totaled $387.7 million, an increase of $351.4 million, when compared with the same period in the previous year. These results reflected:

lower net interest income by $30.5 million, or 16%;

higher provision for loan losses by $248.9 million;

lower non-interest income by $73.6 million, or 89%, which was mainly due to losses in 2009 associated to loan sales and because the results for the six months ended June 30, 2008 included a $12.8 million gain on the sale of BPNA s Texas branches;

lower operating expenses by $21.3 million, or 11%, principally due to downsizing; and

lower income tax benefit by $19.8 million, or 71%.

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FINANCIAL CONDITION

Assets

Total assets at June 30, 2009 amounted to $36.5 billion, compared to $38.9 billion at December 31, 2008 and $41.7 billion as of June 30, 2008. The decline in total assets from December 31, 2008 to June 30, 2009 was principally in loans. Total assets as of June 30, 2008 included $2.0 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.

A breakdown of the Corporation s investment securities available-for-sale and held-to-maturity on a combined basis is presented in Table F. Also, Notes 6 and 7 to the consolidated financial statements provide additional information with respect to the Corporation s available-for-sale and held-to-maturity investment securities portfolio.

TABLE F

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

(In millions)	June 30, 2009	December 31, 2008	Variance	June 30, 2008	Variance
U.S. Treasury securities	$ 30.8	$ 502.1	$ (471.3)	$ 460.8	$ (430.0)
Obligations of U.S. Government sponsored entities	1,781.4	4,808.5	(3,027.1)	4,639.8	(2,858.4)
Obligations of Puerto Rico, States and political subdivisions	382.3	385.7	(3.4)	311.0	71.3
Collateralized mortgage obligations federal agencies	1,673.7	1,507.0	166.7	1,398.9	274.8
Collateralized mortgage obligations private label	136.7	149.0	(12.3)	210.0	(73.3)
Mortgage-backed securities	3,542.8	848.5	2,694.3	884.0	2,658.8
Equity securities	8.2	10.1	(1.9)	15.4	(7.2)
Others	10.6	8.3	2.3	14.9	(4.3)
Total	$7,566.5	$8,219.2	$ (652.7)	$7,934.8	$ (368.3)

The decline in the Corporation s available-for-sale and held-to-maturity investment portfolios from December 31, 2008 to the end of the second quarter of 2009 was mainly associated with the repayment of maturing securities. As indicated previously, during the first quarter of 2009, the Corporation sold $3.4 billion of investment securities available-for-sale portfolio, principally of U.S. agency securities (FHLB notes). Funds were reinvested during 2009, primarily in GNMA and FNMA mortgage-backed securities.

The impact of the restructuring (sale and reinvestment) of the investment securities portfolio during 2009 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 Corporation holds investment securities primarily for liquidity, yield enhancement and interest rate risk management. The portfolio primarily includes very liquid, high quality debt securities.

Management systematically evaluates investment securities for other-than-temporary declines in fair value on a quarterly basis. This analysis requires management to consider various factors, which include (1) duration and magnitude of the decline in value, (2) the financial condition of the issuer or issuers, (3) structure of the security and (4) management s intent to sell the security or whether it is more likely than not that the Corporation would be required

to sell the security before the recovery of its amortized cost basis. Additional information is provided in Notes 6 and 7 to the consolidated financial statements. Management considered the guidance of FSP FAS 115-2 and FAS 124-2, which was adopted in the second quarter of 2009, including the evaluation for credit-related other-than-temporary impairment for debt securities. At June 30, 2009, management concluded that no material individual securities in an unrealized loss position were other-than-temporarily impaired. Management believes that the Corporation will fully collect the carrying value of debt securities in unrealized loss positions at June 30, 2009. Management has no specific intent to sell any debt securities in a loss position, and it is not more likely than not that the Corporation will have to sell any

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debt security before recovery of its amortized cost basis.

A breakdown of the Corporation s loan portfolio, the principal category of earning assets, at period-end, is presented in Table G.

TABLE G

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

(In thousands)	June 30, 2009	December 31, 2008	Variance June 30, 2009 Vs. December 31, 2008	June 30, 2008	Variance June 30, 2009 Vs. June 30, 2008
Commercial	$13,119,330	$13,687,060	$ (567,730)	$13,832,738	$ (713,408)
Construction	2,033,448	2,212,813	(179,365)	2,107,933	(74,485)
Lease financing	730,396	1,080,810	(350,414)	1,116,769	(386,373)
Mortgage (1)	4,646,521	4,639,464	7,057	5,609,123	(962,602)
Consumer	4,319,214	4,648,784	(329,570)	4,965,115	(645,901)
Total loans (2)	$24,848,909	$26,268,931	$(1,420,022)	$27,631,678	$(2,782,769)

(1) Includes residential construction loans.

(2) Loans disclosed as of June 30, 2008 include PFH s loan portfolios. Loans reported as of June 30, 2009 and December 31, 2008 exclude the discontinued operations of PFH.

The decrease in commercial and construction loan portfolios from December 31, 2008 and June 30, 2008 to June 30, 2009 reflected the slowdown in origination activity and increased loan charge-offs as a result of the downturn in the real estate market, along with a 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. mainland 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 June 30, 2009 was primarily the result of the sale of a lease financing portfolio from Popular Equipment Finance, as described in the Non-Interest Income section of this MD&A. This also impacted the variance from June 30, 2008. Also, there was a slowdown in originations in the

Puerto Rico operations.

The decrease in the consumer loan portfolio from December 31, 2008 to June 30, 2009 was mostly reflected in personal loans, auto loans and HELOCs. There was a lower volume of personal and auto loans in the Banco Popular de Puerto Rico reportable segment due to current economic conditions which have impacted the volume of new loan originations and the run-off of Popular Finance s loan portfolio. Popular Finance operations were closed in late 2008. Furthermore, there were reductions in the consumer loan portfolio of BPNA, including E-LOAN, primarily due to the run-off mode of its auto loan portfolios and HELOCs without any concentrated lending efforts in these products. The decline in the consumer loan portfolio from June 30, 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 $155 million in consumer loans as of June 30, 2008.

The mortgage loan portfolio as of June 30, 2009 remained at levels closely similar to December 31, 2008. The Banco Popular de Puerto Rico reportable segment showed an increase of $108 million, and was partially offset by a reduction at the BPNA reportable segment of $100 million since BPNA ceased originating non-conventional mortgage loans as part of the BPNA Restructuring Plan. When compared with June 30, 2008, the decrease in mortgage loans was principally due to PFH s mortgage loan portfolio which approximated $882 million as of such date.

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

TABLE H

Breakdown of Other Assets

(In thousands)	June 30, 2009	December 31, 2008	Variance June 30, 2009 Vs. December 31, 2008	June 30, 2008	Variance June 30, 2009 Vs. June 30, 2008
Net deferred tax assets (net of valuation allowance)	$ 390,467	$ 357,507	$ 32,960	$ 807,884	$ (417,417)
Bank-owned life insurance program	228,675	224,634	4,041	219,867	8,808
Prepaid expenses	136,634	136,236	398	198,286	(61,652)
Investments under the equity method	91,558	92,412	(854)	108,008	(16,450)
Derivative assets	76,019	109,656	(33,637)	50,121	25,898
Trade receivables from brokers and counterparties	66,943	1,686	65,257	515,273	(448,330)
Securitization advances and related assets				299,519	(299,519)
Others	224,553	193,466	31,087	256,884	(32,331)
Total	$1,214,849	$1,115,597	$ 99,252	$2,455,842	$(1,240,993)

Note: Other assets from discontinued operations at June 30, 2009 and December 31, 2008 are presented as part of Assets from discontinued operations in the consolidated statements of condition.

The increase in trade receivables from brokers and counterparties between December 31, 2008 and June 30, 2009 was associated to the sale in late June 2009 of $59 million in corporate bonds available-for-sale, which transaction settled in July 2009. The increase in net deferred tax assets from the end of 2008 to June 30, 2009 was principally associated

to the increase in the allowance for loan losses in the Banco Popular de Puerto Rico reportable segment. The decline in derivative assets from December 31, 2008 was mostly the result of a lower fair value primarily in interest rate swaps.

The decline of $1.2 billion in other assets from June 30, 2008 to the same date in 2009 was principally because June 30, 2008 results include $691 million in other assets of PFH, consisting mainly of $354 million in deferred tax assets and $300 million in securitization advances and related assets. PFH s securitization advances and related assets were part of the asset sale completed in the fourth quarter of 2008. The reduction in the deferred tax assets was the result of recording in the second half of 2008 a full valuation allowance on the deferred tax assets of the Corporation s U.S. operations. The decrease in trade receivables from brokers and counterparties between June 30, 2008 and June 30, 2009 consisted primarily of mortgage-backed securities sold prior to quarter-end June 30, 2008, with a settlement date in July 2008. The decline in prepaid expenses was principally in software packages. The increase in derivative assets from June 30, 2008 was mostly due to an increase in notional amounts and a positive mark-to-market on the interest rate swap valuations as of such date.

Deposits, borrowings and capital

The composition of the Corporation s financing to total assets as of June 30, 2009 and December 31, 2008 is included in Table I as follows:

TABLE I

Financing to Total Assets

(Dollars in millions)	June 30, 2009	December 31, 2008	% increase (decrease) from December 31, 2008 to June 30, 2009	% of total assets June 30, 2009	% of total assets December 31, 2008
Non-interest bearing deposits	$ 4,409	$ 4,294	2.7%	12.1%	11.1%
Interest-bearing core deposits	15,516	15,647	(0.8)	42.5	40.2
Other interest-bearing deposits	6,988	7,609	(8.2)	19.2	19.6
Federal funds and repurchase agreements	2,942	3,552	(17.2)	8.1	9.1
Other short-term borrowings	2	5	(60.0)		
Notes payable	2,644	3,387	(21.9)	7.2	8.7
Others	1,098	1,121	(2.1)	3.0	2.9
Stockholders equity	2,900	3,268	(11.3)	7.9	8.4

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

TABLE J

Deposits Ending Balances

(In thousands)	June 30, 2009	December 31, 2008	Variance June 30, 2009 Vs. December 31, 2008	June 30, 2008	Variance June 30, 2009 Vs. June 30, 2008
Demand deposits *	$ 5,115,351	$ 4,849,387	$ 265,964	$ 5,118,844	$ (3,493)
Savings, NOW and money market deposits	9,605,716	9,554,866	50,850	9,916,308	(310,592)
Time deposits	12,192,418	13,145,952	(953,534)	12,080,576	111,842
Total	$26,913,485	$27,550,205	$ (636,720)	$27,115,728	$ (202,243)

* Includes interest and non-interest bearing demand deposits.

Brokered certificates of deposit totaled $2.7 billion as of June 30, 2009, $3.1 billion as of December 31, 2008 and $2.1 billion as of June 30, 2008. Brokered certificates of deposit, which are typically sold through an intermediary to small retail investors, provide access to longer-term funds that may not be available in the Puerto Rico market area and provide the ability to raise additional funds without pressuring retail deposit pricing. In a rising rate scenario, their pricing may be more sensitive to market rates than retail deposits.

Besides the reduction in time deposits because of lower reliance in brokered certificates of deposit between December 31, 2008 and June 30, 2009, there was also a decline in time deposits at the BPNA reportable segment. The latter was in part due to deleveraging strategies, including the closure and consolidation of branches, as well as a gradual reduction in the pricing of deposits, including deposits gathered through the internet platform of E-LOAN.

The increase in demand deposits from December 31, 2008 to June 30, 2009 was mainly in the BPPR reportable segment and included public funds and deposits in trust.

The decline in savings, NOW and money market deposits from June 30, 2008 to the same date in 2009 was principally related to BPNA. During 2008 and 2009, management took actions to lower the rates paid on certain deposits, including internet deposits, in part associated with the decline in rates by the Fed.

Core deposits have historically provided the Corporation with a sizable source of relatively stable and low-cost funds. The Corporation considers as core deposits all non-interest bearing deposits, savings deposits and certificates of deposit under $100,000, excluding brokered certificates of deposits with denominations under $100,000. The Corporation s core deposits totaled $19.9 billion, or 74% of total deposits, at June 30, 2009, compared to $19.9 billion and 72% at December 31, 2008 and $20.2 billion or 74% at June 30, 2008.

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The distribution of certificates of deposit with denominations of $100 thousand and over at June 30, 2009, was as follows:

(In millions)	
3 months or less	$2,442
3 to 6 months	957
6 to 12 months	977
Over 12 months	628
	$5,004

Borrowed funds amounted to $5.6 billion at June 30, 2009, compared to $6.9 billion at December 31, 2008 and $10.0 billion at June 30, 2008. Note 14 to the consolidated financial statements provides additional information on the Corporation s borrowings as of such dates. The decline in borrowings from December 31, 2008 was directly related to the maturity of $753 million of unsecured senior notes of Popular North America during the second quarter of 2009, which had been used to fund the Corporation s U.S. mainland operations. Federal funds purchased and assets sold under agreements to repurchase as of June 30, 2009 presented a reduction of $610 million compared with December 31, 2008, principally in repurchase agreements which declined by $465 million. This decline was associated in part to the lower financing needs as a result of a lower volume of investment securities.

The decline in borrowings from June 30, 2008 to the same date in 2009 of $4.4 billion was due to lower financing requirements as a result of the sale of PFH assets and other loan portfolios in 2008. Also, the decrease was the result of a general reduction in asset size given the maturities of investment securities and the downsizing of certain of the Corporation s subsidiaries. From 2008 to 2009, the Corporation has placed less reliance on short-term borrowings, principally advances from Federal Home Loan Banks and credit facilities with other financial institutions. The decline was also related to the maturity of the previously mentioned unsecured senior notes.

