POPULAR INC
Form 10-Q
November 09, 2010

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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, 2010
Commission File Number: 001-34084
POPULAR, INC.

(Exact name of registrant as specified in its charter)

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

(787) 765-9800

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

(Former name, former address and former fiscal year, if changed since last report)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
þ Yes o No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
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 definition of accelerated filer, large accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act:

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
o Yes þ No
Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: Common Stock $0.01 par value, 1,022,682,796 shares outstanding as of November 2, 2010.

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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 Popular, Inc. s (the Corporation) 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 should, could, might, can, may, or similar expressions are generally intended to identify forward-looking statem 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 Popular s control, could cause actual results to differ materially from those expressed in, or implied by, such forward-looking statements. Factors that might cause such a difference include, but are not limited to:

- the rate of growth in the economy and employment levels, as well as general business and economic conditions;
- difficulties in combining the operations of acquired entities, including in connection with our acquisition of certain assets and assumption of certain liabilities of Westernbank Puerto Rico from the Federal Deposit Insurance Corporation (FDIC);
- changes in interest rates, as well as the magnitude of such changes;
- the fiscal and monetary policies of the federal government and its agencies;
- changes in federal bank regulatory and supervisory policies, including required levels of capital;
- the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Financial Reform Act) on the Corporation s businesses, business practices and costs of operations;
- the relative strength or weakness of the consumer and commercial credit sectors and of the real estate markets in Puerto Rico and the other markets in which borrowers are located;
- the performance of the stock and bond markets;
- competition in the financial services industry;
- additional FDIC assessments; and
- possible legislative, tax or regulatory changes.

Investors should refer to the Corporation s Annual Report on Form 10-K for the year ended December 31, 2009 as well as Part II, Item 1A of this Form 10-Q for a discussion of such factors and certain risks and uncertainties to which the Corporation is subject.

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

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

unanticipated events or circumstances after the date of such statements.

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

(In thousands, except share information)	September 30, 2010	December 31, 2009	September 30, 2009
ASSETS			
Cash and due from banks	$ 580,811	$ 677,330	$ 606,861
Money market investments:			
Federal funds sold		159,807	140,635
Securities purchased under agreements to resell	290,456	293,125	325,178
Time deposits with other banks	1,733,493	549,865	633,010
Total money market investments	2,023,949	1,002,797	1,098,823
Trading account securities, at fair value:			
Pledged securities with creditors right to repledge	434,637	415,653	386,478
Other trading securities	48,555	46,783	59,890
Investment securities available-for-sale, at fair value:			
Pledged securities with creditors right to repledge	2,048,258	2,330,441	2,432,720
Other investment securities available-for-sale	3,693,225	4,364,273	4,560,571
Investment securities held-to-maturity, at amortized cost (fair value as of September 30, 2010 $214,803; December 31, 2009 $213,146; September 30, 2009 $210,913)	214,152	212,962	212,950
Other investment securities, at lower of cost or realizable value (realizable value as of September 30, 2010 $159,622; December 31, 2009 $165,497; September 30, 2009 $176,286)	158,309	164,149	174,943
Loans held-for-sale measured at lower of cost or fair value	115,088	90,796	75,447
Loans held-in-portfolio:			
Loans not covered under loss sharing agreements with the FDIC	22,249,167	23,827,263	24,512,966
Loans covered under loss sharing agreements with the FDIC	4,006,227		
Less Unearned income	106,685	114,150	116,897
Allowance for loan losses	1,243,994	1,261,204	1,207,401
Total loans held-in-portfolio, net	24,904,715	22,451,909	23,188,668
FDIC loss share indemnification asset	3,308,959		
Premises and equipment, net	531,849	584,853	589,592
Other real estate not covered under loss sharing agreements with the FDIC	168,823	125,483	129,485
Other real estate covered under loss sharing agreements with the FDIC	77,516		
Accrued income receivable	160,167	126,080	131,745

Mortgage servicing assets, at fair value	165,947	169,747	180,335
Other assets (See Note 13)	1,459,985	1,324,917	1,156,721
Goodwill	665,333	604,349	606,508
Other intangible assets	60,438	43,803	46,067
Total assets	$ 40,820,716	$ 34,736,325	$ 35,637,804
LIABILITIES AND STOCKHOLDERS EQUITY			
Liabilities:			
Deposits:			
Non-interest bearing	$ 5,371,439	$ 4,495,301	$ 4,281,817
Interest bearing	22,368,605	21,429,593	22,101,081
Total deposits	27,740,044	25,924,894	26,382,898
Federal funds purchased and assets sold under agreements to repurchase	2,358,139	2,632,790	2,807,891
Other short-term borrowings	191,342	7,326	3,077
Notes payable	5,143,388	2,648,632	2,649,821
Other liabilities	1,278,603	983,866	1,051,661
Total liabilities	36,711,516	32,197,508	32,895,348
Commitments and contingencies (See Note 19)			
Stockholders equity:			
Preferred stock, 30,000,000 shares authorized; 2,006,391 shares issued and outstanding at September 30, 2010, December 31, 2009 and September 30, 2009 (aggregate liquidation preference $50,160)	50,160	50,160	50,160
Common stock, $0.01 par value; 1,700,000,000 shares authorized as of September 30, 2010 (December 31, 2009 and September 30, 2009 700,000,000); 1,022,878,228 shares issued as of September 30, 2010 (December 31,2009 and September 30, 2009 639,544,895) and 1,022,686,418 outstanding as of September 30, 2010 (December 31, 2009 639,540,105; September 30, 2009 639,541,515)	10,229	6,395	6,395
Surplus	4,094,302	2,804,238	2,794,660
Accumulated deficit	(130,808)	(292,752)	(69,525)
Treasury stock at cost, 191,810 shares as of September 30, 2010 (December 31, 2009 4,790 shares; September 30, 2009 3,380)	(545)	(15)	(11)
Accumulated other comprehensive income (loss), net of tax expense of $16,856 (December 31, 2009 $33,964; September 30, 2009 $57,302)	85,862	(29,209)	(39,223)
Total stockholders equity	4,109,200	2,538,817	2,742,456
Total liabilities and stockholders equity	$ 40,820,716	$ 34,736,325	$ 35,637,804

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

POPULAR, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(In thousands, except per share information)	Quarter ended September 30, 2010	Quarter ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
INTEREST INCOME:				
Loans	$ 484,883	$ 371,366	$ 1,224,846	$ 1,155,378
Money market investments	1,391	1,510	4,326	7,024
Investment securities	57,277	74,360	185,118	223,661
Trading account securities	7,136	7,227	20,313	28,638
Total interest income	550,687	454,463	1,434,603	1,414,701
INTEREST EXPENSE:				
Deposits	86,330	118,941	269,919	395,432
Short-term borrowings	14,945	16,142	45,756	53,476
Long-term debt	62,494	42,991	184,117	133,858
Total interest expense	163,769	178,074	499,792	582,766
Net interest income	386,918	276,389	934,811	831,935
Provision for loan losses	215,013	331,063	657,471	1,053,036
Net interest income after provision for loan losses	171,905	(54,674)	277,340	(221,101)
Service charges on deposit accounts	48,608	54,208	149,865	161,412
Other service fees (See Note 24)	100,822	97,614	305,867	298,584
Net gain (loss) on sale and valuation adjustments of investment securities	3,732	(9,059)	4,210	220,792
Trading account profit	5,860	7,579	8,101	31,241
Loss on sale of loans, including adjustments to indemnity reserves, and valuation adjustments on loans held-for-sale	(1,573)	(8,728)	(23,106)	(35,994)
FDIC loss share expense	(36,936)		(13,602)	
Fair value change in equity appreciation instrument	10,641		35,035	
Gain on sale of processing and technology business	640,802		640,802	
Other operating income	24,568	18,430	63,076	44,579
Total non-interest income	796,524	160,044	1,170,248	720,614
OPERATING EXPENSES:				
Personnel costs:				
Salaries	116,426	102,822	321,423	315,224
Pension and other benefits	24,779	27,725	78,746	96,820
Total personnel costs	141,205	130,547	400,169	412,044
Net occupancy expenses	28,425	28,269	86,359	80,734

Equipment expenses	25,432	24,983	74,231	76,289
Other taxes	13,872	13,109	38,635	39,369
Professional fees	48,224	28,694	109,498	80,643
Communications	9,514	11,902	31,628	36,115
Business promotion	11,260	8,905	29,759	26,761
Printing and supplies	2,876	2,857	7,898	8,664
FDIC deposit insurance	17,183	16,506	49,894	61,954
Loss (gain) on early extinguishment of debt	25,448	(79,304)	26,426	(79,304)
Other operating expenses	45,697	31,753	119,464	104,955
Amortization of intangibles	2,411	2,379	6,915	7,218
Total operating expenses	371,547	220,600	980,876	855,442
Income (loss) from continuing operations before income tax	596,882	(115,230)	466,712	(355,929)
Income tax expense (benefit)	102,388	6,331	113,101	(15,209)
Income (loss) from continuing operations	494,494	(121,561)	353,611	(340,720)
Loss from discontinued operations, net of income tax		(3,427)		(19,972)
NET INCOME (LOSS)	$ 494,494	($124,988)	$ 353,611	($360,692)
NET INCOME APPLICABLE TO COMMON STOCK	$ 494,494	$ 595,614	$ 161,944	$ 310,604
NET INCOME PER COMMON SHARE BASIC				
Net income from continuing operations	$ 0.48	$ 1.41	$ 0.19	$ 1.00
Net loss from discontinued operations		(0.01)		(0.06)
Net income per common share basic	$ 0.48	$ 1.40	$ 0.19	$ 0.94
NET INCOME PER COMMON SHARE DILUTED				
Net income from continuing operations	$ 0.48	$ 1.41	$ 0.19	$ 1.00
Net loss from discontinued operations		(0.01)		(0.06)
Net income per common share diluted	$ 0.48	$ 1.40	$ 0.19	$ 0.94
DIVIDENDS DECLARED PER COMMON SHARE				$ 0.02

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)	Common stock, including treasury stock	Preferred stock	Surplus	Accumulated deficit	Accumulated other comprehensive (loss) income	Total
Balance as of December 31, 2008	$ 1,566,277	$ 1,483,525	$ 621,879	($374,488)	($28,829)	$3,268,364
Net loss				(360,692)		(360,692)
Accretion of discount		4,515 [3]		(4,515) [3]		
Exchange of preferred stock for trust preferred securities issued		(901,165)		485,280 [1]		(415,885)
Issuance of common stock in exchange of preferred stock	1,717	(536,715)	291,974	230,388 [1]		(12,636)
Issuance of common stock in connection with early extinguishment of debt	1,858		315,794			317,652
Issuance costs			1,018 [2]			1,018
Stock options expense on unexercised options, net of forfeitures			162			162
Change in par value	(1,689,389) [4]		1,689,389 [4]			
Cash dividends declared:						
Common stock				(5,641)		(5,641)
Preferred stock				(39,857)		(39,857)
Common stock reissuance	378					378
Common stock purchases	(13)					(13)
Treasury stock retired	125,556		(125,556)			
Other comprehensive					(10,394)	(10,394)

loss, net of tax						
Balance as of September 30, 2009	$ 6,384	$ 50,160	$2,794,660	($69,525)	($39,223)	$2,742,456
Balance as of December 31, 2009	$ 6,380	$ 50,160	$2,804,238	($292,752)	($29,209)	$2,538,817
Net income				353,611		353,611
Issuance of stocks		1,150,000 [5]				1,150,000
Issuance of common stock upon conversion of preferred stock	3,834 [5]	(1,150,000) [5]	1,337,833 [5]			191,667
Issuance costs			(47,769) [6]			(47,769)
Deemed dividend on preferred stock				(191,667)		(191,667)
Common stock purchases	(530)					(530)
Other comprehensive income, net of tax					115,071	115,071
Balance as of September 30, 2010	$ 9,684	$ 50,160	$4,094,302	($130,808)	$ 85,862	$4,109,200

[1] Excess of carrying amount of preferred stock exchanged over fair value of new trust preferred securities and common stock issued

[2] Net of issuance costs of preferred stock exchanged and issuance costs related to exchange and issuance of new common stock

[3] Accretion of preferred stock discount 2008 Series C preferred stock

[4] Change in par value from $6.00 to $0.01 (not in thousands)

[5] Issuance and subsequent conversion of depositary shares representing interests in shares of contingent convertible non-cumulative preferred stock Series D into common stock

[6] Issuance costs related to issuance and conversion of depositary shares (Preferred stock Series D)

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

Disclosure of changes in number of shares:

	September 30, 2010	December 31, 2009	September 30, 2009
Preferred Stock:			
Balance at beginning of period (January 1)	2,006,391	24,410,000	24,410,000
Issuance of stocks	1,150,000 [1]		
Exchange of stocks		(22,403,609) [2]	(22,403,609) [2]
Conversion of stocks	(1,150,000) [1]		
Balance at end of period	2,006,391	2,006,391	2,006,391
Common Stock Issued:			
Balance at beginning of period	639,544,895	295,632,080	295,632,080
Issuance of stocks	383,333,333 [1]	357,510,076 [3]	357,510,076 [3]
Treasury stock retired		(13,597,261)	(13,597,261)
Balance at end of period	1,022,878,228	639,544,895	639,544,895
Treasury Stock	(191,810)	(4,790)	(3,380)
Common Stock Outstanding	1,022,686,418	639,540,105	639,541,515

[1] Issuance of 46,000,000 in depositary shares; converted into 383,333,333 common shares (full conversion of depositary shares, each representing a 1/40th interest in shares of contingent convertible perpetual non-cumulative preferred stock, into common stock).

[2] Exchange of 21,468,609 preferred stock Series A and B for common shares, and exchange of 935,000 preferred stock Series C for trust preferred securities.

[3] Shares issued in exchange of Series A and B preferred stock and early extinguishment of debt (exchange of trust preferred securities for common stock).

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

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

(In thousands)	Quarter ended September 30, 2010	Quarter ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Net income (loss)	$ 494,494	($124,988)	$ 353,611	($360,692)
Other comprehensive income (loss) before tax:				
Foreign currency translation adjustment	1,017	(1,360)	440	(2,117)
Reclassification adjustment for losses included in net income (loss)	4,967		4,967	
Adjustment of pension and postretirement benefit plans	1,709	3,128	7,945	66,223
Unrealized holding gains on securities available-for-sale arising during the period	7,438	82,934	124,350	63,535
Reclassification adjustment for (gains) losses included in net income (loss)	(3,717)	3,688	(3,701)	(173,868)
Unrealized net losses on cash flow hedges	(623)	(995)	(2,163)	(2,618)
Reclassification adjustment for losses included in net income (loss)	1,509	37	341	5,920
Other comprehensive income (loss) before tax:	12,300	87,432	132,179	(42,925)
Income tax (expense) benefit	(888)	(9,955)	(17,108)	32,531
Total other comprehensive income (loss), net of tax	11,412	77,477	115,071	(10,394)
Comprehensive income (loss), net of tax	$ 505,906	($47,511)	$ 468,682	($371,086)

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

(In thousands)	Quarter ended September 30, 2010	Quarter ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Underfunding of pension and postretirement benefit plans	($882)	($1,272)	($2,647)	($24,055)
Unrealized holding gains on securities available-for-sale arising during the period	(217)	(9,137)	(15,724)	(5,844)
Reclassification adjustment for (gains) losses included in net income (loss)	556	81	552	62,790
Unrealized net losses on cash flows hedges	244	388	844	1,021
Reclassification adjustment for losses included in net income (loss)	(589)	(15)	(133)	(1,381)
Income tax (expense) benefit	($888)	($9,955)	($17,108)	$ 32,531

Disclosure of accumulated other comprehensive income (loss):

(In thousands)	September 30, 2010	December 31, 2009	September 30, 2009
Foreign currency translation adjustment	($35,269)	($40,676)	($41,185)
Underfunding of pension and postretirement benefit plans	(119,841)	(127,786)	(193,986)
Tax effect	45,919	48,566	75,586
Underfunding of pension and postretirement benefit plans, net of tax	(73,922)	(79,220)	(118,400)
Unrealized holding gains on securities available-for-sale	224,739	104,090	139,641
Tax effect	(29,306)	(14,134)	(18,672)
Unrealized holding gains on securities available-for-sale, net of tax	195,433	89,956	120,969
Unrealized (losses) gains on cash flows hedges	(623)	1,199	(995)
Tax effect	243	(468)	388
Unrealized (losses) gains on cash flows hedges, net of tax	(380)	731	(607)
Accumulated other comprehensive income (loss)	$ 85,862	($29,209)	($39,223)

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, 2010	2009
Cash flows from operating activities:		
Net income (loss)	$ 353,611	($360,692)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization of premises and equipment	47,084	49,033
Provision for loan losses	657,471	1,053,036
Amortization of intangibles	6,915	7,218
Fair value adjustments of mortgage servicing rights	19,959	17,598
Net (accretion of discounts) amortization of premiums and deferred fees	(150,577)	50,613
Net gain on sale and valuation adjustments of investment securities	(4,210)	(220,792)
Fair value change in equity appreciation instrument	(35,035)	
FDIC loss share expense	13,602	
Gains from changes in fair value related to instruments measured at fair value pursuant to the fair value option		(1,674)
Net (gain) loss on disposition of premises and equipment	(1,993)	1,696
Net loss on sale of loans, including adjustments to indemnity reserves, and valuation adjustments on loans held-for-sale	23,106	41,202
Loss (gain) on early extinguishment of debt	26,426	(79,304)
Gain on sale of processing and technology business, net of transaction costs	(616,186)	
Earnings from investments under the equity method	(16,144)	(14,307)
Stock options expense		162
Deferred income taxes, net of valuation	2,458	(76,444)
Net disbursements on loans held-for-sale	(494,312)	(919,719)
Acquisitions of loans held-for-sale	(213,897)	(280,243)
Proceeds from sale of loans held-for-sale	57,831	65,258
Net decrease in trading securities	565,611	1,302,093
Net decrease in accrued income receivable	1,806	24,935
Net decrease in other assets	5,521	26,935
Net decrease in interest payable	(34,559)	(57,763)
Net increase in postretirement benefit obligation	1,825	3,652
Net increase in other liabilities	95,902	65,431
Total adjustments	(41,396)	1,058,616
Net cash provided by operating activities	312,215	697,924
Cash flows from investing activities:		
Net increase in money market investments	(924,913)	(304,169)
Purchases of investment securities:		
Available-for-sale	(688,678)	(4,105,915)

Held-to-maturity	(52,198)	(54,562)
Other	(44,021)	(36,601)
Proceeds from calls, paydowns, maturities and redemptions of investment securities:		
Available-for-sale	1,329,390	1,261,801
Held-to-maturity	51,067	136,535
Other	108,470	62,480
Proceeds from sale of investment securities available-for-sale	396,676	3,825,502
Proceeds from sale of other investment securities		52,294
Net repayments on loans	1,292,935	666,618
Proceeds from sale of loans	15,908	325,414
Acquisition of loan portfolios	(130,488)	(37,965)
Cash received from acquisitions	261,311	
Net proceeds from sale of processing and technology businesses	642,322	
Mortgage servicing rights purchased	(598)	(1,029)
Acquisition of premises and equipment	(40,336)	(55,625)
Proceeds from sale of premises and equipment	13,503	36,105
Proceeds from sale of foreclosed assets	120,412	107,720
Net cash provided by investing activities	2,350,762	1,878,603
Cash flows from financing activities:		
Net decrease in deposits	(574,739)	(1,167,108)
Net decrease in assets sold under agreements to repurchase	(274,651)	(743,717)
Net increase (decrease) in other short-term borrowings	184,016	(1,857)
Payments of notes payable	(3,281,449)	(807,002)
Proceeds from issuance of notes payable	111,101	61,100
Prepayment penalties paid on cancellation of debt	(25,475)	
Net proceeds from issuance of depositary shares	1,102,231	
Dividends paid		(71,438)
Issuance costs and fees paid on exchange of preferred stock and trust preferred securities		(24,618)
Treasury stock acquired	(530)	(13)
Net cash used in financing activities	(2,759,496)	(2,754,653)
Net decrease in cash and due from banks	(96,519)	(178,126)
Cash and due from banks at beginning of period	677,330	784,987
Cash and due from banks at end of period	$ 580,811	$ 606,861

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

Note: The Consolidated Statement of Cash Flows for the nine months ended September 30, 2009 includes 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

Popular, Inc. (the Corporation or Popular) is a diversified, publicly owned financial holding company subject to the supervision and regulation of the Board of Governors of the Federal Reserve System. The Corporation has operations in Puerto Rico, the United States, the Caribbean and Latin America. In Puerto Rico, the Corporation provides retail and commercial banking services through its principal banking subsidiary, Banco Popular de Puerto Rico (BPPR), as well as auto and equipment leasing and financing, mortgage loans, investment banking, broker-dealer and insurance services through specialized subsidiaries. In the United States, the Corporation operates Banco Popular North America (BPNA), including its wholly-owned subsidiary E-LOAN. BPNA is a community bank providing a broad range of financial services and products to the communities it serves. BPNA operates branches in New York, California, Illinois, New Jersey and Florida. E-LOAN markets deposit accounts under its name for the benefit of BPNA. The sections that follow provide a description of two significant transactions that impacted the Corporation s operations during 2010.

Westernbank FDIC-Assisted Transaction

On April 30, 2010, BPPR entered into a purchase and assumption agreement with the Federal Deposit Insurance Corporation (the FDIC) to acquire certain assets and assume certain deposits and liabilities of Westernbank Puerto Rico, a Puerto Rico state-chartered bank headquartered in Mayaguez, Puerto Rico (Westernbank)(herein the Westernbank FDIC-assisted transaction). Westernbank was a wholly-owned commercial bank subsidiary of W Holding Company, Inc. and operated through a network of 44 branches located throughout Puerto Rico. In August 2010, Popular successfully completed the Westernbank s systems and branch conversions. All retail and commercial accounts were converted to Popular s applications. Furthermore, out of the estimated 1,440 full-time equivalent employees (FTEs) that Westernbank had at the time of acquisition, the Corporation has hired to date close to 816 FTEs. The Corporation retained a limited number of the branches, some of which were consolidated with other existing branches of BPPR. Refer to Note 2 to the consolidated financial statements for detailed information on the Westernbank FDIC-assisted transaction. Refer to the Corporation s Form 8-K/A filed on July 16, 2010 for additional information with respect to this FDIC-assisted transaction.

EVERTEC

On September 30, 2010, the Corporation completed the sale of a 51% interest in EVERTEC, including the Corporation s merchant acquiring and processing and technology businesses (the EVERTEC transaction), and continues to hold the remaining 49% interest in the company. Refer to Note 3 to the consolidated financial statements for a description of the EVERTEC transaction. EVERTEC provides transaction processing services throughout the Caribbean and Latin America, and continues to provide processing and technology services to many of Popular s subsidiaries.

Note 2 Business Combination

As indicated in Note 1 to the consolidated financial statements, on April 30, 2010, the Corporation s banking subsidiary, BPPR, acquired certain assets and assumed certain deposits of Westernbank Puerto Rico from the FDIC, as receiver for Westernbank, in an assisted transaction. BPPR acquired approximately $9.1 billion in assets and assumed approximately $2.4 billion in deposits, excluding the effects of purchase accounting adjustments. As part of the transaction, on April 30, 2010, BPPR issued a five-year $5.8 billion note payable to the FDIC bearing an annual interest rate of 2.50%. The note is secured by a substantial amount of the assets, including loans and foreclosed other real estate properties acquired by BPPR from the FDIC in the Westernbank FDIC-assisted transaction, and which are subject to the loss sharing agreements. In addition, as part of the consideration for the transaction, the FDIC received a cash-settled equity appreciation instrument, which is described in detail below.

Loss Sharing Agreements

In connection with the acquisition, BPPR entered into loss sharing agreements with the FDIC with respect to approximately $8.6 billion of loans and other real estate (the covered assets) acquired in the Westernbank FDIC-assisted transaction. Pursuant to the terms of the loss sharing agreements, the FDIC s obligation to reimburse BPPR for losses with respect to covered assets begins with the first dollar of loss incurred. The FDIC will reimburse BPPR

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for 80% of losses with respect to covered assets, and BPPR will reimburse the FDIC for 80% of recoveries with respect to losses for which the FDIC paid BPPR 80% reimbursement under the loss sharing agreements. The loss sharing agreement applicable to single-family residential mortgage loans provides for FDIC loss and recoveries sharing for ten years. The loss sharing agreement applicable to commercial and consumer loans provides for FDIC loss sharing for five years and BPPR reimbursement to the FDIC for eight years, in each case, on the same terms and conditions as described above.

In addition, BPPR has agreed to make a true-up payment to the FDIC on the date that is 45 days following the last day (the True-Up Measurement Date) of the final shared loss month, or upon the final disposition of all covered assets under the loss sharing agreements in the event losses on the loss sharing agreements fail to reach expected levels. The estimated fair value of such true-up payment is recorded as a reduction in the fair value of the FDIC loss share indemnification asset. Under the loss sharing agreements, BPPR shall pay to the FDIC, 50% of the excess, if any, of: (i) 20% of the Intrinsic Loss Estimate of $4.6 billion (or $925 million)(as determined by the FDIC) less (ii) the sum of: (A) 25% of the asset discount (per bid) (or ($1.1 billion)); plus (B) 25% of the cumulative shared-loss payments (defined as the aggregate of all of the payments made or payable to BPPR minus the aggregate of all of the payments made or payable to the FDIC); plus (C) the sum of the period servicing amounts for every consecutive twelve-month period prior to and ending on the True-Up Measurement Date in respect of each of the loss sharing agreements during which the loss sharing provisions of the applicable loss sharing agreement is in effect (defined as the product of the simple average of the principal amount of shared loss loans and shared loss assets at the beginning and end of such period times 1%).

