POPULAR INC
Form 10-Q
November 10, 2008

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

þ **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended September 30, 2008
Commission File Number: 000-13818
POPULAR, INC.
(Exact name of registrant as specified in its charter)

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

(787) 765-9800
(Registrant s telephone number, including area code)
NOT APPLICABLE
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. þ Yes o No

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes þ No

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: Common Stock $6 par value 282,035,628 shares outstanding as of November 4, 2008.

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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. Factors that might cause such a difference include, but are not limited to: the rate of growth in the economy, as well as general business and economic conditions; changes in interest rates, as well as the magnitude of such changes; the fiscal and monetary policies of the federal government and its agencies; the relative strength or weakness of the consumer and commercial credit sectors and of the real estate markets; the performance of the stock and bond markets; competition in the financial services industry; possible legislative, tax or regulatory changes; and difficulties in combining the operations of acquired entities.

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

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

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

(In thousands, except share information)	September 30, 2008	December 31, 2007	September 30, 2007
ASSETS			
Cash and due from banks	$ 1,183,997	$ 818,825	$ 709,056
Money market investments:			
Federal funds sold	173,330	737,815	430,000
Securities purchased under agreements to resell	121,613	145,871	180,394
Time deposits with other banks	14,554	123,026	24,703
	309,497	1,006,712	635,097
Investment securities available-for-sale, at fair value:			
Pledged securities with creditors right to repledge	3,256,348	4,249,295	4,742,127
Other investment securities available-for-sale	4,312,394	4,265,840	4,136,368
Investment securities held-to-maturity, at amortized cost (market value as of September 30, 2008 - $716,430; December 31, 2007 - $486,139; September 30, 2007 $280,072)	719,832	484,466	279,267
Other investment securities, at lower of cost or realizable value (realizable value as of September 30, 2008 - $273,836; December 31, 2007 - $216,819; September 30, 2007 - $179,598)	229,158	216,584	179,376
Trading account securities, at fair value:			
Pledged securities with creditors right to repledge	390,181	673,958	569,357
Other trading securities	54,217	93,997	92,801
Loans held-for-sale measured at lower of cost or market value	245,134	1,889,546	423,303
Loans held-in-portfolio:			
Loans held-in-portfolio pledged with creditors right to repledge		149,610	160,923
Other loans	26,519,805	28,053,956	33,067,301
Less Unearned income	183,770	182,110	330,723
Allowance for loan losses	726,480	548,832	600,273
	25,609,555	27,472,624	32,297,228
Premises and equipment, net	620,469	588,163	580,768
Other real estate	72,605	81,410	133,508
Accrued income receivable	197,549	216,114	290,916
Servicing assets (at fair value on September 30, 2008 - $127,827; December 31, 2007 - $191,624; September 30,	132,484	196,645	196,992

2007 - $193,255)			
Other assets (See Note 9)	1,412,219	1,456,994	1,244,689
Goodwill	608,172	630,761	668,807
Other intangible assets	67,662	69,503	100,471
Assets from discontinued operations (See Note 3)	968,669		
	$ 40,390,142	$ 44,411,437	$ 47,280,131
LIABILITIES AND STOCKHOLDERS EQUITY			
Liabilities:			
Deposits:			
Non-interest bearing	$ 4,065,720	$ 4,510,789	$ 3,975,383
Interest bearing	23,845,677	23,823,689	22,626,132
	27,911,397	28,334,478	26,601,515
Federal funds purchased and assets sold under agreements to repurchase	3,730,039	5,437,265	6,287,303
Other short-term borrowings	507,011	1,501,979	1,414,897
Notes payable	4,242,487	4,621,352	8,314,791
Other liabilities	811,253	934,372	857,795
Liabilities from discontinued operations (See Note 3)	180,373		
	37,382,560	40,829,446	43,476,301
Commitments and contingencies (See Note 17)			
Minority interest in consolidated subsidiaries	109	109	109
Stockholders equity:			
Preferred stock, $25 liquidation value; 30,000,000 shares authorized; 7,475,000 Class A shares issued and outstanding in all periods presented; 16,000,000 Class B shares issued and outstanding at September 30, 2008	586,875	186,875	186,875
Common stock, $6 par value; 470,000,000 shares authorized in all periods presented; 295,335,063 shares issued (December 31, 2007 293,651,398; September 30, 2007 292,993,474) and 281,708,260 outstanding (December 31, 2007 280,029,215; September 30, 2007 279,597,529)	1,772,010	1,761,908	1,757,961
Surplus	564,021	568,184	536,129
Retained earnings	384,062	1,319,467	1,689,384
Accumulated other comprehensive loss, net of tax of ($22,374) (December 31, 2007 ($15,438); September 30, 2007 ($56,551))	(91,983)	(46,812)	(161,061)
Treasury stock at cost, 13,626,803 shares (December 31, 2007 13,622,183; September 30, 2007 13,395,945)	(207,512)	(207,740)	(205,567)
	3,007,473	3,581,882	3,803,721
	$ 40,390,142	$ 44,411,437	$ 47,280,131

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

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POPULAR, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Quarter ended September 30,		Nine months ended September 30,	
(In thousands, except per share information)	2008	2007	2008	2007
INTEREST INCOME:				
Loans	$ 457,905	$523,794	$1,421,937	$1,521,424
Money market investments	3,447	6,807	13,651	17,168
Investment securities	84,790	109,019	261,649	334,992
Trading account securities	9,339	10,163	35,344	27,244
	555,481	649,783	1,732,581	1,900,828
INTEREST EXPENSE:				
Deposits	165,611	196,825	528,596	552,657
Short-term borrowings	37,233	108,971	137,824	340,162
Long-term debt	28,355	12,341	75,823	39,667
	231,199	318,137	742,243	932,486
Net interest income	324,282	331,646	990,338	968,342
Provision for loan losses	252,160	86,340	602,561	219,477
Net interest income after provision for loan losses	72,122	245,306	387,777	748,865
Service charges on deposit accounts	52,433	49,704	155,319	146,567
Other service fees (See Note 18)	95,302	89,863	306,649	265,712
Net (loss) gain on sale and valuation adjustments of investment securities	(9,132)	(776)	69,430	112,842
Trading account profit	6,669	9,239	38,547	29,765
Gain on sale of loans and valuation adjustments on loans held-for-sale	6,522	6,975	25,696	40,224
Other operating income	36,134	21,920	92,836	87,968
	260,050	422,231	1,076,254	1,431,943
OPERATING EXPENSES:				
Personnel costs:				
Salaries	118,948	116,169	360,963	357,706
Pension, profit sharing and other benefits	29,282	29,104	98,552	100,068
	148,230	145,273	459,515	457,774
Net occupancy expenses	26,510	27,083	81,218	76,185
Equipment expenses	26,305	28,324	84,312	87,259
Other taxes	13,301	12,766	39,905	35,644
Professional fees	31,780	29,498	88,964	87,689
Communications	12,574	15,115	38,137	44,669

Business promotion	16,216	27,479	51,064	83,410
Printing and supplies	3,269	3,760	10,763	11,536
Other operating expenses	40,764	27,429	113,722	81,176
Amortization of intangibles	3,966	2,234	8,948	8,030
	322,915	318,961	976,548	973,372
(Loss) income from continuing operations before income tax	(62,865)	103,270	99,706	458,571
Income tax expense	148,308	23,056	152,467	105,598
(Loss) income from continuing operations	(211,173)	80,214	(52,761)	352,973
Loss from discontinued operations, net of tax (See Note 3)	(457,370)	(44,211)	(488,242)	(123,373)
NET (LOSS) INCOME	$(668,543)	$ 36,003	$ (541,003)	$ 229,600
NET (LOSS) INCOME APPLICABLE TO COMMON STOCK	$(679,772)	$ 33,024	$ (561,213)	$ 220,665
(LOSSES) EARNINGS PER COMMON SHARE BASIC AND DILUTED:				
(Losses) income from continuing operations	$ (0.79)	$ 0.28	$ (0.26)	$ 1.23
Losses from discontinued operations	(1.63)	(0.16)	(1.74)	(0.44)
Net (loss) income	$ (2.42)	$ 0.12	$ (2.00)	$ 0.79
DIVIDENDS DECLARED PER COMMON SHARE	$ 0.08	$ 0.16	$ 0.40	$ 0.48

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

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

(In thousands)	Nine months ended September 30, 2008	2007
Preferred stock:		
Balance at beginning of year	$ 186,875	$ 186,875
Issuance of preferred stock	400,000	
Balance at end of period	586,875	186,875
Common stock:		
Balance at beginning of year	1,761,908	1,753,146
Common stock issued under the Dividend Reinvestment Plan	10,102	4,755
Stock options exercised		60
Balance at end of period	1,772,010	1,757,961
Surplus:		
Balance at beginning of year	568,184	526,856
Common stock issued under the Dividend Reinvestment Plan	5,072	7,835
Issuance cost of preferred stock	(10,065)	
Stock options expense on unexercised options, net of forfeitures	830	1,289
Stock options exercised		149
Balance at end of period	564,021	536,129
Retained earnings:		
Balance at beginning of year	1,319,467	1,594,144
Net (loss) income	(541,003)	229,600
Cumulative effect of accounting change-adoption of SFAS No. 159 in 2008 (2007-SFAS No. 156 and EITF 06-5)	(261,831)	8,667
Cash dividends declared on common stock	(112,361)	(134,092)
Cash dividends declared on preferred stock	(20,210)	(8,935)
Balance at end of period	384,062	1,689,384
Accumulated other comprehensive loss:		
Balance at beginning of year	(46,812)	(233,728)
Other comprehensive (loss) income, net of tax	(45,171)	72,667
Balance at end of period	(91,983)	(161,061)
Treasury stock at cost:		
Balance at beginning of year	(207,740)	(206,987)
Purchase of common stock	(358)	(352)
Reissuance of common stock	586	1,772

Balance at end of period	(207,512)	(205,567)
Total stockholders equity	$3,007,473	$3,803,721

Disclosure of changes in number of shares:

	September 30, 2008	December 31, 2007	September 30, 2007
Preferred Stock:			
Balance at beginning of year	7,475,000	7,475,000	7,475,000
New shares issued	16,000,000		
Balance at end of period	23,475,000	7,475,000	7,475,000
Common Stock Issued:			
Balance at beginning of year	293,651,398	292,190,924	292,190,924
Issued under the Dividend Reinvestment Plan	1,683,665	1,450,410	792,486
Stock options exercised		10,064	10,064
Balance at end of period	295,335,063	293,651,398	292,993,474
Treasury stock	(13,626,803)	(13,622,183)	(13,395,945)
Common Stock outstanding	281,708,260	280,029,215	279,597,529

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

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

	Quarter ended September 30,		Nine months ended September 30,	
(In thousands)	2008	2007	2008	2007
Net (loss) income	$(668,543)	$ 36,003	$(541,003)	$229,600
Other comprehensive (loss) income before tax:				
Foreign currency translation adjustment	(1,690)	(966)	(2,882)	2,014
Adjustment of pension and postretirement benefit plans	(36)		(110)	(519)
Unrealized (losses) gains on securities available-for-sale arising during the period	(13,611)	156,462	(36,048)	100,493
Reclassification adjustment for losses (gains) included in net income	11,704	3	(14,669)	(80)
Unrealized net gains (losses) on cash flow hedges	947	(2,065)	(1,160)	(1,117)
Reclassification adjustment for losses (gains) included in net income	1,169	(164)	2,762	(289)
Cumulative effect of accounting change				(243)
	(1,517)	153,270	(52,107)	100,259
Income tax (expense) benefit	(18)	(39,514)	6,936	(27,592)
Total other comprehensive (loss) income, net of tax	(1,535)	113,756	(45,171)	72,667
Comprehensive (loss) income	$(670,078)	$149,759	$(586,174)	$302,267

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

	Quarter ended September 30,		Nine months ended September 30,	
(In thousands)	2008	2007	2008	2007
Underfunding of pension and postretirement benefit plans				$ 180
Unrealized losses (gains) on securities available-for-sale arising during the period	$1,694	$(40,302)	$ 5,374	(28,280)
Reclassification adjustment for losses (gains) included in net income	(959)	(1)	2,165	13
Unrealized net gains (losses) on cash flows hedges	(297)	723	478	371
Reclassification adjustment for losses (gains) included in net income	(456)	66	(1,081)	124

Income tax (expense) benefit	$ (18)	$(39,514)	$ 6,936	$(27,592)

Disclosure of accumulated other comprehensive loss:

(In thousands)	September 30, 2008	December 31, 2007	September 30, 2007
Foreign currency translation adjustment	$(37,470)	$(34,588)	$ (34,687)
Underfunding of pension and postretirement benefit plans	(51,249)	(51,139)	(69,779)
Tax effect	20,108	20,108	27,214
Net of tax amount	(31,141)	(31,031)	(42,565)
Unrealized (losses) gains on securities available-for-sale	(23,625)	27,092	(111,830)
Tax effect	1,589	(5,950)	28,879
Net of tax amount	(22,036)	21,142	(82,951)
Unrealized losses on cash flows hedges	(2,013)	(3,615)	(1,316)
Tax effect	677	1,280	458
Net of tax amount	(1,336)	(2,335)	(858)
Accumulated other comprehensive loss, net of tax	$(91,983)	$(46,812)	$(161,061)

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

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

(In thousands)	Nine months ended September 30, 2008	2007
Cash flows from operating activities:		
Net (loss) income	$ (541,003)	$ 229,600
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of premises and equipment	55,233	59,558
Provision for loan losses	621,552	359,606
Amortization of intangibles	8,948	8,030
Amortization and fair value adjustments of servicing assets	53,679	34,941
Net gain on sale and valuation adjustments of investment securities	(64,010)	(79,857)
Losses from changes in fair value related to instruments measured at fair value pursuant to SFAS No. 159	179,482	
Net gain on disposition of premises and equipment	(23,643)	(5,293)
Net loss (gain) on sale of loans and valuation adjustments on loans held-for-sale	54,527	(37,719)
Net amortization of premiums and accretion of discounts on investments	16,034	15,801
Net amortization of premiums and deferred loan origination fees and costs	40,650	70,645
Fair value adjustment of other assets held-for-sale	103,702	
Earnings from investments under the equity method	(6,899)	(19,514)
Stock options expense	830	1,339
Deferred income taxes, net of valuation	72,261	(94,581)
Net disbursements on loans held-for-sale	(2,000,449)	(4,007,301)
Acquisitions of loans held-for-sale	(268,718)	(474,269)
Proceeds from sale of loans held-for-sale	1,289,738	3,475,817
Net decrease in trading securities	1,604,345	1,003,078
Net decrease (increase) in accrued income receivable	8,194	(42,675)
Net (increase) decrease in other assets	(245,990)	30,507
Net (decrease) increase in interest payable	(49,180)	4,586
Net increase in postretirement benefit obligation	1,810	2,407
Net (decrease) increase in other liabilities	(35,120)	18,645
Total adjustments	1,416,976	323,751
Net cash provided by operating activities	875,973	553,351
Cash flows from investing activities:		
Net decrease (increase) in money market investments	697,215	(266,954)
Purchases of investment securities:		
Available-for-sale	(3,875,390)	(67,920)
Held-to-maturity	(4,958,286)	(17,026,831)
Other	(166,641)	(47,786)

Proceeds from calls, paydowns, maturities and redemptions of investment securities:		
Available-for-sale	2,377,740	1,066,304
Held-to-maturity	4,724,818	16,844,551
Other	154,067	17,071
Proceeds from sale of investment securities available-for-sale	2,444,509	37,352
Proceeds from sale of other investment securities	49,341	246,352
Net disbursements on loans	(976,109)	(1,137,982)
Proceeds from sale of loans	1,984,860	16,367
Acquisition of loan portfolios	(4,505)	(22,312)
Assets acquired, net of cash		(2,378)
Mortgage servicing rights purchased	(3,628)	(25,596)
Acquisition of premises and equipment	(112,196)	(69,607)
Proceeds from sale of premises and equipment	49,366	29,501
Proceeds from sale of foreclosed assets	87,280	113,776
Net cash provided by (used in) investing activities	2,472,441	(296,092)
Cash flows from financing activities:		
Net (decrease) increase in deposits	(400,901)	2,150,668
Net (decrease) increase in federal funds purchased and assets sold under agreements to repurchase	(1,707,225)	524,858
Net decrease in other short-term borrowings	(994,969)	(2,619,228)
Payments of notes payable	(1,312,938)	(1,245,332)
Proceeds from issuance of notes payable	1,182,917	821,087
Dividends paid	(154,877)	(142,898)
Proceeds from issuance of common stock	15,174	12,836
Proceeds from issuance of preferred stock	389,935	
Treasury stock acquired	(358)	(352)
Net cash used in financing activities	(2,983,242)	(498,361)
Net increase (decrease) in cash and due from banks	365,172	(241,102)
Cash and due from banks at beginning of period	818,825	950,158
Cash and due from banks at end of period	$ 1,183,997	$ 709,056

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

Note: The Consolidated Statements of Cash Flows for the nine months ended September 30, 2008 and 2007 include the cash flows from operating, investing and

financing
activities
associated with
discontinued
operations.

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Notes to Unaudited Consolidated Financial Statements

Note 1 Nature of Operations and Basis of Presentation

Popular, Inc. (the Corporation or Popular) is a diversified, publicly owned financial holding company subject to the supervision and regulation of the Board of Governors of the Federal Reserve System. The Corporation is a financial services provider with operations in Puerto Rico, the United States, the Caribbean and Latin America. As the leading financial institution in Puerto Rico, the Corporation offers retail and commercial banking services through its principal banking subsidiary, Banco Popular de Puerto Rico (BPPR), as well as auto and equipment leasing and financing, mortgage loans, consumer lending, 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, and Popular Financial Holdings (PFH). BPNA is a community bank providing a broad range of financial services and products. BPNA operates branches in New York, California, Illinois, New Jersey and Florida. E-LOAN markets deposit accounts under its name for the benefit of BPNA and offers loan customers the option of being referred to a trusted consumer lending partner for loan products. PFH operations were discontinued in the third quarter of 2008. Disclosures on the discontinued operations as well as recent restructuring plans in the BPNA and E-LOAN subsidiaries are included in Notes 3 and 27 of these consolidated financial statements. The Corporation, through its transaction processing company, EVERTEC, continues to use its expertise in technology as a competitive advantage in its expansion throughout the United States, the Caribbean and Latin America, as well as internally servicing many of its subsidiaries system infrastructures and transactional processing businesses. Note 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 2008 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, 2007 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 September 30, 2008, December 31, 2007 and September 30, 2007 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, 2007, included in the Corporation s 2007 Annual Report. The Corporation s Form 10-K filed on February 29, 2008 incorporates by reference the 2007 Annual Report.

Note 2 Recent Accounting Developments

SFAS No. 157 Fair Value Measurements

SFAS No. 157, issued in September 2006, defines fair value, establishes a framework of measuring fair value and requires enhanced disclosures about fair value measurements. SFAS No. 157 requires companies to disclose the fair value of its financial instruments according to a fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets carried at fair value will be classified and disclosed in one of the three categories in accordance with the hierarchy. The three levels of the fair value hierarchy are (1) quoted market prices for identical assets or liabilities in active markets, (2) observable market-based inputs or unobservable inputs that are corroborated by market data, and (3) unobservable inputs that are not corroborated by market data. SFAS No. 157 was effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. In February 2008, the Financial Accounting Standards Board (FASB) issued financial staff position FSP FAS No. 157-2 which defers for one year the effective date for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value on a nonrecurring basis. The staff position also amends SFAS No. 157 to exclude SFAS No. 13 Accounting for Leases and its related

interpretive accounting pronouncements that address leasing transactions. The Corporation adopted the provisions of SFAS No. 157 that were not deferred by FSP FAS No. 157-2, commencing in the first quarter of 2008. The provisions of SFAS No. 157 are to be applied prospectively. Refer to Note 13 to these consolidated financial statements for the disclosures required for the quarter and nine months ended September 30, 2008. The adoption of SFAS No. 157 in January 1, 2008 did not have an impact in beginning retained earnings.