Stockholders equity totaled $2.9 billion as of June 30, 2009, compared with $3.3 billion as of December 31, 2008, and $3.7 billion as of June 30, 2008. The decrease in stockholders equity from December 31, 2008 to June 30, 2009 reflects an increase in the Corporation s accumulated deficit of $284.7 million and an increase in accumulated other comprehensive losses, net of tax, of $87.9 million. Similar factors influenced the reduction in stockholders equity from June 30, 2008 to the same date in 2009, offset in part by the increase in preferred stock in late 2008. Refer to the consolidated statements of condition and of changes in stockholders equity included in this Form 10-Q for information on the composition of stockholders equity at June 30, 2009, December 31, 2008 and June 30, 2008. Also, the disclosures of accumulated other comprehensive income (loss), an integral component of stockholders equity, are included in the consolidated statements of comprehensive income (loss).

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

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

The Banking Act of the Commonwealth of Puerto Rico requires that a minimum of 10% of BPPR s net income for the year be transferred to a statutory reserve account until such statutory reserve equals the total of paid-in capital on common and preferred stock. Any losses incurred by a bank must first be charged to retained earnings and then to the reserve fund. Amounts credited to the reserve fund may not be used to pay dividends without the prior consent of the Puerto Rico Commissioner of Financial Institutions. The failure to maintain sufficient statutory reserves would

preclude BPPR from paying dividends. BPPR s statutory reserve fund totaled $392 million as of June 30, 2009 (December 31, 2008 $392 million; June 30, 2008 $374 million). There were no transfers between the statutory reserve account and the retained earnings account during the quarters ended June 30, 2009 and 2008.

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The Corporation continues to exceed the well-capitalized guidelines under the federal banking regulations. The regulatory capital ratios and amounts of total risk-based capital, Tier 1 risk-based capital and Tier 1 leverage at June 30, 2009, December 31, 2008, and June 30, 2008 are presented on Table K. As of such dates, BPPR and BPNA were well-capitalized.

TABLE K

Capital Adequacy Data

(Dollars in thousands)	June 30, 2009	December 31, 2008	June 30, 2008
Risk-based capital			
Tier I capital	$ 2,993,330	$ 3,272,375	$ 3,376,331
Supplementary (Tier II) capital	358,856	384,975	407,009
Total capital	$ 3,352,186	$ 3,657,350	$ 3,783,340
Risk-weighted assets			
Balance sheet items	$24,735,838	$26,838,542	$28,876,581
Off-balance sheet items	3,154,444	3,431,217	3,271,018
Total risk-weighted assets	$27,890,282	$30,269,759	$32,147,599
Average assets	$36,217,245	$38,702,787	$39,626,240
Ratios:			
Tier I capital (minimum required 4.00%)	10.73%	10.81%	10.50%
Total capital (minimum required 8.00%)	12.02	12.08	11.77
Leverage ratio *	8.26	8.46	8.52

* All banks are required to have a minimum Tier I leverage ratio of 3% or 4% of adjusted quarterly average assets, depending on the bank s classification.

As of June 30, 2009, the capital adequacy minimum requirement for Popular, Inc. was (in thousands): Total Capital of $2,231,223, Tier I Capital of $1,115,611, and Tier I Leverage of $1,086,517 based on a 3% ratio or $1,448,690 based on a 4% ratio according to the Bank s classification.

Regulatory capital requirements for banking institutions are based on Tier 1 and Total capital, which include both common stock and certain qualifying preferred stock and trust preferred securities. 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 Tier 1 common equity and Tier 1 common equity to risk-weighted assets ratio of banking institutions. Recent losses have continued to reduce the Corporation s Tier 1 common equity. The Corporation s Tier 1

common/risk-weighted assets ratio was 2.45% as of June 30, 2009. See Reconciliation of Non-GAAP Financial Measure section below for a reconciliation of Tier 1 common to common stockholders equity and a discussion of our use of this non-GAAP financial measure in this Form 10-Q. Also, refer to the Exchange Offer and Dividends on Preferred Stock and Distributions on Trust Preferred Securities section in this Form 10-Q for further information.

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Reconciliation of Non-GAAP Financial Measure:

The table below presents a reconciliation of Tier 1 common equity (also referred to as Tier 1 common) to common stockholders equity. Ratios calculated based upon Tier 1 common equity have become a focus of regulators and investors, and management believes ratios based on Tier 1 common equity assist investors in analyzing the Corporation s capital position. In connection with the Supervisory Capital Assessment Program (SCAP), the Federal Reserve began supplementing its assessment of the capital adequacy of a bank holding company based on a variation of Tier 1 capital, known as Tier 1 common equity. Because Tier 1 common equity is not formally defined by GAAP or, unlike Tier 1 capital, codified in the federal banking regulations, this measure is considered to be a non-GAAP financial measure.

Non-GAAP financial measures have inherent limitations, are not required to be uniformly applied and are not audited. To mitigate these limitations, the Corporation has procedures in place to calculate these measures using the appropriate GAAP or regulatory components. Although these non-GAAP financial measures are frequently used by stakeholders in the evaluation of a company, they have limitations as analytical tools, and should not be considered in isolation, or as a substitute for analyses of results as reported under GAAP.

The following table provides a reconciliation of common stockholders equity (GAAP) to Tier 1 common equity (non-GAAP):

(In thousands)	June 30, 2009
Common stockholders equity	$1,412,701
Less: Unrealized gains on available for sale securities, net of tax (1)	(48,296)
Less: Disallowed deferred tax assets (2)	(167,223)
Less: Intangible assets:	
Goodwill	(607,164)
Other disallowed intangibles	(25,797)
Less: Aggregate adjusted carrying value of all non-financial equity investments	(2,147)
Add: Pension liability adjustment, net of tax and accumulated net losses on cash flow hedges (3)	120,256
Total Tier 1 common equity	$ 682,330

(1) Tier 1 capital excludes net unrealized gains (losses) on available-for-sale debt securities and net unrealized gains on available-for-sale equity securities with readily determinable fair values, in accordance with regulatory risk-based capital guidelines. In arriving at Tier 1

capital, institutions are required to deduct net unrealized losses on available-for-sale equity securities with readily determinable fair values, net of tax.

(2) Approximately $193 million of the Corporation s $390 million of net deferred tax assets at June 30, 2009, were included without limitation in regulatory capital pursuant to the risk-based capital guidelines, while approximately $167 million of such assets at June 30, 2009 exceeded the limitation imposed by these guidelines and, as disallowed deferred tax assets, were deducted in arriving at Tier 1 capital. The remaining $30 million of the Corporation s other net deferred tax assets at June 30, 2009 represented primarily the following items (a) the deferred tax effects of unrealized gains and losses on

available-for-sale debt securities, which are permitted to be excluded prior to deriving the amount of net deferred tax assets subject to limitation under the guidelines; (b) the deferred tax asset corresponding to the pension liability adjustment recorded as part of accumulated other comprehensive income; and (c) the deferred tax liability associated with goodwill.

(3) The Federal Reserve Bank has granted interim capital relief for the impact of SFAS No. 158.

EXCHANGE OFFER AND DIVIDENDS ON PREFERRED STOCK AND DISTRIBUTIONS ON TRUST PREFERRED SECURITIES

On June 29, 2009, the Corporation commenced an offer to issue up to 390 million shares of its common stock in exchange for its Series A preferred stock and Series B preferred stock and for the trust preferred securities referred to in the prospectus for the exchange offer referred to below (the Exchange Offer). In connection with the Exchange Offer, for each share of Series A preferred stock, share of Series B preferred stock or trust preferred security accepted in accordance with the terms of the Exchange Offer, the Corporation is offering to issue a number of shares of its common stock equal to the Exchange Value, set forth in the prospectus for the Exchange Offer, divided by the Relevant Price . The Relevant Price will be equal to the greater of (1) the average Volume Weighted Average Price, or VWAP , of a share of the Corporation s common stock during the five-trading day period ending on the

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second business day immediately preceding the expiration date of the Exchange Offer (which we currently expect to be August 18, 2009, unless the Exchange Offer is extended), determined as described in the prospectus for the Exchange Offer or (2) the Minimum Share Price of $2.50 per share of the Corporation s common stock. The expiration date for the Exchange Offer is August 20, 2009, unless the Corporation extends the Exchange Offer or terminates it early.

The closing sale price of the Corporation s common stock on the Nasdaq Stock Market on August 7, 2009, the trading day prior to the filing of this Form 10-Q, was $1.36 per share, which is substantially less than the Minimum Share Price. The Exchange Offer terms provide that in the event that the average VWAP is less than the Minimum Share Price, the number of shares of the Corporation s common stock that participants in the Exchange Offer will receive will be calculated on the basis of the Minimum Share Price rather than the average VWAP. In that case, participants in the Exchange Offer would receive shares of the Corporation s common stock with a value less (and possibly significantly less) than the value of the shares of common stock such participants would receive in the absence of the Minimum Share Price limitation.

If participation in the Exchange Offer is low because of the application of the Minimum Share Price, the Exchange Offer will not increase the amount of the Corporation s Tier 1 common equity as much as it would have been increased if participation had been high. As stated in the prospectus, this could result in the Corporation taking a number of further actions to preserve or increase Tier 1 common equity. One highly probable action is a suspension of distributions on the trust preferred securities that, once suspended, are unlikely to be resumed for a number of years.

In connection with the Exchange Offer, at the Corporation s request, the U.S. Treasury has agreed to exchange all $935 million of its outstanding shares of Series C Preferred Stock of the Corporation for $935 million of newly issued trust preferred securities (the New Trust Preferred Securities). The New Trust Preferred Securities will have a distribution rate of 5% until December 5, 2013 and 9% thereafter (which is the same as the dividend rate on the Series C Preferred Stock). The sole asset and only source of funds to make payments on the New Trust Preferred Securities will be perpetual junior subordinated indebtedness issued by the Corporation to the new trust. The Corporation expects to complete the exchange with the U.S. Treasury promptly following the completion of the Exchange Offer. The Corporation s agreement with the U.S. Treasury to exchange the Series C Preferred Stock into newly issued trust preferred securities is subject to certain closing conditions, including the completion of the Exchange Offer and related transactions causing the increase in the Corporation s Tier 1 common equity described in the prospectus for the Exchange Offer and the completion of definitive documentation acceptable to the U.S. Treasury.

The Corporation has filed a registration statement (including a prospectus and related Exchange Offer materials) with the SEC for the Exchange Offer.

For further discussion of these and other matters related to the Corporation, its capital needs and the Exchange Offer, refer to the prospectus and other documents the Corporation has filed with the Securities and Exchange Commission (SEC) related to the Exchange Offer, including the Risk Factors section in the prospectus and the risk factors captioned Even if we complete the Exchange Offer, without a high level of participation, we will not realize the intended goal of substantially increasing Tier 1 common equity and If the Exchange Offer is successful, there may no longer be a trading market for the shares of Preferred Stock or Trust Preferred Securities and the price for shares of Preferred Stock or Trust Preferred Securities may be depressed of the prospectus.

This Form 10-Q is not an offer to sell or purchase or an offer to exchange or a solicitation of acceptance of an offer to sell or purchase or offer to exchange, which may be made only pursuant to the terms of the prospectus and related letter of transmittal, as applicable.

DISCONTINUED OPERATIONS

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

For financial reporting purposes, the results of the discontinued operations of PFH are presented as Assets / Liabilities from discontinued operations in the consolidated statements of condition as of June 30, 2009 and December 31, 2008 and as Loss from discontinued operations, net of tax in the consolidated statements of operations for all periods presented. Prior periods presented in the consolidated statement of operations, as well as note disclosures covering

income and expense amounts included in the accompanying notes to the consolidated financial statements, were retrospectively adjusted for comparative purposes. The consolidated statement of condition and related amounts in the notes to the consolidated financial statements as of June 30, 2008 do not reflect the reclassification of PFH s assets / liabilities to discontinued operations.

Total assets of the PFH discontinued operations amounted to $3 million as of June 30, 2009, compared to $13 million as of December 31, 2008. PFH s total assets amounted to $2.0 billion as of June 30, 2008, principally consisting of $1.2 billion in loans, of which $0.8 billion were accounted at fair value pursuant to SFAS No. 159, and $354 million in deferred tax assets, $300 million in servicing advances and related assets, and $56 million in

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mortgage servicing rights. As disclosed in the 2008 Annual Report, the Corporation substantially sold these loan portfolios and servicing related assets in late 2008. As of June 30, 2008, all loans and borrowings recognized at fair value pursuant to SFAS No. 159 pertained to the discontinued operations of PFH.

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

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

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

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

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

PFH Discontinuance Restructuring Plan

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

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

Total restructuring costs	$ 86	$ 981

(a) Severance, retention bonuses and other benefits

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

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

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

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

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

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CREDIT RISK MANAGEMENT AND LOAN QUALITY

Non-performing assets

Non-performing assets include past-due loans that are no longer accruing interest, renegotiated loans and real estate property acquired through foreclosure. A summary, including certain credit quality metrics, is presented in Table L. For a summary of the Corporation s policy for placing loans on non-accrual status, refer to the sections of Loans and Allowance for Loan Losses in Note 1 to the audited consolidated financial statements included in Popular, Inc. s 2008 Annual Report.