Covered loans under loss sharing agreements with the FDIC (the covered loans) are reported in loans exclusive of the estimated FDIC loss share indemnification asset. The covered loans acquired in the Westernbank transaction are, and will continue to be, reviewed for collectability. Under ASC Subtopic 310-30, if there is a decrease in the expected cash flows on loans due to an increase in estimated credit losses compared to the estimate made at the April 30, 2010 acquisition date, the Corporation will record a charge to the provision for loan losses and an allowance for loan losses will be established. If there is an increase in inherent losses on the loans accounted for under ASC Subtopic 310-20, an allowance for loan losses will be established to record the loans at their net realizable value. A related credit to income and an increase in the FDIC loss share indemnification asset will be recognized at the same time, measured based on the loss share percentages described above, for ASC Subtopic 310-20 and 310-30 loans.

The operating results of the Corporation for the quarter and nine months ended September 30, 2010 include the operating results produced by the acquired assets and liabilities assumed for the period of May 1, 2010 to September 30, 2010. The Corporation believes that given the nature of assets and liabilities assumed, the significant amount of fair value adjustments, the nature of additional consideration provided to the FDIC (note payable and equity appreciation instrument) and the FDIC loss sharing agreements now in place, historical results of Westernbank are not meaningful to Popular s results, and thus no pro forma information is presented.

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The following table presents balances recorded by the Corporation at the time of the Westernbank FDIC-assisted transaction on April 30, 2010.

(In thousands)	Book value prior to purchase accounting adjustments	Fair value adjustments	Additional consideration	As recorded by Popular, Inc. on April 30, 2010
Assets:				
Cash and money market investments	$ 358,132			$ 358,132
Investment in Federal Home Loan Bank stock	58,610			58,610
Covered loans	8,503,839	($4,286,847)		4,216,992
Non-covered loans	50,905	(6,909)		43,996
FDIC loss share indemnification asset		3,322,561		3,322,561
Covered other real estate owned	125,947	(52,712)		73,235
Core deposit intangible		24,415		24,415
Receivable from FDIC (associated to the note issued to the FDIC)			$ 111,101	111,101
Other assets	44,926			44,926
Total assets	$9,142,359	($999,492)	$ 111,101	$8,253,968
Liabilities:				
Deposits	$2,380,170	$ 11,465		$2,391,635
Note issued to the FDIC (including a premium of $11,612 resulting from the fair value adjustment)			$5,769,696	5,769,696
Equity appreciation instrument			52,500	52,500
Contingent liability on unfunded loan commitments		132,442		132,442
Accrued expenses and other liabilities	13,925			13,925
Total liabilities	$2,394,095	$ 143,907	$5,822,196	$8,360,198
Excess of assets acquired over liabilities assumed	$6,748,264			
Aggregate fair value adjustments		($1,143,399)		
Aggregate additional consideration, net			$5,711,095	
Goodwill on acquisition				$ 106,230

As previously disclosed, the fair values initially assigned to the assets acquired and liabilities assumed were preliminary and subject to refinement for up to one year after the closing date of the acquisition as new information

relative to closing date fair values becomes available. Because of the size of the transaction and delays in the receipt of certain information, the Corporation continues to analyze its estimates of fair value on loans acquired, FDIC loss share indemnification asset recorded and the note issued to the FDIC. As the Corporation finalizes its analyses of these assets and liabilities, there may be adjustments to the recorded carrying values, and thus the recognized goodwill may increase or decrease.

The following is a description of the methods used to determine the fair values of significant assets acquired and liabilities assumed in the Westernbank FDIC-assisted transaction:

Loans

Fair values for loans were based on a discounted cash flow methodology. Certain loans were valued individually, while other loans were valued as pools. Aggregation into pools considered characteristics such as loan type, payment term, rate type and accruing status. Principal and interest projections considered prepayment rates and credit loss expectations. The discount rates were developed based on the relative risk of the cash flows, taking into account principally the loan type, market rates as of the valuation date, liquidity expectations, and the expected life of the loans.

FDIC loss share indemnification asset

Fair value was estimated using projected cash flows related to the loss sharing agreements based on the expected reimbursements for losses, including consideration of the true up payment and the applicable loss sharing percentages. These expected reimbursements do not include reimbursable amounts related to future covered expenditures. The estimates of expected losses used in valuation of this asset are consistent with the loss estimates used in the valuation of the covered assets. These cash flows were discounted to reflect the estimated timing of the receipt of the loss share reimbursement from the FDIC and the value of any true-up payment due to the FDIC at the end of the loss sharing agreements, to the extent applicable. The discount rate used in this calculation was

determined using a yield of an A-rated corporate security with a term based on the weighted average life of the recovery of cash flows plus a risk premium reflecting the uncertainty related to the timing of cash flows and the potential rejection of claims by the FDIC. Due to the increased uncertainty of the true-up payment, an additional risk premium was added to the discount rate.

As of September 30, 2010, the Corporation has not made any claims to the FDIC associated with losses incurred on covered loans or covered other real estate owned.

Receivable from the FDIC

The note issued to the FDIC as of the April 30, 2010 transaction date was determined based on a pro-forma statement of assets acquired and liabilities assumed as of February 24, 2010, the bid transaction date. The receivable from the FDIC represents an adjustment to reconcile the consideration paid based on the assets acquired and liabilities assumed as of April 30, 2010 compared with the pro-forma statement as of February 24, 2010. The carrying amount of this receivable was a reasonable estimate of fair value based on its short-term nature. The receivable from the FDIC was collected by BPPR in June 2010 and is reflected as a cash inflow from financing activities in the consolidated statement of cash flows for the nine months ended September 30, 2010. The proceeds were remitted to the FDIC in July 2010 as a payment on the note.

Other real estate covered under loss sharing agreements with the FDIC (OREO)

OREO includes real estate acquired in settlement of loans. OREO properties were recorded at estimated fair values less costs to sell at the date acquired based on management s assessments of existing appraisals or broker price opinions. The estimated costs to sell are based on past experience with similar property types and terms customary for real estate transactions.

Goodwill

The amount of goodwill is the residual difference in the fair value of liabilities assumed and net consideration paid to the FDIC over the fair value of the assets acquired. The goodwill is deductible for income tax purposes. The goodwill from the Westernbank FDIC-assisted transaction was assigned to the BPPR reportable segment.

Core deposit intangible

This intangible asset represents the value of the relationships that Westernbank had with its deposit customers. The fair value of this intangible asset was estimated based on a discounted cash flow methodology that gave appropriate consideration to expected customer attrition rates, cost of the core deposit base, interest costs, and the net maintenance cost attributable to customer deposits, and the cost of alternative funds.

Deposits

The fair values used for the demand and savings deposits that comprise the transaction accounts acquired, by definition equal the amount payable on demand at the reporting date. The fair values for time deposits were estimated using a discounted cash flow calculation that applies interest rates currently offered to comparable time deposits with similar maturities.

Contingent liability on unfunded loan commitments

Unfunded loan commitments are contractual obligations to provide future funding. The fair value of a liability associated to unfunded loan commitments is principally based on the expected utilization rate or likelihood that the commitment will be exercised. The estimated value of the unfunded commitments was equal to the expected loss associated with the balance expected to be funded. The expected loss is comprised of both credit and non-credit components; therefore, the discounts derived from the loan valuation were applied to the expected balance to be funded to derive the fair value. The unfunded loan commitments outstanding as of the April 30, 2010 transaction date, which approximated $227 million, relate principally to commercial and construction loans and commercial revolving lines of credit. Losses incurred on loan disbursements made under these unfunded loan commitments are covered by the FDIC loss sharing agreements provided that the Corporation complies with specific requirements under such agreements. The contingent liability on unfunded loan commitments is included as part of other liabilities in the consolidated statement of condition.

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Deferred taxes

Deferred taxes relate to a difference between the financial statement and tax basis of the assets acquired and liabilities assumed in the transaction. Deferred taxes are reported based upon the principles in ASC Topic 740 Income Taxes , and are measured using the enacted statutory income tax rate to be in effect for BPPR at the time the deferred tax is expected to reverse, which is 39%.

For income tax purposes, the Westernbank transaction was accounted for as an asset purchase and the tax bases of assets acquired were allocated based on fair values using a modified residual method. Under this method, the purchase price was allocated among the assets in order of liquidity (the most liquid first) up to its fair market value.

Note issued to the FDIC

The fair value of the note issued to the FDIC was determined using discounted cash flows based on market rates currently available for debt with similar terms, including consideration that the debt is collateralized by the assets covered under the loss sharing agreements. The principal source of cash flows to pay down the note derives from the cash flows collected from the covered assets, as well as payments from the FDIC on claimed credit losses associated to the covered assets. The Corporation is required under the agreements with the FDIC to use those proceeds to repay the note and remit payments on a monthly basis.

Equity appreciation instrument

As part of the consideration for the acquisition of Westernbank assets, BPPR also issued an equity appreciation instrument to the FDIC. Under the terms of the equity appreciation instrument, the FDIC has the opportunity to obtain a cash payment with a value equal to the product of (a) 50 million units and (b) the difference between (i) Popular, Inc. s average volume weighted price over the two NASDAQ trading days immediately prior to the exercise date and (ii) the exercise price of $3.43. The equity appreciation instrument is exercisable by the holder thereof, in whole or in part, up to May 7, 2011. The fair value of the equity appreciation instrument was estimated by determining a call option value using the Black-Scholes Option Pricing Model. The equity appreciation instrument is recorded as a liability and any subsequent changes in its estimated fair value will be recognized in earnings. The Corporation recognized non-interest income of $10.6 million and $35.0 million during the quarter and nine-month periods ended September 30, 2010, respectively, as a result of a decrease in the fair value of the equity appreciation instrument. These amounts are separately disclosed in the consolidated statement of operations within the non-interest income category.

Note 3 Sale of Processing and Technology Business

On June 30, 2010, Popular and its subsidiaries BPPR, Popular International Bank, Inc. (PIBI) and EVERTEC completed an internal reorganization transferring certain intellectual property assets and interests in certain of the Corporation s foreign subsidiaries to EVERTEC. Commencing on June 30, 2010, PIBI s wholly-owned subsidiaries ATH Costa Rica S.A. and T.I.I. Smart Solutions Inc. became wholly-owned subsidiaries of EVERTEC. Also, in connection with the reorganization, BPPR s Merchant Business and TicketPop divisions were transferred to EVERTEC. On September 30, 2010, EVERTEC DE VENEZUELA, C.A. became a subsidiary of PIBI and EVERTEC LATINOAMERICA, SOCIEDAD ANONIMA was transferred from PIBI to EVERTEC.

On September 30, 2010, the Corporation completed the sale of a majority interest in its processing and technology business EVERTEC, including the businesses transferred in the internal reorganization discussed above. The Corporation retained EVERTEC s operations in Venezuela and certain related contracts. Under the terms of the sale, an unrelated third party acquired a 51% interest in EVERTEC for cash under a leverage buyout. The Corporation retained the remaining 49% interest. The Corporation s investment in EVERTEC, which is accounted for under the equity method, amounted to $177 million as of September 30, 2010, and is included as part of other assets in the consolidated statement of condition. The Corporation s proportionate share of income or loss from EVERTEC will be included in other operating income in the consolidated statements of operations commencing on October 1, 2010.

As a result of the sale, the Corporation recognized a pre-tax gain, net of transaction costs, of approximately $616.2 million ($531.0 million after-tax), of which $640.8 million was separately disclosed within non-interest income in the consolidated statement of operations and $24.6 million are included as operating expenses (transaction costs) for the quarter and nine months ended September 30, 2010. Approximately $94.0 million of the pre-tax gain was the result of marking the Corporation s retained interest in the EVERTEC business at fair value. This portion of

the gain was non-cash. The equity value of the Corporation s retained interest in the former subsidiary takes into consideration the buyer s enterprise value of EVERTEC reduced by the leverage financing, net of debt issue costs, utilized as part of the sale transaction. This leverage financing significantly impacts the resulting fair value of the retained interest.

In connection with the leverage transaction, EVERTEC issued financing in the form of unsecured senior notes and a syndicated loan (senior secured credit facility). The Corporation invested $35 million in senior unsecured notes issued by EVERTEC ($17.85 million, net of the intercompany elimination related to the 49% ownership interest maintained by Popular), which bear interest at an annual fixed rate of 11% and mature in October 2018. Also, the Corporation provided financing to EVERTEC by acquiring $58.2 million of the syndicated loan ($29.7 million, net of intercompany eliminations).

Also, as part of the sale, Popular entered into various agreements including a master services agreement pursuant to which EVERTEC will continue providing various processing and information technology services to Popular, BPPR, and their respective subsidiaries. These service costs will be included prospectively in operating expenses on the Corporation s consolidated statements of operations, net of elimination entries that are required due to Popular holding a 49% ownership interest in EVERTEC. Also, as part of the agreement, BPPR commits to support the ATH debit cards as well as the ATH network, owned and operated by EVERTEC.

The equity investments in the processing businesses of Servicios Financieros, S.A. de C.V. (Serfinsa) and Consorcio de Tarjetas Dominicanas, S.A. (CONTADO) continued to be held by the Corporation as of September 30, 2010. Under the terms of the merger agreement, the Corporation is required for a period of twelve months following the merger to continue to seek to sell its equity interests in such entities to EVERTEC, subject to complying with certain rights of first refusal in favor of the Serfinsa and CONTADO shareholders. The Corporation s investments in Serfinsa and Contado, accounted for under the equity method, amounted to $1.3 million and $15.9 million, respectively, as of September 30, 2010.

Note 4 Basis of Presentation and Summary of Significant Accounting Policies

The 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. The consolidated interim financial statements have been prepared without audit. The statement of condition data as of December 31, 2009 was derived from audited financial statements. The unaudited interim financial 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 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 unaudited financial statements 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, 2009, included in the Corporation s Annual Report on Form 10-K filed on March 1, 2010 (the 2009 Annual Report). Additionally, where applicable, the policies conform to the accounting and reporting guidelines prescribed by bank regulatory authorities. Operating results for the interim periods disclosed herein are not necessarily indicative of the results that may be expected for a full year or any future period.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated statement of condition.

Management exercised significant judgment regarding assumptions about discount rates, future expected cash flows including prepayments, default rates, market conditions and other future events that are highly subjective in nature, and subject to change, and all of which affected the estimation of the fair values of the net assets acquired in the Westernbank FDIC-assisted transaction. Actual results could differ from those estimates; others provided with the same information could draw different reasonable conclusions and calculate different fair values. Changes that may vary significantly from our assumptions include loan prepayments, credit losses, the estimated market values of collateral at disposition, the timing of such disposition, and deposit attrition.

Reclassifications

Servicing rights related to commercial loans (Small Business Administration), which are accounted for under the amortization method, have been reclassified to other assets in all periods presented, while mortgage servicing rights,

which are accounted for at fair value, are presented separately in the consolidated statements of condition. Amounts reported in prior periods consolidated financial statements have been reclassified to conform to the current presentation. Such reclassifications had no effect on previously reported cash flows, shareholders equity or net income.

Business Acquisition

The Corporation determined that the acquisition of certain assets and assumption of certain liabilities of Westernbank in the Westernbank FDIC-assisted transaction constitutes a business acquisition as defined by the Financial Accounting Standards Board (FASB) Codification (ASC) Topic 805 Business Combinations . The assets and liabilities, both tangible and intangible, were initially recorded at their estimated fair values. Fair values were determined based on the requirements of FASB Codification Topic 820 Fair Value Measurements . These fair value estimates are preliminary and subject to refinement for up to one year after the closing date of the acquisition as additional information regarding the closing date fair value becomes available. Acquisition-related costs are expensed as incurred.

Loans acquired in an FDIC-assisted transaction

Loans acquired in a business acquisition are recorded at their fair value at the acquisition date. Credit discounts are included in the determination of fair value; therefore, an allowance for loan losses is not recorded at the acquisition date.

Loans accounted for under ASC Subtopic 310-30 represent loans showing evidence of credit deterioration and that it is probable, at the date of acquisition, that the Corporation will not collect all contractually required principal and interest payments. Generally, acquired loans that meet the definition for nonaccrual status fall within the Corporation s definition of impaired loans under ASC Subtopic 310-30. Also, based on the fair value determined for the acquired portfolio, acquired loans that did not meet the definition of nonaccrual status also resulted in the recognition of a significant discount attributable to credit quality. Accordingly, an election was made by the Corporation to apply the accretable yield method (expected cash flow model of ASC Subtopic 310-30), as a loan with credit deterioration and impairment, instead of the standard loan discount accretion guidance of ASC Subtopic 310-20. These loans are disclosed as a loan that was acquired with credit deterioration and impairment.

The Corporation applied the guidance of ASC Subtopic 310-30 to all loans acquired in the transaction (including loans that do not meet scope of ASC Subtopic 310-30), except for credit cards and revolving lines of credit that were expressly scoped out from the application of this guidance since they continued to have revolving privileges after acquisition. Management used its judgment in evaluating factors impacting expected cash flows and probable loss assumptions, including the quality of the loan portfolio, portfolio concentrations, distressed economic conditions in Puerto Rico, quality of underwriting standards of the acquired institution, reductions in collateral real estate values, among other considerations that could also impact the expected cash inflows on the loans.

Under ASC Subtopic 310-30, the covered loans acquired from the FDIC were aggregated into pools based on loans that had common risk characteristics. Each loan pool is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows. Characteristics considered in pooling loans in the FDIC-assisted transaction included loan type, interest rate type, accruing status, and amortization type. Once the pools are defined, the Corporation maintains the integrity of the pool of multiple loans accounted for as a single asset.

Under ASC Subtopic 310-30, the difference between the undiscounted cash flows expected at acquisition and the fair value in the loans, or the accretable yield, is recognized as interest income using the effective yield method over the estimated life of the loan if the timing and amount of the future cash flows of the pool is reasonably estimable. The non-accretable difference represents the difference between contractually required principal and interest and the cash flows expected to be collected. Subsequent to the acquisition date, increases in cash flows over those expected at the acquisition date are recognized as interest income prospectively. Decreases in expected cash flows after the acquisition date are recognized by recording an allowance for loan losses.

The fair value discount of lines of credit with revolving privileges that are accounted for pursuant to the guidance of ASC Subtopic 310-20 represents the difference between the contractually required loan payment receivable in excess of the initial investment in the loan. This discount is accreted into interest income over the life of the loan if the loan is in accruing status. Any cash flows collected in excess of the carrying amount of the loan are recognized in earnings at the time of collection. The carrying amount of lines of credit with revolving privileges, which are accounted pursuant to the guidance of ASC Subtopic 310-20, are subject to periodic review to determine the need for recognizing an allowance for loan losses.

Covered Assets

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Assets subject to loss sharing agreements with the FDIC are labeled covered on the consolidated statement of condition and include certain loans and other real estate properties. Loans acquired in the Westernbank FDIC-assisted transaction, except for credit cards, are considered covered loans because the Corporation will be reimbursed for 80% of any future losses on these loans subject to the terms of the FDIC loss sharing agreements.

FDIC Loss Share Indemnification Asset

The acquisition date fair value of the reimbursement that the Corporation expects to receive from the FDIC under the loss sharing agreements was recorded as an FDIC loss share indemnification asset on the consolidated statement of condition. Fair value was estimated using projected cash flows related to the loss sharing agreements. Refer to Note 2 for additional information on the valuation methodology.

The FDIC loss share indemnification asset for loss share agreements is measured separately from the related covered assets as it is not contractually embedded in the assets and is not transferable with the assets should the assets be sold. The impact of the FDIC loss share indemnification on the Corporation s results of operations is included in non-interest income, particularly in the category of FDIC loss share expense , and considers the accretion due to discounting and the changes in expected loss sharing reimbursements.

The indemnification asset is recognized on the same basis as the assets subject to loss share protection. As such, for covered loans accounted pursuant to ASC Subtopic 310-30, decreases in expected reimbursements will be recognized in income prospectively consistent with the approach taken to recognize increases in cash flows on covered loans. For covered loans accounted for under ASC Subtopic 310-20, as the loan discount recorded as of the acquisition date is accreted into income, a reduction of the corresponding indemnification asset is recorded as a reduction in non-interest income.

Increases in expected reimbursements will be recognized in income in the same period that the allowance for credit losses for the related loans is recognized.

Equity Appreciation Instrument

The equity appreciation instrument is recorded as an other liability in the consolidated statement of condition and any subsequent change in its estimated fair value is recognized in earnings on each quarterly reporting date. Refer to Note 2 to the consolidated financial statements for additional information on the equity appreciation instrument issued to the FDIC.

Note 5 Adoption of New Accounting Standards and Issued But Not Yet Effective Accounting Standards

FASB Accounting Standards Update 2009-16, Transfers and Servicing (Accounting Standards Codification (ASC) Topic 860) Accounting for Transfers of Financial Assets (ASU 2009-16)

ASU 2009-16 amends previous guidance relating to transfers of financial assets and eliminates the concept of a qualifying special-purpose entity, removes the exception for guaranteed mortgage securitizations when a transferor has not surrendered control over the transferred financial assets, changes the requirements for derecognizing financial assets, and includes additional disclosures requiring more information about transfers of financial assets in which entities have continuing exposure to the risks related to the transferred financial assets. Among the most significant amendments and additions to this guidance are changes to the conditions for sales of financial assets which objective is to determine whether a transferor and its consolidated affiliates included in the financial statements have surrendered control over transferred financial assets or third-party beneficial interests, and the addition of the meaning of the term participating interest which represents a proportionate (pro rata) ownership interest in an entire financial asset. The requirements for sale accounting must be applied only to a financial asset in its entirety, a pool of financial assets in its entirety, or participating interests as defined in ASC paragraph 860-10-40-6A. This guidance has been applied as of the beginning of the first annual reporting period that began after November 15, 2009, for interim periods within that first annual reporting period and will be applied for interim and annual reporting periods thereafter. Earlier application was prohibited. The recognition and measurement provisions have been applied to transfers that have occurred on or after the effective date. On and after the effective date,

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existing qualifying special-purpose entities have been evaluated for consolidation in accordance with the applicable consolidation guidance in the Codification. The Corporation adopted this new authoritative accounting guidance effective January 1, 2010. The Corporation evaluated transfers of financial assets executed during the nine months ended September 30, 2010 pursuant to the new accounting guidance, principally consisting of guaranteed mortgage securitizations (Government National Mortgage Association (GNMA) and Federal National Mortgage Association (FNMA) mortgage-backed securities), and determined that the adoption of ASU 2009-16 did not have a significant impact on the Corporation s accounting for such transactions or results of operations or financial condition for such period.

A securitization of a financial asset, a participating interest in a financial asset, or a pool of financial assets in which the Corporation (and its consolidated affiliates) (a) surrenders control over the transferred assets and (b) receives cash or other proceeds is accounted for as a sale. Control is considered to be surrendered only if all three of the following conditions are met: (1) the assets have been legally isolated; (2) the transferee has the ability to pledge or exchange the assets; and (3) the transferor no longer maintains effective control over the assets. When the Corporation transfers financial assets and the transfer fails any one of the above criteria, the Corporation is prevented from derecognizing the transferred financial assets and the transaction is accounted for as a secured borrowing.

The Corporation recognizes and initially measures at fair value a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract in either of the following situations: (1) a transfer of an entire financial asset, a group of entire financial assets, or a participating interest in an entire financial asset that meets the requirements for sale accounting; or (2) an acquisition or assumption of a servicing obligation of financial assets that do not pertain to the Corporation or its consolidated subsidiaries. Upon adoption of ASU 2009-16, the Corporation does not recognize either a servicing asset or a servicing liability if it transfers or securitizes financial assets in a transaction that does not meet the requirements for sale accounting and is accounted for as a secured borrowing.

Refer to Note 12 to the consolidated financial statements for disclosures on transfers of financial assets and servicing assets retained as part of guaranteed mortgage securitizations.

FASB Accounting Standards Update 2009-17, Consolidations (ASC Topic 810) Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities (ASU 2009-17) and FASB Accounting Standards Update 2010-10, Consolidation (ASC Topic 810): Amendments for Certain Investment Funds (ASU 2010-10)

ASU 2009-17 amends the guidance applicable to variable interest entities (VIEs) and changes how a reporting entity determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. This guidance replaces a quantitative-based risks and rewards calculation for determining which entity, if any, has both (a) a controlling financial interest in a VIE with an approach focused on identifying which entity has the power to direct the activities of a VIE that most significantly impact the entity s economic performance and (b) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE. This guidance requires reconsideration of whether an entity is a VIE when any changes in facts or circumstances occur such that the holders of the equity investment at risk, as a group, lose the power to direct the activities of the entity that most significantly impact the entity s economic performance. It also requires ongoing assessments of whether a variable interest holder is the primary beneficiary of a VIE. The amendments to the consolidated guidance affect all entities that were within the scope of the original guidance, as well as qualifying special-purpose entities (QSPEs) that were previously excluded from the guidance. ASU 2009-17 requires a reporting entity to provide additional disclosures about its involvement with VIEs and any significant changes in risk exposure due to that involvement. The Corporation adopted this new authoritative accounting guidance effective January 1, 2010. The new accounting guidance on VIEs did not have an effect on the Corporation s consolidated statement of condition or results of operations upon adoption.

The principal VIEs evaluated by the Corporation during the nine months ended September 30, 2010 included:
(1) GNMA and FNMA guaranteed mortgage securitizations and for which management has concluded that the Corporation is not the primary beneficiary (refer to Note 20 to the consolidated financial statements) and (2) the trust preferred securities for which management believes that the Corporation does not possess a significant variable interest on the trusts (refer to Note 17 to the consolidated financial statements).