FSP No. 157-3 Determining the Fair Value of a Financial Asset When the Market for that Asset Is Not Active

In October 2008, the FASB issued FASB Staff Position No. FAS 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active (FSP 157-3). FSP 157-3 clarifies the application of FAS 157 in a market that is not active. The FSP is intended to address the following application issues: (a) how the reporting entity s own assumptions (that is, expected cash flows and appropriately risk-adjusted discount rates) should be considered when measuring fair value when relevant observable inputs do not exist; (b) how available observable inputs in a market that is not active should be considered when measuring fair value; and (c) how the use of market quotes (for example, broker quotes or pricing services for the same or similar financial assets) should be considered when assessing the relevance of observable and unobservable inputs available to measure fair value. FSP 157-3 is effective on issuance, including prior periods for which financial statements have not been issued. The Corporation adopted FSP 157-3 for the quarter ended September 30, 2008 and the effect of adoption on the consolidated financial statements was not material.

SFAS No. 159 The Fair Value Option for Financial Assets and Liabilities Including an Amendment of FASB Statement No. 115

In February 2007, the FASB issued SFAS No. 159, which provided companies with an option to report selected financial assets and liabilities at fair value. The election to measure a financial asset or liability at fair value can be made on an instrument-by-instrument basis and is irrevocable. The difference between the carrying amount and the fair value at the election date is recorded as a transition adjustment to beginning retained earnings. Subsequent changes in fair value are recognized in earnings. The statement also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. It also requires entities to display the fair value of those assets and liabilities for which the company has chosen to use fair value on the face of the balance sheet. The Corporation adopted the provisions of SFAS No. 159 in January 2008.

The Corporation elected the fair value option for approximately $1.2 billion of whole loans held-in-portfolio by PFH at adoption date. Additionally, management adopted the fair value option for approximately $287 million of loans and $287 million of bond certificates associated with PFH s on-balance sheet securitizations that were outstanding as of December 31, 2007. These loans serve as collateral for the bond certificates.

Refer to Note 12 to these consolidated financial statements for the impact of the initial adoption of SFAS No. 159 to beginning retained earnings as of January 1, 2008 and additional disclosures as of September 30, 2008.

FSP FIN No. 39-1 Amendment of FASB Interpretation No. 39

In April 2007, the FASB issued Staff Position FSP FIN No. 39-1, which defines right of setoff and specifies what conditions must be met for a derivative contract to qualify for this right of setoff. It also addresses the applicability of a right of setoff to derivative instruments and clarifies the circumstances in which it is appropriate to offset amounts recognized for those instruments in the statement of condition. In addition, this FSP permits the offsetting of fair value amounts recognized for multiple derivative instruments executed with the same counterparty under a master netting arrangement and fair value amounts recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) arising from the same master netting arrangement as the derivative instruments. The adoption of FSP FIN No. 39-1 in January 2008 did not have a material impact on the Corporation s consolidated financial statements and disclosures. The Corporation s policy is not to offset the fair value amounts recognized for multiple derivative instruments executed with the same counterparty under a master netting arrangement nor to offset the fair value amounts recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) arising from the same master netting arrangement as the derivative instruments.

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

SFAS No. 141(R), issued in December 2007, will significantly change how entities apply the acquisition method to business combinations. The most significant changes affecting how the Corporation will account for business combinations under this statement include the following: the acquisition date will be the date the acquirer obtains control; all (and only) identifiable assets acquired, liabilities assumed, and noncontrolling interests in the acquiree will be stated at fair value on the acquisition date; assets or liabilities arising from noncontractual contingencies will be measured at their acquisition date at fair value only if it is more likely than not that they meet the definition of an asset or liability on the acquisition date; adjustments subsequently made to the provisional amounts recorded on the acquisition date will be made retroactively during a measurement period not to exceed one year; acquisition-related restructuring costs that do not meet the criteria in SFAS No. 146   Accounting for Costs Associated with Exit or Disposal Activities   will be expensed as incurred; transaction costs will be expensed as incurred; reversals of deferred income tax valuation allowances and income tax contingencies will be recognized in earnings subsequent to the measurement period; and the allowance for loan losses of an acquiree will not be permitted to be recognized by the acquirer. Additionally, SFAS No. 141(R) will require new and modified disclosures surrounding subsequent changes to acquisition-related contingencies, contingent consideration, noncontrolling interests, acquisition-related transaction costs, fair values and cash flows not expected to be collected for acquired loans, and an enhanced goodwill rollforward. The Corporation will be required to prospectively apply SFAS No. 141(R) to all business combinations completed on or after January 1, 2009. Early adoption is not permitted. 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. Management will be evaluating the effects that SFAS No. 141(R) will have on the financial condition, results of operations, liquidity, and the disclosures that will be presented on the consolidated financial statements.

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

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 will require entities to classify noncontrolling interests as a component of stockholders   equity on the consolidated financial statements and will require subsequent changes in ownership interests in a subsidiary to be accounted for as an equity transaction. Additionally, SFAS No. 160 will require 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 is effective on a prospective basis for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008, except for the presentation and disclosure requirements, which are required to be applied retrospectively. Early adoption is not permitted. Management will be evaluating the effects, if any, that the adoption of this statement will have on its consolidated financial statements.

SFAS No. 161   Disclosures about Derivative Instruments and Hedging Activities

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 will be effective for all of the Corporation   s interim and annual financial statements for periods beginning after November 15, 2008, with early adoption permitted. The standard expands the disclosure requirements for derivatives and hedged items and has no impact on how the Corporation accounts for these instruments. Management will be evaluating the enhanced disclosure requirements.

SFAS No. 162   The Hierarchy of Generally Accepted Accounting Principles

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

Staff Accounting Bulletin No. 109 (SAB 109) Written Loan Commitments Recorded at Fair Value through Earnings

On November 5, 2007, the SEC issued Staff SAB 109, which requires that the fair value of a written loan commitment that is marked-to-market through earnings should include the future cash flows related to the loan s servicing rights. However, the fair value measurement of a written loan commitment still must exclude the expected net cash flows related to internally developed intangible assets (such as customer relationship intangible assets). SAB 109 applies to two types of loan commitments: (1) written mortgage loan commitments for loans that will be held-for-sale when funded that are marked-to-market as derivatives under SFAS No. 133 (derivative loan commitments); and (2) other written loan commitments that are accounted for at fair value through earnings under SFAS No. 159 s fair-value election.

SAB 109 supersedes SAB 105, which applied only to derivative loan commitments and allowed the expected future cash flows related to the associated servicing of the loan to be recognized only after the servicing asset had been contractually separated from the underlying loan by sale or securitization of the loan with servicing retained. SAB 109 will be applied prospectively to derivative loan commitments issued or modified in fiscal quarters beginning after December 15, 2007. The implementation of SAB 109 did not have a material impact to the Corporation s consolidated financial statements, including disclosures.

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

The objective of FSP FAS 140-3, issued by the FASB in February 2008, is to provide 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.

Current practice records the transfer as a sale and the repurchase agreement as a financing. The 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.

FSP FAS 140-3 will be effective for the Corporation on January 1, 2009. Early adoption is prohibited. The Corporation will be evaluating the potential impact of adopting this FSP.

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

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 s 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. This FSP will be effective for the Corporation on January 1, 2009. Early adoption is prohibited. The Corporation will be evaluating the potential impact of adopting this FSP.

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FSP No. FAS 133-1 and FIN 45-4 Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161

FSP FAS 133-1 and FIN 45-4 requires disclosures by sellers of credit derivatives and additional disclosures about the current status of the payment/performance risk of financial guarantees. FSP FAS 133-1 and FIN 45-4 are effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. Accordingly, the Corporation will adopt the provisions of FSP FAS 133-1 and FIN 45-4 in the first quarter 2009. The Corporation does not expect the adoption of the provisions of FSP FAS 133-1 and FIN 45-4 to have any material impact on the Corporation s financial condition and results of operations.

Note 3 Discontinued Operations

On August 29, 2008, the Corporation announced that it had entered into an agreement to sell loans, residual interests and servicing related assets of PFH and Popular, FS to Goldman Sachs Mortgage Company, Goldman, Sachs & Co. and Litton Loan Servicing, LP. The transaction closed on November 3, 2008. This sale resulted in a reduction in assets, mostly accounted at fair value, of over $900 million, and provided over $700 million in additional liquidity. In addition, on September 18, 2008, the Corporation announced the consummation of the sale of manufactured housing loans of PFH to 21st Mortgage Corp. and Vanderbilt Mortgage and Finance, Inc. The transaction provided approximately $198 million in cash and resulted in a reduction in unpaid principal balance of loans held at PFH of approximately $309 million.

The above actions and past sales and restructuring plans executed at PFH in the past two years have resulted in the discontinuance of the Corporation s PFH operations, which were defined as a reportable segment for managerial reporting. This includes exiting all business activities, consisting of loan origination channels and loan servicing functions previously conducted at PFH. As of September 30, 2008, the Corporation reclassified $789 million of net assets of the PFH business to discontinued operations, substantially all of which were classified as held-for-sale as of September 30, 2008.

The proceeds from the PFH asset sales will be used for repayment of the Corporation s medium-term notes due in 2009 as well as other debt maturities. The Corporation reported a net loss for the discontinued operations of $457.3 million for the third quarter of 2008. The loss included write-downs of assets held-for-sale to fair value, losses on the sale of loans, restructuring charges and the recording of a valuation allowance on deferred tax assets of $171.2 million.

Assets and liabilities of discontinued operations, substantially all of which are classified as held-for-sale, were estimated as follows as of September 30, 2008:

($ in millions)	September 30, 2008	
Loans	$	626
Servicing rights		37
Servicing advances		280
Residual interests		4
Other		22
Total assets	$	969
Secured borrowings	$	166
Other liabilities		14
Total liabilities	$	180
Net assets	$	789

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The following table provides financial information for the discontinued operations for the quarter and nine months ended September 30, 2008 and 2007.

($ in millions)	Quarter ended September 30, 2008	Quarter ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Net interest income	$ 1.6	$ 28.5	$ 30.7	$ 118.1
Provision for loan losses	10.5	61.8	19.0	140.1
Non-interest (loss) income, including fair value adjustments on loans and MSRs	(256.4)	(9.9)	(255.4)	(60.5)
Operating expenses, including reductions in value of servicing advances and other real estate	126.3	28.0	193.0	110.0
Loss on disposition during the period(1)	(53.5)		(53.5)	
Pre-tax loss from discontinued operations	$(445.1)	$ (71.2)	$(490.2)	$ (192.5)
Income tax expense (benefit)	12.2	(27.0)	(2.0)	(69.1)
Loss from discontinued operations, net of tax	$(457.3)	$ (44.2)	$(488.2)	$ (123.4)

(1) Loss on disposition during the period is associated to the sale of manufactured housing loans in September 2008, which included lower of cost or market adjustments at reclassification from loans held-in-portfolio to loans held-for-sale.

As part of these actions at PFH, the Corporation entered into a restructuring plan (the PFH Discontinuance Restructuring Plan) to eliminate employment positions, terminate contracts and incur other costs associated with the sale. Further information on the restructuring plan is provided in Note 20 to the consolidated financial statements.

Note 4 Restrictions on Cash and Due from Banks and Highly-Liquid 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 $630 million as of September 30, 2008 (December 31, 2007 $678 million; September 30, 2007 $588 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, at September 30, 2008, the Corporation had securities with a market value of $275 thousand (December 31, 2007 - securities with a market value of $273 thousand; September 30, 2007 securities with a market value of $397 thousand); segregated in a special reserve bank account for the benefit of brokerage customers of its broker-dealer subsidiary. 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 September 30, 2008, December 31, 2007, and September 30, 2007, the Corporation maintained separately for its two international banking entities (IBEs), $600 thousand 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 September 30, 2008, the Corporation maintained restricted cash of $1.9 million as collateral (December 31, 2007 $1.9 million; September 30, 2007 $1.9 million). 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 September 30, 2008, the Corporation had restricted cash of $3.2 million (December 31, 2007 - $3.5 million) to support a letter of credit related to a service settlement agreement.

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Note 5 Pledged Assets

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

(In thousands)	September 30, 2008	December 31, 2007	September 30, 2007
Investment securities available-for-sale, at fair value	$ 2,647,930	$ 2,944,643	$ 3,222,644
Investment securities held-to-maturity, at amortized cost		339	340
Loans held-for-sale measured at lower of cost or market value	36,218	42,428	41,266
Loans held-in-portfolio	7,686,937	8,489,814	11,482,585
Total pledged assets from continuing operations	$10,371,085	$11,477,224	$14,746,835
Pledged assets from discontinued operations (loans) (1)	$ 160,115		

(1) Included as part of Assets from discontinued operations in the consolidated statement of condition as of September 30, 2008.

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

Note 6 Investment Securities Available-For-Sale

The amortized cost, gross unrealized gains and losses and approximate market value (or fair value for certain investment securities where no market quotations are available) of investment securities available-for-sale as of September 30, 2008, December 31, 2007 and September 30, 2007 were as follows:

	AS OF SEPTEMBER 30, 2008			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
U.S. Treasury securities	$ 458,990	$ 5,219		$ 464,209
Obligations of U.S. Government sponsored entities	4,566,004	28,505	$ 9,670	4,584,839
Obligations of Puerto Rico, States and political subdivisions	104,227	165	2,691	101,701
Collateralized mortgage obligations	1,588,249	2,281	37,687	1,552,843

Mortgage-backed securities	855,377	5,225	10,084	850,518
Equity securities	19,520	102	4,990	14,632
	$7,592,367	$41,497	$65,122	$7,568,742

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(In thousands)	AS OF DECEMBER 31, 2007 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
U.S. Treasury securities	$ 476,104	$ 3	$ 5,011	$ 471,096
Obligations of U.S. Government sponsored entities	5,450,028	52,971	5,885	5,497,114
Obligations of Puerto Rico, States and political subdivisions	103,206	470	2,184	101,492
Collateralized mortgage obligations	1,403,292	3,754	10,506	1,396,540
Mortgage-backed securities	1,017,302	4,690	11,864	1,010,128
Equity securities	33,299	690	36	33,953
Others	4,812			4,812
	$8,488,043	$62,578	$35,486	$8,515,135

(In thousands)	AS OF SEPTEMBER 30, 2007 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
U.S. Treasury securities	$ 497,893	$ 41	$ 22,114	$ 475,820
Obligations of U.S. Government sponsored entities	5,871,339	2,628	55,613	5,818,354
Obligations of Puerto Rico, States and political subdivisions	109,289	420	2,871	106,838
Collateralized mortgage obligations	1,479,951	3,216	13,798	1,469,369
Mortgage-backed securities	969,023	3,190	22,738	949,475
Equity securities	46,100	1,780	6,598	41,282
Others	16,730	627		17,357
	$8,990,325	$11,902	$123,732	$8,878,495

The table below 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 September 30, 2008, December 31, 2007 and September 30, 2007.

	AS OF SEPTEMBER 30, 2008 Less than 12 months		
(In thousands)	Amortized Cost	Gross Unrealized Losses	Market Value
Obligations of U.S. Government sponsored entities	$1,853,632	$ 9,670	$1,843,962
Obligations of Puerto Rico, States and political subdivisions	50,204	453	49,751
Collateralized mortgage obligations	896,593	14,019	882,574
Mortgage-backed securities	257,872	2,388	255,484
Equity securities	13,880	4,980	8,900
	$3,072,181	$31,510	$3,040,671

	12 months or more		
(In thousands)	Amortized Cost	Gross Unrealized Losses	Market Value
Obligations of Puerto Rico, States and political subdivisions	$ 44,011	$ 2,238	$ 41,773
Collateralized mortgage obligations	414,813	23,668	391,145
Mortgage-backed securities	270,609	7,696	262,913
Equity securities	29	10	19
	$729,462	$33,612	$695,850

	Total		
(In thousands)	Amortized Cost	Gross Unrealized Losses	Market Value
Obligations of U.S. Government sponsored entities	$1,853,632	$ 9,670	$1,843,962
Obligations of Puerto Rico, States and political subdivisions	94,215	2,691	91,524
Collateralized mortgage obligations	1,311,406	37,687	1,273,719
Mortgage-backed securities	528,481	10,084	518,397
Equity securities	13,909	4,990	8,919
	$3,801,643	$65,122	$3,736,521

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(In thousands)	AS OF DECEMBER 31, 2007 Less than 12 months Amortized Cost	Gross Unrealized Losses	Market Value
Obligations of U.S. Government sponsored entities	$ 67,107	$ 185	$ 66,922
Obligations of Puerto Rico, States and political subdivisions	2,600	2	2,598
Collateralized mortgage obligations	349,084	2,453	346,631
Mortgage-backed securities	99,328	667	98,661
Equity securities	28	10	18
	$518,147	$3,317	$514,830

(In thousands)	12 months or more Amortized Cost	Gross Unrealized Losses	Market Value
U.S. Treasury securities	$ 466,111	$ 5,011	$ 461,100
Obligations of U.S. Government sponsored entities	1,807,457	5,700	1,801,757
Obligations of Puerto Rico, States and political subdivisions	65,642	2,182	63,460
Collateralized mortgage obligations	430,034	8,053	421,981
Mortgage-backed securities	656,879	11,197	645,682
Equity securities	300	26	274
	$3,426,423	$32,169	$3,394,254

(In thousands)	Total Amortized Cost	Gross Unrealized Losses	Market Value
U.S. Treasury securities	$ 466,111	$ 5,011	$ 461,100
Obligations of U.S. Government sponsored entities	1,874,564	5,885	1,868,679
Obligations of Puerto Rico, States and political subdivisions	68,242	2,184	66,058
Collateralized mortgage obligations	779,118	10,506	768,612
Mortgage-backed securities	756,207	11,864	744,343
Equity securities	328	36	292
	$3,944,570	$35,486	$3,909,084

	AS OF SEPTEMBER 30, 2007		
	Less than 12 months		
(In thousands)	Amortized Cost	Gross Unrealized Losses	Market Value
Obligations of U.S. Government sponsored entities	$106,914	$ 3,960	$102,954
Obligations of Puerto Rico, States and political subdivisions	22,680	411	22,269
Collateralized mortgage obligations	283,814	1,869	281,945
Mortgage-backed securities	22,328	399	21,929
Equity securities	22,638	6,572	16,066
	$458,374	$13,211	$445,163

	12 months or more		
(In thousands)	Amortized Cost	Gross Unrealized Losses	Market Value
U.S. Treasury securities	$ 478,436	$ 22,114	$ 456,322
Obligations of U.S. Government sponsored entities	5,212,523	51,653	5,160,870
Obligations of Puerto Rico, States and political subdivisions	50,235	2,460	47,775
Collateralized mortgage obligations	576,852	11,929	564,923
Mortgage-backed securities	818,782	22,339	796,443
Equity securities	300	26	274
	$7,137,128	$110,521	$7,026,607

	Total		
(In thousands)	Amortized Cost	Gross Unrealized Losses	Market Value
U.S. Treasury securities	$ 478,436	$ 22,114	$ 456,322
Obligations of U.S. Government sponsored entities	5,319,437	55,613	5,263,824
Obligations of Puerto Rico, States and political subdivisions	72,915	2,871	70,044
Collateralized mortgage obligations	860,666	13,798	846,868
Mortgage-backed securities	841,110	22,738	818,372
Equity securities	22,938	6,598	16,340
	$7,595,502	$123,732	$7,471,770

As of September 30, 2008, Obligations of Puerto Rico, States and political subdivisions include approximately $48 million in Commonwealth of Puerto Rico Appropriation Bonds (Appropriation Bonds) in the Corporation s investment securities portfolios. The rating on these bonds by Moody s Investors Service (Moody s) is Ba1, one notch below investment grade, while Standard & Poor s (S&P) rates them as investment grade. As of September 30, 2008, these Appropriation Bonds represented approximately $2.2 million in net unrealized losses in the Corporation s investment securities portfolios. The Corporation is closely monitoring the political and economic situation of the Island as part of its evaluation of its available-for-sale portfolio for any declines in value that management may consider being other-than-temporary. Management has the intent and ability to hold these investments for a reasonable period of time for a forecasted recovery of fair value up to (or beyond) the cost of these investments.