TABLE L

Non-Performing Assets

(Dollars in thousands)	June 30, 2009 (2)	As a percentage of loans HIP (1) by category	December 31, 2008 (2)	As a percentage of loans HIP (1) by category	$ Variance June 30, 2009 Vs. December 31, 2008	June 30, 2008 (3)	As a percentage of loans HIP (1) by category	$ Variance June 30, 2009 Vs. June 30, 2008
Commercial	$ 686,150	5.2%	$ 464,802	3.4%	$221,348	$ 390,181	2.8%	$ 295,969
Construction	767,029	37.7	319,438	14.4	447,591	216,374	10.3	550,655
Lease financing	11,825	1.6	11,345	1.5	480	11,393	1.0	432
Mortgage	441,773	9.9	338,961	7.6	102,812	242,104	5.2	199,669
Consumer	71,413	1.7	68,263	1.5	3,150	63,319	1.3	8,094
Total non-performing loans	1,978,190	8.0%	1,202,809	4.7%	775,381	923,371	3.5%	1,054,819
Other real estate	105,553		89,721		15,832	102,809		2,744
Total non-performing assets	$2,083,743		$1,292,530		$791,213	$1,026,180		$1,057,563
Accruing loans past due 90 days or more	$ 180,730		$ 150,545		$ 30,185	$ 114,834		$ 65,896
Non-performing assets to total assets	5.71%		3.32%			2.46%		
Allowance for loan losses to loans held-in-portfolio	4.66		3.43			2.47		
Allowance for loan losses to non-performing assets	55.01		68.30			63.61		
	57.94		73.40			70.69		

Allowance for loan losses to non-performing loans

(1) HIP = held-in-portfolio

(2) Amounts as of June 30, 2009 and December 31, 2008 exclude assets from discontinued operations. Non-performing loans and other real estate from discontinued operations amounted to $0.8 million and $0.5 million, respectively, as of June 30, 2009, and $3 million and $0.9 million, respectively, as of December 31, 2008.

(3) Non-performing loans and other real estate assets pertaining to the discontinued operations, which amounted to $151 million and $31 million, respectively, are included in the amounts disclosed as of June 30, 2008. Non-performing loans measured at fair value pursuant to SFAS No. 159, which amounted

to $110 million as of June 30, 2008, are excluded from the amounts disclosed as of June 30, 2008.

Non-performing assets attributable to the continuing operations totaled $2.1 billion as of June 30, 2009, compared with $1.3 billion as of December 31, 2008. The increase in non-performing assets from December 31, 2008 to June 30, 2009 was primarily related to increases in commercial and construction loans. Non-performing commercial and construction loans increased from December 31, 2008 to June 30, 2009 primarily in the BPPR reportable segment by $493 million and in the Banco Popular North America reportable segment by $176 million.

The increase in non-performing commercial loans from December 31, 2008 to June 30, 2009 resulted from the continuing downturn in the U.S. economy and the recessionary economy in Puerto Rico that is now in its fourth year. The percentage of non-performing commercial loans to commercial loans held-in-portfolio rose from 3.4% as of December 31, 2008 to 5.2% as of June 30, 2009. Non-performing commercial loans increased from December 31, 2008 to June 30, 2009 primarily in the BPPR reportable segment by $122 million and in the Banco Popular North America reportable segment by $99 million. There were 6 commercial loan relationships greater than $10 million in non-accrual status as of June 30, 2009, compared with 2 commercial loan relationships as of December 31, 2008.

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Non-performing construction loans increased $448 million from the end of 2008 to June 30, 2009 primarily in the BPPR reportable segment by $371 million and in the Banco Popular North America reportable segment by $77 million. There were 22 construction loan relationships greater than $10 million in non-accrual status as of June 30, 2009, mostly related to the Puerto Rico operations, compared with 6 as of December 31, 2008. Some of the construction non-performing credits in Puerto Rico were judgmentally considered impaired for SFAS No. 114 purposes in previous quarters and specific reserves were recorded in prior periods, as deemed necessary. Construction loans considered impaired under the Corporation s criteria for SFAS No. 114 amounted to $782 million as of June 30, 2009, compared with $375 million as of December 31, 2008. The specific reserves for impaired construction loans amounted to $198 million as of June 30, 2009 and $120 million as of December 31, 2008. The construction loans in non-performing status are primarily residential real estate construction loans which have been adversely impacted by general market economic conditions, decreases in property values, oversupply in certain areas and reduced absorption rates. In the current stressed housing market, the value of the collateral securing the loan has become one of the most important factors in determining the amount of loss incurred and the appropriate level of the allowance for loan losses.

Non-performing mortgage loans held-in-portfolio increased $103 million from December 31, 2008 to June 30, 2009, mainly in the BPPR reportable segment by $66 million and in the Banco Popular North America reportable segment by $37 million. Although the Puerto Rico s mortgage portfolio reported higher non-performing loans, the net charge-off experience during 2009 has remained at a low level. Mortgage loans net charge-offs in the BPPR reportable segment for the quarter and six months ended June 30, 2009 amounted to $1.0 million and $3.0 million, respectively. The BPPR reportable segment s mortgage loan portfolio averaged approximately $2.7 billion for the six months ended June 30, 2009. The higher level of non-performing residential mortgage loans in the U.S. mainland operations was principally attributed to Banco Popular North America s non-conventional mortgage business. BPNA s non-conventional mortgage loan portfolio outstanding as of June 30, 2009 approximated $1.1 billion. As indicated in the Restructuring Plans section of this MD&A, the Corporation is no longer originating non-conventional mortgage loans at BPNA during 2009. This portfolio reported a total of $140 million worth of loan modifications as of June 30, 2009, which were considered trouble debt restructurings (TDR) since they involved granting a concession to borrowers under financial difficulties. Although SFAS No. 114 excludes large groups of smaller-balance homogenous loans that are collectively evaluated for impairment (e.g. mortgage loans), it specifically requires its application to modifications considered TDR. These TDR mortgage loans were evaluated for impairment resulting in a reserve of $30 million at June 30, 2009. Mortgage loans net charge-offs in the Banco Popular North America reportable segment amounted to $23.7 million for the quarter ended June 30, 2009 and $52.8 million for the six months ended June 30, 2009, an increase of $14.3 million and $34.9 million, respectively, compared to the results for the same periods of the previous year. This increase was related to the slowdown in the United States housing sector.

Other real estate, which represents real estate property acquired through foreclosure, increased by $16 million from December 31, 2008 to June 30, 2009. This increase was principally due to an increase in the BPPR reportable segment by $25 million, partially offset by a decrease of $9 million in other real estate pertaining to the Banco Popular North America reportable segment mainly driven by sales of properties. Notwithstanding, with the slowdown in the housing market, there is a continued economic deterioration in certain geographic areas, which also has a softening effect on the market for resale of repossessed real estate properties. Defaulted loans have increased, and these loans move through the default process to the other real estate classification. The combination of increased flow of defaulted loans from the loan portfolio to other real estate owned and the slowing of the liquidation market has resulted in an increase in the number of units on hand.

Accruing loans past due 90 days or more are composed primarily of credit cards, FHA / VA and other insured mortgage loans, and delinquent mortgage loans included in the Corporation s financial statements pursuant to GNMA s buy-back option program. Under SFAS No. 140, servicers of loans underlying GNMA mortgage-backed securities must report as their own assets the defaulted loans that they have the option to purchase, even when they elect not to exercise that option. Also, accruing loans past due 90 days or more include residential conventional loans purchased from other financial institutions that, although delinquent, the Corporation has received timely payment from the sellers / servicers, and, in some instances, have partial guarantees under recourse agreements.

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In addition to the non-performing loans included in Table L, there were $202 million of performing loans as of June 30, 2009, which in management s opinion are currently subject to potential future classification as non-performing and are considered impaired under SFAS No. 114. As of December 31, 2008 and June 30, 2008, these potential problem loans approximated $206 million and $150 million, respectively.

Under standard industry practice, closed-end consumer loans are not customarily placed on non-accrual status prior to being charged-off.

Allowance for Loan Losses

The allowance for loan losses, which represents management s estimate of credit losses inherent in the loan portfolio, is maintained at a sufficient level to provide for estimated credit losses on individually evaluated loans as well as estimated credit losses inherent in the remainder of the loan and lease portfolio. The Corporation s management evaluates the adequacy of the allowance for loan losses on a monthly basis. In this evaluation, management considers current economic conditions and the resulting impact on Popular s loan portfolio, the composition of the portfolio by loan type and risk characteristics, historical loss experience, results of periodic credit reviews of individual loans, regulatory requirements and loan impairment measurement, among other factors.

The Corporation must rely on estimates and exercise judgment regarding matters where the ultimate outcome is unknown such as economic developments affecting specific customers, industries or markets. Other factors that can affect management s estimates are the years of historical data to include when estimating losses, changes in underwriting standards, financial accounting standards and loan impairment measurement, among others. Changes in the financial condition of individual borrowers, in economic conditions, in historical loss experience and in the condition of the various markets in which collateral may be sold may all affect the required level of the allowance for loan losses. Consequently, the business, financial condition, liquidity, capital and results of operations could also be affected.

The methodology used to establish the allowance for loan losses is based on the accounting guidance set forth in Statement of Financial Accounting Standards No. 5, Accounting for Contingencies (SFAS No. 5) and Statement of Financial Accounting Standards No. 114, Accounting by Creditors for Impairment of a Loan (SFAS No. 114). SFAS No. 5 provides for the recognition of a loss allowance for groups of homogeneous loans. During this quarter, the Corporation enhanced the SFAS No. 5 assessment by establishing a more granular segmentation of loans with similar risk characteristics, reducing the historical base loss periods employed, and strengthening the analysis pertaining to the environmental factors considered. The determination of the allowance for loan losses under SFAS No. 5 is based on historical net loss rates (including SFAS No. 114 losses) by loan type and by legal entity adjusted for recent net charge-off trends and environmental factors. The environmental factors, which include credit and economic indicators, are assessed to account for current market conditions that are likely to cause estimated credit losses to differ from historical loss experience. For subprime mortgage loans, the allowance for loan losses is established to cover at least one year of projected losses which are inherent in these portfolios.

Under SFAS No. 114, up to December 31, 2008, the Corporation defined as impaired loans those commercial borrowers with outstanding debt of $250,000 or more and with interest and /or principal 90 days or more past due. Also, specific commercial borrowers with outstanding debt of over $500,000 and over were deemed impaired when, based on current information and events, management considered that it was probable that the debtor would be unable to pay all amounts due according to the contractual terms of the loan agreement. Effective January 1, 2009, the Corporation continues to apply the same definition except that it prospectively increased the threshold of outstanding debt to $1,000,000 for the identification of newly impaired commercial and construction loans. Although SFAS No. 114 excludes large groups of smaller balance homogeneous loans that are collectively evaluated for impairment (e.g. mortgage loans), it specifically requires that loan modifications considered troubled debt restructurings be analyzed under its provisions.

An allowance for loan impairment is recognized to the extent that the carrying value of an impaired loan exceeds the

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present value of the expected future cash flows discounted at the loan s effective rate, the observable market price of the loan, if available, or the fair value of the collateral if the loan is collateral dependent. The fair value of the collateral is generally obtained from appraisals. The Corporation periodically requires updated appraisal reports for loans that are considered impaired under SFAS No. 114. As a general procedure, the Corporation internally reviews appraisals as part of the underwriting and approval process and also for credits considered impaired for SFAS No. 114 purposes.

Table M summarizes the detail of the changes in the allowance for loan losses, including charge-offs and recoveries by loan category for the quarters and six months ended June 30, 2009 and 2008.

TABLE M

Allowance for Loan Losses and Selected Loan Losses Statistics

	Second Quarter			Six months ended June 30,		
(Dollars in thousands)	2009	2008	Variance	2009	2008	Variance
Balance at beginning of period	$1,057,125	$579,379	$477,746	$ 882,807	$548,832	$333,975
Provision for loan losses	349,444	189,165	160,279	721,973	350,401	371,572
	1,406,569	768,544	638,025	1,604,780	899,233	705,547
Losses charged to the allowance:						
Commercial	74,809	44,004	30,805	123,636	75,150	48,486
Construction	76,687	5,190	71,497	121,495	5,190	116,305
Lease financing	5,203	5,362	(159)	11,149	10,994	155
Mortgage	25,170	9,730	15,440	56,763	18,936	37,827
Consumer	92,693	60,344	32,349	176,091	116,855	59,236
	274,562	124,630	149,932	489,134	227,125	262,009
Recoveries:						
Commercial	4,931	3,632	1,299	12,422	6,484	5,938
Construction	153		153	153		153
Lease financing	1,083	804	279	2,071	1,506	565
Mortgage	537	90	447	982	247	735
Consumer	7,528	6,966	562	14,965	13,139	1,826
	14,232	11,492	2,740	30,593	21,376	9,217
Net loans charged-off:						
Commercial	69,878	40,372	29,506	111,214	68,666	42,548
Construction	76,534	5,190	71,344	121,342	5,190	116,152
Lease financing	4,120	4,558	(438)	9,078	9,488	(410)
Mortgage	24,633	9,640	14,993	55,781	18,689	37,092
Consumer	85,165	53,378	31,787	161,126	103,716	57,410
	260,330	113,138	147,192	458,541	205,749	252,792
		675	(675)		3,617	(3,617)

Write-downs related to loans transferred to loans held-for-sale						
Change in allowance for loan losses from discontinued operations (1)		(2,001)	2,001		(37,137)	37,137
Balance at end of period	$1,146,239	$652,730	$493,509	$1,146,239	$652,730	$493,509
Ratios:						
Annualized net charge-offs to average loans held-in-portfolio	4.19%	1.73%		3.65%	1.57%	
Provision for loan losses to annualized net charge-offs	1.34x	1.67x		1.57x	1.70x	

(1) A negative amount represents lower provision for loan losses recorded during the period compared to net charge-offs.

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Table N presents annualized net charge-offs to average loans held-in-portfolio for the quarters and six months ended June 30, 2009 and 2008 by loan category.