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Additionally, the Corporation has variable interests in certain investments that have the attributes of investment companies, as well as limited partnership investments in venture capital companies. However, in January 2010, the FASB issued *ASU 2010-10, Consolidation (ASC Topic 810), Amendments for Certain Investment Funds*, which deferred the effective date of the provisions of ASU 2009-17 for a reporting entity s interest in an entity that has all the attributes of an investment company; or for which it is industry practice to apply measurement principles for financial reporting purposes that are consistent with those followed by investment companies. The deferral allows asset managers that have no obligation to fund potentially significant losses of an investment entity to continue to apply the previous accounting guidance to investment entities that have the attributes of entities subject to ASC Topic 946 (the Investment Company Guide). The FASB also decided to defer the application of ASU 2009-17 for money market funds subject to Rule 2a-7 of the Investment Company Act of 1940. Asset managers would continue to apply the applicable existing guidance to those entities that qualify for the deferral. ASU 2010-10 did not defer the disclosure requirements in ASU 2009-17.

The Corporation was not required to consolidate existing VIEs for which it has a variable interest as of September 30, 2010. Refer to Note 20 to the consolidated financial statements for required disclosures associated with the guaranteed mortgage securitizations in which the Corporation holds a variable interest.

FASB Accounting Standards Update 2010-06, Fair Value Measurements and Disclosures (ASC Topic 820) - Improving Disclosures about Fair Value Measurements (ASU 2010-06)

ASU 2010-06, issued in January 2010, revises two disclosure requirements concerning fair value measurements and clarifies two others. It requires separate presentation of significant transfers into and out of Levels 1 and 2 of the fair value hierarchy and disclosure of the reasons for such transfers. It will also require the presentation of purchases, sales, issuances and settlements within Level 3 on a gross basis rather than a net basis. The amendments also clarify that disclosures should be disaggregated by class of asset or liability and that disclosures about inputs and valuation techniques should be provided for both recurring and non-recurring fair value measurements. ASU 2010-06 has been effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the rollforward of activity in Level 3 fair value measurements, which are effective for interim and annual reporting periods beginning after December 15, 2010. This guidance impacts disclosures only and will not have an effect on the Corporation s consolidated statements of condition or results of operations. The Corporation s disclosures about fair value measurements are presented in Note 21 to the consolidated financial statements.

FASB Accounting Standards Update 2010-11, Derivatives and Hedging (ASC Topic 815): Scope Exception Related to Embedded Credit Derivatives (ASU 2010-11)

ASU 2010-11 clarifies the type of embedded credit derivative that is exempt from embedded derivative bifurcation requirements. The type of credit derivative that qualifies for the exemption is related only to the subordination of one financial instrument to another. As a result, entities that have contracts containing an embedded credit derivative feature in a form other than such subordination may need to separately account for the embedded credit derivative feature. The amendments in ASU 2010-11 are effective for each reporting entity at the beginning of its first fiscal quarter beginning after June 15, 2010. The adoption of this standard in the third quarter of 2010 did not have a significant impact on the Corporation s consolidated financial statements.

FASB Accounting Standards Update 2010-18, Receivables (ASC Topic 310): Effect of a Loan Modification When the Loan is Part of a Pool That is Accounted for as a Single Asset (ASU 2010-18)

The amendments in ASU 2010-18, issued in April 2010, affect any entity that acquires loans subject to ASC Subtopic 310-30, that accounts for some or all of those loans within pools, and that subsequently modifies one or more of those loans after acquisition. ASC Subtopic 310-30 provides guidance on accounting for acquired loans that have evidence of credit deterioration upon acquisition. As a result of the amendments in ASU 2010-18, modifications of loans that are accounted for within a pool under ASC Subtopic 310-30 do not result in the removal of those loans from the pool even if the modification of those loans would otherwise be considered a troubled debt restructuring. An entity will continue to be required to consider whether the pool of assets in which the loan is included is impaired if expected cash flows for the pool change. The amendments in ASU 2010-18 do not affect the accounting for loans under the scope of ASC Subtopic 310-30 that are not accounted for within pools. Loans

accounted for individually under ASC Subtopic 310-30 continue to be subject to the troubled debt restructuring accounting provisions within ASC Subtopic 310-40, Receivables Troubled Debt Restructurings by Creditors. The amendments in ASU 2010-18 are effective for modifications of loans accounted for within pools under ASC Subtopic 310-30 occurring in the first interim or annual period ending on or after July 15, 2010. The amendments are to be applied prospectively. Early application is permitted. Upon initial adoption of the guidance in ASU 2010-18, an entity may make a one-time election to terminate accounting for loans as a pool under ASC Subtopic 310-30. This election may be applied on a pool-by-pool basis and does not preclude an entity from applying pool accounting to subsequent acquisitions of loans with credit deterioration. The Corporation elected to early adopt the provisions of this statement, effective with the closing of the Westernbank FDIC-assisted transaction on April 30, 2010. As a result, the accounting for modified loans follows the guidelines of ASU 2010-18; however, the adoption of these provisions did not have a significant impact on the Corporation s result of operations or financial position as of September 30, 2010.

FASB Accounting Standards Update 2010-20, Receivables (ASC Topic 310): Disclosure about the Credit Quality of Financing Receivables and the Allowance for Credit Losses (ASU 2010-20)

ASU 2010-20, issued in July 2010, expands disclosure requirements about the credit quality of financing receivables and allowance for credit losses. The objective of this ASU is for an entity to provide disclosures that facilitate financial statement users evaluation of the following: (1) the nature of credit risk inherent in the entity s portfolio of financing receivables; (2) how that risk is analyzed and assessed in arriving at the allowance for credit losses; and (3) the changes and reasons for those changes in the allowance for credit losses. Disclosures should be provided on a disaggregated basis on two defined levels: (1) portfolio segment; and (2) class of financing receivable. The ASU 2010-20 makes changes to existing disclosure requirements and includes additional disclosure requirements about financing receivables, including: the credit quality indicators of financing receivables at the end of the reporting period by class of financing receivables; the aging of past due financing receivables at the end of the reporting period by class of financing receivables; and the nature and extent of troubled debt restructurings that occurred during the period by class of financing receivables and their effect on the allowance for credit losses. The disclosure requirements as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. This guidance impacts disclosures only and will not have an effect on the Corporation s consolidated statements of condition or results of operations.

Note 6 Discontinued Operations

In 2008, the Corporation discontinued the operations of Popular Financial Holdings (PFH) by selling assets and closing service branches and other units. The loss from discontinued operations for the quarter and nine months ended September 30, 2009 was $3.4 million and $20.0 million, respectively, net of taxes. This loss was primarily related to salary and other expenses incurred in providing loan portfolio servicing to affiliated companies and other costs for FTEs that were retained for a transition period, as well as adjustments to indemnity reserves on loans previously sold.

Note 7 Restrictions on Cash and Due from Banks and Certain Securities

The Corporation s subsidiary banks are required by federal and state regulatory agencies to maintain average reserve balances with the Federal Reserve Bank or other banks. Those required average reserve balances were $828 million as of September 30, 2010 (December 31, 2009 $721 million; September 30, 2009 $705 million). Cash and due from banks as well as other short-term, highly-liquid securities are used to cover the required average reserve balances.

As required by the Puerto Rico International Banking Center Regulatory Act, as of September 30, 2010, December 31, 2009, and September 30, 2009, the Corporation maintained separately for its two international banking entities (IBEs), $0.6 million in time deposits, equally divided for the two IBEs, which were considered restricted assets.

As part of a line of credit facility with a financial institution, as of December 31, 2009 and September 30, 2009, the Corporation maintained restricted cash of $2 million as collateral for the line of credit. This restriction expired on July 2010.

As of September 30, 2010, the Corporation maintained restricted cash of $6 million to support letters of credit (December 31, 2009 $4 million; September 30, 2009 $5 million).
As of September 30, 2010, the Corporation maintained restricted cash of $2 million that represents funds deposited in an escrow account which are guaranteeing possible liens or encumbrances over the title of insured properties.
As of September 30, 2010, the Corporation maintained restricted cash of $12 million to comply with the requirements of the credit card networks.

Note 8 Pledged Assets

Certain securities, loans and other real estate owned were pledged principally to secure public and trust deposits, assets sold under agreements to repurchase, other borrowings and credit facilities available, derivative positions, loan servicing agreements and the loss sharing agreement with the FDIC.
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, 2010	December 31, 2009	September 30, 2009
Investment securities available-for-sale, at fair value	$ 2,102,699	$ 1,923,338	$ 2,183,586
Investment securities held-to-maturity, at amortized cost	125,770	125,769	25,769
Loans held-for-sale measured at lower of cost or fair value	2,291	2,254	2,636
Loans held-in-portfolio covered under loss sharing agreements with the FDIC	3,966,574		
Loans held-in-portfolio not covered under loss sharing agreements with the FDIC	9,646,035	8,993,967	8,406,876
Other real estate covered under loss sharing agreements with the FDIC	77,516		
Total pledged assets	$15,920,885	$11,045,328	$10,618,867

Pledged investment 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.
As of September 30, 2010, investment securities available-for-sale and held-to-maturity totaling $1.7 billion, and loans of $0.2 billion, served as collateral to secure public funds.
The Corporation s banking subsidiaries have the ability to borrow funds from the Federal Home Loan Bank of New York (FHLB) and from the Federal Reserve Bank of New York (Fed). As of September 30, 2010, the banking subsidiaries had short-term and long-term credit facilities authorized with the FHLB aggregating $1.7 billion. Refer to Note 16 to the consolidated financial statements for borrowings outstanding under these credit facilities. As of September 30, 2010, the credit facilities authorized with the FHLB were collateralized by $3.7 billion in loans held-in-portfolio. Also, the Corporation s banking subsidiaries had a borrowing capacity at the Fed discount window of $2.7 billion, which remained unused as of such date. The amount available under this credit facility is dependent upon the balance of loans and securities pledged as collateral. As of September 30, 2010, the credit facilities with the Fed discount window were collateralized by $5.7 billion in loans held-in-portfolio. These pledged assets are included in the above table and were not reclassified and separately reported in the consolidated statement of condition as of September 30, 2010.
Loans held-in-portfolio and other real estate owned that are covered by loss sharing agreements with the FDIC amounting to $4.0 billion as of September 30, 2010, serve as collateral to secure the note issued to the FDIC. Refer to Note 2 to the consolidated financial statements for descriptive information on the note issued to the FDIC.

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Note 9 Investment Securities Available-For-Sale

The amortized cost, gross unrealized gains and losses, fair value and weighted average yield of investment securities available-for-sale as of September 30, 2010, December 31, 2009 and September 30, 2009 were as follows:

	AS OF SEPTEMBER 30, 2010				
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
U.S. Treasury securities					
After 1 to 5 years	$ 6,998	$ 166		$ 7,164	1.50%
After 5 to 10 years	28,850	3,409		32,259	3.81
Total U.S. Treasury securities	35,848	3,575		39,423	3.36
Obligations of U.S. Government sponsored entities					
Within 1 year	288,588	2,980		291,568	3.45
After 1 to 5 years	1,011,751	65,003		1,076,754	3.77
After 5 to 10 years	1,518	51		1,569	6.26
After 10 years	26,890	179		27,069	5.68
Total obligations of U.S. Government sponsored entities	1,328,747	68,213		1,396,960	3.74
Obligations of Puerto Rico, States and political subdivisions					
Within 1 year	10,140	18		10,158	3.90
After 1 to 5 years	15,858	375	$ 6	16,227	4.52
After 5 to 10 years	21,225	70	71	21,224	5.07
After 10 years	5,560	155		5,715	5.29
Total obligations of Puerto Rico, States and political subdivisions	52,783	618	77	53,324	4.70
Collateralized mortgage obligations federal agencies					
Within 1 year	118	2		120	4.24
After 1 to 5 years	3,020	105		3,125	5.56
After 5 to 10 years	87,668	1,643		89,311	2.56
After 10 years	1,215,779	38,744	38	1,254,485	2.89
Total collateralized mortgage obligations federal agencies	1,306,585	40,494	38	1,347,041	2.87
Collateralized mortgage obligations private label					
After 5 to 10 years	13,612	86	444	13,254	1.71
After 10 years	85,796	202	3,862	82,136	2.32

Total collateralized mortgage obligations private label	99,408	288	4,306	95,390	2.24
Mortgage-backed securities agencies					
Within 1 year	3,494	75		3,569	3.78
After 1 to 5 years	18,557	719		19,276	4.02
After 5 to 10 years	182,930	12,349	2	195,277	4.71
After 10 years	2,461,567	103,118	156	2,564,529	4.29
Total mortgage-backed securities agencies	2,666,548	116,261	158	2,782,651	4.32
Equity securities	8,975	379	510	8,844	3.47
Others					
After 5 to 10 years	17,850			17,850	11.00
Total investment securities available-for-sale	$5,516,744	$229,828	$5,089	$5,741,483	3.82%

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	AS OF DECEMBER 31, 2009				
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
U.S. Treasury securities					
After 5 to 10 years	$ 29,359	$ 1,093		$ 30,452	3.80%
Obligations of U.S. Government sponsored entities					
Within 1 year	349,424	7,491		356,915	3.67
After 1 to 5 years	1,177,318	58,151		1,235,469	3.79
After 5 to 10 years	27,812	680		28,492	4.96
After 10 years	26,884	176		27,060	5.68
Total obligations of U.S. Government sponsored entities	1,581,438	66,498		1,647,936	3.82
Obligations of Puerto Rico, States and political subdivisions					
After 1 to 5 years	22,311	7	$ 15	22,303	6.92
After 5 to 10 years	50,910	249	632	50,527	5.08
After 10 years	7,840		61	7,779	5.26
Total obligations of Puerto Rico, States and political subdivisions	81,061	256	708	80,609	5.60
Collateralized mortgage obligations federal agencies					
Within 1 year	41			41	3.78
After 1 to 5 years	4,875	120		4,995	4.44
After 5 to 10 years	125,397	2,105	404	127,098	2.85
After 10 years	1,454,833	19,060	5,837	1,468,056	3.03
Total collateralized mortgage obligations federal agencies	1,585,146	21,285	6,241	1,600,190	3.02
Collateralized mortgage obligations private label					
After 5 to 10 years	20,885		653	20,232	2.00
After 10 years	105,669	109	8,452	97,326	2.59
Total collateralized mortgage obligations private label	126,554	109	9,105	117,558	2.50
Mortgage-backed securities agencies					
Within 1 year	26,878	512		27,390	3.61

After 1 to 5 years	30,117	823		30,940	3.94
After 5 to 10 years	205,480	8,781		214,261	4.80
After 10 years	2,915,689	32,102	10,203	2,937,588	4.40
Total mortgage-backed securities agencies	3,178,164	42,218	10,203	3,210,179	4.42
Equity securities	8,902	233	1,345	7,790	3.65
Total investment securities available-for-sale	$6,590,624	$131,692	$27,602	$6,694,714	3.91%

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	AS OF SEPTEMBER 30, 2009				
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
U.S. Treasury securities					
After 5 to 10 years	$ 29,528	$ 1,608		$ 31,136	3.80%
Obligations of U.S. Government sponsored entities					
Within 1 year	184,261	4,176		188,437	3.81
After 1 to 5 years	1,377,705	71,690		1,449,395	3.73
After 5 to 10 years	27,812	952		28,764	5.01
After 10 years	26,882	800		27,682	5.68
Total obligations of U.S. Government sponsored entities	1,616,660	77,618		1,694,278	3.79
Obligations of Puerto Rico, States and political subdivisions					
Within 1 year	5			5	3.88
After 1 to 5 years	12,375	10	$ 108	12,277	3.40
After 5 to 10 years	50,969	292	2,264	48,997	5.08
After 10 years	27,905		201	27,704	5.26
Total obligations of Puerto Rico, States and political subdivisions	91,254	302	2,573	88,983	4.91
Collateralized mortgage obligations federal agencies					
Within 1 year	154	1		155	4.08
After 1 to 5 years	3,578	109		3,687	4.43
After 5 to 10 years	138,044	2,578	408	140,214	2.94
After 10 years	1,438,743	26,787	11,623	1,453,907	2.98
Total collateralized mortgage obligations federal agencies	1,580,519	29,475	12,031	1,597,963	2.98
Collateralized mortgage obligations private label					
Within 1 year	106			106	3.39
After 5 to 10 years	23,481	14	580	22,915	2.10
After 10 years	115,763		11,988	103,775	2.65
Total collateralized mortgage obligations private label	139,350	14	12,568	126,796	2.56

Mortgage-backed securities agencies					
Within 1 year	9,072	118	21	9,169	3.07
After 1 to 5 years	62,462	1,431		63,893	3.92
After 5 to 10 years	178,392	9,283		187,675	4.86
After 10 years	3,136,807	47,982	231	3,184,558	4.48
Total mortgage-backed securities agencies	3,386,733	58,814	252	3,445,295	4.49
Equity securities	9,606	171	937	8,840	3.39
Total investment securities available-for-sale	$6,853,650	$168,002	$28,361	$6,993,291	3.94%

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The following table shows the Corporation s fair value and gross unrealized losses 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, 2010, December 31, 2009 and September 30, 2009.

	AS OF SEPTEMBER 30, 2010					
	Less than 12 months		12 months or more		Total	
(In thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Obligations of Puerto Rico, States and political subdivisions	$18,234	$ 71	$ 302	$ 6	$ 18,536	$ 77
Collateralized mortgage obligations federal agencies	13,880	35	6,402	3	20,282	38
Collateralized mortgage obligations private label	1,551	94	68,032	4,212	69,583	4,306
Mortgage-backed securities agencies	8,915	123	1,240	35	10,155	158
Equity securities	3	8	3,846	502	3,849	510
Total investment securities available-for-sale in an unrealized loss position	$42,583	$331	$79,822	$4,758	$122,405	$5,089

	AS OF DECEMBER 31, 2009					
	Less than 12 months		12 months or more		Total	
(In thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Obligations of Puerto Rico, States and political subdivisions	$ 2,387	$ 8	$ 63,429	$ 700	$ 65,816	$ 708
Collateralized mortgage obligations federal agencies	298,917	3,667	359,214	2,574	658,131	6,241
Collateralized mortgage obligations private label	6,716	18	97,904	9,087	104,620	9,105
Mortgage-backed securities agencies	905,028	10,130	3,566	73	908,594	10,203
Equity securities	2,347	981	3,898	364	6,245	1,345
	$1,215,395	$14,804	$528,011	$12,798	$1,743,406	$27,602

Total investment securities available-for-sale in an unrealized loss position

	AS OF SEPTEMBER 30, 2009					
	Less than 12 months		12 months or more		Total	
(In thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Obligations of Puerto Rico, States and political subdivisions	$ 26,299	$ 166	$ 58,123	$ 2,407	$ 84,422	$ 2,573
Collateralized mortgage obligations federal agencies	137,288	3,902	486,652	8,129	623,940	12,031
Collateralized mortgage obligations private label	3,935	331	114,635	12,237	118,570	12,568
Mortgage-backed securities agencies	51,648	71	11,949	181	63,597	252
Equity securities	2,749	579	3,839	358	6,588	937
Total investment securities available-for-sale in an unrealized loss position	$221,919	$5,049	$675,198	$23,312	$897,117	$28,361

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

As of September 30, 2010, management performed its quarterly analysis of all debt securities in an unrealized loss position. Based on the analyses performed, management concluded that no individual debt security was other-than-temporarily impaired as of such date. As of September 30, 2010, the Corporation does not have the intent to sell debt securities in an unrealized loss position and it is not more likely than not that the Corporation will have to sell the investment securities prior to recovery of their amortized cost basis. Also, management evaluated the Corporation s portfolio of equity securities as of September 30, 2010. During the quarter ended September 30, 2010, the Corporation did not record any other-than-temporary impairment losses on equity securities. Management has the intent and ability to hold the investments in equity securities that are at a loss position as of September 30, 2010 for a reasonable period of time for a forecasted recovery of fair value up to (or beyond) the cost of these investments.

The unrealized losses associated with Collateralized mortgage obligations private label are primarily related to securities backed by residential mortgages. In addition to verifying the credit ratings for the private-label CMOs, management analyzed the underlying mortgage loan collateral for these bonds. Various statistics or metrics were reviewed for each private-label CMO, including among others, the weighted average loan-to-value, FICO score, and delinquency and foreclosure rates of the underlying assets in the securities. As of September 30, 2010, there were no sub-prime securities in the Corporation s private-label CMOs portfolios. For private-label CMOs with unrealized losses as of September 30, 2010, credit impairment was assessed using a cash flow model that estimates the cash flows on the underlying mortgages, using the security-specific collateral and transaction structure. The model estimates cash flows from the underlying mortgage loans and distributes those cash flows to various tranches of securities, considering the transaction structure and any subordination and credit enhancements that exist in that structure. The cash flow model incorporates actual cash flows through the current period and then projects the expected cash flows using a number of assumptions, including default rates, loss severity and prepayment rates. Management s assessment also considered tests using more stressful parameters. Based on the assessments, management concluded that the tranches of the private-label CMOs held by the Corporation were not other-than-temporarily impaired as of September 30, 2010, thus management expects to recover the amortized cost basis of the securities.

Proceeds from the sale of investment securities available-for-sale during the quarter and nine months ended September 30, 2010 amounted to $377.2 million and $396.7 million; respectively. Gains of $3.7 million were realized during the quarter and year-to-date periods ended September 30, 2010 related to the sale during this quarter of investment securities available-for-sale. This compares with proceeds of $77.9 million and $3.8 billion respectively, and realized net gains of $198 thousand and $184.3 million respectively, for the quarter and nine months ended September 30, 2009.

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The following table states the names of issuers and the aggregate amortized cost and fair 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, 2010		December 31, 2009		September 30, 2009	
(In thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
FNMA	$ 792,291	$ 826,042	$ 970,744	$ 991,825	$1,067,001	$1,089,443
FHLB	1,173,877	1,238,487	1,385,535	1,449,454	1,395,778	1,469,493
Freddie Mac	602,440	620,384	959,316	971,556	997,716	1,012,276

Note 10 Investment Securities Held-to-Maturity

The amortized cost, gross unrealized gains and losses, fair value and weighted average yield of investment securities held-to-maturity as of September 30, 2010, December 31, 2009 and September 30, 2009 were as follows:

	AS OF SEPTEMBER 30, 2010				
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
U.S. Treasury securities					
Within 1 year	$ 25,812	$ 2		$ 25,814	0.21%
Obligations of Puerto Rico, States and political subdivisions					
Within 1 year	7,150	14		7,164	2.15
After 1 to 5 years	110,528	620		111,148	5.52
After 5 to 10 years	17,595	506	$ 52	18,049	5.96
After 10 years	49,300	231	652	48,879	4.20
Total obligations of Puerto Rico, States and political subdivisions	184,573	1,371	704	185,240	5.08
Collateralized mortgage obligations private label					
After 10 years	192		11	181	5.21
Others					
Within 1 year	3,075			3,075	1.33
After 1 to 5 years	500		7	493	1.00
Total others	3,575		7	3,568	1.28
Total investment securities held-to-maturity	$214,152	$1,373	$ 722	$214,803	4.43%

	AS OF DECEMBER 31, 2009				
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
U.S. Treasury securities					
Within 1 year	$ 25,777	$ 4		$ 25,781	0.11%
Obligations of Puerto Rico, States and political subdivisions					
Within 1 year	7,015	6		7,021	2.04
After 1 to 5 years	109,415	3,157	$ 6	112,566	5.51
After 5 to 10 years	17,112	39	452	16,699	5.79

After 10 years	48,600		2,552	46,048	4.00
Total obligations of Puerto Rico, States and political subdivisions	182,142	3,202	3,010	182,334	5.00
Collateralized mortgage obligations private label					
After 10 years	220		12	208	5.45
Others					
Within 1 year	3,573			3,573	3.77
After 1 to 5 years	1,250			1,250	1.66
Total others	4,823			4,823	3.22
Total investment securities held-to-maturity	$212,962	$3,206	$3,022	$213,146	4.37%

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	AS OF SEPTEMBER 30, 2009				
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
U.S. Treasury securities					
Within 1 year	$ 25,769		$ 6	$ 25,763	0.11%
Obligations of Puerto Rico, States and political subdivisions					
Within 1 year	7,015	$ 7		7,022	4.30
After 1 to 5 years	109,415	2,349	47	111,717	5.51
After 5 to 10 years	17,107	52	878	16,281	5.79
After 10 years	48,600		3,502	45,098	4.12
Total obligations of Puerto Rico, States and political subdivisions	182,137	2,408	4,427	180,118	5.12
Collateralized mortgage obligations private label					
After 10 years	222		12	210	5.45
Others					
Within 1 year	3,572			3,572	3.11
After 1 to 5 years	1,250			1,250	1.66
Total others	4,822			4,822	2.73
Total investment securities held-to-maturity	$212,950	$2,408	$4,445	$210,913	4.46%

The following table shows the Corporation s fair value and gross unrealized losses 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, 2010, December 31, 2009 and September 30, 2009:

	AS OF SEPTEMBER 30, 2010					
	Less than 12 months		12 months or more		Total	
(In thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Obligations of Puerto Rico, States and political subdivisions			$31,126	$ 704	$31,126	$ 704
Collateralized mortgage obligations private label			181	11	181	11
Others	$ 243	$ 7			243	7

Total investment securities held-to-maturity in an unrealized loss position	$ 243	$ 7	$31,307	$ 715	$31,550	$ 722

	AS OF DECEMBER 31, 2009					
	Less than 12 months		12 months or more		Total	
(In thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Obligations of Puerto Rico, States and political subdivisions	$21,187	$1,908	$37,718	$1,102	$58,905	$3,010
Collateralized mortgage obligations private label			208	12	208	12
Total investment securities held-to-maturity in an unrealized loss position	$21,187	$1,908	$37,926	$1,114	$59,113	$3,022

	AS OF SEPTEMBER 30, 2009					
	Less than 12 months		12 months or more		Total	
(In thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. Treasury securities	$25,763	$ 6			$25,763	$ 6
Obligations of Puerto Rico, States and political subdivisions	42,995	3,990	$19,493	$ 437	62,488	4,427
Collateralized mortgage obligations private label			210	12	210	12
Others			250		250	
Total investment securities held-to-maturity in an unrealized loss position	$68,758	$3,996	$19,953	$ 449	$88,711	$4,445

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As indicated in Note 9 to these consolidated financial statements, management evaluates investment securities for other-than-temporary (OTTI) declines in fair value on a quarterly basis.