The unrealized loss positions of available-for-sale securities as of September 30, 2008, except for the obligations of the Puerto Rico government described above and certain equity securities which have recently declined in value during 2008, are primarily associated with collateralized mortgage obligations and government sponsored-issued mortgage-backed securities. The vast majority of these securities are rated the equivalent of AAA by the major rating agencies. The investment portfolio is structured primarily with highly-liquid securities, which possess a large and efficient secondary market. Management believes that the unrealized losses in these available-for-sale securities as of September 30, 2008 are temporary and are substantially related to market interest rate fluctuations and not to the deterioration in the creditworthiness of the issuers. Also, management has the intent and ability to hold these investments for a reasonable period of time for a forecasted recovery of fair value up to (or beyond) the cost of these investments.

During the nine months ended September 30, 2008 and September 30, 2007, the Corporation recognized through earnings approximately $9.1 million and $7.6 million, respectively, in losses in equity securities classified as available-for-sale that management considered to be other-than-temporarily impaired.

The following table states the names of issuers and the aggregate amortized cost and market value of the securities of such issuer (includes available-for-sale and held-to-maturity securities), in which the aggregate amortized cost of such securities exceeds 10% of stockholders equity. This information excludes securities of the U.S. Government agencies and corporations. Investments in obligations issued by a state of the U.S. and its political subdivisions and agencies, which are payable and secured by the same source of revenue or taxing authority, other than the U.S. Government, are considered securities of a single issuer.

	September 30, 2008		December 31, 2007		September 30, 2007	
(In thousands)	Amortized Cost	Market Value	Amortized Cost	Market Value	Amortized Cost	Market Value
FNMA	$1,129,613	$1,120,659	$1,132,834	$1,128,544	$1,184,225	$1,169,857
FHLB	4,936,497	4,953,787	5,649,729	5,693,170	5,841,614	5,788,544
Freddie Mac	828,800	815,104	918,976	913,609	954,598	944,533

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 September 30, 2008, December 31, 2007 and September 30, 2007 were as follows:

	AS OF SEPTEMBER 30, 2008			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Obligations of U.S. Government sponsored entities	$526,486	$ 11		$526,497
Obligations of Puerto Rico, States and political subdivisions	184,671	171	$3,618	181,224
Collateralized mortgage obligations	251		14	237
Others	8,424	50	2	8,472
	$719,832	$232	$3,634	$716,430

(In thousands)	AS OF DECEMBER 31, 2007 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Obligations of U.S. Government sponsored entities	$395,974	$ 15	$1,497	$394,492
Obligations of Puerto Rico, States and political subdivisions	76,464	3,108	26	79,546
Collateralized mortgage obligations	310		17	293
Others	11,718	94	4	11,808
	$484,466	$3,217	$1,544	$486,139

(In thousands)	AS OF SEPTEMBER 30, 2007 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Obligations of U.S. Government sponsored entities	$196,190		$ 71	$196,119
Obligations of Puerto Rico, States and political subdivisions	71,465	$1,400	148	72,717
Collateralized mortgage obligations	331		18	313
Others	11,281		358	10,923
	$279,267	$1,400	$595	$280,072

The following table shows the Corporation s amortized cost, gross unrealized losses and fair 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 September 30, 2008, December 31, 2007 and September 30, 2007:

	AS OF SEPTEMBER 30, 2008		
	Less than 12 months		
(In thousands)	Amortized Cost	Gross Unrealized Losses	Market Value
Obligations of Puerto Rico, States and political subdivisions	$48,644	$3,618	$45,026
	$48,644	$3,618	$45,026

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

Collateralized mortgage obligations	$ 251	$ 14	$ 237
Others	1,000	2	998
	$1,251	$ 16	$1,235

(In thousands)	Amortized Cost	Total Gross Unrealized Losses	Market Value
Obligations of Puerto Rico, States and political subdivisions	$48,644	$3,618	$45,026
Collateralized mortgage obligations	251	14	237
Others	1,000	2	998
	$49,895	$3,634	$46,261

	AS OF DECEMBER 31, 2007		
	Less than 12 months		
(In thousands)	Amortized Cost	Gross Unrealized Losses	Market Value
Obligations of U.S. Government sponsored entities	$196,129	$1,497	$194,632
Obligations of Puerto Rico, States and political subdivisions	1,883	26	1,857
Others	1,250	1	1,249
	$199,262	$1,524	$197,738

	12 months or more		
(In thousands)	Amortized Cost	Gross Unrealized Losses	Market Value
Collateralized mortgage obligations	$ 310	$ 17	$ 293
Others	1,250	3	1,247
	$1,560	$ 20	$1,540

(In thousands)	Amortized Cost	Total Gross Unrealized Losses	Market Value
Obligations of U.S. Government sponsored entities	$196,129	$1,497	$194,632
Obligations of Puerto Rico, States and political subdivisions	1,883	26	1,857
Collateralized mortgage obligations	310	17	293
Others	2,500	4	2,496
	$200,822	$1,544	$199,278

	AS OF SEPTEMBER 30, 2007		
	Less than 12 months		
(In thousands)	Amortized Cost	Gross Unrealized Losses	Market Value
Obligations of U.S. Government sponsored entities	$196,190	$ 71	$196,119
Obligations of Puerto Rico, States and political subdivisions	1,545	24	1,521
Others	6,225	354	5,871
	$203,960	$449	$203,511

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(In thousands)	12 months or more Amortized Cost	Gross Unrealized Losses	Market Value
Obligations of Puerto Rico, States and political subdivisions	$23,460	$124	$23,336
Collateralized mortgage obligations	331	18	313
Others	1,250	4	1,246
	$25,041	$146	$24,895

(In thousands)	Amortized Cost	Total Gross Unrealized Losses	Market Value
Obligations of U.S. Government sponsored entities	$196,190	$ 71	$196,119
Obligations of Puerto Rico, States and political subdivisions	25,005	148	24,857
Collateralized mortgage obligations	331	18	313
Others	7,475	358	7,117
	$229,001	$595	$228,406

Management believes that the unrealized losses in the held-to-maturity portfolio as of September 30, 2008 are temporary and are substantially related to market interest rate fluctuations and not to deterioration in the creditworthiness of the issuers. Management has the intent and ability to hold these investments until maturity.

Note 8 Mortgage Servicing Rights

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

Effective January 1, 2007, under SFAS No. 156, the Corporation identified servicing rights related to residential mortgage loans as a class of servicing rights and elected to apply fair value accounting to these mortgage servicing rights (MSRs). These MSRs are segregated between loans serviced by PFH and by the Corporation s banking subsidiaries. Fair value determination is performed on a subsidiary basis, with assumptions varying in accordance with the types of assets or markets served.

Classes of mortgage servicing rights were determined based on the different markets or types of assets being serviced. Under the fair value accounting method of SFAS No. 156, purchased MSRs and MSRs resulting from asset transfers are capitalized and carried at fair value.

Effective January 1, 2007, upon the remeasurement of the MSRs at fair value in accordance with SFAS No. 156, the Corporation recorded a cumulative effect adjustment to increase the 2007 beginning balance of MSRs by $15.3 million, which resulted in a $9.6 million, net of tax, increase in the retained earnings account of stockholders equity in 2007.

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 MSRs of PFH are included as part of Assets from discontinued operations in the consolidated statement of condition as of September 30, 2008. The MSRs related to PFH operations were valued as of September 30, 2008 by allocating a portion of the estimated fair value of the servicing related assets to be sold to Goldman Sachs, which

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was based on the purchase price terms under the agreement.
The changes in MSRs measured using the fair value method for the nine months ended September 30, 2008 and September 30, 2007 were:

	Residential MSRs		
(In thousands)	Banking subsidiaries	PFH (2)	Total
Fair value at January 1, 2008	$110,612	$ 81,012	$191,624
Purchases	3,628		3,628
Servicing from securitizations or asset transfers	22,033		22,033
Changes due to payments on loans (1)	(8,136)	(20,298)	(28,434)
Changes in fair value due to changes in valuation model inputs or assumptions	(310)	(23,304)	(23,614)
Fair value as of September 30, 2008	$127,827	$ 37,410	$165,237

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

(2) MSRs for PFH are included as part of Assets from discontinued operations in the consolidated statement of condition as of September 30, 2008.

	Residential MSRs		
(In thousands)	Banking subsidiaries	PFH	Total
Fair value at January 1, 2007	$ 91,431	$ 84,038	$175,469
Purchases	3,345	22,251	25,596
Servicing from securitizations or asset transfers	17,682	8,040	25,722
Changes due to payments on loans (1)	(6,821)	(29,285)	(36,106)
Changes in fair value due to changes in valuation model inputs or assumptions	4,276	(1,636)	2,640
Other changes		(66)	(66)

Fair value as of September 30, 2007	$109,913	$ 83,342	$193,255

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

Residential mortgage loans serviced for others were $20.0 billion as of September 30, 2008 (December 31, 2007 $20.5 billion; September 30, 2007 $18.1 billion).

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.

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. Under these servicing agreements, the banking subsidiaries do not earn significant prepayment penalty fees on the underlying loans serviced.

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 September 30, 2008 and year ended December 31, 2007 were:

	September 30, 2008	December 31, 2007
Prepayment speed	8.9%	9.5%
Weighted average life	11.3 years	10.6 years
Discount rate (annual rate)	11.1%	10.7%

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

	Originated MSRs	
(In thousands)	September 30, 2008	December 31, 2007
Fair value of retained interests	$ 110,026	$ 86,453
Weighted average life	11.3 years	12.5 years
Weighted average prepayment speed (annual rate)	8.8%	8.0%
Impact on fair value of 10% adverse change	$ (3,972)	$ (1,983)
Impact on fair value of 20% adverse change	$ (7,143)	$ (3,902)
Weighted average discount rate (annual rate)	11.48%	10.83%
Impact on fair value of 10% adverse change	$ (3,453)	$ (2,980)
Impact on fair value of 20% adverse change	$ (6,072)	$ (5,795)

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

	Purchased MSRs	
(In thousands)	September 30, 2008	December 31, 2007
Fair value of retained interests	$ 17,801	$ 24,159
Weighted average life of collateral	6.5 years	12.4 years
Weighted average prepayment speed (annual rate)	15.5%	8.0%
Impact on fair value of 10% adverse change	$ (922)	$ (719)
Impact on fair value of 20% adverse change	$ (1,638)	$ (1,407)
Weighted average discount rate (annual rate)	12.3%	10.8%
Impact on fair value of 10% adverse change	$ (713)	$ (956)
Impact on fair value of 20% adverse change	$ (1,240)	$ (1,846)

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.

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Popular Financial Holdings

As indicated previously, as of September 30, 2008, all of PFH s MSRs were part of the discontinued operations. Given that their sale became effective on November 3, 2008, these financial statements do not include sensitivity analyses for PFH s MSRs as of the end of the third quarter of 2008 since they were not considered relevant.

Key economic assumptions used to estimate the fair value of MSRs derived from securitization transactions and the sensitivity to immediate changes in those assumptions as of December 31, 2007 are presented below.

	December 31, 2007 Originated MSRs	
(In thousands)	Fixed-rate loans	ARM loans
Carrying amount of retained interests (fair value)	$ 47,243	$ 11,335
Weighted average life of collateral	4.3 years	2.6 years
Weighted average prepayment speed (annual rate)	20.7%	30.0%
Impact on fair value of 10% adverse change	$ (192)	$ 272
Impact on fair value of 20% adverse change	$ (886)	$ 688
Weighted average discount rate (annual rate)	17.0%	17.0%
Impact on fair value of 10% adverse change	$ (1,466)	$ (225)
Impact on fair value of 20% adverse change	$ (2,846)	$ (441)

PFH, as servicer, collects prepayment penalties on a substantial portion of the underlying serviced loans. As such, an adverse change in the prepayment assumptions with respect to the MSRs could be partially offset by the benefit derived from the prepayment penalties estimated to be collected.

PFH also owns servicing rights purchased from other institutions. The fair value of purchased MSRs, their related valuation assumptions and the sensitivity to immediate changes in those assumptions as of December 31, 2007 are presented below.

	December 31, 2007 Purchased MSRs	
(In thousands)	Fixed-rate loans	ARM loans
Carrying amount of retained interests (fair value)	$ 7,808	$ 14,626
Weighted average life of collateral	4.7 years	3.4 years
Weighted average prepayment speed (annual rate)	18.3%	25.2%
Impact on fair value of 10% adverse change	$ (329)	$ (719)
Impact on fair value of 20% adverse change	$ (631)	$ (1,377)
Weighted average discount rate (annual rate)	17.0%	17.0%
Impact on fair value of 10% adverse change	$ (330)	$ (509)
Impact on fair value of 20% adverse change	$ (633)	$ (981)

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Note 9 Other Assets

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

(In thousands)	September 30, 2008	December 31, 2007	September 30, 2007
Net deferred tax assets (net of valuation allowance)	$ 663,260	$ 525,369	$ 420,288
Securitization advances and related assets (1)		168,599	82,980
Bank-owned life insurance program	222,298	215,171	212,698
Prepaid expenses	153,698	188,237	187,725
Investments under the equity method	117,766	89,870	85,806
Derivative assets	50,335	76,958	64,981
Trade receivables from brokers and counterparties	17,100	1,160	8,714
Others	187,762	191,630	181,497
Total	$1,412,219	$1,456,994	$1,244,689

(1) Securitization advances and related assets are included as part of Assets from discontinued operations as of September 30, 2008. Refer to Note 3 to the consolidated financial statements.

Note 10 Derivative Instruments and Hedging

Refer to Note 30 to the consolidated financial statements included in the 2007 Annual Report for a complete description of the Corporation s derivative activities. The following represents the major changes that occurred in the Corporation s derivative activities during the third quarter of 2008.

Cash Flow Hedges

Derivative financial instruments designated as cash flow hedges outstanding as of September 30, 2008 and December 31, 2007 were as follows:

	As of September 30, 2008				
(In thousands)	Notional amount	Derivative assets	Derivative liabilities	Equity OCI	Ineffectiveness
Asset Hedges					
Forward commitments	$139,500	$ 1,137	$ 439	$ 426	
Liability Hedges					

Interest rate swaps	$200,000		$ 2,711	$(1,762)	

	As of December 31, 2007				
(In thousands)	Notional amount	Derivative assets	Derivative liabilities	Equity OCI	Ineffectiveness
Asset Hedges					
Forward commitments	$142,700	$ 169	$ 509	$ (207)	
Liability Hedges					
Interest rate swaps	$200,000		$ 3,179	$(2,066)	

The Corporation utilizes forward contracts to hedge the sale of mortgage-backed securities with duration terms over one month. Interest rate forward contracts 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 used to hedge 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. The contracts outstanding as of September 30, 2008 have a maximum remaining maturity of 79 days.

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The Corporation also has designated as cash flow hedges, interest rate swap contracts that convert floating rate debt into fixed rate debt by minimizing the exposure to changes in cash flows due to higher interest rates. These interest rate swap contracts have a maximum remaining maturity of 6.3 months.

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Non-Hedging Activities

Financial instruments designated as non-hedging derivatives outstanding as of September 30, 2008 and December 31, 2007 were as follows:

As of September 30, 2008

		Fair Values	
(In thousands)	Notional amount	Derivative assets	Derivative liabilities
Forward contracts	$ 292,531	$ 1,106	$ 888
Interest rate swaps associated with:			
- bond certificates offered in an on-balance sheet securitization	63,369		2,532
- swaps with corporate clients	1,003,508	29,280	
- swaps offsetting position of corporate client swaps	933,893		27,938
Foreign currency and exchange rate commitments w/ clients	106	3	
Foreign currency and exchange rate commitments w/ counterparty	106		3
Interest rate caps	128,300	612	
Interest rate caps for benefit of corporate clients	128,300		612
Indexed options on deposits	208,557	19,151	
Bifurcated embedded options	182,507		18,402
Mortgage rate lock commitments	101,434	6	558
Total	$3,042,611	$50,158	$ 50,933

As of December 31, 2007

		Fair Values	
(In thousands)	Notional amount	Derivative assets	Derivative liabilities
Forward contracts	$ 693,096	$ 74	$ 3,232
Interest rate swaps associated with:			
- short-term borrowings	200,000		1,129
- bond certificates offered in an on-balance sheet securitization	185,315		2,918
- swaps with corporate clients	802,008		24,593
- swaps offsetting position of corporate client swaps	802,008	24,593	
Credit default swap	33,463		
Foreign currency and exchange rate commitments w/ clients	146		1
Foreign currency and exchange rate commitments w/ counterparty	146	2	
Interest rate caps	150,000	27	
Interest rate caps for benefit of corporate clients	50,000		18
Indexed options on deposits	211,267	45,954	
Indexed options on S&P Notes	31,152	5,962	

Bifurcated embedded options	218,327		50,227
Mortgage rate lock commitments	148,501	258	386
Total	$3,525,429	$76,870	$ 82,504

Interest Rates Swaps

The Corporation has an interest rate swap outstanding with a notional amount of $63 million to economically hedge the payments of certificates issued as part of a securitization. This swap is marked-to-market quarterly and recognized as part of interest expense. The Corporation recognized gains of $25 thousand for the third quarter and $0.4 million for the nine months ended September 30, 2008 due to changes in the fair value of this swap. The Corporation recognized losses of $3.8 million for the third quarter and $1.8 million for the nine months ended September 30, 2007 due to changes in its fair value.

In addition, the Corporation also enters into interest rate swaps 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.

Interest Rate Caps

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

Forward Contracts

The Corporation has loan sales commitments to economically hedge the changes in fair value of mortgage loans held-for-sale associated with interest rate lock commitments through both mandatory and best efforts forward sales agreements. These contracts are entered into in order to optimize the gain on sales of loans. These contracts are recognized at fair market value with changes directly reported in income as part of gain on sale of loans. For the quarter and nine months ended September 30, 2008, losses of $1.1 million and gains of $1.1 million, respectively, were recognized due to changes in fair value of these forward sales commitments. For the quarter and nine months ended September 30, 2007, losses of $3.7 million and $2.1 million, respectively, were recognized due to changes in fair value of these forward sales commitments. Additionally, the Corporation has forward commitments to hedge the changes in fair value of certain MBS securities classified as trading securities. For the quarter and nine months ended September 30, 2008, the Corporation recognized gains of $0.9 million and $2.3 million, respectively, due to changes in the fair value of these forward commitments, which were recognized as part of trading gains and losses. For the quarter and nine months ended September 30, 2007, losses of $0.5 million and $0.7 million, respectively, were recognized due to changes in fair value of these forward commitments.