TABLE N

Annualized Net Charge-offs to Average Loans Held-in-Portfolio

	Quarter ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Commercial	2.11%	1.18%	1.66%	1.01%
Construction	14.46	1.02	11.25	0.52
Lease financing	2.25	1.65	2.49	1.72
Mortgage	2.27	0.85	2.55	0.82
Consumer	7.73	4.41	7.17	4.24
	4.19%	1.73%	3.65%	1.57%

Credit quality performance has continued to be under pressure during 2009. More generally, all of the Corporation s loan portfolios have been affected by the sustained deterioration of the economic conditions affecting the markets in which the Corporation operates, including higher unemployment levels, unprecedented reduced absorption rates of new housing units and declines in property values.

The increase in construction loans net charge-offs for the quarter ended June 30, 2009, compared with the same quarter in the previous year, was related to the Corporation s Puerto Rico and U.S. mainland operations which continue to experience credit deterioration trends that had a particular impact in the construction sector as a result of unprecedented reduced absorption levels. The most significant reserves for impaired loans recorded during the second quarter of 2009 pertain to particular construction borrowers, mainly in BPPR. The construction loans net charge-offs for the BPPR operations amounted to $48 million for the quarter and $72 million for the six months ended June 30, 2009, while for BPNA these amounts were $29 million and $49 million, respectively. Construction net charge-offs recorded during the second quarter of 2009 were mainly related to credits with specific reserves established in prior quarters pursuant to SFAS No. 114 evaluations. Management has identified construction loans considered impaired under SFAS No. 114 and established specific reserves based on the value of the collateral.

The increase in commercial loans net charge-offs for the quarter ended June 30, 2009, compared to the same quarter in the previous year, was mostly associated with the deteriorated economic conditions reflected across all industry sectors. The Banco Popular North America reportable segment had a ratio of annualized commercial loans net charge-offs to average commercial loans held-in-portfolio of 1.92% for the second quarter of 2009, compared with 0.48% for the same quarter in the previous year. The ratio of annualized commercial loans net charge-offs to average commercial loans held-in-portfolio in the BPPR reportable segment was 2.27% for the quarter ended June 30, 2009, compared to 1.71% for the second quarter of 2008.

Mortgage loans net charge-offs as a percentage of average mortgage loans held-in-portfolio for the continuing operations increased primarily in the U.S. mainland operations. The Banco Popular North America reportable segment reported a ratio of annualized mortgage loans net charge-offs to average mortgage loans held-in-portfolio of 5.85% for the second quarter of 2009, compared with 2.18% for the same quarter in the previous year. Deteriorating economic conditions in the U.S. mainland housing market have impacted the mortgage industry delinquency rates. The general level of property values in the U.S. mainland, as measured by several indexes widely followed by the market, has declined. These declines are the result of ongoing market adjustments that are aligning property values with income levels and home inventories. The supply of homes in the market has increased substantially, and additional property value decreases may be required to clear the overhang of excess inventory in the U.S. market. Declining property values affect the credit quality of the Corporation s U.S. mainland mortgage loan portfolio because the value of the homes underlying the loans is the primary source of repayment in the event of foreclosure. As indicated in the

Restructuring Plans section of this MD&A, the Corporation is no longer originating non-conventional mortgage loans at BPNA. Mortgage loans net charge-offs in the BPPR reportable segment have remained at a low level, amounting to $1 million for the second quarter of 2009, compared to net charge-offs of $0.3 million in the same quarter of the previous year. The slowdown in the housing sector in Puerto Rico has increased pressure on home prices and reduced sale activity. The ratio of annualized mortgage loans net charge-offs to average mortgage loans held-in-portfolio in the BPPR reportable segment was 0.14% for the quarter ended June 30, 2009, compared with 0.04% for the same quarter in the previous year. BPPR s mortgage loans are primarily

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fixed-rate fully amortizing, full-documentation loans that do not have the level of layered risk associated with subprime loans offered by certain major U.S. mortgage loan originators. Moreover, the Puerto Rico housing market has not seen the dramatic decline in housing prices that is affecting some regions in the U.S. mainland. Deteriorating economic conditions have impacted the mortgage delinquency rates in Puerto Rico increasing the levels of non-accruing mortgage loans. However, BPPR s net charge-off experience to date remains low.

Consumer loans net charge-offs as a percentage of average consumer loans held-in-portfolio rose mostly due to higher delinquencies in the U.S. mainland. Consumer loans net charge-offs in the BPNA reportable segment rose for the quarter ended June 30, 2009, when compared with the same quarter in the previous year, by $20 million. The ratio of annualized consumer loans net charge-offs to average consumer loans held-in-portfolio in the Banco Popular North America reportable segment was 14.10% for the quarter ended June 30, 2009, compared to 6.08% for the second quarter of 2008. This increase was principally related to home equity lines of credit and second lien mortgage loans, which are categorized by the Corporation as consumer loans. A home equity line of credit is a loan secured by a primary residence or second home to the extent of the excess of fair market value over the debt outstanding for the first mortgage. The deterioration in the delinquency profile and the declines in property values have negatively impacted charge-offs. E-LOAN represented approximately $17.4 million of the increase in the net charge-offs in consumer loans held-in-portfolio for the BPNA reportable segment. E-LOAN has ceased originating these types of loans. Consumer loans net charge-offs in the BPPR reportable segment rose for the quarter ended June 30, 2009, when compared with the same quarter in the previous year, by $12.0 million. The ratio of annualized consumer loans net charge-offs to average consumer loans held-in-portfolio in the BPPR reportable segment was 5.50% for the quarter ended June 30, 2009, compared with 3.76% for the same quarter of 2008.

Similar factors influenced the variances in net charge-offs for the six months ended June 30, 2009 when compared with the same period in the previous year.

The allowance for loan losses increased from December 31, 2008 to June 30, 2009 by $263 million. The allowance for loan losses represented 4.66% of loans held-in-portfolio at June 30, 2009, compared with 3.43% at December 31, 2008. The increase from December 31, 2008 to June 30, 2009 was mainly attributed to reserves for construction loans due to the continued deterioration of the economic and housing market conditions in Puerto Rico, and also in the U.S. mainland. Credit deterioration trends have been reflected across all industry sectors, but have been most noticeable in the residential construction market as a result of unprecedented reductions in absorption levels. The most significant reserves for impaired loans during 2009 pertain to particular construction borrowers, mainly in BPPR. Also, the Corporation recorded higher reserves to cover inherent losses in the home equity lines of credit portfolios of the U.S. mainland operations. The persistent declines in residential real estate values, combined with the reduced ability of certain homeowners to refinance or repay their residential real estate obligations, have resulted in higher delinquencies and losses in these U.S. mainland portfolios.

During the quarter ended June 30, 2009, the Corporation recorded $129 million in provision for loans classified as impaired under SFAS No. 114. As of June 30, 2009, there were $1.4 billion of SFAS No. 114 impaired loans with a related specific allowance for loan losses of $313 million, compared with impaired loans of $898 million and a specific allowance of $195 million as of December 31, 2008.

In the current stressed housing market, the value of the collateral securing the loan has become one of the most important factors in determining the amount of loss incurred and the appropriate level of allowance for loan losses. Management has increased the allowance for loan losses in the construction sector mainly through specific reserves for the loans considered impaired under SFAS No. 114. The likelihood of losses that are equal to the entire recorded investment for a real estate loan is remote. However, in some cases, declining real estate values have resulted in the determination that the estimated value of the collateral was insufficient to cover all of the recorded investment in the loans during recent quarters.

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The Corporation s recorded investment in commercial, construction and mortgage loans that were considered impaired and the related valuation allowance calculated under SFAS No. 114 as of June 30, 2009, December 31, 2008 and June 30, 2008 were:

	June 30, 2009		December 31, 2008		June 30, 2008	
(In millions)	Recorded Investment	Valuation Allowance	Recorded Investment	Valuation Allowance	Recorded Investment	Valuation Allowance
Impaired loans:						
Valuation allowance required	$1,034.4	$313.1	$664.9	$194.7	$435.4	$123.1
No valuation allowance required	410.5		232.7		212.4	
Total impaired loans	$1,444.9	$313.1	$897.6	$194.7	$647.8	$123.1

With respect to the $411 million portfolio of impaired commercial and construction loans for which no allowance for loan losses was required as of June 30, 2009, management followed SFAS No. 114 guidance. As prescribed by SFAS No. 114, when a loan is impaired, the measurement of the impairment may be based on: (1) the present value of the expected future cash flows of the impaired loan discounted at the loan s original effective interest rate; (2) the observable market price of the impaired loan; or (3) the fair value of the collateral if the loan is collateral dependent. A loan is collateral dependent if the repayment of the loan is expected to be provided solely by the underlying collateral. The $411 million impaired commercial loans were collateral dependent loans in which management performed a detailed analysis based on the fair value of the collateral less estimated costs to sell and determined that the collateral was deemed adequate to cover any losses as of June 30, 2009.

Average impaired loans during the second quarter of 2009 and 2008 were $1.3 billion and $549 million, respectively. The Corporation recognized interest income on impaired loans of $2.7 million and $2.0 million for the quarters ended June 30, 2009 and 2008.

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The following table sets forth information concerning the composition of the Corporation s allowance for loan and lease losses as of June 30, 2009 by loan category and by whether the allowance and related provisions were calculated individually pursuant the requirements of SFAS No. 114 or through a general valuation allowance in accordance with the provisions of SFAS No. 5:

TABLE O

Composition of the Allowance for Loan Losses by Category

(Dollars in thousands)	Commercial	Construction	Lease Financing	Mortgage	Consumer	Total
SFAS No. 114 Specific ALLL	$ 85,608	$ 197,898		$ 29,584		$ 313,090
SFAS No. 114 impaired loans	$ 522,678	$ 781,910		$ 140,299		$ 1,444,887
SFAS No. 114 ALLL to SFAS No. 114 impaired loans	16.38%	25.31%		21.09%		21.67%
SFAS No. 5 General ALLL	$ 239,004	$ 145,910	$ 29,934	$ 102,331	$ 315,970	$ 833,149
Loans held-in-portfolio, excluding SFAS. No 114 impaired loans	$12,555,829	$1,251,537	$730,396	$4,304,199	$4,319,214	$23,161,175
SFAS No. 5 ALLL to loans held-in-portfolio, excluding SFAS. No 114 impaired loans	1.90%	11.66%	4.10%	2.38%	7.32%	3.60%
Total ALLL	$ 324,612	$ 343,808	$ 29,934	$ 131,915	$ 315,970	$ 1,146,239
Total loans held-in-portfolio	$13,078,507	$2,033,447	$730,396	$4,444,498	$4,319,214	$24,606,062
ALLL to loans held-in-portfolio	2.48%	16.91%	4.10%	2.97%	7.32%	4.66%

The existing adverse economic conditions are expected to persist at least through 2009, thus it is likely that the Corporation will continue to experience heightened credit losses, additional significant provisions for loan losses, an increased allowance for loan losses and higher levels of non-performing assets. While management believes that the Corporation s allowance for loan losses was adequate at June 30, 2009, there is no certainty that it will be sufficient to cover future credit losses in the portfolio because of continued adverse changes in the economy, market conditions or events negatively affecting specific customers, industries or markets both in Puerto Rico and the United States. Management has acted to help mitigate future credit costs by implementing the following loss-mitigation measures during 2009:

- substantially increased resources at the commercial and construction loan divisions for credit management;
- revised credit standards, adjusted underwriting criteria and reduced risk exposures;
- enhanced collection tools and strategies to mitigate losses focusing on early detection;

modified over $140 million in non-conventional mortgages in the U.S. mainland operations (as of June 30, 2009); and

consolidated the Puerto Rico consumer finance operations into retail business.

Commitments to extend credit, which include credit card lines, commercial lines of credit, and other unused credit commitments, amounted to $7.2 billion as of June 30, 2009, $7.1 billion as of December 31, 2008, and $7.7 billion as of June 30, 2008. Commercial letters of credit and stand-by letters of credit amounted to $18 million and $168 million, respectively, as of June 30, 2009; $19 million and $181 million, respectively, as of December 31, 2008; and

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$21 million and $163 million as of June 30, 2008. In addition, the Corporation has commitments to originate mortgage loans amounting to $59 million as of June 30, 2009, $71 million as of December 31, 2008 and $163 million as of June 30, 2008.

The Corporation maintains a reserve of approximately $17 million for potential losses associated with unfunded loan commitments related to commercial and consumer lines of credit. The estimated reserve is principally based on the expected draws on these facilities using historical trends and the application of the corresponding reserve factors determined under the Corporation s allowance for loan losses methodology. This reserve for unfunded exposures remains separate and distinct from the allowance for loan losses and is reported as part of other liabilities in the consolidated statement of condition.

Geographical and government risk

As explained in the 2008 Annual Report, the Corporation is exposed to geographical and government risk. The Corporation s assets and revenue composition by geographical area and by business segment reporting are presented in Note 25 to the consolidated financial statements.

A significant portion of the Corporation s financial activities and credit exposure is concentrated in the Commonwealth of Puerto Rico (the Island) and the Island s economy has been deteriorating for several years.

This decline in the Island s economy has resulted in, among other things, a downturn in the Corporation s loan originations, an increase in the level of our non-performing assets, loan loss provisions and charge-offs, particularly in its construction loan portfolio, an increase in the rate of foreclosure loss on mortgage loans and a reduction in the value of its loans and loan servicing portfolio, all of which have adversely affected Popular s profitability. If the decline in economic activity continues, there could be further adverse effects on the Corporation s profitability.

The Commonwealth of Puerto Rico government is currently facing a fiscal deficit which has been estimated at approximately $3.0 billion or over 30% of its annual budget. It continues to review alternatives for reducing the deficit, as its access to the municipal bond market and its credit ratings depend, in part, on achieving a balanced budget. Measures that the government has implemented have included reducing expenses, including public-sector employment through layoffs of employees. It has been reported that the Commonwealth of Puerto Rico government could layoff as many as 30,000 employees, with approximately 8,000 employee layoffs taking place in early June 2009. Since the government is an important source of employment on the Island, these measures could have the effect of intensifying the current recessionary cycle.