The Obligations of Puerto Rico, States and political subdivisions classified as held-to-maturity as of September 30, 2010 are primarily associated with securities issued by municipalities of Puerto Rico and are generally not rated by a credit rating agency. The Corporation performs periodic credit quality reviews on these issuers. The decline in fair value as of September 30, 2010 was attributable to changes in interest rates and not credit quality; thus no other-than-temporary decline in value was recorded in these held-to-maturity securities. As of September 30, 2010, the Corporation does not have the intent to sell securities held-to-maturity and it is not more likely than not that the Corporation will have to sell these investment securities prior to recovery of their amortized cost basis.

Note 11 Loans Held-in-Portfolio and Allowance for Loan Losses

Because of the loss protection provided by the FDIC, the risks of the Westernbank FDIC-assisted transaction acquired loans are significantly different from those loans not covered under the FDIC loss sharing agreements. Accordingly, the Corporation presents loans subject to the loss sharing agreements as covered loans in the information below and loans that are not subject to the FDIC loss sharing agreements as non-covered loans .

The composition of loans held-in-portfolio (HIP) as of September 30, 2010, December 31, 2009, and September 30, 2009 was as follows:

(In thousands)	Non-covered loans as of September 30, 2010	Covered loans as of September 30, 2010	Total loans HIP as of September 30, 2010	December 31, 2009	September 30, 2009
Commercial	$ 11,719,127	$ 2,382,102	$ 14,101,229	$12,664,059	$13,075,868
Construction	1,299,929	287,159	1,587,088	1,724,373	1,882,069
Lease financing	613,560		613,560	675,629	699,350
Mortgage	4,750,068	1,166,837	5,916,905	4,603,245	4,547,372
Consumer	3,759,798	170,129	3,929,927	4,045,807	4,191,410
Total loans HIP	$ 22,142,482	$ 4,006,227	$ 26,148,709	$23,713,113	$24,396,069

The following table presents acquired loans accounted for pursuant to ASC Subtopic 310-30 as of the April 30, 2010 acquisition date:

(In thousands)	
Contractually-required principal and interest	$10,995,387
Non-accretable difference	5,789,480
Cash flows expected to be collected	5,205,907
Accretable yield	1,303,908
Fair value of loans accounted for under ASC Subtopic 310-30	$ 3,901,999[1]

[1] Reflects a difference of $11.4 million compared with the amounts disclosed in the Form 8-K/A filed on July 16, 2010, which included the financial statements and exhibits pertaining to the Westernbank FDIC-assisted transaction at the acquisition date. The Corporation reassessed the classification of certain acquired loans and, due to their revolving characteristics, reclassified the loans for accounting purposes from ASC Subtopic 310-30 to ASC Subtopic 310-20. The reclassification did not impact the fair value of the loans.

The cash flows expected to be collected consider the estimated remaining life of the underlying loans and include the effects of estimated prepayments. The unpaid principal balance of the acquired loans from the Westernbank FDIC-assisted transaction that are accounted under ASC Subtopic 310-30 amounted to $7.8 billion as of the April 30, 2010 transaction date.

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Changes in the carrying amount and the accretable yield for the acquired loans in the Westernbank FDIC-assisted transaction as of and for the nine-month period ended September 30, 2010, and which are accounted pursuant to the ASC Subtopic 310-30, were as follows:

(In thousands)		Accretable yield		Carrying amount of loans
Balance as of January 1, 2010				
Additions [1]	$	1,303,908	$	3,901,999
Accretion		(95,506)		95,506
Payments received				(338,308)
Balance as of September 30, 2010	$	1,208,402	$	3,659,197

[1] Represents the estimated fair value of the loans at the date of acquisition. There were no reclassifications from non-accretable difference to accretable yield from April 30, 2010 to September 30, 2010.

As of September 30, 2010, none of the acquired loans accounted under ASC Subtopic 310-30 were considered non-performing loans. Therefore, interest income, through accretion of the difference between the carrying amount of the loans and the expected cash flows, was recognized on all acquired loans.

As indicated in Note 4 to the consolidated financial statements, the Corporation accounts for lines of credit with revolving privileges under the accounting guidance of ASC Subtopic 310-20, which requires that any differences between the contractually required loan payment receivable in excess of the initial investment in the loans be accreted into interest income over the life of the loan, if the loan is accruing interest. The following table presents acquired loans accounted for under ASC Subtopic 310-20 as of the April 30, 2010 acquisition date:

(In thousands)	
Fair value of loans accounted under ASC Subtopic 310-20	$ 358,989[1]
Gross contractual amounts receivable (principal and interest)	$1,007,880
Estimate of contractual cash flows not expected to be collected	$ 614,653

[1] Reflects a difference of $11.4 million compared with the amounts disclosed in the Form 8-K/A filed on July 16, 2010, which included the financial statements and exhibits pertaining to the Westernbank FDIC-assisted transaction at the acquisition date. The Corporation reassessed the classification of certain acquired loans and, due to their revolving characteristics, reclassified the loans for accounting purposes from ASC Subtopic 310-30 to ASC Subtopic 310-20. The reclassification did not impact the fair value of the loans.

The cash flows expected to be collected consider the estimated remaining life of the underlying loans and include the effects of estimated prepayments. The unpaid principal balance of the acquired loans from the Westernbank FDIC-assisted transaction that are accounted pursuant to ASC Subtopic 310-20 amounted to $739 million as of the April 30, 2010 transaction date.

There was no need to record an allowance for loan losses related to the covered loans as of September 30, 2010.

The activity in the allowance for loan losses for the nine-month period ended September 30, 2010 and 2009 is summarized as follows:

(In thousands)	2010	2009
Balance as of January 1	$1,261,204	$ 882,807
Provision for loan losses	657,471	1,053,036
Loan charge-offs	(750,609)	(776,119)
Loan recoveries	75,928	47,677
Balance as of September 30	$1,243,994	$1,207,401

Note 12 Transfers of Financial Assets and Mortgage Servicing Rights

The Corporation typically transfers conforming residential mortgage loans in conjunction with GNMA and FNMA securitization transactions whereby the loans are exchanged for cash or securities and servicing rights. The securities issued through these transactions are guaranteed by the corresponding agency and, as such, under seller/servicer agreements the Corporation is required to service the loans in accordance with the agencies servicing guidelines and standards. Substantially all mortgage loans securitized by the Corporation in GNMA and FNMA securities have fixed rates and represent conforming loans. As seller, the Corporation has made certain representations and

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warranties with respect to the originally transferred loans and, in some instances, has sold loans with credit recourse to a government-sponsored entity, namely FNMA. Refer to Note 19 to the consolidated financial statements for a description of such arrangements.

During the nine months ended September 30, 2010, the Corporation retained servicing rights on guaranteed mortgage securitizations (FNMA and GNMA) and whole loan sales involving approximately $697 million in principal balance outstanding (September 30, 2009 $1.2 billion). During the quarter and nine months ended September 30, 2010, the Corporation recognized net gains of approximately $3.8 million and $12.6 million, respectively, on these transactions (September 30, 2009 $6.4 million for the quarter and $32.8 million for the nine-month period). All loan sales or securitizations performed during the nine months ended September 30, 2010 were without credit recourse arrangements.

During the quarter ended September 30, 2010, the Corporation obtained as proceeds $227 million of assets as a result of securitization transactions with FNMA and GNMA, consisting of $223 million in mortgage-backed securities and $4 million in servicing rights. During the nine months ended September 30, 2010, the Corporation obtained as proceeds $645 million of assets as a result of securitization transactions with FNMA and GNMA, consisting of $634 million in mortgage-backed securities and $11 million in servicing rights. No liabilities were incurred as a result of these transfers during the quarter and nine month-period ended September 30, 2010 because they did not contain any credit recourse arrangements. The Corporation recorded a net gain of $3.0 million and $13.2 million, respectively, during the quarter and nine months ended September 30, 2010 related to these residential mortgage loans securitized.

The following tables present the initial fair value of the assets obtained as proceeds from residential mortgage loans securitized during the quarter and nine months ended September 30, 2010.

	Proceeds Obtained During the Quarter Ended September 30, 2010			
(In thousands)	Level 1	Level 2	Level 3	Initial Fair Value
Assets				
Investment securities available-for-sale:				
Mortgage-backed securities GNMA				
Mortgage-backed securities FNMA				
Total investment securities available-for-sale				
Trading account securities:				
Mortgage-backed securities GNMA		$ 168,622		$ 168,622
Mortgage-backed securities FNMA		54,136		54,136
Total trading account securities		$ 222,758		$ 222,758
Mortgage servicing rights			$ 3,932	$ 3,932
Total		$ 222,758	$ 3,932	$ 226,690

	Proceeds Obtained During the Nine Months Ended September 30, 2010			
(In thousands)	Level 1	Level 2	Level 3	Initial Fair Value

Assets			
Investment securities available-for-sale:			
Mortgage-backed securities GNMA	$ 2,810		$ 2,810
Mortgage-backed securities FNMA			
Total investment securities available-for-sale	$ 2,810		$ 2,810
Trading account securities:			
Mortgage-backed securities GNMA	$ 496,223	$ 4,147	$ 500,370
Mortgage-backed securities FNMA	130,641		130,641
Total trading account securities	$ 626,864	$ 4,147	$ 631,011
Mortgage servicing rights		$ 11,467	$ 11,467
Total	$ 629,674	$ 15,614	$ 645,288

Refer to Note 21 to the consolidated financial statements for key inputs, assumptions, and valuation techniques used to measure the fair value of these mortgage-backed securities and mortgage servicing rights.

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Mortgage servicing rights

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

Classes of mortgage servicing rights were determined based on the different markets or types of assets being serviced. The Corporation recognizes the servicing rights of its banking subsidiaries that are related to residential mortgage loans as a class of servicing rights. These mortgage servicing rights (MSRs) are measured at fair value. Fair value determination is performed on a subsidiary basis, with assumptions varying in accordance with the types of assets or markets served.

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

The following table presents the changes in residential MSRs measured using the fair value method for the nine months ended September 30, 2010 and September 30, 2009.

(In thousands)	2010	2009
Fair value as of January 1	$169,747	$176,034
Purchases	4,250	1,029
Servicing from securitizations or asset transfers	11,909	19,640
Changes due to payments on loans [1]	(11,990)	(10,750)
Changes in fair value due to changes in valuation model inputs or assumptions	(7,969)	(5,618)
Fair value as of September 30	$165,947	$180,335

[1] Represents changes due to collection / realization of expected cash flows over time.

Residential mortgage loans serviced for others were $18.0 billion as of September 30, 2010 (December 31, 2009 $17.7 billion; September 30, 2009 $17.7 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, including changes due to collection / realization of expected cash flows. Mortgage servicing fees, excluding fair value adjustments, for the quarter and nine months ended September 30, 2010 amounted to $11.7 million and $35.4 million, respectively (September 30, 2009 $11.7 million and $34.7 million, respectively). The banking subsidiaries receive servicing fees based on a percentage of the outstanding loan balance. As of September 30, 2010, those weighted average mortgage servicing fees were 0.27% (September 30, 2009 0.26%). Under these servicing agreements, the banking subsidiaries do not generally earn significant prepayment penalty fees on the underlying loans serviced.

The discussion that follows includes information on assumptions used in the valuation model of the MSRs, originated and purchased.

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, 2010 and year ended December 31, 2009 were as follows:

	September 30, 2010	December 31, 2009

Prepayment speed	5.0%	7.8%
Weighted average life	20.1 years	12.8 years
Discount rate (annual rate)	11.5%	11.0%

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Key economic assumptions used to estimate the fair value of MSRs derived from sales and securitizations of mortgage loans performed by the banking subsidiaries and the sensitivity to immediate changes in those assumptions as of September 30, 2010 and December 31, 2009 were as follows:

	Originated MSRs	
(In thousands)	September 30, 2010	December 31, 2009
Fair value of retained interests	$ 98,966	$ 97,870
Weighted average life	11.2 years	8.8 years
Weighted average prepayment speed (annual rate)	9.0%	11.4%
Impact on fair value of 10% adverse change	($3,386)	($3,182)
Impact on fair value of 20% adverse change	($6,684)	($7,173)
Weighted average discount rate (annual rate)	12.80%	12.41%
Impact on fair value of 10% adverse change	($4,062)	($2,715)
Impact on fair value of 20% adverse change	($7,911)	($6,240)

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, 2010	December 31, 2009
Fair value of retained interests	$ 66,981	$ 71,877
Weighted average life	12.1 years	9.9 years
Weighted average prepayment speed (annual rate)	8.3%	10.1%
Impact on fair value of 10% adverse change	($2,636)	($2,697)
Impact on fair value of 20% adverse change	($4,655)	($5,406)
Weighted average discount rate (annual rate)	11.6%	11.1%
Impact on fair value of 10% adverse change	($2,923)	($2,331)
Impact on fair value of 20% adverse change	($5,180)	($4,681)

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

As of September 30, 2010, the Corporation serviced $4.1 billion (December 31, 2009 and September 30, 2009 $4.5 billion) in residential mortgage loans with credit recourse to the Corporation.

Under the GNMA securitizations, the Corporation has the right to repurchase, at its option and without GNMA s prior authorization, any loan that is collateral for a GNMA guaranteed mortgage-backed security when certain delinquency criteria are met. At the time that individual loans meet GNMA s specified delinquency criteria and are eligible for repurchase, the Corporation is deemed to have regained effective control over these loans. As of September 30, 2010, the Corporation had recorded $163 million in mortgage loans on its financial statements related to this buy-back option program (December 31, 2009 $124 million; September 30, 2009 $112 million).

Note 13 Other Assets

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

(In thousands)	September 30, 2010	December 31, 2009	September 30, 2009
Net deferred tax assets (net of valuation allowance)	$ 336,661	$ 363,967	$ 380,596
Investments under the equity method	292,493	99,772	97,817
Bank-owned life insurance program	236,824	232,387	230,579
Prepaid FDIC insurance assessment	164,190	206,308	
Other prepaid expenses	91,193	130,762	144,949
Derivative assets	85,180	71,822	81,249
Trade receivables from brokers and counterparties	37,996	1,104	8,275
Others	215,448	218,795	213,256
Total other assets	$1,459,985	$1,324,917	$1,156,721

Note 14 Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill for the nine months ended September 30, 2010 and 2009, allocated by reportable segments and corporate group, were as follows (refer to Note 29 for the definition of the Corporation s reportable segments):

	2010				
(In thousands)	Balance as of January 1, 2010	Goodwill on acquisition	Purchase accounting adjustments	Other	Balance as of September 30, 2010
Banco Popular de Puerto Rico	$ 157,025	$ 106,230			$ 263,255
Banco Popular North America	402,078				402,078
Corporate	45,246			($45,246)	
Total Popular, Inc.	$ 604,349	$ 106,230		($45,246)	$ 665,333

	2009				
(In thousands)	Balance as of January 1, 2009	Goodwill on acquisition	Purchase accounting adjustments	Other	Balance as of September 30, 2009
Banco Popular de Puerto Rico	$ 157,059		($34)		$ 157,025
Banco Popular North America	404,237				404,237
Corporate	44,496		750		45,246
Total Popular, Inc.	$ 605,792		$ 716		$ 606,508

The goodwill recognized in the BPPR reportable segment during 2010 relates to the Westernbank FDIC-assisted transaction. Refer to Note 2 to the consolidated financial statements for further information on the accounting for the

transaction and the resulting goodwill recognition. The fair values initially assigned to the assets acquired and liabilities assumed in the Westernbank FDIC-assisted transaction are subject to refinement for up to one year after the closing date of the acquisition as new information relative to closing date fair values becomes available. Any changes in such fair value estimates may impact the goodwill initially recorded.

On September 30, 2010, the Corporation completed the sale of the processing and technology business, which resulted in a $45 million reduction of goodwill for the Corporation. See Note 3 to the consolidated financial statements for further information regarding the sale. The goodwill from EVERTEC was included in the Corporate group since EVERTEC is no longer considered a reportable segment as discussed in Note 29 to the consolidated financial statements.

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The gross amount of goodwill and accumulated impairment losses at the beginning and the end of the quarter by reportable segment and Corporate group were as follows:

	2010					
(In thousands)	Balance at January 1, 2010 (Gross amounts)	Accumulated Impairment Losses	Balance at January 1, 2010 (Net amounts)	Balance at September 30, 2010 (Gross amounts)	Accumulated Impairment Losses	Balance at September 30, 2010 (Net amounts)
Banco Popular de Puerto Rico	$ 157,025		$ 157,025	$ 263,255		$ 263,255
Banco Popular North America	566,489	$ 164,411	402,078	566,489	$ 164,411	402,078
Corporate	45,429	183	45,246			
Total Popular, Inc.	$ 768,943	$ 164,594	$ 604,349	$ 829,744	$ 164,411	$ 665,333

	2009					
(In thousands)	Balance at January 1, 2009 (Gross amounts)	Accumulated Impairment Losses	Balance at January 1, 2009 (Net amounts)	Balance at September 30, 2009 (Gross amounts)	Accumulated Impairment Losses	Balance at September 30, 2009 (Net amounts)
Banco Popular de Puerto Rico	$ 157,059		$ 157,059	$ 157,025		$ 157,025
Banco Popular North America	568,648	$ 164,411	404,237	568,648	$ 164,411	404,237
Corporate	44,679	183	44,496	45,429	183	45,246
Total Popular, Inc.	$ 770,386	$ 164,594	$ 605,792	$ 771,102	$ 164,594	$ 606,508

The accumulated impairment losses in the BPNA reportable segment are associated with E-LOAN.
As of September 30, 2010, December 31, 2009 and September 30, 2009, the Corporation had $6 million of identifiable intangible assets, other than goodwill, with indefinite useful lives.
The following table reflects the components of other intangible assets subject to amortization:

	September 30, 2010		December 31, 2009		September 30, 2009	
(In thousands)	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Core deposits	$80,591	$27,721	$65,379	$30,991	$65,379	$29,276
Other customer relationships	4,719	3,291	8,816	5,804	8,816	5,478
Other intangibles	125	99	125	71	2,787	2,509

Total	$85,435	$31,111	$74,320	$36,866	$76,982	$37,263

During the nine months ended September 30, 2010, the Corporation recognized $24 million in a core deposit intangible asset associated with the Westernbank FDIC-assisted transaction. This core deposit intangible asset is to be amortized to operating expenses ratably on a monthly basis over a 10-year period.

Certain core deposits and other customer relationships intangibles with a gross amount of $9 million and $0.8 million respectively, became fully amortized during the nine months ended September 30, 2010, and, as such, their gross amount and accumulated amortization were eliminated from the tabular disclosure presented above. The decrease in other customer relationships category was associated to the sale of the ownership interest in EVERTEC described in Note 3 to the consolidated financial statements.

During the quarter and nine months ended September 30, 2010, the Corporation recognized $2.4 million and $6.9 million, respectively, in amortization related to other intangible assets with definite useful lives (September 30, 2009 $2.4 million and $7.2 million, respectively).

The following table presents the estimated amortization of the intangible assets with definite useful lives for each of the following periods:

(In thousands)	
Remaining 2010	$2,242
Year 2011	8,936
Year 2012	8,409
Year 2013	8,225
Year 2014	7,587
Year 2015	5,478

Results of the Goodwill Impairment Test

The Corporation s goodwill and other identifiable intangible assets having an indefinite useful life are tested for impairment. Intangibles with indefinite lives are evaluated for impairment at least annually and on a more frequent basis if events or circumstances indicate impairment could have taken place. Such events could include, among others, a significant adverse change in the business climate, an adverse action by a regulator, an unanticipated change in the competitive environment and a decision to change the operations or dispose of a reporting unit.

Under applicable accounting standards, goodwill impairment analysis is a two-step test. The first step of the goodwill impairment test involves comparing the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired; however, if the carrying amount of the reporting unit exceeds its fair value, the second step must be performed. The second step involves calculating an implied fair value of goodwill for each reporting unit for which the first step indicated possible impairment. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination, which is the excess of the fair value of the reporting unit, as determined in the first step, over the aggregate fair values of the individual assets, liabilities and identifiable intangibles (including any unrecognized intangible assets, such as unrecognized core deposits and trademark) as if the reporting unit was being acquired in a business combination and the fair value of the reporting unit was the price paid to acquire the reporting unit. The Corporation estimates the fair values of the assets and liabilities of a reporting unit, consistent with the requirements of the fair value measurements accounting standard, which defines fair value 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. 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. The adjustments to measure the assets, liabilities and intangibles at fair value are for the purpose of measuring the implied fair value of goodwill and such adjustments are not reflected in the consolidated statement of condition. If the implied fair value of goodwill exceeds the goodwill assigned to the reporting unit, there is no impairment. If the goodwill assigned to a reporting unit exceeds the implied fair value of the goodwill, an impairment charge is recorded for the excess. An impairment loss recognized cannot exceed the amount of goodwill assigned to a reporting unit, and the loss establishes a new basis in the goodwill. Subsequent reversal of goodwill impairment losses is not permitted under applicable accounting standards.

The Corporation performed the annual goodwill impairment evaluation for the entire organization during the third quarter of 2010 using July 31, 2010 as the annual evaluation date. The reporting units utilized for this evaluation were those that are one level below the business segments, which are the legal entities within the reportable segment. The Corporation follows push-down accounting, as such all goodwill is assigned to the reporting units when carrying out a business combination.

In determining the fair value of a reporting unit, the Corporation generally uses a combination of methods, including market price multiples of comparable companies and transactions, as well as discounted cash flow analysis. Management evaluates the particular circumstances of each reporting unit in order to determine the most appropriate valuation methodology. The Corporation evaluates the results obtained under each valuation methodology to identify

and understand the key value drivers in order to ascertain that the results obtained are reasonable and appropriate under the circumstances. Elements considered include current market and economic conditions, developments in specific lines of business, and any particular features in the individual reporting units.

The computations require management to make estimates and assumptions. Critical assumptions that are used as part

of these evaluations include:

- a selection of comparable publicly traded companies, based on nature of business, location and size;
- a selection of comparable acquisition and capital raising transactions;
- the discount rate applied to future earnings, based on an estimate of the cost of equity;
- the potential future earnings of the reporting unit; and
- the market growth and new business assumptions.

For purposes of the market comparable approach, valuations were determined by calculating average price multiples of relevant value drivers from a group of companies that are comparable to the reporting unit being analyzed and applying those price multiples to the value drivers of the reporting unit. Multiples used are minority based multiples and thus, no control premium adjustment is made to the comparable companies market multiples. While the market price multiple is not an assumption, a presumption that it provides an indicator of the value of the reporting unit is inherent in the valuation. The determination of the market comparables also involves a degree of judgment.

For purposes of the discounted cash flows (DCF) approach, the valuation is based on estimated future cash flows. The financial projections used in the DCF valuation analysis for each reporting unit are based on the most recent (as of the valuation date) financial projections presented to the Corporation s Asset / Liability Management Committee (ALCO). The growth assumptions included in these projections are based on management s expectations for each reporting unit s financial prospects considering economic and industry conditions as well as particular plans of each entity (i.e. restructuring plans, de-leveraging, etc.). The cost of equity used to discount the cash flows was calculated using the Ibbotson Build-Up Method and ranged from 8.42% to 23.24% for the 2010 analysis. The Ibbottson Build-Up Method builds up a cost of equity starting with the rate of return of a risk-free asset (10-year U.S. Treasury note) and adds to it additional risk elements such as equity risk premium, size premium, and industry risk premium. The resulting discount rates were analyzed in terms of reasonability given the current market conditions and adjustments were made when necessary.

For BPNA, the only reporting unit that failed Step 1, the Corporation determined the fair value of Step 1 utilizing a market value approach based on a combination of price multiples from comparable companies and multiples from capital raising transactions of comparable companies. The market multiples used included price to book and price to tangible book . Additionally, the Corporation determined the reporting unit fair value using a DCF analysis based on BPNA s financial projections, but assigned no weight to it given that the current market approaches provide a more meaningful measure of fair value considering the reporting unit s financial performance and current market conditions. The Step 1 fair value for BPNA under both valuation approaches (market and DCF) was below the carrying amount of its equity book value as of the valuation date (July 31), requiring the completion of Step 2. In accordance with accounting standards, the Corporation performed a valuation of all assets and liabilities of BPNA, including any recognized and unrecognized intangible assets, to determine the fair value of BPNA s net assets. To complete Step 2, the Corporation subtracted from BPNA s Step 1 fair value the determined fair value of the net assets to arrive at the implied fair value of goodwill. The results of the Step 2 indicated that the implied fair value of goodwill exceeded the goodwill carrying value of $402 million at July 31, 2010, resulting in no goodwill impairment. The reduction in BPNA s Step 1 fair value was offset by a reduction in the fair value of its net assets, resulting in an implied fair value of goodwill that exceeds the recorded book value of goodwill.

The analysis of the results for Step 2 indicates that the reduction in the fair value of the reporting unit was mainly attributed to the deteriorated fair value of the loan portfolios and not to the fair value of the reporting unit as a going concern entity. The current negative performance of the reporting unit is principally related to deteriorated credit quality in its loan portfolio, which agrees with the results of the Step 2 analysis. The fair value determined for BPNA s loan portfolio in the July 31, 2010 annual test represented a discount of 23.6%, compared with 20.2% at December 31, 2009. The discount is mainly attributed to market participant s expected rate of returns, which affected the market discount on the commercial and construction loan portfolios and deteriorated credit quality of the consumer and

mortgage loan portfolios of BPNA. Refer to Note 29 to the consolidated financial statements, which provides highlights of BPNA s reportable segment financial performance for the quarter and nine-month periods ended September 30, 2010. BPNA s provision for loan losses, as a stand-alone legal entity, which is the reporting unit level used for the goodwill impairment analysis, amounted to $226 million for nine months ended September 30, 2010, which represented 144% of BPNA legal entity s net loss of $157 million for that period.