Mortgage Rate Lock Commitments

The Corporation has mortgage rate lock commitments to fund mortgage loans at interest rates previously agreed for a specified period of time. The mortgage rate lock commitments are accounted as derivatives pursuant to SFAS No. 133. These contracts are recognized at fair value with changes directly reported in income as part of gain on sale of loans. For the quarter and nine months ended September 30, 2008, gains of $0.1 million and losses of $0.4 million, respectively, were recognized due to changes in fair value of these commitments. For the quarter and nine months ended September 30, 2007, the Corporation recognized gains of $1.9 million and $0.4 million, respectively, related to these commitments.

Note 11 Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill for the nine months ended September 30, 2008 and 2007, allocated by reportable segments, were as follows (refer to Note 25 for the definition of the Corporation s reportable segments):

		2008			
(In thousands)	Balance at January 1, 2008	Goodwill acquired	Purchase accounting adjustments	Other	Balance at September 30, 2008
Banco Popular de Puerto Rico:					
Commercial Banking	$ 35,371		$ (3,631)		$ 31,740
Consumer and Retail Banking	136,407		(17,796)		118,611
Other Financial Services	8,621	$ 153	3	$ 12	8,789
Banco Popular North America:					
Banco Popular North America	404,237				404,237
E-LOAN					
EVERTEC	46,125	1,000	85	(2,415)	44,795
Total Popular, Inc.	$ 630,761	$ 1,153	$ (21,339)	$ (2,403)	$ 608,172

(In thousands)	2007 Balance at January 1, 2007	Goodwill acquired	Other	Balance at September 30, 2007
Banco Popular de Puerto Rico:				
Commercial Banking	$ 14,674			$ 14,674
Consumer and Retail Banking	34,999			34,999
Other Financial Services	4,391			4,391
Banco Popular North America:				
Banco Popular North America	568,647			568,647
E-LOAN				
EVERTEC	45,142	$1,137	$(183)	46,096
Total Popular, Inc.	$ 667,853	$1,137	$(183)	$ 668,807

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 during the nine months ended September 30, 2008 at the BPPR reportable segment were mostly related to the acquisition of Citibank s retail branches in Puerto Rico (acquisition completed in December 2007). The reduction in goodwill in the EVERTEC reportable segment during the nine months ended September 30, 2008 was the result of the sale of substantially all assets of EVERTEC s health processing division during the third quarter of 2008.

During the third quarter of 2008, management completed the annual goodwill impairment tests for the Corporation's significant reporting units (BPPR and BPNA). Based on the results of the impairment tests, management concluded that goodwill at those reporting units is not impaired. The first step of the goodwill impairment test required by SFAS No. 142, which is used to identify potential impairment, compares the fair value of a reporting unit with its carrying amount, including goodwill. The carrying amount of BPNA exceeded its fair value, thus the second step of the goodwill impairment test was performed for that reporting unit. The second step, which is used to measure the amount of impairment loss, if any, compares the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. The implied fair value of goodwill shall be determined in the same manner as the amount of goodwill recognized in a business combination is determined. That is, an entity shall allocate the fair value of a reporting unit to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the price paid to acquire the reporting unit. The excess of the fair value of a reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. The fair value of the assets and liabilities reflects market conditions, thus volatility in prices could have a material impact on the determination of the implied fair value of the reporting unit goodwill at the impairment test date. Based on the results of the second step, management concluded that there was no goodwill impairment to be recognized by BPNA. Management monitors events or circumstances that could trigger a test for impairment between annual tests.

As of September 30, 2008, other than goodwill, the Corporation had $17 million of identifiable intangibles with indefinite useful lives (December 31, 2007 $17 million; September 30, 2007 $65 million).

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

	September 30, 2008		December 31, 2007		September 30, 2007	
(In thousands)	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization

Core deposits	$71,238	$28,446	$66,381	$23,171	$46,302	$22,836
Other customer relationships	12,898	7,105	13,421	5,753	15,021	5,192
Other intangibles	7,534	5,663	5,118	3,763	6,074	3,509
Total	$91,670	$41,214	$84,920	$32,687	$67,397	$31,537

During the quarter and nine months ended September 30, 2008, the Corporation recognized $4 million and $9 million, respectively, in amortization expense related to other intangible assets with definite lives (September 30, 2007 $2 million and $8 million in the quarter and nine months ended September 30, 2007, respectively).

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

	(In thousands)
2008	$11,695
2009	10,228
2010	8,294
2011	6,939
2012	5,919

Note 12 Fair Value Option

As indicated in Note 2 to the consolidated financial statements, the Corporation elected to measure at fair value certain loans and borrowings outstanding at January 1, 2008 pursuant to the fair value option provided by SFAS No. 159. These financial instruments, all of which pertained to the discontinued operations of Popular Financial Holdings, were as follows:

Approximately $1.2 billion of whole loans held-in-portfolio by PFH that were outstanding as of December 31, 2007. These whole loans consist principally of first lien residential mortgage loans and closed-end second lien loans that were originated through the exited origination channels of PFH (e.g. asset acquisition, broker and retail channels), and home equity lines of credit that had been originated by E-LOAN, but sold to PFH as part of the Corporation s 2007 U.S. reorganization whereby E-LOAN became a subsidiary of BPNA. Also, to a lesser extent, the loan portfolio included mixed-use / multi-family loans (small commercial category) and manufactured housing loans.

Management believed upon adoption of the accounting standard that accounting for these loans at fair value provided a more relevant and transparent measurement of the realizable value of the assets and differentiated the PFH portfolio from the loan portfolios that the Corporation continues to originate through channels other than PFH.

Approximately $287 million of owned-in-trust loans and $287 million of bond certificates associated with PFH securitization activities that were outstanding as of December 31, 2007. The owned-in-trust loans are pledged as collateral for the bond certificates as a financing vehicle through on-balance sheet securitization transactions. These loan securitizations conducted by the Corporation did not meet the sale criteria under SFAS No. 140; accordingly, the transactions are treated as on-balance sheet securitizations for accounting purposes. Due to the terms of the transactions, particularly the existence of an interest rate swap agreement and to a lesser extent clean up calls, the Corporation was unable to recharacterize these loan securitizations as sales for accounting purposes in 2007. The owned-in-trust loans include first lien residential mortgage loans, closed-end second lien loans, mixed-use / multi-family loans (small commercial category) and manufactured housing loans. The majority of the portfolio is comprised of first lien residential mortgage loans.

These owned-in-trust loans do not pose the same magnitude of risk to the Corporation as those loans owned outright because certain of the potential losses related to owned-in-trust loans are born by the bondholders and not the Corporation. Upon the adoption of SFAS No. 159, the loans and related bonds are both measured at fair value, thus their net position better portrays the credit risk born by the Corporation.

Excluding the PFH loans elected for the fair value option as described above, PFH s reportable segment held approximately $1.8 billion of additional loans at the time of fair value option election on January 1, 2008. Of these remaining loans, at adoption date, $1.4 billion were classified as loans held-for-sale and were not subject to the fair value option as the loans were intended to be sold to an institutional buyer during the first quarter of 2008. These loans were sold in March 2008. The remaining $0.4 billion in other loans held-in-portfolio at PFH as of that same date consisted principally of a small portfolio of auto loans that was acquired from E-LOAN, warehousing revolving

lines of credit with monthly advances and pay-downs, and construction credit agreements in which the permanent financing will be provided by a lender other than PFH.

There were no other assets or liabilities elected for the fair value option after January 1, 2008.

Upon adoption of SFAS No. 159 the Corporation recognized a $262 million negative after-tax adjustment ($409 million before tax) to beginning retained earnings due to the transitional adjustment for electing the fair value option, as detailed in the following table.

(In thousands)	January 1, 2008 (Carrying value prior to adoption)	Cumulative effect adjustment to January 1, 2008 retained earnings Gain (Loss)	January 1, 2008 fair value (Carrying value after adoption)
Loans	$1,481,297	$ (494,180)	$ 987,117
Notes payable (bond certificates)	$ (286,611)	$ 85,625	$(200,986)
Pre-tax cumulative effect of adopting fair value option accounting		$ (408,555)	
Net increase in deferred tax asset		146,724	
After-tax cumulative effect of adopting fair value option accounting		$ (261,831)	

As of January 1, 2008, the Corporation eliminated $37 million in allowance for loan losses associated to the loan portfolio elected for fair value option accounting and recognized it as part of the cumulative effect adjustment.

The following table presents the differences as of September 30, 2008 between the aggregate fair value, including accrued interest, and aggregate unpaid principal balance (UPB) of those loans / notes payable for which the fair value option has been elected. Also, the table presents information of non-accruing loans accounted under the fair value option.

(In thousands)	Aggregate fair value as of September 30, 2008	Aggregate UPB as of September 30, 2008	Unrealized (loss) gain
Loans	$ 583,812	$ 1,145,717	$(561,905)
Loans past due 90 days or more	$ 64,802	$ 185,433	$(120,631)
Non-accrual loans (1)	$ 64,802	$ 185,433	$(120,631)

Notes payable (bond certificates)	$ (166,436)	$ (242,883)	$ 76,447

(1) It is the Corporation s policy to recognize interest income separately from other changes in fair value. Interest income on these loans was included as part of Loss from discontinued operations, net of tax in the consolidated statement of operations and is based on the note s contractual rate. Interest income is reversed, if necessary, in accordance with the Corporation s non-accruing policy for each particular loan type.

During the quarter and nine-months ended September 30, 2008, the Corporation recognized $137.2 million and $169.8 million, respectively, in losses attributable to changes in the fair value of loans, including net losses attributable to changes in instrument-specific credit spreads. During the quarter and nine months ended September 30, 2008, the Corporation recognized $3.4 million and $9.6 million, respectively, in losses attributable to changes in the fair value of notes payable (bond certificates). These losses were included in the caption Loss from discontinued operations, net of tax in the consolidated statement of operations.

These financial instruments are included as part of Assets / Liabilities from discontinued operations in the consolidated statement of condition as of September 30, 2008. PFH, which held the SFAS No. 159 loan portfolio, was financed primarily by advances from its holding company, Popular North America (PNA). In turn, PNA depended totally on the capital markets to raise financing to meet its financial obligations. Given the mounting pressure to address PNA s liquidity needs and the continuing problems with accessing the U.S. capital markets given the current unprecedented market conditions, management decided that the only viable option available to permanently raise the liquidity required by PNA was to sell PFH assets. This decision was taken in the third quarter of 2008.

Note 13 Fair Value Measurement

As discussed in Note 2 to the consolidated financial statements, effective January 1, 2008, the Corporation adopted SFAS No. 157, which provides a framework for measuring fair value under accounting principles generally accepted. Under SFAS No. 157, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability.

SFAS No. 157 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 classification of assets and liabilities within the hierarchy is based on whether the inputs to the valuation methodology used for the fair value measurement are observable or unobservable. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect the Corporation s estimates about assumptions that market participants would use in pricing the asset or liability based on the best information available. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

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

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

The estimated fair value may be subjective in nature and may involve uncertainties and matters of significant judgment for certain financial instruments. Changes in the underlying assumptions used in calculating fair value could significantly affect the results. In addition, the fair value estimates are based on outstanding balances without attempting to estimate the value of anticipated future business. Therefore, the estimated fair value may materially differ from the value that could actually be realized on a sale.

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Fair Value on a Recurring Basis

The following fair value hierarchy table presents information about the Corporation s assets and liabilities measured at fair value on a recurring basis at September 30, 2008:

	At September 30, 2008			
(In millions)	Quoted prices in active markets for identical assets or liabilities Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3	Balance as of September 30, 2008
Assets				
Continuing Operations				
Investment securities available-for-sale	$ 10	$7,522	$ 37	$7,569
Trading account securities		207	237	444
Derivatives		51		51
Mortgage servicing rights			128	128
Discontinued Operations				
Loans measured at fair value (SFAS No. 159)			584	584
Residual interests trading			4	4
Mortgage servicing rights			37	37
Total	$ 10	$7,780	$1,027	$8,817
Liabilities				
Continuing Operations				
Derivatives		$ (52)		$ (52)
Discontinued Operations				
Notes payable measured at fair value (SFAS No. 159)			$ (166)	(166)
Derivatives		(2)		(2)
Total		$ (54)	$ (166)	$ (220)

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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 quarter and nine months ended September 30, 2008:

	Quarter ended September 30, 2008							
(In millions)	Balance as of June 30, 2008	Gains (losses) included in earnings	Gains (losses) included in other comprehensive income	Increase (decrease) in accrued interest receivable / payable	Purchases, sales, issuances, settlements, paydowns and maturities (net)	Balance as of September 30, 2008	Changes in unrealized gains (losses) included in earnings related to assets and liabilities still held as of September 30, 2008	
Assets								
Continuing Operations								
Investment securities available-for-sale	$ 39		$ (1)		$ (1)	$ 37		(a)
Trading account securities	310	$ 1			(74)	237	$ (1)	(b)
Mortgage servicing rights	130	(10)			8	128	(7)	(d)
Discontinued Operations								
Loans measured at fair value (SFAS No. 159)	845	(137)		$ (1)	(123)	584	(111)	(c)
Residual interests trading	35	(29)			(2)	4	(32)	(c)
Mortgage servicing rights	56	(19)				37	(12)	(c)
Residual interests - available-for-sale	2	(2)						(c)
Total	$ 1,417	$ (196)	$ (1)	$ (1)	$ (192)	$ 1,027	$ (163)	

Liabilities

Discontinued Operations							
Notes payable measured at fair value (SFAS No. 159)	$ (174)	$ (3)		$ 11	$ (166)	$ (3)	(c)
Total	$ (174)	$ (3)		$ 11	$ (166)	$ (3)	

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

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

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

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

	Nine months ended September 30, 2008							
(In millions)	Balance as of January 1, 2008	Gains (losses) included in earnings	Gains (losses) included in other comprehensive income	Increase (decrease) in accrued interest receivable / payable	Purchases, sales, issuances, settlements, paydowns and maturities (net)	Balance as of September 30, 2008	Changes in unrealized gains (losses) included in earnings related to assets and liabilities still held as of September 30, 2008	
Assets								
Continuing Operations								
Investment securities available-for-sale	$ 39				$ (2)	$ 37		(a)
Trading account securities	233	$ 4				237	$ 2	(b)
Mortgage servicing rights	111	(9)			26	128	(1)	(d)
Discontinued Operations								
Loans measured at fair value (SFAS No. 159)	987	(170)		(3)	(230)	584	(96)	(c)
Residual Interest trading	40	(32)			(4)	4	(43)	(c)
Mortgage servicing rights	81	(44)				37	(23)	(c)
Residual Interest available-for-sale	4	(4)						(c)
Total	$1,495	$(255)		$ (3)	$(210)	$1,027	$(161)	
Liabilities								

Discontinued Operations							
Notes payable measured at fair value (SFAS No. 159)	$ (201)	$ (9)		$ 44	$ (166)	$ (9)	(c)
Total	$ (201)	$ (9)		$ 44	$ (166)	$ (9)	

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

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

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

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

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

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

	Quarter ended September 30, 2008	
(In millions)	Total gains (losses) included in earnings	Change in unrealized gains or losses relating to assets / liabilities still held at reporting date
Continuing Operations		
Interest income		
Other service fees	$ (10)	$ (7)
Trading account loss	1	(1)
Discontinued Operations (1)		
Interest income	3	
Other service fees	(19)	(12)
Net loss on sale and valuation adjustments of investment securities	(2)	
Trading account loss	(32)	(32)
Losses from changes in fair value related to instruments measured at fair value pursuant to SFAS No. 159	(140)	(114)
Total	$ (199)	$ (166)

(1) All income statement amounts for the discontinued operations disclosed in this table are aggregated and included in the line item Loss from discontinued operations, net of tax in the consolidated statement of operations.

Nine months ended September 30, 2008
Change in unrealized gains

(In millions)	Total gains (losses) included in earnings		or losses relating to assets / liabilities still held at reporting date	
Continuing Operations				
Interest income				
Other service fees	$	(9)	$	(1)
Trading account loss		4		2
Discontinued Operations (1)				
Interest income		11		
Other service fees		(44)		(23)
Net loss on sale and valuation adjustments of investment securities		(4)		
Trading account loss		(43)		(43)
Losses from changes in fair value related to instruments measured at fair value pursuant to SFAS No. 159		(179)		(105)
Total	$	(264)	$	(170)

(1) All income statement amounts for the discontinued operations disclosed in this table are aggregated and included in the line item Loss from discontinued operations, net of tax in the consolidated statement of operations.

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

(In millions)	Quoted prices in active markets for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3	Total
Assets				
Continuing Operations				
Loans (1)			$ 474	$474
Discontinued Operations				
Loans held-for-sale (2)			42	42
Securitization advances			280	280

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

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

Following is a description of the Corporation s valuation methodologies used for assets and liabilities measured at fair value. The disclosure requirements exclude certain financial instruments and all non-financial instruments. Accordingly, the aggregate fair value amounts of the financial instruments presented in Note 13 do not represent management s estimate of the underlying value of the Corporation.

Trading Account Securities and Investment Securities Available-for-Sale

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

Obligations of U.S. Government sponsored entities: The Obligations of U.S. Government sponsored entities include U.S agency securities. The fair value of U.S. agency securities, except for structured notes, is based on an active exchange market and is based on quoted market prices for similar securities. The U.S. agency securities are classified as Level 2. U.S. agency structured notes are priced based on a bond s theoretical value from similar bonds defined by credit quality and market sector and for which the fair value incorporates an option adjusted spread in deriving their fair value. These securities are classified as Level 2.

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

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

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

Equity securities: Equity securities with quoted market prices obtained from an active exchange market are classified as Level 1.

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

Derivatives

Interest rate swaps, interest rate caps and index options are traded in over-the-counter active markets. These derivatives are indexed to an observable interest rate benchmark, such as LIBOR or equity indexes, and are priced using present value and option pricing models using observable inputs. The derivatives are substantially classified as Level 2. Other derivatives that are exchange-traded, such as futures and options, or that are liquid and have quoted prices, such as forward contracts or TBA s, are also classified as Level 2.

Mortgage servicing rights

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

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

The impairment is measured based on the fair value of the collateral, which is derived from appraisals that take into consideration prices in observed transactions involving similar assets in similar locations, in accordance with the provisions of SFAS No. 114 (as amended by SFAS No. 118). Currently, the associated loans considered impaired as of June 30, 2008 are classified as Level 3.

Assets / Liabilities from discontinued operations

The fair value measurements of assets and liabilities associated to the discontinued operations are mostly derived from the price indicators negotiated in a market transaction with Goldman Sachs, the prospective buyer of substantially all of the assets of the discontinued business as indicated in Note 3 to the consolidated financial statements.