The economy of Puerto Rico is sensitive to the price of oil in the global market. The Island does not have significant mass transit available to the public and most of its electricity is powered by oil, making it highly sensitive to fluctuations in oil prices. A substantial increase in its price could impact adversely the economy of Puerto Rico, by reducing disposable income and increasing the operating costs of most businesses and the government. Consumer spending is particularly sensitive to wide fluctuations in oil prices.

The level of real estate prices in Puerto Rico has been more stable than in other U.S. markets, but the current economic environment and future developments in Puerto Rico and the mainland U.S. could further pressure residential property values. Lower real estate values could increase loan delinquencies, impairments, foreclosures and the cost of repossessing and disposing of real estate collateral.

The current state of the economy and uncertainty in the private and public sectors has had an adverse effect on the credit quality of our loan portfolios. The continuation of the economic slowdown would cause those adverse effects to continue, as delinquency rates may increase in the short-term, until sustainable growth resumes. Also, a potential reduction in consumer spending may also impact growth in our other interest and non-interest revenue sources.

As of June 30, 2009, the Corporation had $1.1 billion of credit facilities granted to or guaranteed by the Puerto Rico Government and its political subdivisions, of which $215 million are uncommitted lines of credit. Of these total credit facilities granted, $858 million in loans were outstanding as of June 30, 2009. A substantial portion of the Corporation s credit exposure to the Government of Puerto Rico is either collateralized loans or obligations that have a specific source of income or revenues identified for their repayment. Some of these obligations consist of senior and subordinated loans to public corporations that obtain revenues from rates charged for services or products, such as water and electric power utilities. Public corporations have varying degrees of independence from the central Government and many receive appropriations or other payments from it. The Corporation also has loans to various

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municipalities in Puerto Rico for which the good faith, credit and unlimited taxing power of the applicable municipality has been pledged to their repayment. These municipalities are required by law to levy special property taxes in such amounts as shall be required for the payment of all of its general obligation bonds and loans. Another portion of these loans consists of special obligations of various municipalities that are payable from the basic real and personal property taxes collected within such municipalities. The good faith and credit obligations of the municipalities have a first lien on the basic property taxes.

Furthermore, as of June 30, 2009, the Corporation had outstanding $382 million in Obligations of Puerto Rico, States and Political Subdivisions as part of its investment portfolio. Refer to Notes 6 and 7 to the consolidated financial statements for additional information. Of that total, $359 million was exposed to the creditworthiness of the Puerto Rico Government and its municipalities. Of that portfolio, $45 million are in the form of Puerto Rico Commonwealth Appropriation Bonds, which are currently rated Ba1, one notch below investment grade, by Moody s, while Standard & Poor s Rating Services rates them as investment grade. At June 30, 2009, the Puerto Rico Commonwealth Appropriation Bonds represented approximately $5 million in unrealized losses in the Corporation s portfolio of investment securities available-for-sale. The Corporation is closely monitoring the political and economic situation of the Island and evaluates the portfolio for any declines in value that management may consider being other-than-temporary.

As further detailed in Notes 6 and 7 to the consolidated financial statements, a substantial portion of the Corporation s investment securities represented exposure to the U.S. Government in the form of U.S. Treasury securities and obligations of U.S. Government sponsored entities, as well as mortgage-backed securities guaranteed by Ginnie Mae. In addition, $226 million of residential mortgages and $405 million in commercial loans were insured or guaranteed by the U.S. Government or its agencies at June 30, 2009.

FAIR VALUE MEASUREMENT

The Corporation categorizes its assets and liabilities measured at fair value under the three-level hierarchy as required by SFAS No. 157, and the level within the hierarchy is based on whether the inputs to the valuation methodology used for fair value measurement are observable or unobservable. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect the Corporation s estimates about assumptions that market participants would use in pricing the asset or liability based on the best information available. 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. No significant degree of judgment for these valuations is needed, as they 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, and 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- Unobservable inputs that are supported by little or no market activity and that are significant to the fair value measurement of the financial asset or liability. Unobservable inputs reflect the Corporation s own assumptions about what market participants would use to price the asset or liability. The inputs are developed based on the best available information, which might include the Corporation s own data such as internally-developed models and discounted cash flow analyses. Assessments with respect to assumptions that market participants would use are inherently difficult to determine and use of different assumptions could result in material changes to these fair value measurements.

The Corporation currently measures at fair value on a recurring basis its trading assets, available-for-sale securities, derivatives and mortgage servicing rights. From time to time, the Corporation may be required to record at fair value other assets on a nonrecurring basis, such as loans held-for-sale, impaired loans held-in-portfolio that are collateral dependent and certain other assets. These nonrecurring fair value adjustments typically result from the application of lower of cost or fair value accounting or write-downs of individual assets.

Refer to Note 12 to the consolidated financial statements for information on the Corporation s fair value

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measurement disclosures required by SFAS No. 157. As of June 30, 2009, approximately $7.5 billion, or 94%, of the assets from continuing operations measured at fair value on a recurring basis, used market-based or market-derived valuation inputs in their valuation methodology and, therefore, were classified as Level 1 or Level 2. The remaining 6% were classified as Level 3 since their valuation methodology considered significant unobservable inputs. Additionally, the Corporation s continuing operations reported $628 million of financial assets that were measured at fair value on a nonrecurring basis as of June 30, 2009, all of which were classified as Level 3 in the hierarchy. Also, commencing in January 2009, the Corporation adopted the provisions of SFAS No. 157 for nonfinancial assets, particularly impacting other real estate. Nonfinancial assets from continuing operations reported under the guidelines of SFAS No. 157 amounted to $58 million as of June 30, 2009.

The Corporation requires the use of observable inputs when available, in order to minimize the use of unobservable inputs to determine fair value.

The estimate of fair value reflects the Corporation s judgment regarding appropriate valuation methods and assumptions. The amount of judgment involved in estimating the fair value of a financial instrument depends on a number of factors, such as type of instrument, the liquidity of the market for the instrument, transparency around the inputs to the valuation, as well as the contractual characteristics of the instrument.

If listed prices or quotes are not available, the Corporation employs valuation models that primarily use market-based inputs including yield curves, interest rate curves, volatilities, credit curves, and discount, prepayment and delinquency rates, among other considerations. When market observable data is not available, the valuation of financial instruments becomes more subjective and involves substantial judgment. The need to use unobservable inputs generally results from diminished observability of both actual trades and assumptions resulting from the lack of market liquidity for those types of loans or securities. When fair values are estimated based on modeling techniques, such as discounted cash flow models, the Corporation uses assumptions such as interest rates, prepayment speeds, default rates, loss severity rates and discount rates. 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.

Fair values are volatile and are affected by factors such as interest rates, liquidity of the instrument and market sentiment. Notwithstanding the judgment required in determining the fair value of the Corporation s assets and liabilities, management believes that fair values are reasonable based on the consistency of the processes followed, which include obtaining external prices when possible and validating a substantial share of the portfolio against secondary pricing sources when available.

FSP FAS 157-4 addresses measuring fair value in situations where markets are inactive and transactions are not orderly. Transactions or quoted prices for assets and liabilities may not be determinative of fair value when transactions are not orderly and thus may require adjustments to estimate fair value in accordance with SFAS No. 157. Price quotes based on transactions that are not orderly should be given little, if any, weight in measuring fair value. Price quotes based upon transactions that are orderly shall be considered in determining fair value and the weight given is based on facts and circumstances. If sufficient information is not available to determine if price quotes are based upon orderly transactions, less weight should be given to the price quote relative to other transactions that are known to be orderly. The adoption of FSP FAS 157-4 in the second quarter of 2009 did not have a significant impact on the Corporation s financial condition or results of operations.

There were no significant changes in the Corporation s valuation methodologies as of June 30, 2009 when compared with December 31, 2008. Refer to Note 12 to the consolidated financial statements for a description of the Corporation s valuation methodologies used for the principal assets and liabilities measured at fair value as of June 30, 2009.

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Trading Account Securities and Investment Securities Available-for-Sale

As of June 30, 2009, the Corporation s portfolio of trading and investment securities available-for-sale amounted to $7.7 billion and represented 97% of the Corporation s assets from continuing operations measured at fair value on a recurring basis. At June 30, 2009, net unrealized gains on the trading and available-for-sale investment securities portfolios approximated $10 million and $53 million, respectively. Fair values for most of the Corporation s trading and investment securities available-for-sale are classified under the Level 2 category. Trading and investment securities available-for-sale classified as Level 3, which are the securities that involved the highest degree of judgment, represent only 4% of the Corporation s total portfolio of trading and investment securities available-for-sale.

Management assesses the fair value of its portfolio of investment securities at least on a quarterly basis, which includes analyzing changes in fair value that have resulted in losses that may be considered other-than-temporary. Factors considered include, for example, the nature of the investment, severity and duration of possible impairments, industry reports, sector credit ratings, economic environment, creditworthiness of the issuers and any guarantees, and the ability to hold the security until maturity or recovery. Any impairment that is considered other-than-temporary is recorded directly in the statement of operations.

Securities are classified in the fair value hierarchy according to product type, characteristics and market liquidity. At the end of each quarter, management assesses the valuation hierarchy for each asset or liability measured. SFAS No. 157 quarterly analysis performed by the Corporation includes validation procedures and review of market changes, pricing methodology, assumption and level hierarchy changes, and evaluation of distressed transactions.

Most of the Corporation s investment securities available-for-sale are classified as Level 2 in the fair value hierarchy given that the general investment strategy at the Corporation is principally buy and hold with little trading activity. As such, the majority of the values are obtained from third-party pricing service providers and, as indicated earlier, are validated with alternate pricing sources when available. Securities not priced by a secondary pricing source are documented and validated internally according to their significance to the Corporation s financial statements. Management has established materiality thresholds according to the investment class to monitor and investigate material deviations in prices obtained from the primary pricing service provider and the secondary pricing source used as support to the valuation results.

Primary pricing sources were thoroughly evaluated for their consideration of current market conditions, including the relative liquidity of the market, and if pricing methodology rely, to the extent possible, on observable market and trade data. When a market quote for a specific security is not available, the pricing service provider generally uses observable data to derive an exit price for the instrument, such as benchmark yield curves and trade data for similar products. To the extent trading data is not available, the pricing provider relies on specific information, including dialogue with brokers, buy side clients, credit ratings, spreads to established benchmarks and transactions on similar securities, to draw correlations based on the characteristics of the evaluated instrument.

The pricing methodology and approach of our primary pricing service providers are consistent with general market convention. When trade data is not available, pricing service providers rely on available market quotes and on their models. If for any reason, the pricing service provider cannot observe data required to feed its model, it discontinues pricing the instrument. During the quarter ended June 30, 2009, none of the Corporation s investment securities were subject to pricing discontinuance by the pricing service providers. Substantially all investment securities available-for-sale are priced with primary pricing service providers and are validated by an alternate pricing source with the exception of GNMA Puerto Rico Serials, which are priced using a local demand price matrix prepared from local dealer quotes, and other local investments, such as corporate securities, and local mutual funds priced by local dealers. During the quarter ended June 30, 2009, the Corporation did not adjust any prices obtained from pricing service providers or broker dealers.

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. Valuations of

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derivative assets and liabilities reflect the value of the instrument including the values associated with counterparty risk and the Corporation s own credit standing. 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. To manage the level of credit risk, the Corporation deals with counterparties of good credit standing, enters into master netting agreements whenever possible and, when appropriate, obtains collateral. The derivative assets include a $4.2 million negative adjustment as a result of the credit risk of the counterparty as of June 30, 2009. On the other hand, derivative liabilities include a $1.2 million positive adjustment related to the incorporation of the Corporation s own credit risk as of June 30, 2009.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

MARKET RISK

The financial results and capital levels of Popular, Inc. are constantly exposed to market risk. Market risk represents the risk of loss due to adverse movements in market rates or prices, which include interest rates, foreign exchange rates and equity prices; the failure to meet financial obligations coming due because of the inability to liquidate assets or obtain adequate funding; and the inability to easily unwind or offset specific exposures without significantly lowering prices because of inadequate market depth or market disruptions.

The Corporation manages interest rate risk regularly through its Asset Liability Management Committee. The Committee meets on a regular basis and reviews various asset and liability management information, including but not limited to, the bank s liquidity positions, projected sources and uses of funds, interest rate risk positions and economic conditions.

Interest rate risk (IRR), a component of market risk, is considered by management as a predominant market risk in terms of its potential impact on profitability or market value. The techniques for measuring the potential impact of the Corporation s exposure to market risk from changing interest rates that were described in the 2008 Annual Report were the same as those applied by the Corporation as of June 30, 2009.

Net interest income simulation analysis performed by legal entity and on a consolidated basis is a tool used by the Corporation in estimating the potential change in future earnings resulting from hypothetical changes in interest rates. Sensitivity analysis is calculated on a monthly basis using a simulation model which incorporates actual balance sheet figures detailed by maturity and interest yields or costs. It also incorporates assumptions on balance sheet growth and expected changes in its composition, estimated prepayments in accordance with projected interest rates, pricing and maturity expectations on new volumes and other non-interest related data. Simulations are processed using various interest rate scenarios to determine potential changes to the future earnings of the Corporation.

Simulation analyses are based on many assumptions, including relative levels of market interest rates, interest rate spreads, loan prepayments and deposit decay. Thus, they should not be relied upon as indicative of actual results. Further, the estimates do not contemplate actions that management could take to respond to changes in interest rates. By their nature, these forward-looking computations are only estimates and may be different from what may actually occur in the future.