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If the Step 1 fair value of BPNA declines further in the future without a corresponding decrease in the fair value of its net assets or if loan discounts improve without a corresponding increase in the Step 1 fair value, the Corporation may be required to record a goodwill impairment charge. The Corporation engaged a third-party valuator to assist management in the annual evaluation of BPNA s goodwill (including Step 1 and Step 2) as well as BPNA s loan portfolios as of the July 31, 2010 valuation date. Management discussed the methodologies, assumptions and results supporting the relevant values for conclusions and determined they were reasonable.
Furthermore, as part of the analyses, management performed a reconciliation of the aggregate fair values determined for the reporting units to the market capitalization of Popular, Inc. concluding that the fair value results determined for the reporting units in the July 31, 2010 annual assessment were reasonable.
The goodwill impairment evaluation process requires the Corporation to make estimates and assumptions with regard to the fair value of the reporting units. Actual values may differ significantly from these estimates. Such differences could result in future impairment of goodwill that would, in turn, negatively impact the Corporation s results of operations and the reporting units where the goodwill is recorded. Declines in the Corporation s market capitalization increase the risk of goodwill impairment in the future.
Management monitors events or changes in circumstances between annual tests to determine if these events or changes in circumstances would more likely than not reduce the fair value of a reporting unit below its carrying amount. As indicated in this MD&A, the economic situation in the United States and Puerto Rico, including deterioration in the housing market and credit market, continued to negatively impact the financial results of the Corporation during 2010.

Note 15 Deposits

Total interest bearing deposits as of September 30, 2010 and December 31, 2009, consisted of the following:

(In thousands)	September 30, 2010	December 31, 2009
Savings deposits	$ 6,126,358	$ 5,480,124
NOW, money market and other interest bearing demand deposits	4,854,392	4,726,204
Total savings, NOW, money market and other interest bearing demand deposits	10,980,750	10,206,328
Certificates of deposits:		
Under $100,000	6,609,544 [1]	6,553,022 [1]
$100,000 and over	4,778,311	4,670,243
Total certificates of deposits	11,387,855	11,223,265
Total interest bearing deposits	$22,368,605	$21,429,593

[1] Includes brokered certificates of deposit amounting to $2.5 billion as of September 30, 2010 and $2.7 billion as of December 31, 2009.

A summary of certificates of deposit by maturity as of September 30, 2010 follows:

(In thousands)	
Remaining 2010	$ 3,332,971
2011	4,775,554

2012	1,360,520
2013	655,948
2014	398,443
2015 and thereafter	864,419
Total	$11,387,855

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Note 16 Borrowings

Assets sold under agreements to repurchase were as follows:

(In thousands)	September 30, 2010	December 31, 2009	September 30, 2009
Assets sold under agreements to repurchase	$2,358,139	$2,632,790	$2,807,891

The repurchase agreements outstanding as of September 30, 2010 were collateralized by $2.1 billion in investment securities available-for-sale, $435 million in trading securities and $39 million in other assets. It is the Corporation s policy to maintain effective control over assets sold under agreements to repurchase; accordingly, such securities continue to be carried on the consolidated statements of condition.

In addition, there were repurchase agreements outstanding collateralized by $170 million in securities purchased underlying agreements to resell to which the Corporation has the right to repledge. It is the Corporation s policy to take possession of securities purchased under agreements to resell. However, the counterparties to such agreements maintain effective control over such securities, and accordingly are not reflected in the Corporation s consolidated statements of condition.

Other short-term borrowings consisted of:

(In thousands)	September 30, 2010	December 31, 2009	September 30, 2009
Secured borrowing with clearing broker with an interest rate of 1.50%		$ 6,000	
Advances with the FHLB maturing in October 2010 paying interest at maturity at fixed rates ranging from 0.41% to 0.43%	$125,000		
Unsecured borrowings with private investors paying interest at a fixed rate of 0.45%			$ 1,750
Term funds purchased maturing in 2010 paying interest at maturity at fixed rates ranging from 0.65% to 1.15%	65,079		
Others	1,263	1,326	1,327
Total other short-term borrowings	$191,342	$ 7,326	$ 3,077

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Notes payable consisted of:

(In thousands)	September 30, 2010	December 31, 2009	September 30, 2009
Advances with the FHLB:			
-with maturities ranging from 2011 through 2015 paying interest at monthly fixed rates ranging from 3.31% to 5.02% (September 30, 2009 1.48% to 5.06%)	$ 568,423	$1,103,627	$1,105,429
-maturing in 2010 paying interest quarterly at a fixed rate of 5.10%		20,000	20,000
Note issued to the FDIC, including unamortized premium of $2,242; paying interest monthly at an annual fixed rate of 2.50%; maturing on April 30, 2015 or such earlier date as such amount may become due and payable pursuant to the terms of the note	3,288,219		
Term notes paying interest monthly at fixed rates ranging from 3.00% to 6.00%			3,100
Term notes with maturities ranging from 2011 to 2013 paying interest semiannually at fixed rates ranging from 5.25% to 13.00% (September 30, 2009 5.20% to 9.75%)	381,064	382,858	383,289
Term notes with maturities ranging from 2010 to 2013 paying interest monthly at a floating rate of 3.00% over the 10-year U.S. Treasury note rate	1,112	1,528	2,111
Term notes paying interest quarterly at a floating rate of 6.00% to 7.50% over the 3-month LIBOR rate		250,000	250,000
Junior subordinated deferrable interest debentures (related to trust preferred securities) with maturities ranging from 2027 to 2034 with fixed interest rates ranging from 6.125% to 8.327% (Refer to Note 17)	439,800	439,800	439,800
Junior subordinated deferrable interest debentures (related to trust preferred securities) ($936,000 less discount of $496,678 as of September 30, 2010) with no stated maturity and a fixed interest rate of 5.00% until, but excluding December 5, 2013 and 9.00% thereafter (Refer to Note 17)	439,322	423,650	418,833
Others	25,448	27,169	27,259
Total notes payable	$5,143,388	$2,648,632	$2,649,821

Note: Refer to the Corporation s Form 10-K for the year ended December 31, 2009, for rates and maturity information corresponding to the borrowings outstanding as of such date. Key index rates as of September 30, 2010 and September 30, 2009, respectively, were as follows: 3-month LIBOR rate = 0.29% and 0.29%; 10-year U.S. Treasury note = 2.51% and 3.31%.

In consideration for the excess assets acquired over liabilities assumed as part of the Westernbank FDIC-assisted transaction, BPPR issued to the FDIC a secured note (the note issued to the FDIC) in the amount of $5.8 billion as of April 30, 2010 bearing an annual interest rate of 2.50%, which has full recourse to BPPR. As indicated in Notes 2 and 8 to the consolidated financial statements, the note issued to the FDIC is collateralized by the loans (other than certain consumer loans) and other real estate acquired in the agreement with the FDIC and all proceeds derived from such assets, including cash inflows from claims to the FDIC under the loss sharing agreements. Proceeds received from such sources are used to pay the note under the conditions stipulated in the agreement. The entire outstanding principal balance of the note issued to the FDIC is due five years from issuance (April 30, 2015), or such date as such amount may become due and payable pursuant to the terms of the note. Borrowings under the note bear interest at a fixed annual rate of 2.50% and is paid monthly. If the Corporation fails to pay any interest as and when due, such interest shall accrue interest at the note interest rate plus 2.00% per annum. The Corporation may repay the note in whole or in part without any penalty subject to certain notification requirements indicated in the agreement. During the third quarter of 2010, the Corporation prepaid $2.1 billion of the note issued to the FDIC from funds unrelated to the assets securing the note.

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A breakdown of borrowings by contractual maturities as of September 30, 2010 is included in the table below. Given its nature, the maturity of the note issued to the FDIC was based on expected repayment dates and not on its April 30, 2015 contractual maturity date. The expected repayments consider the timing of expected cash inflows on the loans, OREO and claims on the loss sharing agreements that will be applied to repay the note during the period that the note payable to the FDIC is outstanding.

(In thousands)	Federal funds sold and repurchase agreements	Short-term borrowings	Notes payable	Total
Year				
2010	$ 1,195,949	$191,342	$ 633,071	$2,020,362
2011	50,000		2,835,637	2,885,637
2012	75,000		631,835	706,835
2013	49,000		126,322	175,322
2014	350,000		10,824	360,824
Later years	638,190		466,377	1,104,567
No stated maturity			936,000	936,000
Subtotal	$ 2,358,139	$191,342	$5,640,066	$8,189,547
Less: Discount			(496,678)	(496,678)
Total borrowings	$ 2,358,139	$191,342	$5,143,388	$7,692,869

Note 17 Trust Preferred Securities

As of September 30, 2010, December 31, 2009 and September 30, 2009, the Corporation had established four trusts (BanPonce Trust I, Popular Capital Trust I, Popular North America Capital Trust I and Popular Capital Trust II) for the purpose of issuing trust preferred securities (also referred to as 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. In August 2009, the Corporation established the Popular Capital Trust III for the purpose of exchanging the shares of Series C preferred stock held by the U.S. Treasury at the time for trust preferred securities issued by this trust. In connection with this exchange, the trust used the Series C preferred stock, together with the proceeds of issuance and sale of common securities of the trust, to purchase junior subordinated debentures issued by the Corporation.

The sole assets of the five trusts consisted of the junior subordinated debentures of the Corporation and the related accrued interest receivable. These trusts are not consolidated by the Corporation.

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.

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Financial data pertaining to the trusts as of September 30, 2010, December 31, 2009 and September 30, 2009 were as follows:
(In thousands)

Issuer	BanPonce Trust I	Popular Capital Trust I	Popular North America Capital Trust I	Popular Capital Trust II	Popular Capital Trust III
Capital securities	$ 52,865	$ 181,063	$ 91,651	$ 101,023	$ 935,000
Distribution rate	8.327%	6.700%	6.564%	6.125%	5.000% until, but excluding December 5, 2013 and 9.000% thereafter
Common securities	$ 1,637	$ 5,601	$ 2,835	$ 3,125	$ 1,000
Junior subordinated debentures aggregate liquidation amount	$ 54,502	$ 186,664	$ 94,486	$ 104,148	$ 936,000
Stated maturity date	February 2027	November 2033	September 2034	December 2034	Perpetual
Reference notes	(a),(c),(f),(g)	(b),(d),(e)	(a),(c),(f)	(b),(d),(f)	(b),(d),(h),(i)

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

[b] Statutory business trust that is wholly-owned by the Corporation.

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

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

[e] The original issuance was for $150 million. The Corporation had reacquired $6 million of the 8.327% capital securities at December 31, 2008.

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

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

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

[h] The debentures are perpetual and may be redeemed by Popular at any time, subject to the consent of the Board of Governors of the Federal Reserve System.

[i] Carrying value of junior subordinates debentures of $439 million as of September 30, 2010 ($936 million aggregate liquidation amount, net of $497 million discount); $424 million as of December 31, 2009 ($936 million aggregate liquidation amount, net of $512 million discount), and $419 million as of September 30, 2009 ($936 million aggregate liquidation amount, net of $517 million discount).

In accordance with the Federal Reserve Board guidance, the trust preferred securities represent restricted core capital elements and qualify as Tier 1 Capital, subject to quantitative limits. The aggregate amount of restricted core capital elements that may be included in the Tier 1 Capital of a banking organization must not exceed 25% of the sum of all core capital elements (including cumulative perpetual preferred stock and trust preferred securities). As of September 30, 2010, the Corporation s restricted core capital elements did not exceed the 25% limitation. Thus, all trust preferred securities were allowed as Tier 1 capital. As of December 31, 2009, there were $7 million of the outstanding trust preferred securities which were disallowed as Tier 1 capital. Amounts of restricted core capital elements in excess of this limit generally may be included in Tier 2 capital, subject to further limitations. The Federal Reserve Board revised the quantitative limit which would limit restricted core capital elements included in the Tier 1 capital of a bank holding company to 25% of the sum of core capital elements (including restricted core capital elements), net of goodwill less any associated deferred tax liability. The new limit would be effective on March 31, 2011. Furthermore, the Dodd-Frank Wall Street Reform and Consumer Protection Act, recently passed in July 2010, has a provision to effectively phase out the use of trust preferred securities as Tier 1 capital throughout a

five-year period. As of September 30, 2010, the Corporation had $427 million in trust preferred securities (capital securities) that are subject to the phase-out. As of September 30, 2010, the remaining trust preferred securities corresponded to capital securities issued to the U.S. Treasury pursuant to the Emergency Economic Stabilization Act of 2008, and were issued prior to October 4, 2010 and thus, are exempt from the Dodd-Frank banking bill provision.

Note 18 Stockholders Equity

Increase in authorized shares of common stock

On May 4, 2010, following stockholder approval, the Corporation amended its certificate of incorporation to provide for an increase in the number of shares of the Corporation s common stock authorized for issuance from 700 million shares to 1.7 billion shares.

Issuance of depositary shares representing preferred stock and conversion to shares of common stock

In April 2010, the Corporation raised $1.15 billion through the sale of 46,000,000 depositary shares, each representing a 1/40th interest in a share of Contingent Convertible Perpetual Non-Cumulative Preferred Stock, Series D, no par value, $1,000 liquidation preference per share. The preferred stock represented by depositary shares automatically converted into shares of Popular, Inc. s common stock at a conversion rate of 8.3333 shares of common stock for each depositary share on May 11, 2010, which was the 5th business day after the Corporation s common shareholders approved the amendment to the Corporation s restated certificate of incorporation to increase the number of authorized shares of common stock. The conversion of the depositary shares of preferred stock resulted in the issuance of 383,333,333 additional shares of common stock. The net proceeds from the public offering amounted to approximately $1.1 billion, after deducting the underwriting discount and estimated offering expenses. Note 23 to the consolidated financial statements provides information on the impact of the conversion on net income per common share.

BPPR statutory reserve

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 $402 million as of September 30, 2010 (December 31, 2009 $402 million; September 30, 2009 $392 million). There were no transfers between the statutory reserve account and the retained earnings account during the quarters and nine months ended September 30, 2010 and 2009.

Note 19 Commitments, Contingencies and Guarantees

Commercial letters of credit and standby letters of credit amounted to $19 million and $116 million, respectively, as of September 30, 2010 (December 31, 2009 $13 million and $134 million, respectively; and September 30, 2009 $18 million and $162 million, respectively). In addition, the Corporation has commitments to originate mortgage loans amounting to $64 million as of September 30, 2010 (December 31, 2009 $48 million; September 30, 2009 $55 million).

As of September 30, 2010, the Corporation recorded a liability of $0.5 million (December 31, 2009 - $0.7 million and September 30, 2009 $0.6 million), which represents the unamortized balance of the obligations undertaken in issuing the guarantees under the standby letters of credit. The Corporation recognizes at fair value the obligation at inception of the standby letters of credit. The fair value approximates the fee received from the customer for issuing such commitments. These fees are deferred and recognized over the commitment period. This liability is included as part of other liabilities in the consolidated statements of condition. The contract amounts in standby 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 standby letters of credit are used by the customer as a credit enhancement and typically expire without being drawn upon. In the event of nonperformance by the customers, the Corporation has rights to the underlying collateral provided, if any, which

normally includes cash and marketable securities, real estate, receivables, among others. Management does not anticipate any material losses related to these instruments.

Commitments to extend credit, which include credit card lines, commercial lines of credit, and other unused credit commitments, amounted to $6.2 billion as of September 30, 2010 (December 31, 2009 $7.0 billion; September 30, 2009 $7.0 billion), excluding the commitments to extend credit that pertain to the lending relationships of the Westernbank operations.

As of September 30, 2010, the Corporation maintained a reserve of approximately $8 million for potential losses associated with unfunded loan commitments related to commercial and consumer lines of credit unrelated to the acquired lending relationships from the Westernbank FDIC-assisted transaction (December 31, 2009 $15 million; September 30, 2009 $18 million). The estimated reserve is principally based on the expected draws on these facilities using historical trends and the application of the corresponding reserve factors determined under the Corporation s allowance for loan losses methodology. This reserve for unfunded exposures remains separate and distinct from the allowance for loan losses and is reported as part of other liabilities in the consolidated statement of condition.

As of September 30, 2010, the commitments to extend credit related to the Westernbank acquired lending relationships approximated $176 million. The acquired commitments to extend credit are covered under the loss sharing agreements with the FDIC, subject to FDIC approvals, limitations on the timing for such disbursements, and servicing guidelines, among various considerations. As indicated in Note 2 to the consolidated financial statements, on the April 30, 2010 acquisition date, the Corporation recorded a contingent liability for such commitments at fair value. As of September 30, 2010, that contingent liability amounted to $120 million and is recorded as part of other liabilities in the consolidated statement of condition.

The Corporation securitized mortgage loans into guaranteed mortgage-backed securities subject to limited, and in certain instances, lifetime credit recourse on the loans that serve as collateral for the mortgage-backed securities. Also, from time to time, the Corporation may have sold, in bulk sale transactions, residential mortgage loans subject to credit recourse or to certain representations and warranties from the Corporation to the purchaser. These representations and warranties may relate, for example, to borrower creditworthiness, loan documentation, collateral, prepayment and early payment defaults. The Corporation may be required to repurchase the loans under the credit recourse agreements or for breach of representations and warranties.

As of September 30, 2010, the Corporation serviced $4.1 billion (December 31, 2009 $4.5 billion; September 30, 2009 $4.5 billion) in residential mortgage loans subject to credit recourse provisions, principally loans associated with FNMA and Freddie Mac programs. In the event of any customer default, pursuant to the credit recourse provided, the Corporation may be required to repurchase the loan or reimburse for the incurred loss. The maximum potential amount of future payments that the Corporation would be required to make under the recourse arrangements in the event of nonperformance by the borrowers is equivalent to the total outstanding balance of the residential mortgage loans serviced with recourse and interest, if applicable. During the nine months ended September 30, 2010, the Corporation repurchased approximately $93 million in mortgage loans subject to the credit recourse provisions. In the event of nonperformance by the borrower, the Corporation has rights to the underlying collateral securing the mortgage loan. The Corporation suffers losses on these loans when the proceeds from a foreclosure sale of the property underlying a defaulted mortgage loan are less than the outstanding principal balance of the loan plus any uncollected interest advanced and the costs of holding and disposing of the related property. Most claims associated with the residential mortgage loans subject to credit recourse provisions are settled by repurchases of delinquent loans. As of September 30, 2010, the Corporation s liability established to cover the estimated credit loss exposure related to loans sold or serviced with credit recourse amounted to $38 million (December 31, 2009 $16 million; September 30, 2009 $16 million).

The probable losses to be absorbed under the credit recourse arrangements are recorded as a liability when the loans are sold and are updated by accruing or reversing expense (categorized in the line item gain (loss) on sale of loans, including adjustments to indemnity reserves, and valuation adjustments on loans held-for-sale in the consolidated statements of operations) throughout the life of the loan, as necessary, when additional relevant information becomes available. The methodology used to estimate the recourse liability is a function of the recourse arrangements given and considers a variety of factors, which include actual defaults and historical loss experience, foreclosure rate,

estimated future defaults and the probability that a loan would be delinquent. Statistical methods are used to estimate the recourse liability. Expected loss rates are applied to different loan segmentations.The expected loss, which represents the amount expected to be lost on a given loan over a twelve-month period, considers the probability of default and loss severity. The probability of default represents the probability that a loan in good standing would become 90 days delinquent within the following twelve-month period. Regression analysis quantifies the relationship between the default event and loan-specific characteristics, including credit scores, loan-to-value rates, loan aging, among others.

When the Corporation sells or securitizes mortgage loans, it generally makes customary representations and warranties regarding the characteristics of the loans sold. The Corporation s mortgage operations in Puerto Rico group conforming mortgage loans into pools which are exchanged for FNMA and GNMA mortgage-backed securities, which are generally sold to private investors, or may sell the loans directly to FNMA or other private investors for cash. To the extent the loans do not meet specified characteristics, the Corporation may be required to repurchase such loans or indemnify for losses. As required under the government agency programs, quality review procedures are performed by the Corporation to ensure that asset guideline qualifications are met. The Corporation has not recorded any specific contingent liability in the consolidated financial statements for these customary representation and warranties related to loans sold by the Corporation s mortgage operations in Puerto Rico, and management believes that, based on historical data, the probability of payments and expected losses under these representations and warranty arrangements is not significant.

Servicing agreements relating to the mortgage-backed securities programs of FNMA and GNMA, and to mortgage loans sold or serviced to certain other investors, including FHLMC, require the Corporation to advance funds to make scheduled payments of principal, interest, taxes and insurance, if such payments have not been received from the borrowers. As of September 30, 2010, the Corporation serviced $18.0 billion in mortgage loans, including the loans serviced with credit recourse (December 31, 2009 $17.7 billion; September 30, 2009 $17.7 billion). The Corporation generally recovers funds advanced pursuant to these arrangements from the mortgage owner, from liquidation proceeds from mortgage loans foreclosed or, in the case of FHA/VA loans, under the applicable FHA and VA insurance and guarantee programs. However, in the meantime, the Corporation must absorb the cost of the funds it advances during the time the advance is outstanding. The Corporation must also bear the costs of attempting to collect on delinquent and defaulted mortgage loans. In addition, if a defaulted loan is not cured, the mortgage loan would be canceled as part of the foreclosure proceedings and the Corporation would not receive any future servicing income with respect to that loan. As of September 30, 2010, the outstanding balance of funds advanced by the Corporation under such mortgage loan servicing agreements was approximately $25 million (December 31, 2009 $14 million; September 30, 2009 $14 million). To the extent the mortgage loans underlying the Corporation s servicing portfolio experience increased delinquencies, the Corporation would be required to dedicate additional cash resources to comply with its obligation to advance funds as well as incur additional administrative costs related to increases in collection efforts.

As of September 30, 2010, the Corporation established reserves for customary representations and warranties related to loans sold by its U.S. subsidiary E-LOAN. Loans had been sold to investors on a servicing released basis subject to certain representations and warranties. Although the risk of loss or default was generally assumed by the investors, the Corporation is required to make certain representations relating to borrower creditworthiness, loan documentation and collateral, which if not complied, may result in requiring the Corporation to repurchase the loans or indemnify investors for any related losses associated to these loans. The loans had been sold prior to 2009. As of September 30, 2010, the Corporation s reserve for estimated losses from such representation and warranty arrangements amounted to $35 million, which was included as part of other liabilities in the consolidated statement of condition (December 31, 2009 $33 million; September 30, 2009 $21 million). E-LOAN is no longer originating and selling loans, since the subsidiary ceased these activities during 2008. On a quarterly basis, the Corporation reassesses its estimate for expected losses associated to E-LOAN s customary representation and warranty arrangements. The analysis incorporates expectations on future disbursements based on quarterly repurchases and make-whole events. The analysis also considers factors such as the average length-time between the loan s funding date and the loan repurchase date as observed in the historical loan data. During the nine months ended September 30, 2010, E-LOAN charged-off

approximately $8.8 million against this representation and warranty reserve associated with loan repurchases and indemnification or make-whole events (nine months ended September 30, 2009 $13.2 million). Make-whole events are typically defaulted loans in which the investor attempts to recover through the collateral or guarantees, and the seller is obligated to cover any impaired or unrecovered

portion of the loan. Claims have been predominantly for first mortgage agency loans and principally consist of underwriting errors related to undisclosed debt or missing documentation.

During 2008, the Corporation provided indemnifications for the breach of certain representations or warranties in connection with various sales of assets by the discontinued operations of PFH. These sales were on a non-credit recourse basis. The agreements primarily include indemnification for breaches of certain key representations and warranties, some of which expire within a definite time period; others survive until the expiration of the applicable statute of limitations, and others do not expire. Certain of the indemnifications are subject to a cap or maximum aggregate liability defined as a percentage of the purchase price. The indemnifications agreements outstanding as of September 30, 2010 are related principally to make-whole arrangements. As of September 30, 2010, the Corporation s reserve related to PFH s indemnity arrangements amounted to $4 million (December 31, 2009 $9 million; September 30, 2009 $19 million). During the nine months ended September 30, 2010, the Corporation recorded charge-offs with respect to the PFH s representation and warranty arrangements amounting to approximately $2.3 million (nine months ended September 30, 2009 - $1.2 million). The reserve balance as of September 30, 2010 contemplates historical indemnity payments. Certain indemnification provisions, which included, for example, reimbursement of premiums on early loan payoffs and repurchase obligations for defaulted loans within a short-term period, expired during 2009. Popular, Inc. Holding Company and Popular North America have agreed to guarantee certain obligations of PFH with respect to the indemnification obligations.

Popular, Inc. Holding Company (PIHC) fully and unconditionally guarantees certain borrowing obligations issued by certain of its wholly-owned consolidated subsidiaries totaling $0.6 billion as of September 30, 2010 (December 31, 2009 $0.6 billion; September 30, 2009 $0.7 billion). In addition, as of September 30, 2010, PIHC fully and unconditionally guaranteed on a subordinated basis $1.4 billion of capital securities (trust preferred securities) (December 31, 2009 $1.4 billion; September 30, 2009 $1.4 billion) issued by wholly-owned issuing trust entities to the extent set forth in the applicable guarantee agreement. Refer to Note 17 to the consolidated financial statements for further information on the trust preferred securities.

As described in Note 2 to the consolidated financial statements, as part of the Westernbank FDIC-assisted transaction, BPPR has agreed to make a true-up payment to the FDIC on the true up measurement date of the final shared loss month, or upon the final disposition of all covered assets under the loss sharing agreements in the event losses on the loss sharing agreements fail to reach expected levels. The estimated fair value of such true up payment is recorded as a reduction in the fair value of the FDIC loss share indemnification asset.

