

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**

☐ **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.

☐ Yes ☐ 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).

☐ Yes ☐ 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 ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐
(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).

☐ Yes ☐ No

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

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Forward-Looking Information

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

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

- the rate of declining growth in the economy and employment levels, as well as general business and economic conditions;

- changes in interest rates, as well as the magnitude of such changes;

- the fiscal and monetary policies of the federal government and its agencies;

- changes in federal bank regulatory and supervisory policies, including required levels of capital;

- the relative strength or weakness of the consumer and commercial credit sectors and of the real estate markets in Puerto Rico and the other markets in which borrowers are located;

- the performance of the stock and bond markets;

- competition in the financial services industry;

- possible legislative, tax or regulatory changes; and

- difficulties in combining the operations of acquired entities.

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

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

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

Table of Contents**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

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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.

Table of Contents**POPULAR, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)**

(In thousands, except per share information)	Quarter ended June 30,		Six months ended June 30,	
	2009	2008	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

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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.

Table of Contents**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.

Table of Contents**POPULAR, INC.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
(UNAUDITED)**

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

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

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Income tax benefit (expense)	\$5,694	\$41,838	\$ 42,486	\$6,954
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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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Table of Contents**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:		

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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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Table of Contents**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.

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

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

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

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

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

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

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

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

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

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

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

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

Note 3 Discontinued Operations

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

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

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

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

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

(\$ in millions)	Quarter ended		Six months ended	
	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:

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

(a) Severance,
retention
bonuses and

other benefits

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

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

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

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

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

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

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

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

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

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

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

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

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

Table of Contents**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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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:

(In thousands)	AS OF JUNE 30, 2009				Weighted Average Yield
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value	
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					

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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)	AS OF DECEMBER 31, 2008				Weighted Average Yield
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value	
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

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	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				Weighted Average Yield
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value	
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

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

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AS OF DECEMBER 31, 2008			
Less than 12 months			
(In thousands)	Amortized Cost	Gross Unrealized Losses	Market Value
Obligations of Puerto Rico, States and political subdivisions	\$ 34,795	\$ 303	\$ 34,492
Collateralized mortgage obligations federal agencies	485,140	13,274	471,866
Collateralized mortgage obligations private label	59,643	15,315	44,328
Mortgage-backed securities	109,298	676	108,622
Equity securities	19,541	9,480	10,061
	\$708,417	\$39,048	\$669,369
12 months or more			
(In thousands)	Amortized Cost	Gross Unrealized Losses	Market Value
Obligations of Puerto Rico, States and political subdivisions	\$ 44,011	\$ 3,212	\$ 40,799
Collateralized mortgage obligations federal agencies	423,137	16,645	406,492
Collateralized mortgage obligations private label	130,065	25,961	104,104
Mortgage-backed securities	206,472	3,146	203,326
Equity securities	29	12	17
	\$803,714	\$48,976	\$754,738
Total			
(In thousands)	Amortized Cost	Gross Unrealized Losses	Market Value
Obligations of Puerto Rico, States and political subdivisions	\$ 78,806	\$ 3,515	\$ 75,291
Collateralized mortgage obligations federal agencies	908,277	29,919	878,358
Collateralized mortgage obligations private label	189,708	41,276	148,432
Mortgage-backed securities	315,770	3,822	311,948
Equity securities	19,570	9,492	10,078
	\$1,512,131	\$88,024	\$1,424,107

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

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

(In thousands)	Amortized Cost	Total 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:

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

(In thousands)	June 30, 2009		December 31, 2008		June 30, 2008	
	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

Table of Contents**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:

(In thousands)	AS OF JUNE 30, 2009				Weighted Average Yield
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value	
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%

(In thousands)	AS OF DECEMBER 31, 2008				Weighted Average Yield
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value	
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

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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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(In thousands)	AS OF JUNE 30, 2008				Weighted Average Yield
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value	
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:

(In thousands)	AS OF JUNE 30, 2009		
	Less than 12 months		
	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		

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(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

		12 months or more		
		Amortized	Gross	Market
(In thousands)		Cost	Unrealized	Value
			Losses	
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:

(In thousands)	Originated MSRs	
	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:

(In thousands)	Purchased MSRs	
	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).

Table of Contents**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	
		Statement		Statement	
	Notional	of	Fair	of	
(In thousands)	Amount	Condition	Value	Condition	Fair Value
		Classification		Classification	
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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(In thousands)	As of December 31, 2008			
	Derivative Assets		Derivative Liabilities	
	Notional Amount	Statement of Condition Classification	Statement of Condition Classification	Fair Value
Derivatives designated as hedging instruments under SFAS No. 133:				
Forward commitments	\$ 112,500	Other Assets	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			\$ 4,635
Derivatives not designated as hedging instruments under SFAS No. 133:				
Forward contracts	\$ 272,301	Trading Account Securities	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	1,038,908		Other Liabilities	98,437
Foreign currency and exchange rate commitments with clients	377	Other Assets	Other Liabilities	15
Foreign currency and exchange rate commitments with counterparty	373	Other Assets	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			\$111,874
	\$3,307,100			\$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					
	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)
(In thousands)					
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
-------------------------------------	-------------------