The Corporation usually runs its net interest income simulations under interest rate scenarios in which the yield curve is assumed to rise and decline gradually by the same amount. The rising rate scenarios considered in these market risk disclosures reflect gradual parallel changes of 200 and 400 basis points during the twelve-month period ending June 30, 2010. Under a 200 basis points rising rate scenario, projected net interest income increases by $55.5 million, while under a 400 basis points rising rate scenario, projected net interest income increased by $114.2 million. These scenarios were compared against the Corporation s flat interest rates forecast. Given the fact that as of June 30, 2009, some market interest rates were close to zero, management has focused on measuring the risk on net interest income on rising rate scenarios.

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The Corporation uses the economic value of equity (EVE) analysis to attempt to measure the sensitivity of its assets and liabilities to changes in interest rates. EVE is equal to the estimated present value of the Corporation s assets minus the estimated present value of the liabilities. It is a useful tool to measure long-term interest rate risk because it captures cash flows from all future periods.

EVE is estimated on a monthly basis and shock scenarios are prepared on a quarterly basis. The shock scenarios consist of +/- 200 basis points parallel shocks. As previously mentioned, given the low levels of current market rates, the Corporation will focus on measuring the risk in a rising rate scenario. Minimum EVE ratio limits, expressed as EVE as a percentage of total assets, have been established for base case and shock scenarios. In addition, management has also defined limits for the increases / decreases in EVE resulting from the shock scenarios. As of June 30, 2009, the Corporation was in compliance with these limits.

The Corporation maintains an overall interest rate risk management strategy that incorporates the use of derivative instruments to minimize significant unplanned fluctuations in net interest income or market value that are caused by interest rate volatility. The market value of these derivatives is subject to interest rate fluctuations and, as a result, could have a positive or negative effect in the Corporation s net interest income. Refer to Note 10 to the consolidated financial statements for further information on the Corporation s derivative instruments.

The Corporation conducts business in certain Latin American markets through several of its processing and information technology services and products subsidiaries. Also, it holds interests in Consorcio de Tarjetas Dominicanas, S.A. (CONTADO) and Centro Financiero BHD, S.A. (BHD) in the Dominican Republic. Although not significant, some of these businesses are conducted in the country s foreign currency. The resulting foreign currency translation adjustment, from operations for which the functional currency is other than the U.S. dollar, is reported in accumulated other comprehensive income (loss) in the consolidated statements of condition, except for highly-inflationary environments in which the effects are included in other operating income in the consolidated statements of operations. As of June 30, 2009 and December 31, 2008, the Corporation had approximately $40 million and $39 million, respectively, in an unfavorable foreign currency translation adjustment as part of accumulated other comprehensive loss.

LIQUIDITY

For a financial institution, such as the Corporation, liquidity risk refers to the probability of the institution not generating enough cash from either assets or liabilities to meet its obligations when they become due, without incurring material losses. Cash requirements for a financial institution are primarily made up of deposit withdrawals, contractual loan funding, the repayment of borrowings as they mature and the ability to fund new and existing investments as opportunities arise. An institution s liquidity may be pressured if, for example, its credit rating is downgraded, it experiences a sudden and unexpected substantial cash outflow, or some other event causes counterparties to avoid exposure to the institution. An institution is also exposed to liquidity risk if markets on which it depends are subject to temporary disruptions. The objective of effective liquidity management is to ensure that the Corporation remains sufficiently liquid to meet all of its financial obligations; finance expected future growth and maintains a reasonable safety margin for cash commitments under both normal and stressed market conditions.

Liquidity is managed by the Corporation at the level of the holding companies that own the banking and non-banking subsidiaries. Also, it is managed at the level of the banking and non-banking subsidiaries.

Capital and credit markets have experienced significant disruption and volatility since the second half of 2007, although they have been improving in recent months as evidenced by the contraction in credit spreads and increases in issuance volumes in the capital markets. Also, the myriad funding programs introduced by the U.S. Government have been helpful in restoring more normal market conditions. Disrupted market conditions have increased our liquidity risk exposure due primarily to increased risk aversion on the part of traditional credit providers. While the Corporation s management has implemented various strategies to reduce that exposure, such as reducing substantially our use of short-term unsecured borrowings, promoting customer deposit growth through traditional banking and internet channels, diversifying and increasing its contingency funding sources as well as exiting certain non-banking subsidiaries, a resurgence of substantial market stress could negatively influence the availability of credit to us, as well as its cost.

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Deposits, including customer deposits, brokered certificates of deposit, and public funds deposits, continue to be the most significant source of funds for the Corporation, totaling $26.9 billion, and funding 74% of the Corporation s total assets as of June 30, 2009.

In addition to traditional deposits, the Corporation maintains borrowing arrangements. These borrowings consisted primarily of FHLB borrowings, securities sold under agreement to repurchase, junior subordinated deferrable interest debentures, and term notes. Refer to Note 14 to the consolidated financial statements for the composition of the Corporation s borrowings as of June 30, 2009. Also, refer to Note 17 to the consolidated financial statements for the Corporation s involvement in certain commitments and guarantees as of June 30, 2009.

Federal funds purchased and assets sold under agreements to repurchase as of June 30, 2009 presented a reduction of $610 million compared with December 31, 2008, principally in repurchase agreements which declined by $465 million. This decline was associated in part to the lower volume of investment securities.

Other than as described above and the repayment of $798 million in term notes during the six months ended June 30, 2009, there have been no significant changes in the Corporation s aggregate contractual obligations since the end of 2008.

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

Banking Subsidiaries

Primary sources of funding for the Corporation s banking subsidiaries (BPPR and BPNA), or the banking subsidiaries, include retail and commercial deposits, collateralized borrowings and, to a lesser extent, loan sales. The principal uses of funds for the banking subsidiaries include loan and investment portfolio growth, repayment of obligations as they become due, operational needs and in the case of BPPR, dividend payments to the holding company. In addition, the Corporation s banking subsidiaries maintain borrowing facilities with the Federal Home Loan Banks (FHLB) and at the discount window of the Federal Reserve Bank of New York (Fed), and have a considerable amount of collateral pledged that can be used to quickly raise funds under these facilities. Borrowings from the FHLB or the Fed discount window require the Corporation to post securities or whole loans as collateral. The banking subsidiaries must maintain their FHLB memberships to continue accessing this source of funding.

The Corporation s ability to compete successfully in the marketplace for deposits depends on various factors, including pricing, service, convenience and financial stability as reflected by operating results and credit ratings (by nationally recognized credit rating agencies). Although a downgrade in the credit rating of the Corporation may impact its ability to raise deposits or the rate it is required to pay on such deposits, management does not believe that the impact should be material. Deposits at all of the Corporation s banking subsidiaries are federally insured and this is expected to mitigate the effect of a downgrade in credit ratings. During the quarter, the rating agencies downgraded the ratings of the Corporation and its banking subsidiaries. The impact of the downgrades on our ability to attract and retain deposits has not been material to date.

The Corporation s banking subsidiaries have the ability to borrow funds from the FHLB at competitive prices. As of June 30, 2009, the banking subsidiaries had short-term and long-term credit facilities authorized with the FHLB aggregating $2.0 billion based on assets pledged with the FHLB at that date, compared with $2.2 billion as of December 31, 2008. Outstanding borrowings under these credit facilities totaled $1.1 billion as of June 30, 2009 and December 31, 2008. Such advances are collateralized by securities and mortgage and other loans, do not have restrictive covenants and do not have any callable features. Refer to Note 14 to the consolidated financial statements for additional information.

As of June 30, 2009, the banking subsidiaries had a borrowing capacity at the Fed discount window of approximately $2.5 billion, which remained unused as of that date. This compares to a borrowing capacity at the Fed discount window of $3.4 billion as of December 31, 2008, which was unused at that date. This facility is a collateralized source of credit that is highly reliable even under difficult market conditions. The amount available under this line is dependent upon the balance of loans and securities pledged as collateral. The reduction in the borrowing capacity at the Fed discount window from December 31, 2008 to June 30, 2009 was principally due to a market-wide reduction by the Fed on the lendable values of certain types of deposited loans based on assumptions

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regarding their average risk characteristics, and an increase in delinquent loans.

As of June 30, 2009, management believes that the banking subsidiaries had sufficient liquidity to meet its cash flow obligations for the foreseeable future.

Bank Holding Companies

The principal sources of funding for the holding companies include cash on hand, investment securities, dividends paid by banking and non-banking subsidiaries (subject to regulatory limits), asset sales, credit facilities available from affiliate banking subsidiaries and proceeds from new borrowings. The principal uses of these funds include the repayment of maturing debt, dividend payments to shareholders and subsidiary funding through capital or debt.

Banking laws place certain restrictions on the amount of dividends a bank may make to its parent company. As of June 30, 2009, BPPR could have declared a dividend of approximately $77 million without the approval of the Federal Reserve Board. As of June 30, 2009, BPNA was required to obtain the approval of the Federal Reserve Board to declare a dividend. The Corporation has never received dividend payments from its U.S. mainland subsidiaries.

Refer to Note 26 to the consolidated financial statements for information on the amount of dividends BPPR could have declared to its parent company as of June 30, 2009 without the approval of the Federal Reserve Board. Due to limitations resulting from lower earnings in 2009 in the Puerto Rico operations, management expects that dividends from BPPR to the Corporation s holding company will be significantly lower than those received in previous years.

The Corporation s bank holding companies (BHCs , Popular, Inc., Popular North America and Popular International Bank, Inc.) have in the past borrowed in the money markets and the corporate debt market primarily to finance their non-banking subsidiaries. These sources of funding have become more difficult to obtain and costly due to disrupted market conditions and the reductions in the Corporation s credit ratings. The cash needs of non-banking subsidiaries other than to repay indebtedness are now minimal given that the PFH business was discontinued.

A principal use of liquidity at the BHC is to ensure its subsidiaries are adequately capitalized. Operating losses at the BPNA banking subsidiary have required the BHCs to contribute capital to ensure it meets regulatory guidelines for well-capitalized institutions. In the event that additional capital contributions were necessary, management believes that the BHCs currently have enough liquidity sources to meet potential capital needs from BPNA in the ordinary course of business.

Given the weakened economy, current market conditions, and our recent credit rating downgrades, which are described below, there is no assurance that the BHC will, if it chooses to do so, be able to obtain new borrowings or additional equity from external investors. However, the BHCs liquidity position continues to be adequate with sufficient cash on hand or marketable securities easily convertible to cash and other sources of liquidity which are expected to be enough to meet all BHCs obligations due through 2010.

Risks to Liquidity

Capital and credit markets have experienced significant disruption and volatility since the second half of 2007, although conditions in recent months have improved. Even though the Corporation s management has implemented various strategies to reduce that exposure, such as reducing our usage of short-term unsecured borrowings, promoting customer deposit growth through traditional banking and internet channels, diversifying and increasing its contingency funding sources as well as exiting certain non banking subsidiaries, continued market stress could negatively influence the availability of credit to us, as well as its cost.

Recent reductions of our credit ratings by the rating agencies could also affect our ability to borrow funds, and could substantially raise the cost of our borrowings. Some of the Corporation s borrowings have rating triggers that call for an increase in their interest rate in the event of a rating downgrade. In addition, changes in our ratings could lead creditors and business counterparties to raise the collateral requirements, which could reduce our ability to raise financing. Refer to Part II Other Information, Item 1A-Risk Factors for additional information.

The importance of the Puerto Rico market for the Corporation is an additional risk factor that could affect its financing activities. In the case of a further or deepening of the economic recession in Puerto Rico, the credit quality of the Corporation could be further affected and result in higher credit costs. The substantial integration of Puerto

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Rico with the U.S. mainland economy may also complicate the impact of a recession in Puerto Rico, as the U.S. recession underway, concurrently with a slowdown in Puerto Rico, may make a recovery in the local economic cycle more challenging. This was experienced in 2008 and the first half of 2009 and is expected for the foreseeable future. The economy in Puerto Rico is experiencing its fourth year of a recessionary cycle.

Factors that the Corporation does not control, such as the economic outlook of its principal markets and regulatory changes, could affect its ability to obtain funding. In order to prepare for the possibility of such a scenario, management has adopted contingency plans for raising financing under stress scenarios when important sources of funds that are usually fully available are temporarily unavailable. These plans call for using alternate funding mechanisms such as the pledging of certain asset classes and accessing secured credit lines and loan facilities put in place with the FHLB and the Fed. The Corporation has a substantial amount of assets available for raising funds through these channels.

Credit ratings of Popular s debt obligations are an important factor for liquidity because they impact the Corporation s ability to borrow in the capital markets, its cost and access to funding sources. Credit ratings are based on the financial strength, credit quality and concentrations in the loan portfolio, the level and volatility of earnings, capital adequacy, the quality of management, the liquidity of the balance sheet, the availability of a significant base of core retail and commercial deposits, and the Corporation s ability to access a broad array of wholesale funding sources, among other factors. Credit ratings of the Corporation or any of its subsidiaries at a level below investment grade may affect the Corporation s ability to raise funds in the capital markets. The Corporation s counterparties are sensitive to the risk of a rating downgrade. As a result of the recent downgrades, the cost of borrowing funds in the institutional market is expected to increase. In addition, the ability of the Corporation to raise new funds or renew maturing debt may be more difficult.

The Corporation s ratings and outlook as of June 30, 2009 are presented in the table below.

	As of June 30, 2009			
	Popular, Inc.			
	Short-term debt	Long-term debt	Preferred stock	Outlook
Fitch	B	B	C	Negative
Moody s	W/R	Ba1	Ca	Negative
S&P	B	BB-	C	Negative

W/R withdrawn

In their June 2009 reports, the three rating agencies downgraded the Corporation s credit ratings following the announcement of the suspension of dividends on the Corporation s common stock and Series A and Series B preferred stock, and of the exchange offer to raise common equity. The S&P s report indicated that these actions reflect increasing pressures on the company s capital position, operating performance, and liquidity. Based on S&P s report, the downgrade also reflects expectations for continued bottom-line losses stemming from increased credit losses and the associated pressures on capital ratios. If credit quality deteriorates beyond their expectations, S&P could lower the ratings further. Moody s said the downgrades were prompted by increased credit concerns and the challenges Popular faces in raising its planned amount of common equity. Moody s also addressed in its report the asset quality challenges currently faced by Popular. Any of the rating agencies could change their ratings of the Corporation or the ratings outlook at any time without previous notice.