Legal Proceedings

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

Between May 14, 2009 and September 9, 2009, five putative class actions and two derivative claims were filed in the United States District Court for the District of Puerto Rico and the Puerto Rico Court of First Instance, San Juan Part, against Popular, Inc., certain of its directors and officers, among others. The five class actions have now been consolidated into two separate actions: a securities class action captioned *Hoff v. Popular, Inc., et al.* (consolidated with *Otero v. Popular, Inc., et al.*) and an Employee Retirement Income Security Act (ERISA) class action entitled *In re Popular, Inc. ERISA Litigation* (comprised of the consolidated cases of *Walsh v. Popular, Inc. et al.*; *Montañez v. Popular, Inc., et al.*; and *Dougan v. Popular, Inc., et al.*).

On October 19, 2009, plaintiffs in the *Hoff* case filed a consolidated class action complaint which included as defendants the underwriters in the May 2008 offering of Series B Preferred Stock, among others. The consolidated action purports to be on behalf of purchasers of Popular s securities between January 24, 2008 and February 19, 2009 and alleges that the defendants violated Section 10(b) of the Exchange Act, and Rule 10b-5 promulgated thereunder, and Section 20(a) of the Exchange Act by issuing a series of allegedly false and/or misleading statements and/or omitting to disclose material facts necessary to make statements made by the Corporation not false and misleading. The consolidated action also alleges that the defendants violated Section 11, Section 12(a)(2) and Section 15 of the

Securities Act by making allegedly untrue statements and/or omitting to disclose material facts

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necessary to make statements made by the Corporation not false and misleading in connection with the May 2008 offering of Series B Preferred Stock. The consolidated securities class action complaint seeks class certification, an award of compensatory damages and reasonable costs and expenses, including counsel fees. On January 11, 2010, Popular, the underwriter defendants and the individual defendants moved to dismiss the consolidated securities class action complaint. On August 2, 2010, the U.S. District Court for the District of Puerto Rico granted the motion to dismiss filed by the underwriter defendants on statute of limitations grounds. The Court also dismissed the Section 11 claim brought against Popular s directors on statute of limitations grounds and the Section 12(a)(2) claim brought against Popular because plaintiffs lacked standing. The Court declined to dismiss the claims brought against Popular and certain of its officers under Section 10(b) of the Exchange Act (and Rule 10b-5 promulgated thereunder), Section 20(a) of the Exchange Act, and Sections 11 and 15 of the Securities Act, holding that plaintiffs had adequately alleged that defendants made materially false and misleading statements with the requisite state of mind.

On November 30, 2009, plaintiffs in the ERISA case filed a consolidated class action complaint. The consolidated complaint purports to be on behalf of employees participating in the Popular, Inc. U.S.A. 401(k) Savings and Investment Plan and the Popular, Inc. Puerto Rico Savings and Investment Plan from January 24, 2008 to the date of the Complaint to recover losses pursuant to Sections 409 and 502(a)(2) of ERISA against Popular, certain directors, officers and members of plan committees, each of whom is alleged to be a plan fiduciary. The consolidated complaint alleges that the defendants breached their alleged fiduciary obligations by, among other things, failing to eliminate Popular stock as an investment alternative in the plans. The complaint seeks to recover alleged losses to the plans and equitable relief, including injunctive relief and a constructive trust, along with costs and attorneys fees. On December 21, 2009, and in compliance with a scheduling order issued by the Court, Popular and the individual defendants submitted an answer to the amended complaint. Shortly thereafter, on December 31, 2009, Popular and the individual defendants filed a motion to dismiss the consolidated class action complaint or, in the alternative, for judgment on the pleadings. On May 5, 2010, a magistrate judge issued a report and recommendation in which he recommended that the motion to dismiss be denied except with respect to Banco Popular de Puerto Rico, as to which he recommended that the motion be granted. On May 19, 2010, Popular filed objections to the magistrate judge s report and recommendation. On June 21, 2010, plaintiffs filed a response to these objections. On July 9, 2010, with leave of the Court, Popular filed a reply to plaintiffs response. On September 30, 2010, the Court issued an order without opinion granting in part and denying in part the motion to dismiss and providing that the Court would issue an opinion and order explaining its decision. To date, no opinion has been issued. Discovery is ongoing in the ERISA case, and the parties have agreed to coordinate discovery with respect to common issues with discovery in the *García* and *Hoff* cases.

The derivative actions (*García v. Carrión, et al.* and *Díaz v. Carrión, et al.*) have been brought purportedly for the benefit of nominal defendant Popular, Inc. against certain executive officers and directors and allege breaches of fiduciary duty, waste of assets and abuse of control in connection with our issuance of allegedly false and misleading financial statements and financial reports and the offering of the Series B Preferred Stock. The derivative complaints seek a judgment that the action is a proper derivative action, an award of damages and restitution, and costs and disbursements, including reasonable attorneys fees, costs and expenses. On October 9, 2009, the Court coordinated for purposes of discovery the *García* action and the consolidated securities class action. On October 15, 2009, Popular and the individual defendants moved to dismiss the *García* complaint for failure to make a demand on the Board of Directors prior to initiating litigation. On November 20, 2009, plaintiffs filed an amended complaint, and on December 21, 2009, Popular and the individual defendants moved to dismiss the García amended complaint. At a scheduling conference held on January 14, 2010, the Court stayed discovery in both the *Hoff* and *García* matters pending resolution of their respective motions to dismiss. On August 11, 2010, the Court granted in part and denied in part the motion to dismiss the *Garcia* action. The Court dismissed the gross mismanagement and corporate waste claims, but declined to dismiss the breach of fiduciary duty claim. Discovery has now commenced in the *Hoff* and *Garcia* actions and is to proceed in coordinated fashion. At the Court s request, the parties to the *Hoff* and *Garcia* cases discussed the prospect of mediation and have agreed to nonbinding mediation in an attempt to determine whether the cases can be settled.

The *Díaz* case, filed in the Puerto Rico Court of First Instance, San Juan, was removed to the U.S. District Court for the District of Puerto Rico. On October 13, 2009, Popular and the individual defendants moved to consolidate the *García* and *Díaz* actions. On October 26, 2009, plaintiff moved to remand the *Díaz* case to the Puerto Rico Court of First Instance and to stay defendants consolidation motion pending the outcome of the remand proceedings. On

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September 30, 2010, the Court issued an order without opinion remanding the *Diaz* case to the Puerto Rico Court of First Instance. On October 13, 2010, the Court issued a Statement of Reasons In Support of Remand Order. On October 28, 2010, Popular and the individual defendants moved for reconsideration of the remand order. The reconsideration motion is pending.

On April 13, 2010, the Puerto Rico Court of First Instance in San Juan granted summary judgment dismissing a separate complaint brought by plaintiff in the *García* action that sought to enforce an alleged right to inspect the books and records of the Corporation in support of the pending derivative action. The Court held that the plaintiff had not propounded a proper purpose under Puerto Rico law for such inspection. On April 28, 2010, the plaintiff in that action moved for reconsideration of the Court s dismissal. On May 4, 2010, the Court denied plaintiff s request for reconsideration. On June 7, 2010, plaintiff filed an appeal before the Puerto Rico Court of Appeals. On June 11, 2010, Popular and the individual defendants moved to dismiss the appeal. On June 22, 2010, the Court of Appeals dismissed the appeal. On July 6, 2010, plaintiff moved for reconsideration of the Court s dismissal. On July 16, 2010, the Court of Appeals denied plaintiff s request for reconsideration.

On October 7, 2010, a new putative class action suit for breach of contract and damages, captioned Almeyda-Santiago v. Banco Popular de Puerto Rico, was filed in the Puerto Rico Court of First Instance against Banco Popular de Puerto Rico. The complaint essentially asserts that plaintiff has suffered damages because of Banco Popular s alleged fraudulent overdraft fee practices in connection with debit card transactions. Such practices allegedly consist of: (a) the reorganization of electronic debit transactions in high-to-low order so as to multiply the number of overdraft fees assessed on its customers; (b) the assessment of overdraft fees even when clients have not overdrawn their accounts; (c) the failure to disclose, or to adequately disclose, its overdraft policy to its customers; and (d) the provision of false and fraudulent information regarding its clients account balances at point of sale transactions and on its website. Plaintiff seeks damages, restitution and provisional remedies against Banco Popular for breach of contract, abuse of trust, illegal conversion and unjust enrichment. The Corporation intends to contend vigorously these claims.

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

Note 20 Non-Consolidated Variable Interest Entities

The Corporation transfers residential mortgage loans in guaranteed loan securitizations. The Corporation s continuing involvement in these transfers includes owning certain beneficial interests in the form of securities as well as the servicing rights retained. The Corporation is not required to provide additional financial support to any of the variable interest entities to which it has transferred the financial assets. The mortgage-backed securities, to the extent retained, are classified in the Corporation s consolidated statement of condition as available-for-sale or trading securities.

The Corporation is involved with various special purpose entities mainly in guaranteed mortgage securitization transactions. These special purpose entities are deemed to be variable interest entities (VIEs) since they lack equity investments at risk. As part of the adoption of ASU 2009-17, during the first quarter of 2010, the Corporation evaluated these guaranteed mortgage securitization structures in which it participates, including GNMA and FNMA, and concluded that the Corporation is not the primary beneficiary of these VIEs, and therefore, are not required to be consolidated in the Corporation s financial statements. The Corporation qualitatively assessed whether it held a controlling financial interest in these VIEs, which included analyzing if it had both the power to direct the activities of the VIE that most significantly impact the entity s economic performance and the obligation to absorb losses of the entity that could potentially be significant to the VIE. The Corporation concluded that, essentially, these entities (FNMA and GNMA) control the design of the VIE, dictate the quality and nature of the collateral, require the underlying insurance, set the servicing standards via the servicing guides and can change them at will, and remove a primary servicer with cause, and without cause in the case of FNMA. Moreover, through their guarantee obligations, agencies (FNMA and GNMA) have the obligation to absorb losses that could be potentially significant to the VIE.

The conclusion on the assessment of these guaranteed mortgage securitization transactions did not change during the third quarter of 2010.

The Corporation holds variable interests in these VIEs in the form of agency mortgage-backed securities and collateralized mortgage obligations, including those securities originated by the Corporation and those acquired from

third parties. Additionally, the Corporation holds agency mortgage-backed securities, agency collateralized mortgage obligations and private label collateralized mortgage obligations issued by third party VIEs in which it has no other form of continuing involvement. Refer to Note 21 to the consolidated financial statements for additional information on the debt securities outstanding as of September 30, 2010, December 31, 2009 and September 30, 2009, which are classified as available-for-sale and trading securities in the Corporation s consolidated statement of condition. In addition, the Corporation may retain the right to service the transferred loans in those government-sponsored special purpose entities (SPEs) and may also purchase the right to service loans in other government-sponsored SPEs that were transferred to those SPEs by a third-party. Pursuant to ASC Subtopic 810-10, the servicing fees that the Corporation receives for its servicing role are considered variable interests in the VIEs because the servicing fees are

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subordinated to the principal and interest that first needs to be paid to the mortgage-backed securities investors and to the guaranty fees that need to be paid to the federal agencies.

The following table presents the carrying amount and classification of the assets related to the Corporation s variable interests in non-consolidated VIEs and the maximum exposure to loss as a result of the Corporation s involvement as servicer with non-consolidated VIEs as of September 30, 2010 and December 31, 2009.

(In thousands)	September 30, 2010	December 31, 2009
Assets		
Servicing assets:		
Mortgage servicing rights	$ 104,978	$ 104,984
Total servicing assets	$ 104,978	$ 104,984
Other assets:		
Servicing advances	$ 3,339	$ 2,029
Total other assets	$ 3,339	$ 2,029
Total	$ 108,317	$ 107,013
Maximum exposure to loss	$ 108,317	$ 107,013

The size of the non-consolidated VIEs, in which the Corporation has a variable interest in the form of servicing fees, measured as the total unpaid principal balance of the loans, amounted to $9.4 billion as of September 30, 2010 and $9.3 billion as of December 31, 2009.

Maximum exposure to loss represents the maximum loss, under a worst case scenario, that would be incurred by the Corporation, as servicer for the VIEs, assuming all loans serviced are delinquent and that the value of the Corporation s interests and any associated collateral declines to zero, without any consideration of recovery. The Corporation determined that the maximum exposure to loss includes the fair value of the MSRs and the assumption that the servicing advances as of September 30, 2010 and December 31, 2009 will not be recovered. The agency debt securities are not included as part of the maximum exposure to loss since they are guaranteed by the related agencies.

Note 21 Fair Value Measurement

ASC Subtopic 820-10 Fair Value Measurements and Disclosures establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels in order to increase consistency and comparability in fair value measurements and disclosures. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

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

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

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

liability.

The Corporation maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. Fair value is based upon quoted market prices when available. If listed prices 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

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judgment for certain financial instruments. Changes in the underlying assumptions used in calculating the fair value could significantly affect the results.

Fair Value on a Recurring Basis

The following fair value hierarchy tables present information about the Corporation s assets and liabilities measured at fair value on a recurring basis as of September 30, 2010, December 31, 2009 and September 30, 2009:

	As of September 30, 2010			
(In millions)	Level 1	Level 2	Level 3	Balance as of September 30, 2010
Assets				
Continuing Operations				
Investment securities available-for-sale:				
U.S. Treasury securities		$ 40		$ 40
Obligations of U.S. Government sponsored entities		1,397		1,397
Obligations of Puerto Rico, States and political subdivisions		53		53
Collateralized mortgage obligations federal agencies		1,347		1,347
Collateralized mortgage obligations private label		95		95
Residential mortgage-backed securities agencies		2,775	$ 8	2,783
Equity securities	$3	5		8
Other		18		18
Total investment securities available-for-sale	$3	$5,730	$ 8	$ 5,741
Trading account securities, excluding derivatives:				
Obligations of Puerto Rico, States and political subdivisions		$ 17		$ 17
Collateralized mortgage obligations		1	$ 3	4
Residential mortgage-backed securities agencies		426	24	450
Other		9	3	12
Total trading account securities		$ 453	$ 30	$ 483
Mortgage servicing rights			$166	$ 166
Derivatives		$ 86		$ 86
Total	$3	$6,269	$204	$ 6,476
Liabilities				
Continuing Operations				
Derivatives		($91)		($91)
Equity appreciation instrument		($18)		($18)
Total		($109)		($109)

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	As of December 31, 2009			
(In millions)	Level 1	Level 2	Level 3	Balance as of December 31, 2009
Assets				
Continuing Operations				
Investment securities available-for-sale:				
U.S. Treasury securities		$ 30		$ 30
Obligations of U.S. Government sponsored entities		1,648		1,648
Obligations of Puerto Rico, States and political subdivisions		81		81
Collateralized mortgage obligations federal agencies		1,600		1,600
Collateralized mortgage obligations private label		118		118
Residential mortgage-backed securities agencies		3,176	$ 34	3,210
Equity securities	$3	5		8
Total investment securities available-for-sale	$3	$6,658	$ 34	$ 6,695
Trading account securities, excluding derivatives:				
Obligations of Puerto Rico, States and political subdivisions		$ 13		$ 13
Collateralized mortgage obligations		1	$ 3	4
Residential mortgage-backed securities agencies		208	224	432
Other		9	3	12
Total trading account securities		$ 231	$230	$ 461
Mortgage servicing rights			$170	$ 170
Derivatives		$ 73		$ 73
Total	$3	$6,962	$434	$ 7,399
Liabilities				
Continuing Operations				
Derivatives		($73)		($73)
Total		($73)		($73)

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(In millions)	As of September 30, 2009 Level 1	Level 2	Level 3	Balance as of September 30, 2009
Assets				
Continuing Operations				
Investment securities available-for-sale:				
U.S. Treasury securities		$ 31		$ 31
Obligations of U.S. Government sponsored entities		1,694		1,694
Obligations of Puerto Rico, States and political subdivisions		89		89
Corporate bonds		1,598		1,598
Collateralized mortgage obligations federal agencies		127		127
Residential mortgage-backed securities agencies		3,411	$ 34	3,445
Equity securities	$4	5		9
Total investment securities available-for-sale	$4	$6,955	$ 34	$ 6,993
Trading account securities, excluding derivatives:				
Obligations of Puerto Rico, States and political subdivisions		$ 3		$ 3
Collateralized mortgage obligations		1	$ 4	5
Residential mortgage-backed securities agencies		180	233	413
Other		22	4	26
Total trading account securities		$ 206	$241	$ 447
Mortgage servicing rights			$180	$ 180
Derivatives		$ 81		$ 81
Total	$4	$7,242	$455	$ 7,701
Liabilities				
Continuing Operations				
Derivatives		($89)		($89)
Total		($89)		($89)

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The following tables present the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the quarters and nine months ended September 30, 2010 and 2009:

Quarter ended September 30, 2010

(In millions)	Balance as of June 30, 2010	Gains (losses) included in earnings/OCI	Purchases, sales, issuances, settlements, and paydowns (net)	Transfers in (out) of Level 3	Balance as of September 30, 2010	Changes in unrealized gains (losses) included in earnings/OCI related to assets and liabilities still held as of September 30, 2010	
Assets							
Continuing Operations							
Investment securities available-for-sale:							
Residential mortgage-backed securities agencies	$ 32		$ 1	($25)	$ 8		
Total investment securities available-for-sale	$ 32		$ 1	($25)	$ 8		
Trading account securities:							
Collateralized mortgage obligations	$ 3				$ 3		
Residential mortgage-backed securities agencies	114	$ 1	($3)	($88)	24		
Other	3				3		
Total trading account securities	$120	$ 1	($3)	($88)	$ 30		[a]
Mortgage servicing rights	$172	($10)	$ 4		$166	($6)	[b]

Total	$324	($9)	$ 2	($113)	$204	($6)

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

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

	Nine months ended September 30, 2010						
(In millions)	Balance as of January 1, 2010	Gains (losses) included in earnings/OCI	Purchases, sales, issuances, settlements, and paydowns (net)	Transfers in (out) of Level 3	Balance as of September 30, 2010	Changes in unrealized gains (losses) included in earnings/OCI related to assets and liabilities still held as of September 30, 2010	
Assets							
Continuing Operations							
Investment securities available-for-sale:							
Residential mortgage-backed securities agencies	$ 34	$ 1		($27)	$ 8		
Total investment securities available-for-sale	$ 34	$ 1		($27)	$ 8		[a]
Trading account securities:							
Collateralized mortgage obligations	$ 3				$ 3		
Residential mortgage-backed securities agencies	224	$ 4	($34)	($170)	24		
Other	3				3		
Total trading account securities	$230	$ 4	($34)	($170)	$ 30		[b]
Mortgage servicing rights	$170	($20)	$ 16		$166	($12)	[c]
Total	$434	($15)	($18)	($197)	$204	($12)	

[a] Gains are included in OCI

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

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

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	Quarter ended September 30, 2009						
(In millions)	Balance as of June 30, 2009	Gains (losses) included in earnings/OCI	Increase (decrease) in accrued interest receivable	Purchases, sales, issuances, settlements, and paydowns (net)	Balance as of September 30, 2009	Changes in unrealized gains (losses) included in earnings/OCI related to assets and liabilities still held as of September 30, 2009	
Assets							
Continuing Operations							
Investment securities available-for-sale:							
Residential mortgage-backed securities agencies	$ 35			($1)	$ 34		
Total investment securities available-for-sale	$ 35			($1)	$ 34		
Trading account securities:							
Collateralized mortgage obligations	$ 5			($1)	$ 4		
Residential mortgage-backed securities agencies	284	$ 1		(52)	233	$ 1	[a]
Other	5	(1)			4		
Total trading account securities	$294			($53)	$241	$ 1	
Mortgage servicing rights	$181	($7)		$ 6	$180	($4)	[b]
Discontinued Operations							

Loans measured at fair value pursuant to fair value option	$ 1		($1)			[c]
Total	$511	($7)	($49)	$455	($3)	

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

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

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

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	Nine months ended September 30, 2009						
(In millions)	Balance as of January 1, 2009	Gains (losses) included in earnings/OCI	Increase (decrease) in accrued interest receivable	Purchases, sales, issuances, settlements, and paydowns (net)	Balance as of September 30, 2009	Changes in unrealized gains (losses) included in earnings/OCI related to assets and liabilities still held as of September 30, 2009	
Assets							
Continuing Operations							
Investment securities available-for-sale:							
Mortgage-backed securities agencies	$ 37			($3)	$ 34		
Total investment securities available-for-sale	$ 37			($3)	$ 34		
Trading account securities:							
Collateralized mortgage obligations	$ 3			$ 1	$ 4		
Residential mortgage-backed securities agencies	292	$ 2		(61)	233	$ 5	
Other	5	(1)			4		
Total trading account securities	$300	$ 1		($60)	$ 241	$ 5	[a]
Mortgage servicing rights	$176	($16)		$ 20	$ 180	($6)	[b]
Discontinued Operations							
Loans measured at fair value pursuant to fair	$ 5	$ 1		($6)			[c]

value option					
Total	$518	($14)	($49)	$ 455	($1)

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

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

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

During the quarter and nine months ended September 30, 2010, there were $113 million and $197 million, respectively, in transfers out of Level 3 for financial instruments measured at fair value on a recurring basis. These transfers resulted from exempt FNMA and GNMA mortgage-backed securities, which were transferred out of Level 3 and into Level 2, as a result of a change in valuation methodology from an internally-developed pricing matrix to pricing them 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. Pursuant to the Corporation s policy, these transfers were recognized as of the end of the reporting period. There were no transfers in and / or out of Level 1 during the quarter and nine months ended September 30, 2010.

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, 2009. There were no transfers in and / or out of Level 1 and Level 2 during the quarter and nine months ended September 30, 2009.

Gains and losses (realized and unrealized) included in earnings for the quarters and nine months ended September 30, 2010 and 2009 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, 2010		Nine months ended September 30, 2010	
(In millions)	Total gains (losses) included in earnings/OCI	Changes in unrealized gains (losses) relating to assets / liabilities still held at reporting date	Total gains (losses) included in earnings/OCI	Changes in unrealized gains (losses) relating to assets / liabilities still held at reporting date
Continuing Operations				
OCI			$ 1	
Other service fees	($10)	($6)	(20)	($12)
Trading account profit	1		4	
Total	($9)	($6)	($15)	($12)

	Quarter ended September 30, 2009		Nine months ended September 30, 2009	
(In millions)	Total gains (losses) included in earnings/OCI	Changes in unrealized gains (losses) relating to assets / liabilities still held at reporting date	Total gains (losses) included in earnings/OCI	Changes in unrealized gains (losses) relating to assets / liabilities still held at reporting date
Continuing Operations				
Other service fees	($7)	($4)	($16)	($6)
Trading account profit		1	1	5
Discontinued Operations				
Loss from discontinued operations, net of tax			1	
Total	($7)	($3)	($14)	($1)

Additionally, in accordance with generally accepted accounting principles, the Corporation may be required to measure certain assets at fair value on a nonrecurring basis in periods subsequent to their initial recognition. The adjustments to fair value usually result from the application of lower of cost or fair value accounting, identification of impaired loans requiring specific reserves under ASC Section 310-10-35 Accounting by Creditors for Impairment of a Loan , or write-downs of individual assets. The following tables present financial and non-financial assets that were

subject to a fair value measurement on a nonrecurring basis during the nine months ended September 30, 2010 and 2009, and which were still included in the consolidated statement of condition as of such dates. The amounts disclosed represent the aggregate fair value measurements of those assets as of the end of the reporting period.

	Carrying value as of September 30, 2010			
(In millions)	Level 1	Level 2	Level 3	Total
Assets				
Continuing Operations				
Loans [1]			$649	$649
Loans held-for-sale [2]			2	2
Other real estate owned [3]			55	55
Total			$706	$706

[1] Relates mostly to certain impaired collateral dependent loans. The impairment was measured based on the fair value of the collateral, which is derived from appraisals that take into consideration prices in observed transactions involving similar assets in similar locations, in accordance with the provisions of ASC Section 310-10-35.

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

[3] Represents the fair value of foreclosed real estate owned that were measured at fair value.

(In millions)	Carrying value as of September 30, 2009 Level 1	Level 2	Level 3	Total
Assets				
Continuing Operations				
Loans (1)			$743	$743
Other real estate owned (2)			27	27
Other foreclosed assets (2)			6	6
Total			$776	$776

[1] Relates mostly to certain impaired collateral dependent loans. The impairment was measured based on the fair value of the collateral, which is derived from appraisals that take into consideration prices in observed transactions involving similar assets in similar locations, in accordance with the provisions of ASC Section 310-10-35.

[2] Represents the fair value of foreclosed real estate and other collateral owned that were measured at fair value.

Following is a description of the Corporation s valuation methodologies used for assets and liabilities measured at fair value. The disclosure requirements exclude certain financial instruments and non-financial instruments. Accordingly, the aggregate fair value of the financial instruments disclosed 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, which fair value is based on an active exchange market and on quoted market prices for similar securities. The U.S. agency securities are classified as Level 2.

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

Mortgage-backed securities agencies: 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-developed pricing matrix with quoted prices from local broker dealers. These particular MBS are classified as Level 3.

Collateralized mortgage obligations: Agency and private collateralized mortgage obligations (CMOs) are priced based on a bond s theoretical value from similar bonds defined by credit quality and market sector and

for which fair value incorporates an option adjusted spread. The option adjusted spread model includes prepayment and volatility assumptions, ratings (whole loans collateral) and spread adjustments. These CMOs are classified as Level 2. Other CMOs, due to their limited liquidity, are classified as Level 3 due to the insufficiency of inputs such as broker quotes, executed trades, credit information and cash flows.

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

Corporate note (included as other in the available-for-sale category): The corporate note is priced based on a spread to the U.S. Treasury market and adjustments may apply based on observable market inputs such as sector, maturity, credit standing and reported trade frequencies. This corporate note is

classified as Level 2.

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

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, prepayment 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.