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

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

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

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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):

(In thousands)	2009				Balance as of June 30, 2009
	Balance as of January 1, 2009	Goodwill acquired	Purchase accounting adjustments	Other	
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

(In thousands)	2008				Balance as of June 30, 2008
	Balance as of January 1, 2008	Goodwill acquired	Purchase accounting adjustments	Other	
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

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

(In thousands)	June 30, 2009		December 31, 2008		June 30, 2008	
	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			Balance as of
(In millions)	Level 1	Level 2	Level 3	June 30, 2009
Assets				
Continuing Operations				
<i>Investment securities available-for-sale:</i>				
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
<i>Total investment securities available-for-sale</i>	\$3	\$7,208	\$ 35	\$ 7,246
<i>Trading account securities, excluding derivatives:</i>				
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
<i>Total trading account securities</i>		\$ 192	\$294	\$ 486
<i>Mortgage servicing rights</i>			\$181	\$ 181
<i>Derivatives (Refer to Note 10)</i>		\$ 77		\$ 77
Discontinued Operations				
<i>Loans measured at fair value pursuant to SFAS No. 159</i>				
			\$ 1	\$ 1

Total	\$3	\$7,477	\$511	\$ 7,991
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Liabilities

Continuing Operations

Derivatives (Refer to Note 10)

\$ (80)	\$ (80)
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Total	\$ (80)	\$ (80)
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	At December 31, 2008			Balance as of December 31, 2008
(In millions)	Level 1	Level 2	Level 3	
Assets				
Continuing Operations				
<i>Investment securities available-for-sale:</i>				
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
<i>Total investment securities available-for-sale</i>	\$5	\$7,883	\$ 37	\$ 7,925
<i>Trading account securities, excluding derivatives:</i>				
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
<i>Total trading account securities</i>		\$ 346	\$300	\$ 646
<i>Mortgage servicing rights</i>			\$176	\$ 176
<i>Derivatives (Refer to Note 10)</i>		\$ 110		110
Discontinued Operations				
<i>Loans measured at fair value pursuant to SFAS No. 159</i>				
			\$ 5	\$ 5
Total	\$5	\$8,339	\$518	\$ 8,862
Liabilities				
Continuing Operations				
<i>Derivatives (Refer to Note 10)</i>		\$ (117)		\$ (117)

Total	\$ (117)	\$ (117)
<hr/>		
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	At June 30, 2008			Balance as of June 30, 2008
(In millions)	Level 1	Level 2	Level 3	
Assets				
Continuing Operations				
<i>Investment securities available-for-sale:</i>				
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
<i>Total investment securities available-for-sale</i>	\$ 10	\$ 7,651	\$ 38	\$ 7,699
<i>Trading account securities, excluding derivatives:</i>				
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
<i>Total trading account securities</i>		\$ 154	\$ 310	\$ 464
<i>Mortgage servicing rights</i>			\$ 130	\$ 130
<i>Derivatives (Refer to Note 10)</i>		\$ 51		51
Discontinued Operations				
<i>Residual interests available-for-sale</i>			\$ 3	\$ 3
<i>Residual interests trading</i>			35	35
<i>Mortgage servicing rights</i>			56	56
<i>Loans measured at fair value pursuant to SFAS No. 159</i>			845	845
Total	\$ 10	\$ 7,856	\$ 1,417	\$ 9,283

Liabilities**Continuing Operations**

<i>Derivatives (Refer to Note 10)</i>	\$ (59)		\$ (59)
Discontinued Operations			
<i>Notes payable measured at fair value pursuant to SFAS No. 159</i>		\$ (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						Changes in unrealized gains (losses) included in earnings related to assets and liabilities still held as of June 30, 2009
	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, and maturities (net)	Balance as of June 30, 2009	
(In millions)							
Assets							
Continuing Operations							
<i>Investment securities available-for-sale:</i>							
Mortgage- backed securities	\$ 36				\$ (1)	\$ 35	
<i>Total investment securities available-for-sale</i>	\$ 36				\$ (1)	\$ 35	
<i>Trading account securities:</i>							
Collateralized mortgage obligations	\$ 3				\$ 2	\$ 5	
Residential mortgage- backed securities- federal agencies	276	\$ (1)			9	284	\$ 1(a)
Other	5					5	
<i>Total trading account securities</i>	\$284	\$ (1)			\$ 11	\$294	\$ 1
<i>Mortgage servicing rights</i>	\$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							Changes in unrealized gains (losses) included in earnings related to assets and liabilities still held as of June 30, 2009
	Balance	Gains	Gains (losses) included in	Increase (decrease) in accrued	Purchases, sales, issuances, settlements, paydowns and maturities (net)	Balance as of June 30, 2009	
(In millions)	as of January 1, 2009	(losses) included in earnings	other comprehensive income	interest receivable / payable			
Assets							