The Corporation s debt and preferred stock ratings are currently rated non-investment grade by the rating agencies. The market for non-investment grade securities is much smaller and less liquid than for investment grade securities. Therefore, if the company were to attempt to issue preferred stock or debt securities in the capital markets, it is possible that there would not be sufficient demand to complete a transaction and the cost could be substantially higher than for more highly rated securities.

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The banking subsidiaries do not use unsecured capital market borrowings to finance its operations, and therefore are less sensitive to the level and changes in the Corporation s overall credit ratings. Their main funding sources are deposits and secured borrowings. At the BHCs, the volume of capital market borrowings has declined substantially, as the nonbanking lending businesses it had historically funded have been shut down and outstanding unsecured senior debt has been paid down.

The Corporation has $350 million in senior debt issued by the bank holding companies with interest that adjusts in the event of senior debt rating downgrades. As a result of rating downgrades affected by the rating agencies during the second quarter of 2009, the cost of this senior debt increased prospectively by 225 basis points, which represents an increase in the annual interest expense on the particular debt of approximately $7.9 million. Refer to Note 14 to the consolidated financial statements for details on the terms of this senior debt. This debt was also adjusted by 50 basis points in January 2009 when the three rating agencies announced downgrades in Popular s senior debt ratings. No other outstanding borrowings have rate or maturity triggers associated with credit ratings. The Corporation s banking subsidiaries currently do not use borrowings that are rated by the major rating agencies, as these banking subsidiaries are funded primarily with deposits and secured borrowings.

Some of the Corporation s derivative instruments include ratings triggers that permit counterparties to either request additional collateral or terminate the agreements with them based on credit ratings. The fair value of derivative positions (a liability position) subject to rating triggers that could accelerate their maturity was approximately $72 million as of June 30, 2009. None of the derivative agreements impacted by the rating downgrades were terminated by the counterparties as of June 30, 2009. The Corporation has provided collateral as required to cover net liability positions with counterparties.

In addition, servicing and custodial agreements that the Corporation is party to with third parties, including the Federal National Mortgage Association, or FNMA, include ratings covenants. Servicing rights represent a contractual right and not a beneficial ownership interest in the underlying mortgage loans. Failure to service the loans in accordance with contract requirements may lead to a termination of the servicing rights and the loss of future servicing fees. Based on the Corporation s failure to maintain an investment grade rating, those third parties have the right to require the Corporation to increase collateral levels, engage a substitute custodian and/or terminate their agreements with the Corporation. The termination of those agreements or the inability to realize servicing income for the Corporation s businesses could have an adverse effect on those businesses. The Corporation has adequate collateral to meet any existing collateral requirements thus far and expects that it would be able to meet the requirements of the counterparties.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

The Corporation s management, with the participation of the Corporation s Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Corporation s disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on such evaluation, the Corporation s Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Corporation s disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Corporation in the reports that it files or submits under the Exchange Act and such information is accumulated and communicated to management, as appropriate, to allow timely decisions regarding required disclosures.

Internal Control Over Financial Reporting

There have been no changes in the Corporation s internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended on June 30, 2009 that have materially affected, or are reasonably likely to materially affect, the Corporation s internal control over financial reporting.

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Part II Other Information

Item 1. Legal Proceedings

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

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

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

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed under Part I Item 1A Risk Factors in our 2008 Form 10-K, as supplemented and updated by the discussion below. These factors could materially adversely affect our business, financial condition, liquidity, results of operations and capital position, and could cause our actual results to differ materially from our historical results or the results contemplated by the forward-looking statements contained in this report. Also refer to the discussion in Part I Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations in this report for additional information that may supplement or update the discussion of risk factors in our 2008 Form 10-K.

The risks described in our 2008 Form 10-K and in this report are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or results of operations.

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RISKS RELATING TO OUR BUSINESS

Our financial results for the second quarter and our financial condition continued to be affected by the deterioration in the credit quality of our portfolio and economic conditions affecting the markets in which we operate.

The credit quality of our portfolio continues to deteriorate and had an adverse effect on our financial results for the period ended June 30, 2009 and our financial condition as of June 30, 2009. Continued adverse changes in the economy and negative trends in employment and property values in the markets in which we operate, which are described more fully below, continue to have an adverse effect on our provision for loan losses. We will continue to evaluate our allowance for loan losses and may be required to increase such amounts, perhaps substantially.

Among other factors, an increase in our allowance for loan losses would result in a reduction in the amount of our tangible common equity. Given the focus on tangible common equity by regulatory authorities, rating agencies and the market, we may be required to raise additional capital through the issuance of additional common stock in future periods to replace that common equity. An increase in our capital through an issuance of Common Stock in our current Exchange Offer could have a dilutive effect on the existing holders of our Common Stock, including holders receiving Common Stock in the Exchange Offer, and adversely affect its market price.

During the first and second quarters of 2009, our overall credit quality continued to be affected by the sustained deterioration of the economic conditions affecting our markets, including higher unemployment levels, unprecedented reduced absorption rates of new housing units and declines in property values.

As set forth under Management s Discussion and Analysis of Results of Operations and Financial Condition Non-Performing Assets in this Form 10-Q for the quarter ended June 30, 2009, our credit quality performance has continued to be under pressure during 2009 with economic concerns including higher unemployment levels, unprecedented reduced absorption rates of new housing units and declines in property values. Non-performing assets increased by $791 million at June 30, 2009 as compared to December 31, 2008 and by $1.1 billion as compared to June 30, 2008. The allowance for loan losses of $1.1 billion at June 30, 2009 was 4.66% of period-end loans held-in-portfolio, as compared to 3.43% of period-end loans held-in-portfolio on December 31, 2008 and 2.47% of period-end loans held-in-portfolio on June 30, 2008.

The main factor driving our net losses in the first two quarters of 2009 has been the increasing credit costs from several segments of our loan portfolio. Persistent adverse changes in the economy and negative trends in employment levels and property values in the markets in which we operate have continued to negatively affect our provision for loan losses in the second quarter of 2009. The existing adverse economic conditions are expected to persist at least through 2009, thus it is likely that we will continue to experience heightened credit losses, additional significant provisions for loan losses, an increased allowance for loan losses and higher levels of non-performing assets.

The imposition of additional property tax payments in Puerto Rico may further deteriorate the Corporation s commercial, consumer and mortgage loan portfolios.

On March 9, 2009 the Governor of Puerto Rico signed into law the Special Act Declaring a State of Fiscal Emergency and Establishing an Integral Plan of Fiscal Stabilization to Save Puerto Rico s Credit, Act No. 7 (the Act). The Act, as amended, imposes a series of temporary and permanent measures, including the imposition of a 0.591% special tax applicable to properties used for residential (excluding those exempt as detailed in the Act) and commercial purposes, and payable to the Puerto Rico Treasury Department. The 0.591% will be computed based on the taxable value of such properties for purposes of the Centro de Recaudacion de Ingresos Municipales (CRIM). This temporary measure will be effective for tax years that commenced after June 30, 2009 and before July 1, 2012. The imposition of this special property tax could adversely affect the disposable income of borrowers from the commercial, consumer and mortgage loan portfolios and may cause an increase in the Corporation s delinquency and foreclosures rates.

Our business depends on the creditworthiness of our customers and the value of the assets securing our loans.

If the credit quality of the customer base materially decreases or if the risk profile of a market, industry or group of customers changes materially, our business, financial condition, allowance levels, liquidity, capital and results of operations could be adversely affected. While we believe that our allowance for loan losses was adequate at June 30,

2009, there is no certainty that it will be sufficient to cover future credit losses in the portfolio because of continued

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adverse changes in the economy, market conditions or events negatively affecting specific customers, industries or markets both in Puerto Rico and the United States. We periodically review the allowance for loan losses for adequacy considering economic conditions and trends, collateral values and credit quality indicators, including past charge-off experience and levels of past due loans and non-performing assets.

Recent actions by the rating agencies have raised the cost of our borrowings, which could affect our ability to borrow in the future and may have other adverse effects on our business.

Recent actions by the rating agencies have raised the cost of our borrowings. Borrowings amounting to $350 million have ratings triggers that call for an increase in their interest rate in the event of a ratings downgrade. For example, as a result of rating downgrades effected by the major rating agencies in April and June 2009, the cost of servicing $350 million of our senior debt increased by an additional 225 basis points.

The Corporation s debt and preferred stock ratings are currently rated non-investment grade by the rating agencies. The market for non-investment grade securities is much smaller and less liquid than for investment grade securities. Therefore, if we were to attempt to issue preferred stock or debt securities in the capital markets, it is possible that there would not be sufficient demand to complete a transaction and the cost could be substantially higher than for more highly rated securities.

In addition, changes in our ratings have affected and could continue to affect our relationships with some creditors and business counterparties. For example, many of our hedging transactions include ratings triggers that permit counterparties to either request additional collateral or terminate our agreements with them based on our below investment grade ratings. Although we have been able to meet any additional collateral requirements thus far and expect that we would be able to enter into agreements with substitute counterparties if any of our existing agreements were terminated, changes in our hedging transactions could create additional costs for our businesses. In addition, servicing and custodial agreements that we are party to with third parties, including the Federal National Mortgage Association, or FNMA, include ratings covenants. Servicing rights represent a contractual right and not a beneficial ownership interest in the underlying mortgage loans. Failure to service the loans in accordance with contract requirements may lead to a termination of the servicing rights and the loss of future servicing fees. Based on our failure to maintain an investment grade rating, those third parties have the right to require us to increase collateral levels, engage a substitute custodian and/or terminate their agreements with us. The termination of those agreements or the inability to realize servicing income for our businesses could have an adverse effect on those businesses. Other counterparties are also sensitive to the risk of a ratings downgrade and the implications for our businesses and may be less likely to engage in transactions with us, or may only engage in them at a substantially higher cost, if our ratings remain below investment grade.

Legislative and regulatory actions taken now or in the future to address the current liquidity and credit crisis in the financial industry may significantly affect our financial condition, results of operations, liquidity or stock price.

Current economic conditions, particularly in the financial markets, have resulted in government regulatory agencies and political bodies placing increased focus and scrutiny on the financial services industry. The U.S. Government has intervened on an unprecedented scale, responding to what has been commonly referred to as the financial crisis. In addition to the U.S. Treasury Department s Capital Purchase Program (CPP) under the Troubled Asset Relief Program (TARP) announced last fall and the new Capital Assistance Program (CAP) announced this spring, further steps taken include enhancing the liquidity support available to financial institutions, establishing a commercial paper funding facility, temporarily guaranteeing money market funds and certain types of debt issuances, and increasing insurance on bank deposits. Also, the U.S. Congress, through the Emergency Economic Stabilization Act of 2008 and the American Recovery and Reinvestment Act of 2009, have imposed a number of restrictions and limitations on the operations of financial services firms participating in the federal programs. Most recently, on June 17, 2009, the Administration released a financial regulatory reform plan that would, if enacted, represent the most sweeping reform of financial regulation and financial services since the 1930s.

These programs and proposals subject us and other financial institutions to additional restrictions, oversight and costs that may have an adverse impact on our business, financial condition, results of operations or the price of our Common Stock. The Administration s financial reform plan would, if enacted, further substantially increase regulation

of the financial services industry and impose restrictions on the operations and general ability of firms

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within the industry to conduct business consistent with historical practices. Federal and state regulatory agencies also frequently adopt changes to their regulations or change the manner in which existing regulations are applied. We cannot predict the substance or impact of pending or future legislation, regulation or the application thereof. Compliance with such current and potential regulation and scrutiny may significantly increase our costs, impede the efficiency of our internal business processes, require us to increase our regulatory capital and limit our ability to pursue business opportunities in an efficient manner.

Increases in FDIC insurance premiums may have a material adverse affect on the Corporation s earnings.

During 2008 and continuing in 2009, higher levels of bank failures have dramatically increased resolution costs of the Federal Deposit Insurance Corporation (FDIC) and depleted the deposit insurance fund. In addition, the FDIC instituted two temporary programs effective through December 31, 2009, to further insure customer deposits at FDIC-member banks: deposit accounts are now insured up to $250,000 per customer (up from $100,000) and non-interest bearing transactional accounts are fully insured (unlimited coverage). These programs have placed additional stress on the deposit insurance fund.

In order to maintain a strong funding position and restore reserve ratios of the deposit insurance fund, the FDIC increased assessment rates of insured institutions uniformly by 7 cents for every $100 of deposits beginning with the first quarter of 2009, with additional changes beginning April 1, 2009, which require riskier institutions to pay a larger share of premiums by factoring in rate adjustments based on secured liabilities and unsecured debt levels. In February 2009, the FDIC voted to amend the restoration plan and impose a special assessment of 20 cents for every $100 of assessable deposits on insured institutions on June 30, 2009, which would be collected on September 30, 2009. In May 2009, the FDIC adopted a final rule, effective June 30, 2009, that will impose a special assessment of 5 cents for every $100 on each insured depository institution s assets minus its Tier 1 capital as of June 30, 2009, subject to a cap equal to 10 cents per $100 of assessable deposits for the second quarter 2009 risk-based capital assessment. This special assessment will apply to us and resulted in a $16.7 million expense in our second quarter of 2009.

We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance. If there are additional bank or financial institution failures or our capital position is further impaired, we may be required to pay even higher FDIC premiums than the recently increased levels. Our expenses for the quarter ending June 30, 2009 were significantly and adversely affected by these increased premiums. These announced increases and any future increases in FDIC insurance premiums may materially adversely affect our results of operations.