Derivatives

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

Equity appreciation instrument

Refer to Note 2 to the consolidated financial statements for a description of the terms of the equity appreciation instrument. The fair value of the equity appreciation instrument was estimated by determining a call option value using the Black-Scholes Option Pricing Model. The principal variables in determining the fair value of the equity appreciation instrument include the implied volatility determined based on the historical daily volatility of the Corporation s common stock, the exercise price of the instrument, the price of the call option, and the risk-free rate. The equity appreciation instrument is classified as Level 2.

Loans held-in-portfolio considered impaired under ASC Section 310-10-35 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 ASC Section 310-10-35. Currently, the associated loans considered impaired are classified as Level 3.

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

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

Other real estate owned and other foreclosed assets

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

Note 22 Fair Value of Financial Instruments

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

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

Derivatives are considered financial instruments and their carrying value equals fair value.

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

The fair values reflected herein have been determined based on the prevailing interest rate environment as of September 30, 2010 and December 31, 2009, respectively. In different interest rate environments, fair value estimates can differ significantly, especially for certain fixed rate financial instruments. In addition, the fair values presented do not attempt to estimate the value of the Corporation s fee generating businesses and anticipated future business activities, that is, they do not represent the Corporation s value as a going concern. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Corporation. The methods and assumptions used to estimate the fair values of significant financial instruments as of September 30, 2010 and December 31, 2009 are described in the paragraphs below.

Short-term financial assets and liabilities have relatively short maturities, or no defined maturities, and little or no credit risk. The carrying amounts of other liabilities reported in the consolidated statements of condition approximate fair value because of the short-term maturity of those instruments or because they carry interest rates which approximate market. Included in this category are: cash and due from banks, federal funds sold and securities purchased under agreements to resell, time deposits with other banks, bankers acceptances and assets sold under agreements to repurchase and short-term borrowings. The equity appreciation instrument is included in other liabilities and is accounted at fair value. Note 21 to the consolidated financial statements provides a description of the valuation methodology for the equity appreciation instrument. Resell and repurchase agreements with long-term maturities are valued using discounted cash flows based on market rates currently available for agreements with similar terms and remaining maturities.

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

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

The fair value of deposits with no stated maturity, such as non-interest bearing demand deposits, savings, NOW, and money market accounts was, for purposes of this disclosure, equal to the amount payable on demand as of the

respective dates. The fair value of certificates of deposit was based on the discounted value of contractual cash flows using interest rates being offered on certificates with similar maturities. The value of these deposits in a transaction between willing parties is in part dependent of the buyer s ability to reduce the servicing cost and the attrition that sometimes occurs. Therefore, the amount a buyer would be willing to pay for these deposits could vary significantly from the presented fair value.

Long-term borrowings were valued using discounted cash flows, based on market rates currently available for debt with similar terms and remaining maturities and in certain instances using quoted market rates for similar instruments as of September 30, 2010 and December 31, 2009.

As part of the fair value estimation procedures of certain liabilities, including repurchase agreements (regular and structured) and FHLB advances, the Corporation considered, where applicable, the collateralization levels as part of its evaluation of non-performance risk. Also, for certificates of deposit, the non-performance risk was determined using internally-developed models that consider, where applicable, the collateral held, amounts insured, the remaining term, and the credit premium of the institution.

Refer to Note 2 to the consolidated financial statements for a description of the FDIC loss share indemnification asset, equity appreciation instrument issued to the FDIC and the contingent liability on unfunded loan commitments, which are separately disclosed in the table below and all relate to the Westernbank FDIC-assisted transaction. The latter two items are included as other liabilities in the consolidated statement of condition.

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

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

	September 30, 2010		December 31, 2009	
(In thousands)	Carrying amount	Fair value	Carrying amount	Fair value
Financial Assets:				
Cash and money market investments	$ 2,604,760	$ 2,604,760	$ 1,680,127	$ 1,680,127
Trading securities	483,192	483,192	462,436	462,436
Investment securities available-for-sale	5,741,483	5,741,483	6,694,714	6,694,714
Investment securities held-to-maturity	214,152	214,803	212,962	213,146
Other investment securities	158,309	159,622	164,149	165,497
Loans held-for-sale	115,088	120,916	90,796	91,542
Loans held-in-portfolio, net	24,904,715	22,181,399	22,451,909	20,021,224
FDIC loss share indemnification asset	3,308,959	3,371,118		
Financial Liabilities:				
Deposits	$27,740,045	$27,867,432	$25,924,894	$26,076,515
Assets sold under agreements to repurchase	2,358,139	2,523,779	2,632,790	2,759,438
Short-term borrowings	191,342	191,342	7,326	7,326
Notes payable	5,143,388	5,090,470	2,648,632	2,453,037
Contingent liability on unfunded loan commitments	120,162	120,162		
Equity appreciation instrument	17,465	17,465		

(In thousands)	Notional Amount	Fair Value	Notional Amount	Fair Value
Commitments to extend credit	$6,297,380	$1,016	$7,013,148	$ 882
Letters of credit	134,663	1,296	147,647	1,565

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Note 23 Net Income per Common Share

The computation of net income per common share (EPS) follows:

(In thousands, except share information)	Quarter ended September 30, 2010	Quarter ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Net income (loss) from continuing operations	$ 494,494	($121,561)	$ 353,611	($340,720)
Net loss from discontinued operations		(3,427)		(19,972)
Deemed dividend on preferred stock [1]			(191,667)	
Preferred stock dividends [2]		5,974		(39,857)
Preferred stock discount accretion		(1,040)		(4,515)
Favorable impact from exchange of shares of Series A and B preferred stock for common stock, net of issuance costs		230,388		230,388
Favorable impact from exchange of Series C preferred stock for trust preferred securities		485,280		485,280
Net income applicable to common stock	$ 494,494	$ 595,614	$ 161,944	$ 310,604
Average common shares outstanding	1,021,374,014	425,672,578	839,196,564	330,325,348
Average potential common shares			312,961	
Average common shares outstanding assuming dilution	1,021,374,014	425,672,578	839,509,525	330,325,348
Basic and diluted EPS from continuing operations	$ 0.48	$ 1.41	$ 0.19	$ 1.00
Basic and diluted EPS from discontinued operations		(0.01)		(0.06)
Basic and diluted EPS	$ 0.48	$ 1.40	$ 0.19	$ 0.94

[1] Deemed dividend related to the issuance of depositary shares and the conversion of the preferred stock into shares of common stock in the second quarter of 2010.

[2] Amount presented for the quarter ended September 30, 2009 represents the reversal of dividends on Series C preferred stock considered accrued as of June 30, 2009 for EPS purposes only. These cumulative dividends were not paid as dividends to the Series C preferred stockholders given the terms of the exchange agreement to New Trust Preferred Securities, which was effected in August 2009.

The conversion of contingently convertible perpetual non-cumulative preferred stock into shares of the Corporation s common stock during the second quarter of 2010, resulted in a non-cash beneficial conversion of $191.7 million, representing the intrinsic value between the conversion rate of $3.00 and the common stock closing price of $3.50 on

April 13, 2010, the date the preferred shares were offered. The beneficial conversion was recorded as a deemed dividend to the preferred stockholders reducing retained earnings, with a corresponding offset to surplus (paid in capital), and thus did not affect total stockholders equity or the book value of the common stock. However, the deemed dividend decreased the net income applicable to common stock and affected the calculation of basic and diluted EPS for the nine months ended September 30, 2010. Moreover, in computing diluted EPS, dilutive convertible securities that remained outstanding for the period prior to actual conversion were not included as average potential common shares because the effect would have been antidilutive. In computing both basic and diluted EPS, the common shares issued upon actual conversion were included in the weighted average calculation of common shares, after the date of conversion, provided that they remained outstanding.

Potential common shares consist of common stock issuable under the assumed exercise of stock options and restricted stock awards using the treasury stock method. This method assumes that the potential common shares are issued and the proceeds from exercise, in addition to the amount of compensation cost attributed to future services, are used to purchase common stock at the exercise date. The difference between the number of potential shares issued and the shares purchased is added as incremental shares to the actual number of shares outstanding to compute diluted earnings per share. Warrants, stock options and restricted stock awards 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 common share.

For the quarter and nine-month period ended September 30, 2010, there were 2,530,137 and 2,537,563 weighted average antidilutive stock options outstanding, respectively (September 30, 2009 2,674,505 and 2,770,846). Additionally, the Corporation has outstanding a warrant to purchase 20,932,836 shares of common stock, which has an antidilutive effect as of September 30, 2010.

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Note 24 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, 2010	Quarter ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Debit card fees	$ 27,711	$26,986	$ 83,480	$ 80,867
Credit card fees and discounts	24,382	23,497	73,692	70,951
Processing fees	15,258	13,638	43,390	40,773
Insurance fees	11,855	11,463	34,929	36,014
Sale and administration of investment products	11,379	8,181	28,791	25,204
Other fees	10,237	13,849	41,585	44,775
Total other service fees	$100,822	$97,614	$305,867	$298,584

Note 25 Pension and Postretirement Benefits

The Corporation has noncontributory defined benefit pension plans (the retirement plans) and supplementary benefit pension plans for regular employees of certain of its subsidiaries. Effective May 1, 2009, the accrual of the benefits under the BPPR retirement plan was frozen to all participants. Pursuant to the amendment, the retirement plan participants will not receive any additional credit for compensation earned and service performed after April 30, 2009 for purposes of calculating benefits under the retirement plans.

During the third quarter of 2010, the Corporation amended the pension and postretirement benefits as a result of the EVERTEC sale. The amendment to the pension plan increased the pension plan liability by approximately $6.3 million, which will be amortized as pension cost in future periods.

During the second quarter of 2010, the Corporation settled its U.S. retirement plan, which had been frozen in 2007. The U.S. retirement plan assets are expected to be distributed to plan participants during the fourth quarter of 2010.

The components of net periodic pension cost for the quarters and nine months ended September 30, 2010 and 2009 were as follows:

	Pension Plans		Benefit Restoration Plans		Pension Plans		Benefit Restoration Plans	
	Quarters ended September 30,		Quarters ended September 30,		Nine months ended September 30,		Nine months ended September 30,	
(In thousands)	2010	2009	2010	2009	2010	2009	2010	2009
Service cost						$ 3,330		$ 341
Interest cost	$ 7,804	$ 8,041	$ 384	$ 391	$ 23,710	24,630	$ 1,153	1,225
Expected return on plan assets	(7,655)	(6,221)	(403)	(307)	(23,208)	(19,320)	(1,210)	(932)
Amortization of prior service cost (credit)						44		(8)
Amortization of net loss	2,167	3,203	99	185	6,579	10,590	297	683

Net periodic cost	$ 2,316	$ 5,023	$ 80	$ 269	$ 7,081	$ 19,274	$ 240	$1,309
Curtailment loss (gain)						820		(341)
Settlement loss					3,380			
Total cost	$ 2,316	$ 5,023	$ 80	$ 269	$ 10,461	$ 20,094	$ 240	$ 968

During the nine months ended September 30, 2010, the Corporation made contributions to the pension and benefit restoration plans amounting to $23.5 million. The total contributions expected to be paid during the year 2010 for the pension and benefit restoration plans amount to approximately $25.8 million.

The Corporation also provides certain health care benefits for retired employees of certain subsidiaries. The components of net periodic postretirement benefit cost for the quarters and nine months ended September 30, 2010 and 2009 were as follows:

(In thousands)	Quarters ended September 30, 2010	Quarters ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Service cost	$ 432	$ 549	$1,296	$1,647
Interest cost	1,609	2,026	4,826	6,078
Amortization of prior service cost	(262)	(261)	(785)	(784)
Amortization of net gain	(294)		(882)	
Net periodic cost	$1,485	$2,314	$4,455	$6,941
Termination benefit cost	671		671	
Total cost	$2,156	$2,314	$5,126	$6,941

Contributions made to the postretirement benefit plan for the nine months ended September 30, 2010 amounted to approximately $3.9 million. The total contributions expected to be paid during the year 2010 for the postretirement benefit plan amount to approximately $5.2 million.

Note 26 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. The adoption of the Incentive Plan did not alter the original terms of the grants made under the Stock Option Plan prior to the adoption of the Incentive 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 provided for the issuance of Popular, Inc. s common stock at a price equal to its fair market value at the grant date, subject to certain plan provisions. The shares are to be made available from authorized but unissued shares of common stock or treasury stock. The Corporation s policy has been to use authorized but unissued shares of common stock to cover each grant. The maximum option term is ten years from the date of grant. Unless an option agreement provides otherwise, all options granted are 20% exercisable after the first year and an additional 20% is exercisable after each subsequent year, subject to an acceleration clause at termination of employment due to retirement.

The following table presents information on stock options outstanding as of September 30, 2010:

(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	1,231,412	$ 15.84	1.99	1,231,412	$ 15.84

$19.25 - $27.20	1,298,725	$ 25.21	3.74	1,298,725	$ 25.21
$14.39 - $27.20	2,530,137	$ 20.65	2.89	2,530,137	$ 20.65

There was no intrinsic value of options outstanding as of September 30, 2010 (September 30, 2009 $0.3 million). There was no intrinsic value of options exercisable as of September 30, 2010 and 2009.

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

(Not in thousands)	Options Outstanding	Weighted-Average Exercise Price
Outstanding as of January 1, 2009	2,965,843	$ 20.59
Granted		
Exercised		
Forfeited	(59,631)	26.42
Expired	(353,549)	19.25
Outstanding as of December 31, 2009	2,552,663	$ 20.64
Granted		
Exercised		
Forfeited		
Expired	(22,526)	19.56
Outstanding as of September 30, 2010	2,530,137	$ 20.65

The stock options exercisable as of September 30, 2010 totaled 2,530,137 (September 30, 2009 2,585,523). There were no stock options exercised during the quarters and nine-month periods ended September 30, 2010 and 2009. Thus, there was no intrinsic value of options exercised during the quarters and nine month-periods ended September 30, 2010 and 2009.

There were no new stock option grants issued by the Corporation under the Stock Option Plan during 2009 and 2010. For the quarter ended September 30, 2010, there was no stock option expense recognized (September 30, 2009 $0.1 million, with a tax benefit of $40 thousand). For the nine months ended September 30, 2010, there was no stock option expense recognized (September 30, 2009 $162 thousand, with a tax benefit of $45 thousand).

Incentive Plan

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

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

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The following table summarizes the restricted stock activity under the Incentive Plan for members of management:

(Not in thousands)	Restricted Stock	Weighted-Average Grant Date Fair Value
Non-vested as of January 1, 2009	248,339	$ 22.83
Granted		
Vested	(104,791)	21.93
Forfeited	(5,036)	19.95
Non-vested as of December 31, 2009	138,512	$ 23.62
Granted	1,525,416	2.70
Vested	(314,284)	8.34
Forfeited	(185,844)	3.21
Non-vested as of September 30, 2010	1,163,800	$ 3.58

During the quarter ended September 30, 2010, no shares of restricted stock were awarded to management under the Incentive Plan. During the nine-month period ended September 30, 2010, 1,525,416 shares of restricted stock were awarded to management under the Incentive Plan, from which 1,253,551 shares of restricted stock were awarded to management consistent with the requirements of the TARP Interim Final Rule. The shares of restricted stock, which were awarded to management consistent with the requirements of the TARP Interim Final Rule, were determined upon consideration of management s execution of critical 2009 initiatives to manage the Corporation s liquidity and capitalization, strategically reposition its United States operations, and improve management effectiveness and cost control. The shares will vest on the secondary anniversary of the grant date, and they may become payable in 25% increments as the Corporation repays each 25% portion of the aggregate financial assistance received under the United States Treasury Department s Capital Purchase Program under the Emergency Economic Stabilization Act of 2008. In addition, the grants are also subject to further performance criteria as the Corporation must achieve profitability for at least one fiscal year for awards to be payable. During the quarter and nine-month period ended September 30, 2009, 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 share awards consist of the opportunity to receive shares of Popular, Inc. s common stock provided that the Corporation achieves certain performance goals during a three-year performance cycle. The compensation cost associated with the performance shares is recorded ratably over a three-year performance period. The performance shares are granted at the end of the three-year period and vest at grant date, except when the participant s employment is terminated by the Corporation without cause. In such case, the participant would receive a pro-rata amount of shares calculated as if the Corporation would have met the performance goal for the performance period. During the nine months ended September 30, 2010, 41,710 shares have been granted under this plan (September 30, 2009 35,397).

During the quarter ended September 30, 2010, the Corporation recognized $0.6 million of restricted stock expense related to management incentive awards, with tax benefit of $0.2 million (September 30, 2009 $0.6 million, with a tax benefit of $0.2 million). For the nine-month period ended September 30, 2010, the Corporation recognized $0.7 million of restricted stock expense related to management incentive awards, with a tax benefit of $0.3 million (September 30, 2009 $1.4 million, with a tax benefit of $0.5 million). The fair market value of the restricted stock vested was $3.2 million at grant date and $0.9 million at vesting date. This triggers a shortfall, net of windfalls, of $2.3 million that was recorded as an additional income tax expense at the applicable income tax rate, net of the deferred tax asset valuation allowance. During the quarter ended September 30, 2010, the Corporation recognized

$0.3 million of performance shares expense, with a tax benefit of $0.1 million (September 30, 2009 $0.3 million, with a tax benefit of $107 thousand). During the nine-month period ended September 30, 2010, the Corporation recognized $0.5 million of performance share expense, with a tax benefit of $0.2 million (September 30, 2009 $0.6 million, with a tax benefit of $129 thousand). The total unrecognized compensation cost related to non-vested restricted stock awards and performance shares to members of management as of September 30, 2010 was $2.2 million and is expected to be recognized over a weighted-average period of 3 years.

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The following table summarizes the restricted stock activity under the Incentive Plan for members of the Board of Directors:

(Not in thousands)	Restricted Stock	Weighted-Average Grant Date Fair Value
Non-vested as of January 1, 2009		
Granted	270,515	$ 2.62
Vested	(270,515)	2.62
Forfeited		
Non-vested as of December 31, 2009		
Granted	272,828	$ 2.97
Vested	(272,828)	2.97
Forfeited		
Non-vested as of September 30, 2010		

During the quarter ended September 30, 2010, the Corporation granted 30,434 shares of restricted stock to members of the Board of Directors of Popular, Inc. and BPPR, which became vested at grant date (September 30, 2009 78,070). During this period, the Corporation recognized $0.1 million of restricted stock expense related to these restricted stock grants, with a tax benefit of $48 thousand (September 30, 2009 $0.1 million, with a tax benefit of $47 thousand). For the nine-month period ended September 30, 2010, the Corporation granted 272,828 shares of restricted stock to members of the Board of Directors of Popular, Inc. and BPPR, which became vested at grant date (September 30, 2009 251,993). During this period, the Corporation recognized $0.4 million of restricted stock expense related to these restricted stock grants, with a tax benefit of $0.2 million (September 30, 2009 $0.3 million, with a tax benefit of $141 thousand). The fair value at vesting date of the restricted stock vested during 2010 for directors was $0.8 million.

Note 27 Income Taxes

The reconciliation of unrecognized tax benefits was as follows:

(In millions)	2010	2009
Balance as of January 1	$ 41.8	$ 40.5
Additions for tax positions January through March	0.4	1.0
Reduction as a result of settlements January through March	(14.3)	(0.6)
Balance as of March 31	27.9	$ 40.9
Additions for tax positions April through June	0.2	1.3
Reduction for tax positions April through June	(1.6)	
Balance as of June 30	26.5	$ 42.2
Additions for tax positions July through September	3.7	0.7
Additions for tax positions taken in prior years July through September	3.5	
Reduction as a result of lapse of statute of limitations July through September	(3.7)	
Reduction for tax positions July through September	(1.2)	(1.8)
Balance as of September 30	$ 28.8	$ 41.1

As of September 30, 2010, the related accrued interest approximated $6.5 million (September 30, 2009 $6.3 million). Management determined that as of September 30, 2010 and 2009 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 $33.8 million as of September 30, 2010 (September 30, 2009 $45.7 million).

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

The Corporation and its subsidiaries file income tax returns in Puerto Rico, the U.S. federal jurisdiction, various U.S. states and political subdivisions, and foreign jurisdictions. As of September 30, 2010, the following years remain subject to examination in the U.S. Federal jurisdiction: 2008 and thereafter; and in the Puerto Rico jurisdiction, 2006 and thereafter. During 2010, the U.S. Internal Revenue Service (IRS) completed an examination of the Corporation s U.S. operations tax return for 2007, and as a result, the Corporation recognized a tax benefit of $14.3 million during the first quarter of 2010.

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, 2010	December 31, 2009
Deferred tax assets:		
Tax credits available for carryforward	$ 8,310	$ 11,026
Net operating loss and donation carryforward available	972,397	843,968
Postretirement and pension benefits	95,621	103,979
Deferred loan origination fees	7,797	7,880
Allowance for loan losses	533,611	536,277
Deferred gains	13,163	14,040
Accelerated depreciation	2,329	2,418
Intercompany deferred gains	4,818	7,015
Other temporary differences	20,969	39,096
Total gross deferred tax assets	$1,659,015	$1,565,699
Deferred tax liabilities:		
Differences between assigned values and the tax basis of the assets and liabilities recognized in purchase business combinations	$ 63,977	$ 25,896
Difference in outside basis between financial and tax reporting on sale of a business	11,057	
Deferred loan origination costs	8,280	9,708
Unrealized net gain on trading and available-for-sale securities	56,954	30,323
Other temporary differences	1,195	5,923
Total gross deferred tax liabilities	$ 141,463	$ 71,850
Gross deferred tax assets less liabilities	$1,517,552	$1,493,849
Less: Valuation allowance	1,191,951	1,129,882
Net deferred tax assets	$ 325,601	$ 363,967

The net deferred tax asset shown in the table above as of September 30, 2010 is reflected in the consolidated statement of condition as $336.7 million in deferred tax assets (in the other assets caption) and $11.1 million in deferred tax liabilities (in the other liabilities caption), reflecting the aggregate deferred tax assets or liabilities of individual

tax-paying subsidiaries of the Corporation.

A deferred tax asset should be reduced by a valuation allowance if based on the weight of all available evidence; it is more likely than not (a likelihood of more than 50%) that some portion or the entire deferred tax asset will not be realized. The valuation allowance should be sufficient to reduce the deferred tax asset to the amount that is more likely than not to be realized. The determination of whether a deferred tax asset is realizable is based on weighting all available evidence, including both positive and negative evidence. 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. The analysis considers all sources of taxable income available to realize the deferred tax asset, including the future reversal of existing taxable temporary

differences, future taxable income exclusive of reversing temporary differences and carryforwards, taxable income in prior 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, 2010. For purposes of assessing the realization of the deferred tax assets in the U.S. mainland, this cumulative taxable loss position is considered significant negative evidence and has caused management to conclude that the Corporation will not be able to realize the associated deferred tax assets in the future. As of September 30, 2010, the Corporation recorded a valuation allowance of $1.2 billion on the deferred tax asset of its U.S. operations.

As of September 30, 2010, the Corporation s deferred tax assets (net of deferred tax liability) related to its Puerto Rico operations amounted to $345.8 million and the deferred tax liability, net of the valuation allowance, of its U.S. operations amounted to $20.2 million. The Corporation assessed the realization of the Puerto Rico portion of the net deferred tax asset and based on the weighting of all available evidence has concluded that it is more likely than not that such net deferred tax assets will be realized.

Note 28 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, 2010	September 30, 2009
Non-cash activities:		
Loans transferred to other real estate	$ 147,577	$ 116,200
Loans transferred to other property	28,785	29,331
Total loans transferred to foreclosed assets	176,362	145,531
Transfers from loans held-in-portfolio to loans held-for-sale	24,458	32,270
Transfers from loans held-for-sale to loans held-in-portfolio	9,679	175,043
Loans securitized into investment securities [a]	633,821	1,112,061
Recognition of mortgage servicing rights on securitizations or asset transfers	11,909	19,640
Treasury stock retired		207,139
Change in par value of common stock		1,689,389
Conversion of preferred stock to common stock:		
Preferred stock converted	(1,150,000)	
Common stock issued	1,341,667	
Trust preferred securities exchanged for new common stock issued:		
Trust preferred securities exchanged		(397,911)
New common stock issued		317,652
Preferred stock exchanged for new common stock issued:		
Preferred stock exchanged (Series A and B)		(524,079)
New common stock issued		293,691
Preferred stock exchanged for new trust preferred securities issued:		
Preferred stock exchanged (Series C)		(901,165)
New trust preferred securities issued (junior subordinated debentures)		415,885

[a] Includes loans securitized into investment securities and subsequently sold before quarter end.

For the nine months ended September 30, 2010 the changes in operating assets and liabilities included in the reconciliation of net income to net cash provided by operating activities, as well as the changes in assets and liabilities presented in the investing and financing sections are net of the effect of the assets acquired and liabilities assumed

from the Westernbank FDIC-assisted transaction. Refer to Note 2 to the consolidated financial statements for the composition and balances of the assets and liabilities recorded at fair value by the Corporation on April 30, 2010. The cash received in the transaction, which amounted to $261 million, is presented in the investing activities section of the Consolidated Statement of Cash Flows as Cash received from acquisition .

Note 29 Segment Reporting

The Corporation s corporate structure consists of two reportable segments Banco Popular de Puerto Rico and Banco Popular North America.

As discussed in Note 3 to the consolidated financial statements, on September 30, 2010, the Corporation completed the sale of a 51% ownership interest in EVERTEC, which included the merchant acquiring business of BPPR. EVERTEC was reported as a reportable segment prior to September 30, 2010, while the merchant acquiring business was originally included in the BPPR reportable segment through June 30, 2010. As a result of the sale, the Corporation no longer presents EVERTEC as a reportable segment and therefore, historical financial information for the processing and merchant acquiring businesses has been reclassified under Corporate group for all periods presented. Additionally, the Corporation retained EVERTEC DE VENEZUELA, C.A. and its equity investments in CONTADO and Serfinsa, which were included in the EVERTEC reportable segment through June 30, 2010, and are now also included in the Corporate group for all periods presented. Revenue from the remaining ownership interest in EVERTEC will be prospectively reported as non-interest income in the Corporate group.