Note 14 Borrowings

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

(In thousands)	September 30, 2008	December 31, 2007	September 30, 2007
Federal funds purchased	$ 139,951	$ 303,492	$ 690,332
Assets sold under agreements to repurchase	3,590,088	5,133,773	5,596,971
	$3,730,039	$5,437,265	$6,287,303

Other short-term borrowings consisted of:

(In thousands)	September 30, 2008	December 31, 2007	September 30, 2007
Advances with the FHLB paying interest monthly at fixed rates (September 30, 2007 - 5.14% to 5.17%)		$ 72,000	$ 172,000
Advances with the FHLB paying interest at maturity at fixed rates ranging from 2.62% to 3.08%	$115,000	570,000	
Advances under credit facilities with other institutions at a fixed rate of 3.25% (September 30, 2007 5.25% to 5.96%)	10,000	487,000	210,000
Commercial paper paying interest at fixed rates (September 30, 2007 - 5.05% to 5.92%)		7,329	249,041
Term notes purchased paying interest at maturity at fixed rates ranging from 2.20% to 3.40%	37,232		
Term funds purchased at fixed rates ranging from 2.53% to 2.75% (September 30, 2007 5.13% to 5.82%)	343,000	280,000	749,000
Other	1,779	85,650	34,856
	$507,011	$1,501,979	$1,414,897

Note: Refer to the Corporation s Form 10-K for the year ended December 31, 2007, for rates and maturity information corresponding

to the
borrowings
outstanding as
of such date.

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Notes payable consisted of:

(In thousands)	September 30, 2008	December 31, 2007	September 30, 2007
Advances with the FHLB:			
-with maturities ranging from 2009 through 2018 paying interest at fixed rates ranging from 2.67% to 6.98% (September 30, 2007 2.51% to 6.98%)	$1,241,717	$ 813,958	$ 738,099
-maturing in 2008 paying interest monthly at a floating rate of 0.0075% over the 1-month LIBOR rate		250,000	250,000
Advances under revolving lines of credit maturing in 2008 paying interest monthly at a floating rate of 0.75% over the 1-month LIBOR rate			317,926
Advances under revolving lines of credit with maturities ranging from 2008 to 2009 paying interest quarterly at floating rates ranging from 0.20% to 0.27% (September 30, 2007 0.20% to 0.35%) over the 3-month LIBOR rate	85,000	110,000	154,999
Term notes maturing in 2030 paying interest monthly at fixed rates ranging from 3.00% to 6.00%	3,100	3,100	3,100
Term notes with maturities ranging from 2008 to 2013 paying interest semiannually at fixed rates ranging from 3.88% to 7.00% (September 30, 2007 3.60% to 5.65%)	1,579,509	2,038,259	2,014,323
Term notes with maturities ranging from 2008 to 2013 paying interest monthly at a floating rate of 3.00% over the 10-year U.S. Treasury note rate	4,642	6,805	7,502
Term notes maturing in 2009 paying interest quarterly at a floating rate of 0.40% to 3.25% (September 30, 2007 0.35% to 0.40%) over the 3-month LIBOR rate	449,880	199,706	349,610
Secured borrowings paying interest monthly at fixed rates ranging from 4.00% to 7.12%	*	59,241	2,381,081
Secured borrowings paying interest monthly at floating rates ranging from 0.06% to 3.51% over the 1-month LIBOR rate	*	227,743	1,189,286
Notes linked to the S&P 500 Index maturing in 2008		36,498	37,876
Junior subordinated deferrable interest debentures with maturities ranging from 2027 to 2034 with fixed interest rates ranging from 6.13% to 8.33% (Refer to Note 15)	849,672	849,672	849,672

Other	28,967	26,370	21,317
Total notes payable from continuing operations	$4,242,487	$4,621,352	$8,314,791
Notes payable from discontinued operations	$ 166,436		

Note: Refer to the Corporation s Form 10-K for the year ended December 31, 2007, for rates and maturity information corresponding to the borrowings outstanding as of such date. Key index rates as of September 30, 2008 and September 30, 2007, respectively, were as follows: 1-month LIBOR rate = 3.93% and 5.12%; 3-month LIBOR rate = 4.05% and 5.23%; 10-year U.S. Treasury note = 3.83% and 4.59%.

* These secured borrowings are part of discontinued operations and, therefore, are included in the line item Liabilities from discontinued operations in the

consolidated statement of condition as of September 30, 2008.

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Note 15 Trust Preferred Securities

As of September 30, 2008 and 2007, the Corporation had established four trusts for the purpose of issuing trust preferred securities (the capital securities) to the public. The proceeds from such issuances, together with the proceeds of the related issuances of common securities of the trusts (the common securities), were used by the trusts to purchase junior subordinated deferrable interest debentures (the junior subordinated debentures) issued by the Corporation. The sole assets of the trusts consisted of the junior subordinated debentures of the Corporation and the related accrued interest receivable. These trusts are not consolidated by the Corporation under the provisions of FIN No. 46(R).

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

Financial data pertaining to the trusts follows:

(In thousands, including reference notes)

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

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

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

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

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

(e) The original issuance was for $150,000. In 2003, the Corporation reacquired $6,000 of the 8.327% capital securities.

(f) The Corporation has the right, subject to any required prior approval from the Federal Reserve, to redeem after certain dates or upon the occurrence of certain events mentioned below, the junior subordinated debentures at a redemption price equal to 100% of the principal amount, plus accrued and unpaid interest to the date of redemption. The maturity of the junior subordinated debentures may be shortened at the option of the Corporation prior to their stated maturity dates (i) on or after the stated optional redemption dates stipulated in the agreements, in whole at any time or in part from time to time, or (ii) in whole, but not in part, at any time within 90 days following the occurrence and during the continuation of a tax event, an investment company event or a capital treatment event as set forth in the indentures relating to the capital securities, in each case subject to regulatory approval. A capital treatment event would include a change in the regulatory capital treatment of the capital securities as a result of the recent accounting changes affecting the criteria for consolidation of variable interest entities such as the trust under FIN 46(R).

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

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

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Note 16 Stockholders Equity

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

On May 28, 2008, the Corporation issued 16,000,000 shares of Series B Preferred Stock at a purchase price of $25.00 per share.

The Corporation s preferred stock outstanding at September 30, 2008 consists of:

> 6.375% non-cumulative monthly income preferred stock, 2003 Series A. These shares of preferred stock are perpetual, nonconvertible and are redeemable solely at the option of the Corporation with the consent of the Board of Governors of the Federal Reserve System beginning on March 31, 2008. The redemption price per share is $25.50 from March 31, 2008 through March 30, 2009, $25.25 from March 31, 2009 through March 30, 2010 and $25.00 from March 31, 2010 and thereafter.
>
> 8.25% non-cumulative monthly income preferred stock, 2008 Series B. These shares of preferred stock are perpetual, nonconvertible and are redeemable, in whole or in part, solely at the option of the Corporation with the consent of the Board of Governors of the Federal Reserve System beginning on May 28, 2013. The redemption price per share is $25.50 from May 28, 2013 through May 28, 2014, $25.25 from May 28, 2014 through May 28, 2015 and $25.00 from May 28, 2015 and thereafter.

The Banking Act of the Commonwealth of Puerto Rico requires that a minimum of 10% of BPPR s net income for the year be transferred to a statutory reserve account until such statutory reserve equals the total of paid-in capital on common and preferred stock. Any losses incurred by a bank must first be charged to retained earnings and then to the reserve fund. Amounts credited to the reserve fund may not be used to pay dividends without the prior consent of the Puerto Rico Commissioner of Financial Institutions. The failure to maintain sufficient statutory reserves would preclude BPPR from paying dividends. BPPR s statutory reserve fund totaled $374 million as of September 30, 2008 (December 31, 2007 $374 million; September 30, 2007 $346 million). There were no transfers between the statutory reserve account and the retained earnings account during the quarter and nine months ended September 30, 2008 and 2007.

Note 17 Commitments and Contingencies

Commercial letters of credit and stand-by letters of credit amounted to $28 million and $175 million, respectively, as of September 30, 2008 (December 31, 2007 $26 million and $174 million; September 30, 2007 $18 million and $196 million). There were also other commitments outstanding and contingent liabilities, such as commitments to extend credit.

As of September 30, 2008, the Corporation recorded a liability of $563 thousand (December 31, 2007 - $636 thousand; September 30, 2007 $721 thousand), which represents the fair value of the obligations undertaken in issuing the guarantees under stand-by letters of credit. The fair value approximates the fee received from the customer for issuing such commitments. These fees are deferred and are recognized over the commitment period. The liability was included as part of other liabilities in the consolidated statements of condition. The contract amounts in stand-by letters of credit outstanding represent the maximum potential amount of future payments the Corporation could be required to make under the guarantees in the event of nonperformance by the customers. These stand-by letters of credit are used by the customer as a credit enhancement and typically expire without being drawn upon. The Corporation s stand-by letters of credit are generally secured, and in the event of nonperformance by the customers, the Corporation has rights to the underlying collateral provided, which normally includes cash and marketable securities, real estate, receivables and others. Management does not anticipate any material losses related to these instruments.

Popular, Inc. at the holding company level (PIHC) fully and unconditionally guarantees certain borrowing obligations issued by certain of its wholly-owned consolidated subsidiaries, which aggregated to $2.3 billion as of September 30, 2008 (December 31, 2007 $2.9 billion and September 30, 2007 $3.3 billion). In addition, as of

September 30, 2008, PIHC fully and unconditionally guaranteed $824 million of capital securities (December 31, 2007 and September 30, 2007 $824 million) issued by four wholly-owned issuing trust entities that have been deconsolidated pursuant to FIN No. 46R.

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

Note 18 Other Service Fees

The caption of other service fees in the consolidated statements of operations consists of the following major categories:

(In thousands)	Quarter ended September 30, 2008	Quarter ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Credit card fees and discounts	$27,138	$25,975	$ 81,664	$ 74,498
Debit card fees	28,170	16,228	79,880	49,184
Processing fees	13,044	11,674	38,587	35,463
Insurance fees	12,378	14,410	38,254	40,624
Sale and administration of investment products	6,890	8,043	25,966	22,614
Mortgage servicing fees, net of amortization and fair value adjustments	(1,407)	4,706	13,809	16,257
Other fees	9,089	8,827	28,489	27,072
Total	$95,302	$89,863	$306,649	$265,712

Note 19 Pension and Postretirement Benefits

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

The components of net periodic pension cost for the quarters and nine months ended September 30, 2008 and 2007 were as follows:

	Pension Plans				Benefit Restoration Plans			
	Quarters ended September 30,		Nine months ended September 30,		Quarters ended September 30,		Nine months ended September 30,	
(In thousands)	2008	2007	2008	2007	2008	2007	2008	2007
Service cost	$ 2,315	$ 2,639	$ 6,945	$ 8,384	$ 182	$ 221	$ 546	$ 678
Interest cost	8,611	7,958	25,833	23,890	461	419	1,383	1,258
Expected return on plan assets	(10,169)	(10,532)	(30,507)	(31,589)	(420)	(369)	(1,260)	(1,105)
Amortization of prior service cost	67	52	201	156	(13)	(13)	(39)	(39)
Amortization of net loss					172	248	515	743
Net periodic cost	$ 824	$ 117	$ 2,472	$ 841	$ 382	$ 506	$ 1,145	$ 1,535
One-time settlement gain					(24)		(24)	
Curtailment gain				(246)				(258)

Total cost	$	824	$	117	$	2,472	$	595	$	358	$	506	$	1,121	$	1,277

For the nine months ended September 30, 2008, contributions made to the pension and restoration plans amounted to approximately $1.3 million. The total contributions expected to be paid during the year 2008 for the pension and restoration plans amount to approximately $1.8 million.

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The Corporation also provides certain health care benefits for retired employees of certain subsidiaries. The components of net periodic postretirement benefit cost for the quarters and nine months ended September 30, 2008 and 2007 were as follows:

	Quarters ended September 30,		Nine months ended September 30,	
(In thousands)	2008	2007	2008	2007
Service cost	$ 485	$ 578	$1,455	$1,734
Interest cost	1,967	1,889	5,901	5,667
Amortization of prior service cost	(262)	(261)	(786)	(784)
Total net periodic cost	$2,190	$2,206	$6,570	$6,617

For the nine months ended September 30, 2008, contributions made to the postretirement benefit plan amounted to approximately $4.4 million. The total contributions expected to be paid during the year 2008 for the postretirement benefit plan amount to approximately $6.4 million.

Note 20 Restructuring Plans

PFH Discontinuance Restructuring Plan

As disclosed in Note 3 to the consolidated financial statements, on August 29, 2008, the Corporation announced an agreement to sell loans and servicing assets of PFH and Popular, FS to various Goldman Sachs affiliates. As disclosed in Note 27 to the consolidated financial statements, the transaction closed on November 3, 2008. This sale resulted in a reduction in assets, mostly accounted at fair value, of over $900 million, and provided over $700 million in additional liquidity. In addition, on September 18, 2008, the Corporation announced the consummation of the sale of manufactured housing loans of PFH to 21st Mortgage Corp. and Vanderbilt Mortgage and Finance, Inc. The transaction provided approximately $198 million in cash and resulted in a reduction in unpaid principal balance of loans held at PFH of approximately $309 million.

As part of the sale of the loans and servicing assets, the Corporation entered into a restructuring plan (the PFH Discontinuance Restructuring Plan) to eliminate employment positions, terminate contracts and incur other costs associated with the discontinuance of PFH s operations. It is anticipated that this Plan will result in estimated combined charges for the Corporation of approximately $14 million, of which $5.1 million was recognized during the third quarter of 2008. The remainder costs consisting of severance bonuses and other employee benefits, lease and other contract termination expenses will be recognized during the fourth quarter of 2008 and early 2009.

Full-time equivalent employees at the PFH reportable segment were 299 as of September 30, 2008, compared with 934 as of September 30, 2007.

During the quarter ended September 30, 2008, the PFH Discontinuance Restructuring Plan resulted in charges, on a pre-tax basis, broken down as follows:

(In thousands)	Impairments on long-lived assets	Restructuring costs	Total
Quarter ended:			
September 30, 2008	$ 3,916(a)	$ 1,164(b)	$5,080
Total	$ 3,916	$ 1,164	$5,080

(a) Fixed assets and prepaid

expenses

(b) Severance, retention bonuses and other employee benefits

The PFH Discontinuance Restructuring Plan charges incurred in the third quarter of 2008 are included in the line item Loss from discontinued operations, net of tax in the consolidated statement of operations.

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PFH Branch Network Restructuring Plan

The Corporation closed Equity One s consumer service branches during the first quarter of 2008 as part of the initiatives to exit the subprime loan origination operations at PFH (the PFH Branch Network Restructuring Plan). The PFH Branch Network Restructuring Plan followed the sale on March 1, 2008 of approximately $1.4 billion of PFH consumer and mortgage loans that were originated through Equity One s consumer branch network to American General Financial (American General). American General hired certain of Equity One s consumer services employees and retained certain branch locations. During the quarter ended March 31, 2008, Equity One closed substantially all branches not assumed by American General.

During the quarter and nine months ended September 30, 2008 and as part of this particular restructuring plan, the Corporation incurred certain costs, on a pre-tax basis, as detailed in the table below.

(In thousands)	Quarter ended September 30, 2008	Nine months ended September 30, 2008
Personnel costs	$ 63	$ 8,468(a)
Net occupancy expenses		5,905(b)
Equipment expenses		675
Communications		590
Other operating expenses		1,021(c)
Total restructuring charges	$ 63	$ 16,659

(a) Severance, retention bonuses and other benefits

(b) Lease terminations

(c) Contract cancellations and branch closing costs

Also, during the fourth quarter of 2007, and as disclosed in the 2007 Annual Report, the Corporation recognized impairment charges on long-lived assets of $1.9 million, mainly associated with leasehold improvements, furniture and equipment.

As of September 30, 2008, the PFH Branch Network Restructuring Plan has resulted in combined charges for 2007 and 2008, broken down as follows:

(In thousands)	Impairments on long-lived assets	Restructuring costs	Total
Quarter ended:			

December 31, 2007	$ 1,892		$ 1,892
March 31, 2008		$17,029	17,029
June 30, 2008		(433)	(433)
September 30, 2008		63	63
Total	$ 1,892	$16,659	$18,551

The PFH Branch Network Restructuring Plan costs are included in the line item Loss from discontinued operations, net of tax in the consolidated statements of operations for 2008 and 2007.

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The following table presents the changes during 2008 in the reserve for restructuring costs associated with the PFH Branch Network Restructuring Plan.

(In thousands)	Restructuring costs
Balance at January 1, 2008	
Charges in quarter ended March 31	$17,029
Cash payments	(4,728)
Balance at March 31, 2008	12,301
Charges in quarter ended June 30	412
Cash payments	(7,913)
Reversals	(845)
Balance at June 30, 2008	3,955
Charges in quarter ended September 30,	63
Cash payments	(1,615)
Balance as of September 30, 2008	$ 2,403

E-LOAN Restructuring Plan

As indicated in the 2007 Annual Report, in November 2007, the Corporation began a restructuring plan for its Internet financial services subsidiary E-LOAN (the E-LOAN Restructuring Plan). This plan included a substantial reduction of marketing and personnel costs at E-LOAN and changes in E-LOAN s business model. The changes included concentrating marketing investment toward the Internet and the origination of first mortgage loans that qualified for sale to government sponsored entities (GSEs). Also, as a result of escalating credit costs in the current economic environment and lower liquidity in the secondary markets for mortgage related products, in the fourth quarter of 2007, the Corporation determined to hold back the origination by E-LOAN of home equity lines of credit, closed-end second lien mortgage loans and auto loans. Refer to Note 27 to these consolidated financial statements for disclosures on an additional restructuring plan at E-LOAN that was approved by the Corporation s Board of Directors subsequent to the quarter ended September 30, 2008. The new restructuring plan further reduced the operations conducted at E-LOAN by eliminating loan origination activities.

The E-LOAN Restructuring Plan resulted in charges recorded in the fourth quarter of 2007 amounting to $231.9 million, which included $211.8 million in non-cash impairment losses related to its goodwill and trademark intangible assets.

The cost-control plan initiative and changes in loan origination strategies incorporated as part of the E-LOAN Restructuring Plan resulted in the elimination of over 400 positions between the fourth quarter of 2007 and second quarter of 2008.

The following table presents the changes in restructuring costs reserves for 2008 associated with the E-LOAN Restructuring Plan.

(In thousands)	Restructuring costs
Balance at January 1, 2008	$ 8,808
Payments	(4,628)
Reversals	(301)

Balance at March 31, 2008	3,879
Payments	(936)
Balance at June 30, 2008	2,943
Payments	(460)
Reversals	(1,036)
Balance as of September 30, 2008	$ 1,447

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

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Note 21 Income Taxes

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

(In millions)	
Balance as of January 1, 2008	$22.2
Additions for tax positions January March 2008	1.4
Balance as of March 31, 2008	23.6
Additions for tax positions April June 2008	4.4
Balance as of June 30, 2008	28.0
Additions for tax positions July September 2008	1.1
Balance as of September 30, 2008	$29.1

As of September 30, 2008, the related accrued interest approximated $4.1 million (September 30, 2007 $3.2 million). Management determined that as of September 30, 2008 and 2007 there was no need to accrue for the payment of penalties.

After consideration of the effect on U.S. federal tax of unrecognized U.S. state tax benefits, the total amount of unrecognized tax benefits, including U.S. and Puerto Rico, that if recognized, would affect the Corporation s effective tax rate, was approximately $27.8 million as of September 30, 2008 (September 30, 2007 $26.0 million).

The amount of unrecognized tax benefits may increase or decrease in the future for various reasons including adding amounts for current tax year positions, expiration of open income tax returns due to the statutes of limitation, changes in management s judgment about the level of uncertainty, status of examinations, litigation and legislative activity and the addition or elimination of uncertain tax positions.