Weakness in the economy and in the real estate market in the geographic footprint of Popular has adversely impacted and may continue to adversely impact Popular.

A significant portion of our financial activities and credit exposure is concentrated in the Commonwealth of Puerto Rico (the Island) and the Island s economy has been deteriorating.

This decline in the Island s economy has resulted in, among other things, a downturn in our loan originations; an increase in the level of our non-performing assets, loan loss provisions and charge-offs, particularly in our construction loan portfolio; an increase in the rate of foreclosure loss on mortgage loans; and a reduction in the value of our loans and loan servicing portfolio, all of which have adversely affected our profitability. If the decline in economic activity continues, there could be further adverse effects on our profitability.

The Commonwealth of Puerto Rico government is currently facing a fiscal deficit which has been estimated at approximately $3.0 billion or over 30% of its annual budget. It continues to review alternatives for reducing the deficit, as its access to the municipal bond market and its credit ratings depend, in part, on achieving a balanced budget. Measures that the government has implemented have included reducing expenses, including public-sector employment through layoffs of employees. It has been reported that the Commonwealth of Puerto Rico government could layoff as many as 30,000 employees, with approximately 8,000 employee layoffs taking place in early June 2009. Since the government is an important source of employment on the Island, these measures could have the effect of intensifying the current recessionary cycle.

The economy of Puerto Rico is sensitive to the price of oil in the global market. The Island does not have significant mass transit available to the public and most of its electricity is powered by oil, making it highly sensitive to fluctuations in oil prices. A substantial increase in its price could impact adversely the economy of Puerto Rico, by

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reducing disposable income and increasing the operating costs of most businesses and government. Consumer spending is particularly sensitive to wide fluctuations in oil prices.

The level of real estate prices in Puerto Rico have historically been more stable than in other U.S. markets, but the current economic environment and future developments in Puerto Rico and the mainland U.S. could further pressure residential property values. Lower real estate values could increase loan delinquencies, foreclosures and the cost of repossessing and disposing of real estate collateral.

The current state of the economy and uncertainty in the private and public sectors has had an adverse effect on the credit quality of our loan portfolios. The continuation of the economic slowdown would cause those adverse effects to continue, as delinquency rates may increase in the short-term, until sustainable growth resumes. Also, a potential reduction in consumer spending may also impact growth in our other interest and non-interest revenue sources.

RISKS RELATED TO THE FUTURE ISSUANCE OF A SIGNIFICANT AMOUNT OF OUR COMMON STOCK AND DILUTION OF HOLDERS OF OUR COMMON STOCK

Additional assistance from the U.S. Government may further dilute existing holders of our Common Stock, including participants in the Exchange Offer.

In December 2008, Popular issued approximately $935 million in shares of cumulative preferred stock together with a warrant to purchase up to approximately 21 million shares of our Common Stock at an exercise price of $6.70 per share to the United States Treasury (U.S. Treasury). The current Exchange Offer does not involve any additional investment in Popular by the U.S. Treasury or the U.S. Government. Notwithstanding that, there may be new regulatory requirements or standards or additional U.S. Government programs or requirements or losses in the future that could result in, or require, additional equity issuances. Such further equity issuances would further dilute the existing holders of our Common Stock (including participants in the current Exchange Offer) perhaps significantly.

Although not currently contemplated, we could obtain Tier 1 common equity by exchanging (with the approval of the U.S. Treasury) a number of shares of the Series C Preferred Stock we issued to the U.S. Treasury under the CPP (or New Trust Preferred Securities that we issue in exchange for those shares of Series C Preferred Stock) for shares of mandatory convertible preferred stock issued under the CAP or for Common Stock or another common equivalent security that the U.S. Treasury otherwise agrees to purchase, directly or indirectly. Such an exchange could also involve the issuance of additional warrants to the U.S. Treasury to purchase additional shares of our common stock as contemplated by the published terms of the CAP. The issuance of additional shares of our Common Stock or common equivalent securities in future equity offerings, to the U.S. Treasury under the CAP or otherwise, or as a result of the exercise of the warrant the U.S. Treasury holds, will dilute the ownership interest of our existing common stockholders and could also involve U.S. Government constraints on our operations.

Additional issuances of Common Stock or securities convertible into Common Stock may further dilute existing holders of our Common Stock.

We may determine that it is advisable, or we may encounter circumstances where we determine it is necessary, to issue additional shares of our Common Stock, securities convertible into or exchangeable for shares of our Common Stock, or common-equivalent securities to fund strategic initiatives or other business needs or to build additional capital. Depending on our capital needs, we may make such a determination in the near future or in subsequent periods. The market price of our Common Stock could decline as a result of this offering or other offerings, as well as other sales of a large block of shares of our Common Stock or similar securities in the market thereafter, or the perception that such sales could occur. We may need to increase our authorized capital in order to raise such equity capital.

If holders of our Preferred Stock and Trust Preferred Securities do not participate in the current Exchange Offer in sufficient amounts in the near future, we may have to increase our Tier 1 common equity through other means, including through asset sales or by raising capital privately or issuing mandatory convertible preferred stock and related warrants to the U.S. Treasury, which could further dilute the existing holders of our Common Stock, including participants in the Exchange Offer.

In addition, such additional equity issuances would reduce any earnings available to the holders of our Common Stock and the return thereon unless our earnings increase correspondingly. We cannot predict the timing or size of future equity issuances, if any, or the effect that they may have on the market price of our Common Stock. The issuance of

substantial amounts of equity, or the perception that such issuances may occur, could adversely affect the market price of our Common Stock.

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The market price of our Common Stock may be subject to continued significant fluctuations and volatility.
The stock markets have recently experienced high levels of volatility. These market fluctuations have adversely affected, and may continue to adversely affect, the trading price of our Common Stock. In addition, the market price of our Common Stock has been subject to significant fluctuations and volatility because of factors specifically related to our businesses and may continue to fluctuate or further decline. Factors that could cause fluctuations, volatility or further decline in the market price of our Common Stock, many of which could be beyond our control, include the following:

- changes or perceived changes in the condition, operations, results or prospects of our businesses and market assessments of these changes or perceived changes;
- announcements of strategic developments, acquisitions and other material events by us or our competitors;
- changes in governmental regulations or proposals, or new governmental regulations or proposals, affecting us, including those relating to the current financial crisis and global economic downturn and those that may be specifically directed to us;
- the continued decline, failure to stabilize or lack of improvement in general market and economic conditions in our principal markets;
- the departure of key personnel;
- changes in the credit, mortgage and real estate markets;
- operating results that vary from the expectations of management, securities analysts and investors;
- operating and stock price performance of companies that investors deem comparable to us; and
- market assessments as to whether and when the current Exchange Offer will be consummated.

The Exchange Offer will result in a substantial amount of our Common Stock entering the market, which could adversely affect the market price of our Common Stock.
As of June 30, 2009, we had approximately 282 million shares of our Common Stock outstanding. Following consummation of the Exchange Offer, assuming the Exchange Offer is fully subscribed, this figure will increase to approximately 672 million shares of our Common Stock. The issuance of such a large number of shares of our Common Stock in such a short period of time will significantly reduce earnings per common share and could adversely affect the market price of our Common Stock.

The price of our Common Stock is depressed and may not recover.
The price of our Common Stock has declined significantly from a closing price of $13.02 on May 1, 2008, to a closing price of $1.36 on August 7, 2009. Our stock price may never recover to prior levels or to any particular level.

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Dividends on our Common Stock have been suspended and you may not receive funds in connection with your investment in our Common Stock without selling your shares of our Common Stock.

Holders of our Common Stock are only entitled to receive such dividends as our board of directors may declare out of funds legally available for such payments. We have announced the suspension of dividend payments on our Common Stock and Preferred Stock. As a consequence, we will be unable to pay dividends on our Common Stock unless and until we resume payments of dividends on our Preferred Stock. Furthermore, prior to December 5, 2011, unless we have redeemed all of the Series C Preferred Stock (or any successor security) or the U.S. Treasury has transferred all of the Series C Preferred Stock (or any successor security) to third parties, the consent of the U.S. Treasury will be required for us to, among other things, increase the dividend rate per share of Common Stock above $0.08 per share or to repurchase or redeem equity securities, including our Common Stock, subject to certain limited exceptions. This could adversely affect the market price of our Common Stock. Also, we are a bank holding company and our ability to declare and pay dividends is dependent on certain Federal regulatory considerations, including the guidelines of the Federal Reserve regarding capital adequacy and dividends. Moreover, the Federal Reserve and the FDIC have issued policy statements stating that the bank holding companies and insured banks should generally pay dividends only out of current operating earnings. In the current financial and economic environment, the Federal Reserve has indicated that bank holding companies should carefully review their dividend policy and has discouraged dividend pay-out ratios that are at the 100% or higher level unless both asset quality and capital are very strong.

In addition, the terms of our outstanding junior subordinated debt securities held by each Trust that has issued Trust Preferred Securities prohibit us from declaring or paying any dividends or distributions on our capital stock, including our Common Stock, or purchasing, acquiring, or making a liquidation payment on such stock, if we have given notice of our election to defer interest payments but the related deferral period has not yet commenced or a deferral period is continuing.

Accordingly, you may have to sell some or all of your shares of our Common Stock in order to generate cash flow from your investment. You may not realize a gain on your investment when you sell the Common Stock and may lose the entire amount of your investment.

Offerings of debt, which would be senior to our Common Stock upon liquidation, and/or preferred equity securities, which may be senior to our Common Stock for purposes of dividend distributions or upon liquidation, may adversely affect the market price of our Common Stock.

We may attempt to increase our capital resources or, if our or the capital ratios of our banking subsidiaries fall below the required minimums, we or our banking subsidiaries could be forced to raise additional capital by making additional offerings of debt or preferred equity securities, including medium-term notes, trust preferred securities, senior or subordinated notes and preferred stock. Upon liquidation, holders of our debt securities and shares of preferred stock and lenders with respect to other borrowings will receive distributions of our available assets prior to the holders of our Common Stock. Additional equity offerings may dilute the holdings of our existing stockholders or reduce the market price of our Common Stock, or both. Our board of directors is authorized to waive the preemptive rights otherwise provided in our Certificate of Incorporation.

Our board of directors is authorized to issue one or more classes or series of preferred stock from time to time without any action on the part of the stockholders. Our board of directors also has the power, without stockholder approval, to set the terms of any such classes or series of preferred stock that may be issued, including voting rights, dividend rights, and preferences over our Common Stock with respect to dividends or upon our dissolution, winding up and liquidation and other terms. If we issue preferred shares in the future that have a preference over our Common Stock with respect to the payment of dividends or upon liquidation, or if we issue preferred shares with voting rights that dilute the voting power of the Common Stock, the rights of holders of our Common Stock or the market price of our Common Stock could be adversely affected.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

In April 2004, the Corporation s shareholders adopted the Popular, Inc. 2004 Omnibus Incentive Plan. The maximum number of shares of common stock issuable under this Plan is 10,000,000.

The following table sets forth the details of purchases of Common Stock during the quarter ended June 30, 2009 under the 2004 Omnibus Incentive Plan.

Not in thousands

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs (a)
April 1 April 30				8,568,931
May 1 May 31	185,312	3.54	185,312	8,441,584
June 1 June 30				8,440,932
Total June 30, 2009	185,312	3.54	185,312	8,440,932

(a) Includes shares forfeited.

Item 4. Submission of Matters to a Vote of Security Holders

The Annual Meeting of Stockholders of Popular, Inc. was held on May 1, 2009. A quorum was obtained with 249,316,823 shares represented in person or by proxy, which represented approximately 88.39% of all votes eligible to be cast at the meeting.

The matters submitted to a vote of security holders and the results of the voting on each of the proposals are set forth below.

Proposal 1: To elect three (3) directors assigned to Class 1 of the Board of Directors of the Corporation for a three-year term:

Nominees	Votes For	Votes Against
Juan J. Bermúdez	219,520,103	29,796,720
Richard L. Carrión	217,873,421	31,443,402
Francisco M. Rexach Jr.	203,249,729	46,067,094

The following directors were not up for reelection and continued to hold office after the meeting: Michael J. Masin, Manuel Morales Jr., José R. Vizcarrondo, María Luisa Ferré, Frederic V. Salerno and William J. Teuber Jr.

Proposal 2: To amend Article Fifth of the Certificate of Incorporation to increase the authorized number of shares of common stock, par value $6 per share, from 470,000,000 to 700,000,000:

In favor:	223,787,355
Against:	22,155,988
Abstain:	3,373,479

Proposal 3: To amend Article Fifth of the Certificate of Incorporation of the Corporation to decrease the par value of the Common Stock of the Corporation from $6 per share to $0.01 per share:

In favor:	222,022,388

Against:	22,088,300
Abstain:	5,206,133

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Proposal 4: To provide an advisory vote related to the Corporation s executive compensation program:

In favor:	233,198,966
Against:	11,563,888
Abstain:	4,253,969

Proposal 5: To ratify the selection of PricewaterhouseCoopers LLP as the Corporation s independent registered public accounting firm for 2009:

In favor:	237,580,685
Against:	8,808,538
Abstain:	2,927,599

Item 6. Exhibits

Exhibit No.	Exhibit Description
12.1	Computation of the ratios of earnings to fixed charges and preferred stock dividends.
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

POPULAR, INC.
(Registrant)

Date: August 10, 2009

By: /s/ Jorge A. Junquera
Jorge A. Junquera
Senior Executive Vice President &
Chief Financial Officer

Date: August 10, 2009

By: /s/ Ileana Gonzalez Quevedo
Ileana Gonzalez Quevedo
Senior Vice President & Corporate
Comptroller