The Corporation and its subsidiaries file income tax returns in Puerto Rico, the U.S. federal jurisdiction, various U.S. states and political subdivisions, and foreign jurisdictions. As of September 30, 2008, the following years remain subject to examination in the U.S. Federal jurisdiction: 2006 and thereafter; and in the Puerto Rico jurisdiction, 2003 and thereafter. The U.S. Internal Revenue Service (IRS) commenced an examination of the Corporation s U.S. operations tax return for 2006. As of September 30, 2008, the IRS has not proposed any adjustment as a result of the audit. Although the outcomes of the tax audits are uncertain, the Corporation believes that adequate amounts of tax and interest have been provided for any adjustments that are expected to result from open years. The Corporation does not anticipate a significant change to the total amount of unrecognized tax benefits within the next 12 months.

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

(In thousands)	September 30, 2008	December 31, 2007
Deferred tax assets:		
Tax credits available for carryforward and other credits available	$ 76,669	$ 20,132
Net operating losses carryforward available	361,082	175,349
Deferred compensation	2,960	4,993
Postretirement and pension benefits	66,325	62,548
Difference in basis related to securitizations treated as sales for tax and borrowings for books	55,741	66,105
Deferred loan origination fees	8,467	8,333
Allowance for loan losses	297,467	214,544
Deferred gains	15,910	16,355
Unearned income	2,768	1,488
Unrealized losses on derivatives	320	932
Intercompany deferred gains	11,573	17,017
SFAS. No 159 - Fair value option	172,975	
Differences between assigned values and the tax basis of the assets and liabilities recognized in purchase business combinations		113
Other temporary differences	19,326	14,204
Total gross deferred tax assets	$1,091,583	$602,113
Deferred tax liabilities:		
Differences between assigned values and the tax basis of the assets and liabilities recognized in purchase business combinations	$ 2,060	
Deferred loan origination costs	11,307	$ 18,861
Accelerated depreciation	9,421	10,346
Amortization of intangibles	22,432	17,263
Unrealized net gain on trading and available-for-sale securities	6,867	19,367
Other temporary differences	15,837	16,266
Total gross deferred tax liabilities	$ 67,924	$ 82,103
Gross deferred tax assets less liabilities	$1,023,659	$520,010
Less: Valuation allowance	(360,429)	(39)
Net deferred tax assets	$ 663,230	$519,971

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

The Corporation s U.S. mainland operations are in a cumulative loss position for the three-year period ended September 30, 2008. For purposes of assessing the realizability of the deferred tax assets in the U.S. mainland, this cumulative taxable loss position is considered significant negative evidence and has caused us to conclude that the Corporation will not be able to fully realize the deferred tax assets in the future. However, management has also concluded that $322 million of the U.S. deferred tax assets will be realized. In making this analysis, management evaluated the factors that contributed to these losses in order to assess whether these factors were temporary or indicative of a permanent decline in the earnings of the U.S. mainland operations. Based on the analysis performed, management determined that the cumulative loss position was caused primarily by a significant increase in credit losses in two of its main businesses due to the unprecedented current credit market conditions, losses related to the PFH discontinued business, and restructuring charges. In assessing the realizability of the deferred tax assets, management has considered all four sources of taxable income mentioned above, including its forecast of future taxable income, which includes assumptions about the unprecedented deterioration in the economy and in credit quality. The forecast includes cost reductions initiated in connection with the reorganization of the U.S. mainland operations and two tax-planning strategies. The two strategies considered in management's analysis include reducing the level of interest expense in the U.S. operations by transferring debt to the Puerto Rico operations and the transfer of a profitable line of business to the U.S. mainland operations. Based on the analysis as of September 30, 2008, and the weight of the evidence available, management determined that the Corporation s U.S. operations will not generate sufficient taxable income in the foreseeable future to fully realize the deferred tax assets. Accordingly, management concluded that it is more likely than not that the Corporation will not be able to fully realize the benefit of these deferred tax assets and thus, a valuation allowance for $360.4 million was recorded during the third quarter of 2008. Management will reassess the realizability of the deferred tax assets during the fourth quarter of the year. If future events differ from management s September 30, 2008 assessment, an additional or full valuation allowance may need to be established which would likely have a material adverse effect on the Corporation's results of operations, financial condition and capital position.

Note 22 Stock-Based Compensation

The Corporation maintained a Stock Option Plan (the Stock Option Plan), which permitted the granting of incentive awards in the form of qualified stock options, incentive stock options, or non-statutory stock options of the Corporation. In April 2004, the Corporation s shareholders adopted the Popular, Inc. 2004 Omnibus Incentive Plan (the Incentive Plan), which replaced and superseded the Stock Option Plan. Nevertheless, all outstanding award grants under the Stock Option Plan continue to remain in effect as of September 30, 2008 under the original terms of the Stock Option Plan.

Stock Option Plan

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

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The following table presents information on stock options outstanding as of September 30, 2008:

(Not in thousands)

Exercise Price Range per Share		Options Outstanding	Weighted-Average Exercise Price of Options Outstanding	Weighted-Average Remaining Life of Options Outstanding In Years	Options Exercisable (fully vested)	Weighted-Average Exercise Price of Options Exercisable
$14.39	$18.50	1,485,205	$15.82	3.99	1,485,205	$15.82
$19.25	$27.20	1,527,145	$25.23	5.73	1,209,578	$25.04
$14.39	$27.20	3,012,350	$20.59	4.87	2,694,783	$19.96

The aggregate intrinsic value of options outstanding as of September 30, 2008 was $2.6 million (September 30, 2007 $8.7 million). There was no intrinsic value of options exercisable as of September 30, 2008 and 2007.
The following table summarizes the stock option activity and related information:

(Not in thousands)	Options Outstanding	Weighted-Average Exercise Price
Outstanding at January 1, 2007	3,144,799	$ 20.65
Granted		
Exercised	(10,064)	15.83
Forfeited	(19,063)	25.50
Expired	(23,480)	20.08
Outstanding as of December 31, 2007	3,092,192	$ 20.64
Granted		
Exercised		
Forfeited	(30,620)	26.13
Expired	(49,222)	20.67
Outstanding as of September 30, 2008	3,012,350	$ 20.59

The stock options exercisable as of September 30, 2008 totaled 2,694,783 (September 30, 2007 - 2,395,158). There were no stock options exercised during the quarters ended September 30, 2008 and 2007. Thus, there was no intrinsic value of options exercised during the quarters ended September 30, 2008 and 2007. There were no stock options exercised during the nine-month period ended September 30, 2008 (September 30, 2007 10,064). Thus, there was no intrinsic value of options exercised during the nine-month period ended September 30, 2008 (September 30, 2007 $28 thousand).
There were no new stock option grants issued by the Corporation under the Stock Option Plan during 2007 and 2008. The Corporation recognized $0.3 million of stock option expense, with a tax benefit of $0.1 million, for the quarter ended September 30, 2008 (September 30, 2007 $0.4 million, with a tax benefit of $0.2 million). For the nine months ended September 30, 2008, the Corporation recognized $0.8 million of stock option expense, with a tax benefit of $0.3 million (September 30, 2007 $1.3 million, with a tax benefit of $0.5 million). The total unrecognized compensation cost as of September 30, 2008 related to non-vested stock option awards was $0.8 million and is expected to be recognized over a weighted-average period of 1 year.
Incentive Plan

The Incentive Plan permits the granting of incentive awards in the form of Annual Incentive Awards, Long-term Performance Unit Awards, Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Units or Performance Shares. Participants in the Incentive Plan are designated by the Compensation Committee of the Board of Directors (or its delegate as determined by the Board). Employees and directors of the Corporation and / or any of its subsidiaries are eligible to participate in the Incentive Plan. The shares may be made available from common

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stock purchased by the Corporation for such purpose, authorized but unissued shares of common stock or treasury stock. The Corporation s policy with respect to the shares of restricted stock has been to purchase such shares in the open market to cover each grant.

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

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

(Not in thousands)	Restricted Stock	Weighted-Average Grant Date Fair Value
Non-vested at January 1, 2007	611,470	$ 22.55
Granted		
Vested	(304,003)	22.76
Forfeited	(3,781)	19.95
Non-vested as of December 31, 2007	303,686	$ 22.37
Granted		
Vested	(50,649)	20.33
Forfeited	(4,134)	19.95
Non-vested as of September 30, 2008	248,903	22.82

During the quarters and nine-month periods ended September 30, 2008 and 2007, no shares of restricted stock were awarded to management under the Incentive Plan.

Beginning in 2007, the Corporation authorized the issuance of performance shares, in addition to restricted shares, under the Incentive Plan. The performance shares award consists of the opportunity to receive shares of Popular, Inc. s common stock provided the Corporation achieves certain performance goals during a 3-year performance cycle. The compensation cost associated with the performance shares will be recorded ratably over a three-year performance period. The performance shares will be granted at the end of the three-year period and will be vested at grant date, except when the participant s employment is terminated by the Corporation without cause. In such case, the participant will receive a pro-rata amount of shares calculated as if the Corporation would have met the performance goal for the performance period. As of September 30, 2008, 6,528 shares have been granted under this plan.

During the quarter ended September 30, 2008, the Corporation recognized $0.5 million of restricted stock expense related to management incentive awards, with a tax benefit of $0.2 million (September 30, 2007 $33 thousand, with a tax benefit of $14 thousand). For the nine-month period ended September 30, 2008, the Corporation recognized $1.7 million of restricted stock expense related to management incentive awards, with a tax benefit of $0.6 million (September 30, 2007 $1.9 million, with a tax benefit of $0.7 million). The fair market value of the restricted stock vested was $1.6 million at grant date and $0.8 million at vesting date. This triggers a shortfall of $0.8 million that was recorded as an additional income tax expense since the Corporation does not have any surplus due to windfalls. The fair market value of the restricted stock earned was $28 thousand. During the quarter and nine-month period ended September 30, 2008, the Corporation recognized $12 thousand and $0.9 million, respectively, of performance shares expense, with a tax benefit of $5 thousands and $0.3 million, respectively. The total unrecognized compensation cost related to non-vested restricted stock awards and performance shares to members of management as of September 30, 2008 was $9 million and is expected to be recognized over a weighted-average period of 2 years.

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

(Not in thousands)	Restricted Stock	Weighted-Average Grant Date Fair Value
Non-vested at January 1, 2007	76,614	$ 22.02
Granted	38,427	15.89
Vested	(115,041)	19.97
Forfeited		
Non-vested as of December 31, 2007		
Granted	50,815	11.08
Vested	(50,815)	11.08
Forfeited		
Non-vested as of September 30, 2008		

During the quarter ended September 30, 2008, the Corporation granted 5,467 (September 30, 2007 - 3,018) shares of restricted stock to members of the Board of Directors of Popular, Inc. and BPPR, which became vested at grant date. During the quarter ended September 30, 2008, the Corporation recognized $0.1 million of restricted stock expense related to these restricted stock grants, with a tax benefit of $45 thousand (September 30, 2007 $0.1 million, with a tax benefit of $45 thousand). For the nine-month period ended September 30, 2008, the Corporation granted 50,815 (September 30, 2007 32,381) shares of restricted stock to members of the Board of Directors of Popular Inc. and BPPR, which became vested at grant date. During the nine-month period ended September 30, 2008, the Corporation recognized $0.3 million of restricted stock expense related to these restricted stock grants, with a tax benefit of $0.1 million (September 30, 2007 $0.4 million, with a tax benefit of $0.2 million). The fair value at vesting date of the restricted stock vested during 2008 for directors was $0.6 million.

Note 23 (Loss) Earnings per Common Share

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

	Quarter ended September 30,		Nine months ended September 30,	
(In thousands, except share information)	2008	2007	2008	2007
Net (loss) income from continuing operations	$ (211,173)	$ 80,214	$ (52,761)	$ 352,973
Net loss from discontinued operations	(457,370)	(44,211)	(488,242)	(123,373)
Less: Preferred stock dividends	11,229	2,979	20,210	8,935
Net (loss) income applicable to common stock	$ (679,772)	$ 33,024	$ (561,213)	$ 220,665
Average common shares outstanding	281,489,469	279,625,715	280,841,638	279,355,496
Average potential common shares				78,016
	281,489,469	279,625,715	280,841,638	279,433,512

Average common shares outstanding assuming dilution								
Basic and diluted EPS from continuing operations	$	(0.79)	$	0.28	$	(0.26)	$	1.23
Basic and diluted EPS from discontinued operations	$	(1.63)	$	(0.16)	$	(1.74)	$	(0.44)
Basic and diluted EPS	$	(2.42)	$	0.12	$	(2.00)	$	0.79

Potential common shares consist of common stock issuable under the assumed exercise of stock options and under restricted stock awards using the treasury stock method. This method assumes that the potential common shares are issued and the proceeds from exercise, in addition to the amount of compensation cost attributed to future services, are used to purchase common stock at the exercise date. The difference between the number of potential shares issued and the shares purchased is added as incremental shares to the actual number of shares outstanding to compute diluted earnings per share. Stock options that result in lower potential shares issued than shares purchased under the treasury stock method are not included in the computation of dilutive earnings per share since their inclusion would have an antidilutive effect in earnings per share. For the quarter and nine-month period ended

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September 30, 2008, there were 3,012,350 and 3,049,600 weighted average antidilutive stock options outstanding, respectively (September 30, 2007 3,099,617 and 2,209,290).

Note 24 Supplemental Disclosure on the Consolidated Statements of Cash Flows

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

(In thousands)	September 30, 2008	September 30, 2007
Non-cash activities:		
Loans transferred to other real estate	$ 78,521	$ 134,325
Loans transferred to other property	32,725	26,907
Total loans transferred to foreclosed assets	111,246	161,232
Transfers from loans held-in-portfolio to loans held- for-sale	690,222	
Transfers from loans held-for-sale to loans held-in- portfolio	60,032	244,117
Loans securitized into investment securities (a)	1,357,249	1,064,299
Recognition of mortgage servicing rights on securitizations or asset transfers	22,033	25,722
Business acquisitions:		
Fair value of assets acquired		703
Goodwill and other intangible assets acquired		2,401
Other liabilities assumed		(726)

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

Note 25 Segment Reporting

The Corporation s corporate structure consists of three reportable segments Banco Popular de Puerto Rico, Banco Popular North America and EVERTEC. These reportable segments pertain only to the continuing operations of Popular, Inc. As previously indicated in Note 3 to the consolidated financial statements, the operations of Popular Financial Holdings that were considered a reportable segment were classified as discontinued operations in the third quarter of 2008. Also, a corporate group has been defined to support the reportable segments. The Corporation retrospectively adjusted information in the statements of operations to exclude results from discontinued operations from 2007 periods to conform to the 2008 presentation.

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

Banco Popular de Puerto Rico:

Given that Banco Popular de Puerto Rico constitutes a significant portion of the Corporation s results of operations and total assets as of September 30, 2008, additional disclosures are provided for the business areas included in this reportable segment, as described below:

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

Consumer and retail banking represents the branch banking operations of BPPR which focus on retail clients. It includes the consumer lending business operations of BPPR, as well as the lending operations of Popular Auto, Popular Finance, and Popular Mortgage. These three subsidiaries focus on auto and lease financing, small personal loans and mortgage loan originations, respectively. This area also incorporates income related with the investment of excess funds from the branch network, as well as a proportionate share of the investment function of BPPR.

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

Banco Popular North America:

Banco Popular North America s reportable segment consists of the banking operations of BPNA, E-LOAN, Popular Equipment Finance, Inc. and Popular Insurance Agency, U.S.A. BPNA operates through a branch network with presence in 5 states, while E-LOAN supports BPNA s deposit gathering through its online platform. All direct lending activities at E-LOAN are being terminated as described in Note 27 to the consolidated financial statements. Popular Insurance Agency, U.S.A. offers investment and insurance services across the BPNA branch network. Popular Equipment Finance, Inc. specializes in financing manufacturing, commercial and healthcare equipment in various markets. The U.S. operations also include the mortgage business unit of Banco Popular, National Association.

Due to the significant losses in the E-LOAN operations during 2007, impacted in part by the restructuring charges and impairment losses that resulted from the restructuring plan effected in 2007, management has determined to provide as additional disclosure the results of E-LOAN apart from the other BPNA subsidiaries.

EVERTEC:

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

The Corporate group consists primarily of the holding companies: Popular, Inc., Popular North America and Popular International Bank, excluding the equity investments in CONTADO and Serfinsa, which due to the nature of their operations are included as part of the EVERTEC segment. The holding companies obtain funding in the capital markets to finance the Corporation s growth, including acquisitions. The Corporate group also includes the expenses of the four administrative corporate areas that are identified as critical for the organization: Finance, Risk Management, Legal and People, and Communications. These corporate administrative areas have the responsibility of establishing policy, setting up controls and coordinating the activities of their corresponding groups in each of the reportable segments.

The Corporation may periodically reclassify reportable segment results based on modifications to its management reporting and profitability measurement methodologies and changes in organizational alignment.

The accounting policies of the individual operating segments are the same as those of the Corporation described in Note 1. Transactions between reportable segments are primarily conducted at market rates, resulting in profits that are eliminated for reporting consolidated results of operations.

2008

For the quarter ended September 30, 2008

(In thousands)	Banco Popular de Puerto Rico	Banco Popular North America	EVERTEC	Intersegment Eliminations
Net interest income (expense)	$ 238,373	$ 89,424	$ (134)	
Provision for loan losses	128,917	123,243		
Non-interest income	120,329	52,486	63,350	$ (37,020)
Amortization of intangibles	2,241	1,506	219	
Depreciation expense	10,292	3,525	3,569	(18)
Other operating expenses	184,406	91,285	46,710	(36,616)
Income tax (benefit) expense	(2,548)	61,394	4,231	(150)
Net income (loss)	$ 35,394	$ (139,043)	$ 8,487	$ (236)
Segment Assets	$26,262,308	$12,747,724	$260,439	$(241,376)

For the quarter ended September 30, 2008

(In thousands)	Total Reportable Segments	Corporate	Eliminations	Total Popular, Inc.
Net interest income (expense)	$ 327,663	$ (3,670)	$ 289	$ 324,282
Provision for loan losses	252,160			252,160
Non-interest income (loss)	199,145	(9,621)	(1,596)	187,928
Amortization of intangibles	3,966			3,966
Depreciation expense	17,368	584		17,952
Other operating expenses	285,785	17,160	(1,948)	300,997
Income tax expense	62,927	106,929	(21,548)	148,308
Net loss	$ (95,398)	$ (137,964)	$ 22,189	$ (211,173)
Segment Assets	$39,029,095	$6,326,012	$(5,933,634)	$39,421,473

For the nine months ended September 30, 2008

(In thousands)	Banco Popular de Puerto Rico	Banco Popular North America	EVERTEC	Intersegment Eliminations
Net interest income (expense)	$ 726,256	$ 277,227	$ (603)	
Provision for loan losses	339,151	263,370		

Non-interest income	483,087	135,583	198,922	$(112,601)
Amortization of intangibles	3,749	4,527	672	
Depreciation expense	31,296	10,793	10,849	(54)
Other operating expenses	568,923	276,105	138,975	(111,428)
Income tax expense	39,517	33,350	14,083	(436)
Net income (loss)	$ 226,707	$(175,335)	$ 33,740	$ (683)

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For the nine months ended September 30, 2008

(In thousands)	Total Reportable Segments	Corporate	Eliminations	Total Popular, Inc.
Net interest income (expense)	$1,002,880	$ (13,482)	$ 940	$990,338
Provision for loan losses	602,521	40		602,561
Non-interest income (loss)	704,991	(7,251)	(9,263)	688,477
Amortization of intangibles	8,948			8,948
Depreciation expense	52,884	1,737		54,621
Other operating expenses	872,575	47,949	(7,545)	912,979
Income tax expense	86,514	86,627	(20,674)	152,467
Net income (loss)	$ 84,429	$(157,086)	$ 19,896	$ (52,761)

2007
For the quarter ended September 30, 2007

(In thousands)	Banco Popular de Puerto Rico	Banco Popular North America	EVERTEC	Intersegment Eliminations
Net interest income (expense)	$ 241,725	$ 93,995	$ (74)	
Provision for loan losses	66,077	20,263		
Non-interest income	116,522	35,976	59,585	$ (34,840)
Amortization of intangibles	190	1,810	234	
Depreciation expense	10,290	4,126	4,035	(19)
Other operating expenses	172,267	107,568	43,157	(34,696)
Income tax expense (benefit)	29,247	(2,696)	3,987	(48)
Net income (loss)	$ 80,176	$ (1,100)	$ 8,098	$ (77)
Segment Assets	$26,137,863	$13,818,525	$224,834	$(507,488)

For the quarter ended September 30, 2007

(In thousands)	Total Reportable Segments	Corporate	Eliminations	Total Popular, Inc.
Net interest income (expense)	$ 335,646	$ (5,244)	$ 1,244	$ 331,646
Provision for loan losses	86,340			86,340
Non-interest income	177,243	1,663	(1,981)	176,925
Amortization of intangibles	2,234			2,234
Depreciation expense	18,432	601		19,033
Other operating expenses	288,296	11,778	(2,380)	297,694
Income tax expense (benefit)	30,490	(8,097)	663	23,056

Net income (loss)	$ 87,097	$ (7,863)	$ 980	$ 80,214
Segment Assets	$39,673,734	$14,120,052(a)	$(6,513,655)	$47,280,131

(a) Includes $7,569 million in assets from PFH.

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For the nine months ended September 30, 2007

(In thousands)	Banco Popular de Puerto Rico	Banco Popular North America	EVERTEC	Intersegment Eliminations
Net interest income (expense)	$ 711,103	$275,733	$ (547)	
Provision for loan losses	176,557	42,913		
Non-interest income	358,364	138,585	179,060	$(103,974)
Amortization of intangibles	1,508	5,821	701	
Depreciation expense	31,455	12,208	12,355	(55)
Other operating expenses	525,259	320,325	131,782	(103,892)
Income tax expense	87,629	10,206	11,736	(10)
Net income	$ 247,059	$ 22,845	$ 21,939	$ (17)

For the nine months ended September 30, 2007

(In thousands)	Total Reportable Segments	Corporate	Eliminations	Total Popular, Inc.
Net interest income (expense)	$ 986,289	$ (21,314)	$ 3,367	$968,342
Provision for loan losses	219,470	7		219,477
Non-interest income	572,035	129,711	(18,668)	683,078
Amortization of intangibles	8,030			8,030
Depreciation expense	55,963	1,783		57,746
Other operating expenses	873,474	40,567	(6,445)	907,596
Income tax expense (benefit)	109,561	(336)	(3,627)	105,598
Net income	$ 291,826	$ 66,376	$ (5,229)	$352,973

The Corporate group s financial results for the nine months ended September 30, 2008 include an unfavorable impact to income taxes due to the allocation of $116.3 million of the $360.4 million valuation allowance on the deferred tax assets of the U.S. mainland operations to Popular North America (PNA), holding company of the U.S. operations. PNA files a consolidated tax return.

During the nine months ended September 30, 2008, the Corporate group realized net losses on sale and valuation adjustments of investment securities, mainly marketable equity securities, of approximately $9.1 million before tax (2007 $107.3 million in net gains before tax). These amounts are included in non-interest income within the Corporate group.

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

2008

For the quarter ended September 30, 2008

Commercial	Consumer and	Total Banco Popular de

(In thousands)	Banking	Retail Banking	Other Financial Services	Eliminations	Puerto Rico
Net interest income	$ 83,878	$ 151,284	$ 3,062	$ 149	$ 238,373
Provision for loan losses	99,564	29,353			128,917
Non-interest income	26,655	73,157	20,988	(471)	120,329
Amortization of intangibles	76	2,011	154		2,241
Depreciation expense	5,062	4,901	329		10,292
Other operating expenses	45,892	123,290	15,297	(73)	184,406
Income tax (benefit) expense	(20,683)	15,662	2,558	(85)	(2,548)
Net (loss) income	$ (19,378)	$ 49,224	$ 5,712	$ (164)	$ 35,394
Segment Assets	$11,596,931	$18,925,656	$434,585	$(4,694,864)	$26,262,308

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For the nine months ended September 30, 2008

(In thousands)	Commercial Banking	Consumer and Retail Banking	Other Financial Services	Eliminations	Total Banco Popular de Puerto Rico
Net interest income	$265,637	$451,270	$ 8,919	$ 430	$726,256
Provision for loan losses	217,582	121,569			339,151
Non-interest income	87,811	319,103	76,763	(590)	483,087
Amortization of intangibles	137	3,155	457		3,749
Depreciation expense	12,414	17,944	938		31,296
Other operating expenses	148,165	370,195	50,794	(231)	568,923
Income tax (benefit) expense	(27,088)	55,064	11,473	68	39,517
Net income	$ 2,238	$202,446	$ 22,020	$ 3	$226,707

2007

For the quarter ended September 30, 2007

(In thousands)	Commercial Banking	Consumer and Retail Banking	Other Financial Services	Eliminations	Total Banco Popular de Puerto Rico
Net interest income	$ 95,607	$ 143,108	$ 2,842	$ 168	$ 241,725
Provision for loan losses	21,248	44,829			66,077
Non-interest income	22,200	70,807	23,633	(118)	116,522
Amortization of intangibles	30	47	113		190
Depreciation expense	3,563	6,395	332		10,290
Other operating expenses	42,556	113,365	16,424	(78)	172,267
Income tax expense	14,728	11,061	3,403	55	29,247
Net income	$ 35,682	$ 38,218	$ 6,203	$ 73	$ 80,176
Segment Assets	$11,729,908	$18,651,108	$508,838	$(4,751,991)	$26,137,863

For the nine months ended September 30, 2007

(In thousands)	Commercial Banking	Consumer and Retail Banking	Other Financial Services	Eliminations	Total Banco Popular de Puerto Rico

Net interest income	$279,789	$422,844	$ 8,022	$ 448	$711,103
Provision for loan losses	57,070	119,487			176,557
Non-interest income	67,307	225,382	66,440	(765)	358,364
Amortization of intangibles	470	705	333		1,508
Depreciation expense	10,941	19,609	905		31,455
Other operating expenses	130,909	345,292	49,315	(257)	525,259
Income tax expense	42,128	37,783	7,731	(13)	87,629
Net income	$105,578	$125,350	$ 16,178	$ (47)	$247,059

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

2008

For the quarter ended September 30, 2008

(In thousands)	Banco Popular North America	E-LOAN	Eliminations	Total Banco Popular North America
Net interest income	$ 84,029	$ 5,015	$ 380	$ 89,424
Provision for loan losses	83,934	39,309		123,243
Non-interest income	48,487	4,218	(219)	52,486
Amortization of intangibles	1,056	450		1,506
Depreciation expense	3,064	461		3,525
Other operating expenses	76,203	15,078	4	91,285
Income tax expense	19,961	41,378	55	61,394
Net loss	$ (51,702)	$ (87,443)	$ 102	$ (139,043)
Segment Assets	$13,113,220	$923,647	$(1,289,143)	$12,747,724

For the nine months ended September 30, 2008

(In thousands)	Banco Popular North America	E-LOAN	Eliminations	Total Banco Popular North America
Net interest income	$257,162	$ 19,011	$1,054	$ 277,227
Provision for loan losses	171,281	92,089		263,370
Non-interest income	120,656	15,485	(558)	135,583
Amortization of intangibles	3,178	1,349		4,527
Depreciation expense	9,382	1,411		10,793
Other operating expenses	223,173	52,922	10	276,105
Income tax expense	19,358	13,822	170	33,350
Net loss	$ (48,554)	$(127,097)	$ 316	$(175,335)

2007

For the quarter ended September 30, 2007

(In thousands)	Banco Popular North America	E-LOAN	Eliminations	Total Banco Popular North America
Net interest income	$ 87,316	$ 6,416	$ 263	$ 93,995

Provision for loan losses	16,822	3,441		20,263
Non-interest income	25,423	10,993	(440)	35,976
Amortization of intangibles	1,112	698		1,810
Depreciation expense	3,246	880		4,126
Other operating expenses	72,901	34,655	12	107,568
Income tax expense (benefit)	6,500	(9,129)	(67)	(2,696)
Net income (loss)	$ 12,158	$ (13,136)	$ (122)	$ (1,100)
Segment Assets	$13,825,285	$1,329,950	$(1,336,710)	$13,818,525

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For the nine months ended September 30, 2007

(In thousands)	Banco Popular North America	E-LOAN	Eliminations	Total Banco Popular North America
Net interest income	$261,229	$ 13,857	$ 647	$275,733
Provision for loan losses	36,457	6,456		42,913
Non-interest income	73,809	65,837	(1,061)	138,585
Amortization of intangibles	3,728	2,093		5,821
Depreciation expense	9,737	2,471		12,208
Other operating expenses	211,508	108,782	35	320,325
Income tax expense (benefit)	26,812	(16,448)	(158)	10,206
Net income (loss)	$ 46,796	$ (23,660)	$ (291)	$ 22,845

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

INTERSEGMENT REVENUES*

	Quarter ended		Nine months ended	
(In thousands)	September 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
Banco Popular de Puerto Rico:				
Commercial Banking	$ 158	$ 459	$ 848	$ 401
Consumer and Retail Banking	303	997	1,904	819
Other Financial Services	(50)	(83)	(180)	(314)
Banco Popular North America:				
Banco Popular North America	(456)	(1,481)	(2,737)	(1,309)
E-LOAN			(627)	
EVERTEC	(36,975)	(34,732)	(111,809)	(103,571)
Total	$(37,020)	$(34,840)	$(112,601)	$(103,974)

* For purposes of the intersegment revenues disclosure, revenues include interest income (expense) related to internal funding and other

income derived from intercompany transactions, mainly related to processing / information technology services.

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

Geographic Information

(In thousands)	Quarter ended September 30, 2008	Quarter ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Revenues (1)				
Puerto Rico	$352,893	$362,805	$1,201,999	$1,203,601
United States	134,177	123,792	393,005	382,174
Other	25,140	21,974	83,811	65,645
Total consolidated revenues	$512,210	$508,571	$1,678,815	$1,651,420

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

(In thousands)	September 30, 2008	December 31, 2007	September 30, 2007
Selected Balance Sheet Information: (1)			
Puerto Rico			
Total assets	$24,817,377	$26,017,716	$25,154,194
Loans	15,374,817	15,679,181	15,433,933

Deposits	17,261,205	17,341,601	14,790,442
Mainland United States			
Total assets	$13,281,147	$17,093,929	$20,892,802
Loans	10,519,632	13,517,728	17,194,818
Deposits	9,429,980	9,737,996	10,535,551
Other			
Total assets	$ 1,322,949	$ 1,299,792	$ 1,233,135
Loans	686,720	714,093	692,053
Deposits (2)	1,220,212	1,254,881	1,275,522

(1) Does not include balance sheet information of the discontinued operations for the period ended September 30, 2008.

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

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

The following condensed consolidating financial information presents the financial position of Popular, Inc. Holding Company (PIHC) (parent only), Popular International Bank, Inc. (PIBI), Popular North America, Inc. (PNA), and all other subsidiaries of the Corporation as of September 30, 2008, December 31, 2007 and September 30, 2007, and the results of their operations and cash flows for the periods ended September 30, 2008 and 2007.

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

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

PFH, including its wholly-owned subsidiaries Equity One, Inc., Popular Financial Management, LLC, Popular Housing Services, Inc., and Popular Mortgage Servicing, Inc.;

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

Banco Popular, National Association (BP, N.A.), including its wholly-owned subsidiary Popular

Insurance, Inc.; and

EVERTEC USA, Inc.

PIHC, PIBI and PNA are authorized issuers of debt securities and preferred stock under a shelf registration filed with the Securities and Exchange Commission.

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

The principal source of income for the PIHC consists of dividends from BPPR. As members subject to the regulations of the Federal Reserve System, BPPR and BPNA must obtain the approval of the Federal Reserve Board for any dividend if the total of all dividends declared by each entity during the calendar year would exceed the total of its net income for that year, as defined by the Federal Reserve Board, combined with its retained net income for the preceding two years, less any required transfers to surplus or to a fund for the retirement of any preferred stock. The payment of dividends by BPPR may also be affected by other regulatory requirements and policies, such as the maintenance of certain minimum capital levels. As of September 30, 2008, BPPR could have declared a dividend of approximately $92 million (December 31, 2007 $45 million; September 30, 2007 $219 million) without the approval of the Federal Reserve Board. As of September 30, 2008, BPNA was required to obtain the approval of the Federal Reserve Board to declare a dividend. The Corporation has never received dividend payments from its U.S. subsidiaries. Refer to Popular, Inc. s Form 10-K for the year ended December 31, 2007 for further information on dividend restrictions imposed by regulatory requirements and policies on the payment of dividends by BPPR, BPNA and BP, N.A.

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

(In thousands)	Popular, Inc. Holding Co.	PIBI Holding Co.	PNA Holding Co.	All other Subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
ASSETS						
Cash and due from banks	$ 1,582	$ 64	$ 7,676	$ 1,176,453	$ (1,778)	$ 1,183,997
Money market investments	68,540	39,415	15,739	309,393	(123,590)	309,497
Investment securities available-for-sale, at fair value		9,562		7,559,180		7,568,742
Investment securities held-to-maturity, at amortized cost	456,486	1,250		692,096	(430,000)	719,832
Other investment securities, at lower of cost or realizable value	14,425	1	12,392	202,340		229,158
Trading account securities, at fair value				444,398		444,398
Investment in subsidiaries	2,428,180	201,659	1,548,408		(4,178,247)	
Loans held-for-sale measured at lower of cost or market value				245,134		245,134
Loans held-in-portfolio	812,694		901,000	26,539,342	(1,733,231)	26,519,805
Less Unearned income				183,770		183,770
Allowance for loan losses	60			726,420		726,480
	812,634		901,000	25,629,152	(1,733,231)	25,609,555
Premises and equipment, net	22,558		129	597,782		620,469
Other real estate	47			72,558		72,605
Accrued income receivable	999	140	7,798	197,312	(8,700)	197,549
Servicing assets				132,484		132,484
Other assets	26,579	66,295	64,644	1,297,650	(42,949)	1,412,219
Goodwill				608,172		608,172
Other intangible assets	554			67,108		67,662

Assets from discontinued operations				968,669		968,669
	$3,832,584	$ 318,386	$ 2,557,786	$40,199,881	$(6,518,495)	$40,390,142
LIABILITIES AND STOCKHOLDERS EQUITY						
Liabilities:						
Deposits:						
Non-interest bearing				$ 4,067,440	$ (1,720)	$ 4,065,720
Interest bearing				23,885,241	(39,564)	23,845,677
				27,952,681	(41,284)	27,911,397
Federal funds purchased and assets sold under agreements to repurchase			$ 39,951	3,774,114	(84,026)	3,730,039
Other short-term borrowings			77,462	1,328,779	(899,230)	507,011
Notes payable	$ 778,300		2,187,762	2,110,425	(834,000)	4,242,487
Subordinated notes				430,000	(430,000)	
Other liabilities	46,811	$ 71	77,824	738,210	(51,663)	811,253
Liabilities of discontinued operations				180,373		180,373
	825,111	71	2,382,999	36,514,582	(2,340,203)	37,382,560
Minority interest in consolidated subsidiaries				109		109
Stockholders equity:						
Preferred stock	586,875					586,875
Common stock	1,772,010	3,961	2	51,819	(55,782)	1,772,010
Surplus	555,227	1,451,193	1,334,964	3,560,903	(6,338,266)	564,021
Retained earnings	392,856	(1,085,414)	(1,151,358)	122,898	2,105,080	384,062
Accumulated other comprehensive loss, net of tax	(91,983)	(51,425)	(8,821)	(50,053)	110,299	(91,983)
Treasury stock, at cost	(207,512)			(377)	377	(207,512)
	3,007,473	318,315	174,787	3,685,190	(4,178,292)	3,007,473
	$3,832,584	$ 318,386	$ 2,557,786	$40,199,881	$(6,518,495)	$40,390,142

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POPULAR, INC.
CONDENSED CONSOLIDATING STATEMENT OF CONDITION
DECEMBER 31, 2007
(UNAUDITED)

(In thousands)	Popular, Inc. Holding Co.	PIBI Holding Co.	PNA Holding Co.	All other Subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
ASSETS						
Cash and due from banks	$ 1,391	$ 376	$ 400	$ 818,455	$ (1,797)	$ 818,825
Money market investments	46,400	300	151	1,083,212	(123,351)	1,006,712
Trading account securities, at fair value				768,274	(319)	767,955
Investment securities available-for-sale, at fair value		31,705		8,483,430		8,515,135
Investment securities held-to-maturity, at amortized cost	626,129	1,250		287,087	(430,000)	484,466
Other investment securities, at lower of cost or realizable value	14,425	1	12,392	189,766		216,584
Investment in subsidiaries	2,817,934	648,720	1,717,823		(5,184,477)	
Loans held-for-sale measured at lower of cost or market value				1,889,546		1,889,546
Loans held-in-portfolio	725,426	25,150	2,978,528	28,282,440	(3,807,978)	28,203,566
Less Unearned income				182,110		182,110
Allowance for loan losses	60			548,772		548,832
	725,366	25,150	2,978,528	27,551,558	(3,807,978)	27,472,624
Premises and equipment, net	23,772		131	564,260		588,163
Other real estate				81,410		81,410
Accrued income receivable	1,675	62	14,271	215,719	(15,613)	216,114
Servicing assets				196,645		196,645
Other assets	40,740	60,814	47,210	1,336,674	(28,444)	1,456,994
Goodwill				630,761		630,761
Other intangible assets	554			68,949		69,503

	$4,298,386	$768,378	$4,770,906	$44,165,746	$(9,591,979)	$44,411,437
LIABILITIES AND STOCKHOLDERS EQUITY						
Liabilities:						
Deposits:						
Non-interest bearing				$ 4,512,527	$ (1,738)	$ 4,510,789
Interest bearing				23,824,140	(451)	23,823,689
				28,336,667	(2,189)	28,334,478
Federal funds purchased and assets sold under agreements to repurchase			$ 168,892	5,391,273	(122,900)	5,437,265
Other short-term borrowings	$ 165,000		1,155,773	1,707,184	(1,525,978)	1,501,979
Notes payable	480,117		2,754,339	3,669,216	(2,282,320)	4,621,352
Subordinated notes				430,000	(430,000)	
Other liabilities	71,387	$ 116	62,059	843,892	(43,082)	934,372
	716,504	116	4,141,063	40,378,232	(4,406,469)	40,829,446
Minority interest in consolidated subsidiaries				109		109
Stockholders equity:						
Preferred stock	186,875					186,875
Common stock	1,761,908	3,961	2	51,619	(55,582)	1,761,908
Surplus	563,183	851,193	734,964	2,709,595	(4,290,751)	568,184
Retained earnings	1,324,468	(46,897)	(99,806)	1,037,153	(895,451)	1,319,467
Treasury stock, at cost	(207,740)			(664)	664	(207,740)
Accumulated other comprehensive loss, net of tax	(46,812)	(39,995)	(5,317)	(10,298)	55,610	(46,812)
	3,581,882	768,262	629,843	3,787,405	(5,185,510)	3,581,882
	$4,298,386	$768,378	$4,770,906	$44,165,746	$(9,591,979)	$44,411,437

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POPULAR, INC.
CONDENSED CONSOLIDATING STATEMENT OF CONDITION
SEPTEMBER 30, 2007
(UNAUDITED)

(In thousands)	Popular, Inc. Holding Co.	PIBI Holding Co.	PNA Holding Co.	All other Subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
ASSETS						
Cash and due from banks	$ 890	$ 1,079	$ 15,567	$ 692,595	$ (1,075)	$ 709,056
Money market investments	71,000	300	195	753,797	(190,195)	635,097
Investment securities available-for-sale, at fair value		38,578		8,839,917		8,878,495
Investment securities held-to-maturity, at amortized cost	626,189	1,250		81,828	(430,000)	279,267
Other investment securities, at lower of cost or realizable value	14,425	1	12,392	152,558		179,376
Trading account securities, at fair value				662,477	(319)	662,158
Investment in subsidiaries	3,218,956	1,009,325	1,959,999		(6,188,280)	
Loans held-for-sale measured at lower of cost or market value				423,303		423,303
Loans held-in-portfolio	378,107	21,550	3,084,479	33,213,737	(3,469,649)	33,228,224
Less Unearned income				330,723		330,723
Allowance for loan losses	60			600,213		600,273
	378,047	21,550	3,084,479	32,282,801	(3,469,649)	32,297,228
Premises and equipment, net	24,359		132	556,277		580,768
Other real estate				133,508		133,508
Accrued income receivable	742	54	14,274	290,500	(14,654)	290,916
Servicing assets				196,992		196,992
Other assets	42,374	60,592	59,188	1,154,630	(72,095)	1,244,689
Goodwill				668,807		668,807
Other intangible assets	554			99,917		100,471

	$4,377,536	$1,132,729	$5,146,226	$46,989,907	$(10,366,267)	$47,280,131
LIABILITIES AND STOCKHOLDERS EQUITY						
Liabilities:						
Deposits:						
Non-interest bearing				$ 3,976,400	$ (1,017)	$ 3,975,383
Interest bearing				22,626,626	(494)	22,626,132
				26,603,026	(1,511)	26,601,515
Federal funds purchased and assets sold under agreements to repurchase			$ 265,332	6,211,672	(189,701)	6,287,303
Other short-term borrowings	$ 25,000		849,716	1,827,830	(1,287,649)	1,414,897
Notes payable	486,494		2,920,305	7,090,311	(2,182,319)	8,314,791
Subordinated notes				430,000	(430,000)	
Other liabilities	62,321	$ 80	119,174	762,094	(85,874)	857,795
	573,815	80	4,154,527	42,924,933	(4,177,054)	43,476,301
Minority interest in consolidated subsidiaries				109		109
Stockholders equity:						
Preferred stock	186,875					186,875
Common stock	1,757,961	3,961	2	51,619	(55,582)	1,757,961
Surplus	531,128	851,193	734,964	2,571,595	(4,152,751)	536,129
Retained earnings	1,694,385	330,750	269,284	1,566,766	(2,171,801)	1,689,384
Accumulated other comprehensive loss, net of tax	(161,061)	(53,255)	(12,551)	(124,451)	190,257	(161,061)
Treasury stock, at cost	(205,567)			(664)	664	(205,567)
	3,803,721	1,132,649	991,699	4,064,865	(6,189,213)	3,803,721
	$4,377,536	$1,132,729	$5,146,226	$46,989,907	$(10,366,267)	$47,280,131

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

(In thousands)	Popular, Inc. Holding Co.	PIBI Holding Co.	PNA Holding Co.	All other Subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
INTEREST AND DIVIDEND INCOME:						
Dividend income from subsidiaries	$ 45,000				$ (45,000)	
Loans	6,566		$ 23,955	$ 457,784	(30,400)	$ 457,905
Money market investments	1,016	$ 322	105	3,462	(1,458)	3,447
Investment securities	7,376	94	223	84,112	(7,015)	84,790
Trading account securities				9,339		9,339
	59,958	416	24,283	554,697	(83,873)	555,481
INTEREST EXPENSE:						
Deposits				166,021	(410)	165,611
Short-term borrowings	191		4,101	42,196	(9,255)	37,233
Long-term debt	9,265		30,223	18,364	(29,497)	28,355
	9,456		34,324	226,581	(39,162)	231,199
Net interest income (loss)	50,502	416	(10,041)	328,116	(44,711)	324,282
Provision for loan losses				252,160		252,160
Net interest income (loss) after provision for loan losses	50,502	416	(10,041)	75,956	(44,711)	72,122
Service charges on deposit accounts				52,433		52,433
Other service fees				95,172	130	95,302
Net (loss) gain on sale and valuation adjustments of investment securities		(9,147)		15		(9,132)
Trading account profit				6,669		6,669

Gain on sale of loans and valuation adjustments on loans held-for-sale				6,522		6,522
Other operating income (loss)	94	3,474	(2,951)	37,244	(1,727)	36,134
	50,596	(5,257)	(12,992)	274,011	(46,308)	260,050
OPERATING EXPENSES:						
Personnel costs:						
Salaries	5,149	92		113,708	(1)	118,948
Pension, profit sharing and other benefits	1,168	16		28,098		29,282
	6,317	108		141,806	(1)	148,230
Net occupancy expenses	641	7	1	25,861		26,510
Equipment expenses	1,020			25,285		26,305
Other taxes	850			12,451		13,301
Professional fees	6,941	3	(204)	26,636	(1,596)	31,780
Communications	63	5	9	12,497		12,574
Business promotion	373			15,843		16,216
Printing and supplies	19			3,250		3,269
Other operating expenses	(15,905)	(100)	(316)	57,436	(351)	40,764
Amortization of intangibles				3,966		3,966
	319	23	(510)	325,031	(1,948)	322,915
Income (loss) before income tax and equity in losses of subsidiaries	50,277	(5,280)	(12,482)	(51,020)	(44,360)	(62,865)
Income tax expense	1,964		7,299	138,796	249	148,308
Income (loss) before equity in losses of subsidiaries	48,313	(5,280)	(19,781)	(189,816)	(44,609)	(211,173)
Equity in undistributed losses of subsidiaries	(259,486)	(243,789)	(225,347)		728,622	
Net loss from continuing operations	$(211,173)	$(249,069)	$(245,128)	$(189,816)	$ 684,013	$(211,173)
Net loss from discontinued operations, net of tax				(457,370)		(457,370)

Equity in undistributed losses of discontinued operations	(457,370)	(457,370)	(457,370)		1,372,110	
NET LOSS	$(668,543)	$(706,439)	$(702,498)	$(647,186)	$2,056,123	$(668,543)

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POPULAR, INC.
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE QUARTER ENDED SEPTEMBER 30, 2007
(UNAUDITED)

(In thousands)	Popular, Inc. Holding Co.	PIBI Holding Co.	PNA Holding Co.	All other Subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
INTEREST AND DIVIDEND INCOME:						
Dividend income from subsidiaries	$ 69,800				$ (69,800)	
Loans	4,800	$ 31	$ 40,827	$ 523,436	(45,300)	$ 523,794
Money market investments	176	244	2	7,640	(1,255)	6,807
Investment securities	10,093	307	223	105,742	(7,346)	109,019
Trading account securities				10,163		10,163
	84,869	582	41,052	646,981	(123,701)	649,783
INTEREST EXPENSE:						
Deposits				197,065	(240)	196,825
Short-term borrowings	383		14,635	114,131	(20,178)	108,971
Long-term debt	8,368		38,071	(313)	(33,785)	12,341
	8,751		52,706	310,883	(54,203)	318,137
Net interest income (loss)	76,118	582	(11,654)	336,098	(69,498)	331,646
Provision for loan losses				86,340		86,340
Net interest income (loss) after provision for loan losses	76,118	582	(11,654)	249,758	(69,498)	245,306
Service charges on deposit accounts				49,704		49,704
Other service fees				90,582	(719)	89,863
Net (loss) gain on sale and valuation adjustments of investment securities	(1,025)	258		(9)		(776)
Trading account profit				9,239		9,239

Gain on sale of loans and valuation adjustment on loans held-for-sale				6,975		6,975
Other operating income (loss)	68	2,296	(94)	20,090	(440)	21,920
	75,161	3,136	(11,748)	426,339	(70,657)	422,231
OPERATING EXPENSES:						
Personnel costs:						
Salaries	3,882	99		112,598	(410)	116,169
Pension, profit sharing and other benefits	978	15		28,227	(116)	29,104
	4,860	114		140,825	(526)	145,273
Net occupancy expenses	542	7		26,534		27,083
Equipment expenses	388		1	27,935		28,324
Other taxes	438			12,328		12,766
Professional fees	2,718	(2)	(14)	27,426	(630)	29,498
Communications	115			15,000		15,115
Business promotion	989			26,490		27,479
Printing and supplies	14		1	3,745		3,760
Other operating expenses	(11,547)	(100)	95	39,378	(397)	27,429
Amortization of intangibles				2,234		2,234
	(1,483)	19	83	321,895	(1,553)	318,961
Income (loss) before income tax and equity in earnings (losses) of subsidiaries	76,644	3,117	(11,831)	104,444	(69,104)	103,270
Income tax expense (benefit)	1,755		(4,141)	25,166	276	23,056
Income (loss) before equity in earnings (losses) of subsidiaries	74,889	3,117	(7,690)	79,278	(69,380)	80,214
Equity in undistributed earnings (losses) of subsidiaries	5,325	(8,703)	(1,979)		5,357	
Net income (loss) from continuing operations	$ 80,214	$ (5,586)	$ (9,669)	$ 79,278	$ (64,023)	$ 80,214
Net loss from discontinued operations, net of tax				(44,211)		(44,211)

Equity in undistributed losses of discontinued operations	(44,211)	(44,211)	(44,211)		132,633	
NET INCOME (LOSS)	$ 36,003	$ (49,797)	$ (53,880)	$ 35,067	$ 68,610	$ 36,003

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

(In thousands)	Popular, Inc. Holding Co.	PIBI Holding Co.	PNA Holding Co.	All other Subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
INTEREST AND DIVIDEND INCOME:						
Dividend income from subsidiaries	$ 134,900				$ (134,900)	
Loans	19,339	$ 219	$ 82,547	$1,421,969	(102,137)	$1,421,937
Money market investments	1,573	727	300	14,724	(3,673)	13,651
Investment securities	23,452	726	670	257,847	(21,046)	261,649
Trading account securities				35,344		35,344
	179,264	1,672	83,517	1,729,884	(261,756)	1,732,581
INTEREST EXPENSE:						
Deposits				529,405	(809)	528,596
Short-term borrowings	2,800		18,474	148,459	(31,909)	137,824
Long-term debt	25,832		97,258	47,759	(95,026)	75,823
	28,632		115,732	725,623	(127,744)	742,243
Net interest income (loss)	150,632	1,672	(32,215)	1,004,261	(134,012)	990,338
Provision for loan losses	40			602,521		602,561
Net interest income (loss) after provision for loan losses	150,592	1,672	(32,215)	401,740	(134,012)	387,777
Service charges on deposit accounts				155,319		155,319
Other service fees				313,641	(6,992)	306,649
Net (loss) gain on sale and valuation adjustments of investment securities		(9,147)		78,577		69,430
				38,547		38,547

Trading account profit						
Gain on sale of loans and valuation adjustments on loans held-for-sale				25,696		25,696
Other operating (loss) income	(17)	10,628	(4,992)	90,838	(3,621)	92,836
	150,575	3,153	(37,207)	1,104,358	(144,625)	1,076,254
OPERATING EXPENSES:						
Personnel costs:						
Salaries	17,142	289		345,541	(2,009)	360,963
Pension, profit sharing and other benefits	4,091	58		94,476	(73)	98,552
	21,233	347		440,017	(2,082)	459,515
Net occupancy expenses	1,884	22	3	79,309		81,218
Equipment expenses	2,761			81,551		84,312
Other taxes	1,750			38,155		39,905
Professional fees	14,386	8	(24)	78,873	(4,279)	88,964
Communications	258	14	27	37,838		38,137
Business promotion	1,144			49,920		51,064
Printing and supplies	61			10,702		10,763
Other operating expenses	(42,645)	(301)	(195)	158,046	(1,183)	113,722
Amortization of intangibles				8,948		8,948
	832	90	(189)	983,359	(7,544)	976,548
Income (loss) before income tax and equity in losses of subsidiaries	149,743	3,063	(37,018)	120,999	(137,081)	99,706
Income tax expense (benefit)	2,629		(1,073)	150,282	629	152,467
Income (loss) before equity in losses of subsidiaries	147,114	3,063	(35,945)	(29,283)	(137,710)	(52,761)
Equity in undistributed losses of subsidiaries	(199,875)	(291,506)	(265,535)		756,916	
Net loss from continuing operations	$ (52,761)	$ (288,443)	$ (301,480)	$ (29,283)	$ 619,206	$ (52,761)

Net loss from discontinued operations, net of tax				(488,242)		(488,242)
Equity in undistributed losses of discontinued operations	(488,242)	(488,242)	(488,242)		1,464,726	
NET LOSS	$(541,003)	$(776,685)	$(789,722)	$ (517,525)	$2,083,932	$ (541,003)

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POPULAR, INC.
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007
(UNAUDITED)

(In thousands)	Popular, Inc. Holding Co.	PIBI Holding Co.	PNA Holding Co.	All other Subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
INTEREST AND DIVIDEND INCOME:						
Dividend income from subsidiaries	$ 159,200				$(159,200)	
Loans	14,339	$ 31	$ 117,001	$1,520,272	(130,219)	$1,521,424
Money market investments	1,116	359	13	20,064	(4,384)	17,168
Investment securities	27,456	1,503	670	327,127	(21,764)	334,992
Trading account securities				27,244		27,244
	202,111	1,893	117,684	1,894,707	(315,567)	1,900,828
INTEREST EXPENSE:						
Deposits				553,804	(1,147)	552,657
Short-term borrowings	2,348		43,521	355,528	(61,235)	340,162
Long-term debt	25,100		111,956	(2,499)	(94,890)	39,667
	27,448		155,477	906,833	(157,272)	932,486
Net interest income (loss)	174,663	1,893	(37,793)	987,874	(158,295)	968,342
Provision for loan losses	7			219,470		219,477
Net interest income (loss) after provision for loan losses	174,656	1,893	(37,793)	768,404	(158,295)	748,865
Service charges on deposit accounts				146,567		146,567
Other service fees				268,703	(2,991)	265,712
Net gain (loss) on sale and valuation adjustments of investment securities	115,567	(8,249)		5,524		112,842
				29,765		29,765

Trading account profit						
Gain on sale of loans and valuation adjustment on loans held-for-sale				40,224		40,224
Other operating income (loss)	9,830	13,506	(723)	67,044	(1,689)	87,968
	300,053	7,150	(38,516)	1,326,231	(162,975)	1,431,943
OPERATING EXPENSES:						
Personnel costs:						
Salaries	15,500	293		343,137	(1,224)	357,706
Pension, profit sharing and other benefits	4,295	52		96,075	(354)	100,068
	19,795	345		439,212	(1,578)	457,774
Net occupancy expenses	1,707	22	2	74,454		76,185
Equipment expenses	1,061		3	86,195		87,259
Other taxes	1,148			34,496		35,644
Professional fees	8,495	17	107	81,319	(2,249)	87,689
Communications	393			44,276		44,669
Business promotion	2,152			81,258		83,410
Printing and supplies	56		1	11,479		11,536
Other operating expenses	(36,499)	(300)	328	118,812	(1,165)	81,176
Amortization of intangibles				8,030		8,030
	(1,692)	84	441	979,531	(4,992)	973,372
Income (loss) before income tax and equity in earnings (losses) of subsidiaries	301,745	7,066	(38,957)	346,700	(157,983)	458,571
Income tax expense (benefit)	31,001		(13,635)	87,737	495	105,598
Income (loss) before equity in earnings (losses) of subsidiaries	270,744	7,066	(25,322)	258,963	(158,478)	352,973
Equity in undistributed earnings (losses) of subsidiaries	82,229	(12,459)	10,573		(80,343)	

Net income (loss) from continuing operations	$ 352,973	$ (5,393)	$ (14,749)	$ 258,963	$(238,821)	$ 352,973
Net loss from discontinued operations, net of tax				(123,373)		(123,373)
Equity in undistributed losses of discontinued operations	(123,373)	(123,373)	(123,373)		370,119	
NET INCOME (LOSS)	$ 229,600	$(128,766)	$(138,122)	$ 135,590	$ 131,298	$ 229,600

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

(In thousands)	Popular, Inc. Holding Co.	PIBI Holding Co.	PNA Holding Co.	All other Subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
Cash flows from operating activities:						
Net loss	$(541,003)	$(776,685)	$(789,722)	$ (517,525)	$ 2,083,932	$ (541,003)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:						
Equity in undistributed losses of subsidiaries	688,117	779,748	753,777		(2,221,642)	
Depreciation and amortization of premises and equipment	1,735		2	53,496		55,233
Provision for loan losses	40			621,512		621,552
Amortization of intangibles				8,948		8,948
Amortization and fair value adjustment of servicing assets				53,679		53,679
Net loss (gain) on sale and valuation adjustment of investment securities		9,147		(73,157)		(64,010)
Losses from changes in fair value related to instruments measured at fair value pursuant to SFAS No. 159				179,482		179,482
Net loss (gain) on disposition of premises and equipment	57			(23,700)		(23,643)
Net gain on sale of loans and valuation adjustments on loans held-for-sale				54,527		54,527
Net amortization of premiums and accretion of discounts on investments	(1,754)			17,788		16,034
Net amortization of premiums and deferred				40,650		40,650

loan origination fees and costs						
Fair value adjustment of other assets held-for-sale				103,702		103,702
Losses (earnings) from investments under the equity method	112	(10,628)	4,991	(46)	(1,328)	(6,899)
Stock options expense	296			534		830
Deferred income taxes, net of valuation	(339)		(1,072)	58,183	15,489	72,261
Net disbursements on loans held-for-sale				(2,000,449)		(2,000,449)
Acquisitions of loans held-for-sale				(268,718)		(268,718)
Proceeds from sale of loans held-for-sale				1,289,738		1,289,738
Net decrease in trading securities				1,604,664	(319)	1,604,345
Net decrease (increase) in accrued income receivable	676	(78)	(7,319)	8,033	6,882	8,194
Net decrease (increase) in other assets	8,425	4,081	(21,518)	(237,322)	344	(245,990)
Net (decrease) increase in interest payable	(3,681)		1,475	(40,092)	(6,882)	(49,180)
Net increase in postretirement benefit obligation				1,810		1,810
Net increase (decrease) increase in other liabilities	2,171	(47)	14,758	(36,511)	(15,491)	(35,120)
Total adjustments	695,855	782,223	745,094	1,416,751	(2,222,947)	1,416,976
Net cash provided by (used in) operating activities	154,852	5,538	(44,628)	899,226	(139,015)	875,973
Cash flows from investing activities:						
Net (increase) decrease in money market investments	(22,140)	(39,115)	(115,588)	773,819	100,239	697,215
Purchases of investment securities:						
Available-for-sale		(181)		(3,875,209)		(3,875,390)
Held-to-maturity	(577,103)			(4,381,183)		(4,958,286)
Other				(166,641)		(166,641)
Proceeds from calls, paydowns, maturities and redemptions of investment securities:						
Available-for-sale				2,377,740		2,377,740
Held-to-maturity	748,500			3,976,318		4,724,818

Other	154,067