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, 2010, additional disclosures are provided for the business areas included in this reportable segment, as described below:

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

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

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

Banco Popular North America:

Banco Popular North America s reportable segment consists of the banking operations of BPNA, E-LOAN, Popular Equipment Finance, Inc. and Popular Insurance Agency, U.S.A. BPNA operates through a retail branch network in the U.S. mainland, while E-LOAN supports BPNA s deposit gathering through its online platform. All direct lending activities at E-LOAN were ceased during the fourth quarter of 2008. Popular Equipment Finance, Inc. also holds a running-off loan portfolio as this subsidiary ceased originating loans during 2009. Popular Insurance Agency, U.S.A. offers investment and insurance services across the BPNA branch network.

The Corporate group consists primarily of the holding companies: Popular, Inc., Popular North America and Popular International Bank, including the equity investments in CONTADO and Serfinsa. Also, as discussed previously, it includes the results of EVERTEC for all periods presented. The Corporate group also includes the expenses of certain corporate areas that are identified as critical to the organization: Finance, Risk Management and Legal.

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

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The results of operations included in the tables below for the quarter ended September 30, 2009 exclude the results of operations of the discontinued business of PFH. Segment assets as of September 30, 2009 also exclude the assets of the discontinued operations.

2010

For the quarter ended September 30, 2010

(In thousands)	Banco Popular de Puerto Rico	Banco Popular North America	Intersegment Eliminations	Total Reportable Segments
Net interest income	$ 336,580	$ 77,465		$ 414,045
Provision for loan losses	182,153	32,860		215,013
Non-interest income	92,937	13,161		106,098
Amortization of intangibles	1,561	681		2,242
Depreciation expense	10,024	2,160		12,184
(Gain) loss on early extinguishment of debt	(27)	9,725		9,698
Other operating expenses	210,264	58,024		268,288
Income tax expense	12,996	1,798		14,794
Net income (loss)	$ 12,546	($14,622)		($2,076)
Segment Assets	$31,129,147	$9,328,402	($34,485)	$40,423,064

For the quarter ended September 30, 2010

(In thousands)	Corporate	Eliminations	Popular, Inc.
Net interest (expense) income	($27,289)	$ 162	$ 386,918
Provision for loan losses			215,013
Non-interest income	730,583	(40,157)	796,524
Amortization of intangibles	169		2,411
Depreciation expense	4,141		16,325
Loss on early extinguishment of debt	15,750		25,448
Other operating expenses	99,399	(40,324)	327,363
Income tax expense	87,382	212	102,388
Net income	$ 496,453	$ 117	$ 494,494
Segment Assets	$5,580,042	($5,182,390)	$40,820,716

For the nine months ended September 30, 2010

(In thousands)	Banco Popular de Puerto Rico	Banco Popular North America	Intersegment Eliminations	Total Reportable Segments

Net interest income	$ 787,923	$ 231,642	$ 1,019,565
Provision for loan losses	412,792	244,679	657,471
Non-interest income	327,920	45,646	373,566
Amortization of intangibles	3,870	2,501	6,371
Depreciation expense	29,097	7,041	36,138
Loss on early extinguishment of debt	951	9,725	10,676
Other operating expenses	584,283	186,575	770,858
Income tax expense	26,304	3,382	29,686
Net income (loss)	$ 58,546	($176,615)	($118,069)

For the nine months ended September 30, 2010

(In thousands)	Corporate	Eliminations	Popular, Inc.
Net interest (expense) income	($85,241)	$ 487	$ 934,811
Provision for loan losses			657,471
Non-interest income	905,146	(108,464)	1,170,248
Amortization of intangibles	544		6,915
Depreciation expense	10,946		47,084
Loss on early extinguishment of debt	15,750		26,426
Other operating expenses	237,082	(107,489)	900,451
Income tax expense	82,983	432	113,101
Net income	$ 472,600	($920)	$ 353,611

2009
For the quarter ended September 30, 2009

(In thousands)	Banco Popular de Puerto Rico	Banco Popular North America	Intersegment Eliminations	Total Reportable Segments
Net interest income	$ 217,750	$ 77,588		$ 295,338
Provision for loan losses	153,350	177,713		331,063
Non-interest income	109,083	6,395		115,478
Amortization of intangibles	1,270	910		2,180
Depreciation expense	9,316	2,679		11,995
Loss on early extinguishment of debt	955			955
Other operating expenses	175,412	70,045		245,457
Income tax expense	77	2,553		2,630
Net loss	($13,547)	($169,917)		($183,464)
Segment Assets	$23,868,954	$11,443,083	($29,284)	$35,282,753

For the quarter ended September 30, 2009

(In thousands)	Corporate	Eliminations	Popular, Inc.
Net interest (expense) income	($19,232)	$ 283	$ 276,389
Provision for loan losses			331,063
Non-interest income	83,201	(38,635)	160,044
Amortization of intangibles	199		2,379
Depreciation expense	3,435		15,430
Gain on early extinguishment of debt	(78,337)	(1,922)	(79,304)
Other operating expenses	69,767	(33,129)	282,095
Income tax expense	2,976	725	6,331

Net income (loss)	$ 65,929	($4,026)	($121,561)
Segment Assets	$5,523,711	($5,168,660)	$35,637,804

For the nine months ended September 30, 2009

(In thousands)	Banco Popular de Puerto Rico	Banco Popular North America	Intersegment Eliminations	Total Reportable Segments
Net interest income	$ 650,679	$ 234,929		$ 885,608
Provision for loan losses	486,343	566,693		1,053,036
Non-interest income	562,466	15,892		578,358
Amortization of intangibles	3,869	2,731		6,600
Depreciation expense	28,463	8,258	($22)	36,699
Loss on early extinguishment of debt	955			955
Other operating expenses	530,174	236,453	(5)	766,622
Income tax benefit	(4,239)	(5,692)	11	(9,920)
Net income (loss)	$ 167,580	($557,622)	$ 16	($390,026)

For the nine months ended September 30, 2009

(In thousands)	Corporate	Eliminations	Popular, Inc.
Net interest (expense) income	($54,489)	$ 816	$ 831,935
Provision for loan losses			1,053,036
Non-interest income	246,245	(103,989)	720,614
Amortization of intangibles	618		7,218
Depreciation expense	12,334		49,033
Gain on early extinguishment of debt	(78,337)	(1,922)	(79,304)
Other operating expenses	210,136	(98,263)	878,495
Income tax benefit	(6,120)	831	(15,209)
Net income (loss)	$ 53,125	($3,819)	($340,720)

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

2010

For the quarter ended September 30, 2010

(In thousands)	Commercial Banking	Consumer and Retail Banking	Other Financial Services	Eliminations	Total Banco Popular de Puerto Rico
Net interest income	$ 164,890	$ 169,401	$ 2,240	$ 49	$ 336,580
Provision for loan losses	155,561	26,592			182,153
Non-interest income	891	65,951	26,321	(226)	92,937
Amortization of intangibles	178	1,244	139		1,561
Depreciation expense	4,482	5,245	297		10,024
Gain on early extinguishment of debt	(27)				(27)
Other operating expenses	71,588	121,229	17,543	(96)	210,264

Income tax (benefit) expense	(25,120)	33,993	4,165	(42)	12,996
Net (loss) income	($40,881)	$ 47,049	$ 6,417	($39)	$ 12,546
Segment Assets	$16,242,839	$22,081,935	$974,816	($8,170,443)	$31,129,147

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For the nine months ended September 30, 2010

(In thousands)	Commercial Banking	Consumer and Retail Banking	Other Financial Services	Eliminations	Total Banco Popular de Puerto Rico
Net interest income	$ 309,391	$471,221	$ 7,130	$ 181	$787,923
Provision for loan losses	306,278	106,514			412,792
Non-interest income	78,922	174,319	74,796	(117)	327,920
Amortization of intangibles	378	3,072	420		3,870
Depreciation expense	12,525	15,668	904		29,097
Loss on early extinguishment of debt	951				951
Other operating expenses	189,590	346,553	48,377	(237)	584,283
Income tax (benefit) expense	(49,300)	63,435	12,055	114	26,304
Net (loss) income	($72,109)	$110,298	$20,170	$ 187	$ 58,546

2009
For the quarter ended September 30, 2009

(In thousands)	Commercial Banking	Consumer and Retail Banking	Other Financial Services	Eliminations	Total Banco Popular de Puerto Rico
Net interest income	$ 77,277	$ 137,340	$ 3,010	$ 123	$ 217,750
Provision for loan losses	98,536	54,814			153,350
Non-interest income	26,565	55,468	27,049	1	109,083
Amortization of intangibles	28	1,079	163		1,270
Depreciation expense	3,785	5,222	309		9,316
Loss on early extinguishment of debt	955				955
Other operating expenses	51,928	107,151	16,405	(72)	175,412
Income tax (benefit) expense	(20,892)	15,970	4,919	80	77
Net (loss) income	($30,498)	$ 8,572	$ 8,263	$ 116	($13,547)
Segment Assets	$10,111,972	$17,189,724	$513,411	($3,946,153)	$23,868,954

For the nine months ended September 30, 2009

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

Net interest income	$ 225,595	$415,427	$ 9,195	$ 462	$650,679
Provision for loan losses	316,005	170,338			486,343
Non-interest income	131,192	357,404	74,313	(443)	562,466
Amortization of intangibles	131	3,190	548		3,869
Depreciation expense	12,518	14,993	952		28,463
Loss on early extinguishment of debt	955				955
Other operating expenses	155,500	327,486	47,393	(205)	530,174
Income tax (benefit) expense	(77,061)	60,739	11,986	97	(4,239)
Net (loss) income	($51,261)	$196,085	$22,629	$ 127	$167,580

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

2010

For the quarter ended September 30, 2010

(In thousands)	Banco Popular North America	E-LOAN	Eliminations	Total Banco Popular North America
Net interest income	$ 76,166	$ 1,299		$ 77,465
Provision for loan losses	42,637	(9,777)		32,860
Non-interest income (loss)	16,703	(3,542)		13,161
Amortization of intangibles	681			681
Depreciation expense	2,129	31		2,160
Loss on early extinguishment of debt	9,725			9,725
Other operating expenses	56,458	1,566		58,024
Income tax (benefit) expense	(931)	2,729		1,798
Net (loss) income	($17,830)	$ 3,208		($14,622)
Segment Assets	$9,985,407	$486,850	($1,143,855)	$9,328,402

For the nine months ended September 30, 2010

(In thousands)	Banco Popular North America	E-LOAN	Eliminations	Total Banco Popular North America
Net interest income	$ 228,206	$ 3,492	($56)	$ 231,642
Provision for loan losses	228,628	16,051		244,679
Non-interest income (loss)	55,770	(10,124)		45,646
Amortization of intangibles	2,501			2,501
Depreciation expense	6,483	558		7,041
Loss on early extinguishment of debt	9,725			9,725
Other operating expenses	181,526	5,049		186,575
Income tax expense	653	2,729		3,382
Net loss	($145,540)	($31,019)	($56)	($176,615)

2009

For the quarter ended September 30, 2009

(In thousands)	Banco Popular North America	E-LOAN	Eliminations	Total Banco Popular North America
Net interest income	$ 76,833	$ 482	$ 273	$ 77,588
Provision for loan losses	143,879	33,834		177,713
Non-interest income (loss)	16,573	(10,129)	(49)	6,395
Amortization of intangibles	910			910

Depreciation expense	2,387	292		2,679
Other operating expenses	67,743	2,302		70,045
Income tax expense	785	1,768		2,553
Net loss	($122,298)	($47,843)	$ 224	($169,917)
Segment Assets	$12,076,358	$ 626,462	($1,259,737)	$11,443,083

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For the nine months ended September 30, 2009

(In thousands)	Banco Popular North America	E-LOAN	Eliminations	Total Banco Popular North America
Net interest income	$ 226,564	$ 7,453	$ 912	$ 234,929
Provision for loan losses	462,254	104,439		566,693
Non-interest income (loss)	43,376	(27,397)	(87)	15,892
Amortization of intangibles	2,731			2,731
Depreciation expense	7,359	899		8,258
Other operating expenses	221,011	15,440	2	236,453
Income tax expense (benefit)	163	(5,855)		(5,692)
Net loss	($423,578)	($134,867)	$ 823	($557,622)

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

Geographic Information

(In thousands)	Quarter ended September 30, 2010	September 30, 2009	Nine months ended September 30, 2010	September 30, 2009
Revenues [1]				
Puerto Rico	$1,074,833	$331,364	$1,761,912	$1,244,649
United States	85,225	79,782	262,197	208,780
Other	23,384	25,287	80,950	99,120
Total consolidated revenues from continuing operations	$1,183,442	$436,433	$2,105,059	$1,552,549

[1] Total revenues include net interest income, service charges on deposit accounts, other service fees, net gain (loss) on sale and valuation adjustments of investment securities, trading account profit (loss), gain (loss) on sale of loans and valuation adjustments on loans held-for-sale, FDIC loss share income (expense), fair value change in equity appreciation instrument, gain on sale of processing and technology business and other operating income.

(In thousands)	September 30, 2010	December 31, 2009	September 30, 2009
Selected Balance Sheet Information: [1]			
Puerto Rico			
Total assets	$30,214,685	$22,480,832	$22,802,274
Loans	17,924,662	14,176,793	14,537,544
Deposits	19,886,771	16,634,123	16,570,569
Mainland United States			
Total assets	$ 9,466,115	$11,033,114	$11,669,207

Loans	7,586,414	8,825,559	9,156,724
Deposits	6,807,054	8,242,604	8,792,328
Other			
Total assets	$ 1,139,916	$ 1,222,379	$ 1,166,323
Loans	752,721	801,557	777,248
Deposits [2]	1,046,219	1,048,167	1,020,001

[1] Does not include balance sheet information of the discontinued operations for the period ended September 30, 2009.

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

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Note 30 Subsequent Events

Subsequent events are events and transactions that occur after the balance sheet date but before financial statements are issued. The effects of subsequent events and transactions are recognized in the financial statements when they provide additional evidence about conditions that existed at the balance sheet date. The Corporation has evaluated events and transactions occurring subsequent to September 30, 2010. Such evaluation resulted in no adjustments or additional disclosures in the consolidated financial statements for the quarter and nine months ended September 30, 2010.

Note 31 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, 2010, December 31, 2009 and September 30, 2009, and the results of their operations and cash flows for periods ended September 30, 2010 and 2009.

PIBI is an operating subsidiary of PIHC and, as of September 30, 2010, is the holding company of its wholly-owned subsidiaries: Popular Insurance V.I., Inc.; EVERTEC DE VENEZUELA, C.A.; and PNA. Prior to the internal reorganization and sale of the ownership interest in EVERTEC discussed in Note 3 to the consolidated financial statements, ATH Costa Rica S.A., and T.I.I. Smart Solutions Inc. were also wholly-owned subsidiaries of PIBI.

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

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

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

The principal source of income for the PIHC consists of dividends from BPPR. As members subject to the regulations of the Federal Reserve System, BPPR and BPNA must obtain the approval of the Federal Reserve Board for any dividend if the total of all dividends declared by each entity during the calendar year would exceed the total of its net income for that year, as defined by the Federal Reserve Board, combined with its retained net income for the preceding two years, less any required transfers to surplus or to a fund for the retirement of any preferred stock. The payment of dividends by BPPR may also be affected by other regulatory requirements and policies, such as the maintenance of certain minimum capital levels. As of September 30, 2010, BPPR could have declared a dividend of approximately $100 million (September 30, 2009 $56 million) without the approval of the Federal Reserve Board. As of December 31, 2009, BPPR was required to obtain the approval of the Federal Reserve Board to declare a dividend. As of September 30, 2010, December 31, 2009 and September 30, 2009, BPNA was required to obtain the approval of the Federal Reserve Board to declare a dividend. The Corporation has never received dividend payments from its U.S. subsidiaries. Refer to Popular, Inc. s Form 10-K for the year ended December 31, 2009 for further information on dividend restrictions imposed by regulatory requirements and policies on the payment of dividends by BPPR and BPNA.

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POPULAR, INC.
CONDENSED CONSOLIDATING STATEMENT OF CONDITION
SEPTEMBER 30, 2010
(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	$ 1,652	$ 368	$ 734	$ 580,530	($2,473)	$ 580,811
Money market investments	164,852	5,907	306	2,023,840	(170,956)	2,023,949
Trading account securities, at fair value				483,192		483,192
Investment securities available-for-sale, at fair value	35,000	3,487		5,721,445	(18,449)	5,741,483
Investment securities held-to-maturity, at amortized cost	210,812	1,000		187,340	(185,000)	214,152
Other investment securities, at lower of cost or realizable value	10,850	1	4,492	142,966		158,309
Investment in subsidiaries	3,868,350	1,033,087	1,507,550		(6,408,987)	
Loans held-for-sale measured at lower of cost or fair value				115,088		115,088
Loans held-in-portfolio:						
Loans not covered under loss sharing agreements with FDIC	590,826	1,516		22,212,059	(555,234)	22,249,167
Loans covered under loss sharing agreements with FDIC				4,006,227		4,006,227
Less Unearned income				106,685		106,685
Allowance for loan losses	60			1,243,934		1,243,994
Total loans held-in-portfolio, net	590,766	1,516		24,867,667	(555,234)	24,904,715

FDIC loss share indemnification asset				3,308,959		3,308,959
Premises and equipment, net	3,076		122	528,651		531,849
Other real estate not covered under loss sharing agreements with the FDIC				168,823		168,823
Other real estate covered under loss sharing agreements with the FDIC				77,516		77,516
Accrued income receivable	179	8	31	160,016	(67)	160,167
Mortgage servicing assets, at fair value				165,947		165,947
Other assets	208,317	81,142	15,533	1,179,288	(24,295)	1,459,985
Goodwill				665,333		665,333
Other intangible assets	554			59,884		60,438
Total assets	$5,094,408	$ 1,126,516	$ 1,528,768	$40,436,485	($7,365,461)	$40,820,716
LIABILITIES AND STOCKHOLDERS EQUITY						
Liabilities:						
Deposits:						
Non-interest bearing				$ 5,397,313	($25,874)	$ 5,371,439
Interest bearing				22,374,886	(6,281)	22,368,605
Total deposits				27,772,199	(32,155)	27,740,044
Federal funds purchased and assets sold under agreements to repurchase				2,522,939	(164,800)	2,358,139
Other short-term borrowings			$ 25,200	691,342	(525,200)	191,342
Notes payable at cost	$ 830,134		430,052	3,884,718	(1,516)	5,143,388
Subordinated notes				185,000	(185,000)	
Other liabilities	155,074	$ 3,183	45,886	1,121,902	(47,442)	1,278,603
Total liabilities	985,208	3,183	501,138	36,178,100	(956,113)	36,711,516
Stockholders equity:						
Preferred stock	50,160					50,160
Common stock	10,229	4,066	2	51,633	(55,701)	10,229
Surplus	4,085,775	3,908,157	3,816,208	5,612,091	(13,327,929)	4,094,302
Accumulated deficit	(122,281)	(2,786,574)	(2,821,556)	(1,526,865)	7,126,468	(130,808)
Treasury stock, at cost	(545)					(545)
	85,862	(2,316)	32,976	121,526	(152,186)	85,862

Accumulated other comprehensive income (loss), net of tax						
Total stockholders equity	4,109,200	1,123,333	1,027,630	4,258,385	(6,409,348)	4,109,200
Total liabilities and stockholders equity	$5,094,408	$ 1,126,516	$ 1,528,768	$40,436,485	($7,365,461)	$40,820,716

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POPULAR, INC.
CONDENSED CONSOLIDATING STATEMENT OF CONDITION
DECEMBER 31, 2009
(UNAUDITED)

(In thousands)	Popular, Inc. Holding Co.	PIBI Holding Co.	PNA Holding Co.	All other subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
ASSETS						
Cash and due from banks	$ 1,174	$ 300	$ 738	$ 677,606	($2,488)	$ 677,330
Money market investments	51	56,144	238	1,002,702	(56,338)	1,002,797
Trading account securities, at fair value				462,436		462,436
Investment securities available-for-sale, at fair value		2,448		6,694,053	(1,787)	6,694,714
Investment securities held-to-maturity, at amortized cost	455,777	1,250		185,935	(430,000)	212,962
Other investment securities, at lower of cost or realizable value	10,850	1	4,492	148,806		164,149
Investment in subsidiaries	3,046,342	733,737	1,156,680		(4,936,759)	
Loans held-for-sale measured at lower of cost or fair value				90,796		90,796
Loans held-in-portfolio	109,632			23,844,455	(126,824)	23,827,263
Less Unearned income				114,150		114,150
Allowance for loan losses	60			1,261,144		1,261,204
Total loans held-in-portfolio, net	109,572			22,469,161	(126,824)	22,451,909
Premises and equipment, net	2,907		125	581,821		584,853
Other real estate	74			125,409		125,483
Accrued income receivable	120	127	132	125,857	(156)	126,080
Mortgage servicing assets, at fair value				169,747		169,747
Other assets	33,828	73,308	21,162	1,244,857	(48,238)	1,324,917

Goodwill				604,349		604,349
Other intangible assets	554			43,249		43,803
Total assets	$3,661,249	$ 867,315	$ 1,183,567	$34,626,784	($5,602,590)	$34,736,325
LIABILITIES AND STOCKHOLDERS EQUITY						
Liabilities:						
Deposits:						
Non-interest bearing				$ 4,497,730	($2,429)	$ 4,495,301
Interest bearing				21,485,931	(56,338)	21,429,593
Total deposits				25,983,661	(58,767)	25,924,894
Assets sold under agreements to repurchase				2,632,790		2,632,790
Other short-term borrowings	$ 24,225		$ 700	107,226	(124,825)	7,326
Notes payable at cost	1,064,462		433,846	1,152,324	(2,000)	2,648,632
Subordinated notes				430,000	(430,000)	
Other liabilities	33,745	$ 40	45,547	954,525	(49,991)	983,866
Total liabilities	1,122,432	40	480,093	31,260,526	(665,583)	32,197,508
Stockholders equity:						
Preferred stock	50,160					50,160
Common stock	6,395	3,961	2	52,322	(56,285)	6,395
Surplus	2,797,328	3,437,437	3,321,208	4,637,181	(11,388,916)	2,804,238
Accumulated deficit	(285,842)	(2,541,802)	(2,627,520)	(1,329,311)	6,491,723	(292,752)
Treasury stock, at cost	(15)					(15)
Accumulated other comprehensive (loss) income, net of tax	(29,209)	(32,321)	9,784	6,066	16,471	(29,209)
Total stockholders equity	2,538,817	867,275	703,474	3,366,258	(4,937,007)	2,538,817
Total liabilities and stockholders equity	$3,661,249	$ 867,315	$ 1,183,567	$34,626,784	($5,602,590)	$34,736,325

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

(In thousands)	Popular, Inc. Holding Co.	PIBI Holding Co.	PNA Holding Co.	All other subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
ASSETS						
Cash and due from banks	$ 958	$ 7,688	$ 381	$ 607,134	($9,300)	$ 606,861
Money market investments	10,050	47,439	411	1,098,734	(57,811)	1,098,823
Trading account securities, at fair value				446,368		446,368
Investment securities available-for-sale, at fair value		3,643		6,991,597	(1,949)	6,993,291
Investment securities held-to-maturity, at amortized cost	455,769	1,250		185,931	(430,000)	212,950
Other investment securities, at lower of cost or realizable value	10,850	1	4,492	159,600		174,943
Investment in subsidiaries	3,182,664	782,962	1,195,929		(5,161,555)	
Loans held-for-sale measured at lower of cost or fair value				75,447		75,447
Loans held-in-portfolio	171,906		4,600	24,528,725	(192,265)	24,512,966
Less Unearned income				116,897		116,897
Allowance for loan losses	60			1,207,341		1,207,401
Total loans held-in-portfolio, net	171,846		4,600	23,204,487	(192,265)	23,188,668
Premises and equipment, net	3,074		125	586,393		589,592
Other real estate	74			129,411		129,485
Accrued income receivable	143	178	52	131,568	(196)	131,745

Mortgage servicing assets, at fair value				180,335		180,335
Other assets	42,384	70,624	20,336	1,053,602	(30,225)	1,156,721
Goodwill				606,508		606,508
Other intangible assets	554			45,513		46,067
Total assets	$3,878,366	$ 913,785	$ 1,226,326	$35,502,628	($5,883,301)	$35,637,804
LIABILITIES AND STOCKHOLDERS EQUITY						
Liabilities:						
Deposits:						
Non-interest bearing				$ 4,291,058	($9,241)	$ 4,281,817
Interest bearing				22,158,892	(57,811)	22,101,081
Total deposits				26,449,950	(67,052)	26,382,898
Federal funds purchased and assets sold under agreements to repurchase				2,807,891		2,807,891
Other short-term borrowings	$ 26,215			167,127	(190,265)	3,077
Notes payable at cost	1,059,645		$ 434,277	1,157,899	(2,000)	2,649,821
Subordinated notes				430,000	(430,000)	
Other liabilities	50,050	$ 78	37,878	996,043	(32,388)	1,051,661
Total liabilities	1,135,910	78	472,155	32,008,910	(721,705)	32,895,348
Stockholders equity:						
Preferred stock	50,160					50,160
Common stock	6,395	3,961	2	52,322	(56,285)	6,395
Surplus	2,787,750	3,292,438	3,176,208	4,495,509	(10,957,245)	2,794,660
Accumulated deficit	(62,615)	(2,353,525)	(2,435,062)	(1,062,519)	5,844,196	(69,525)
Treasury stock, at cost	(11)					(11)
Accumulated other comprehensive (loss) income, net of tax	(39,223)	(29,167)	13,023	8,406	7,738	(39,223)
Total stockholders equity	2,742,456	913,707	754,171	3,493,718	(5,161,596)	2,742,456
Total liabilities and stockholders equity	$3,878,366	$ 913,785	$ 1,226,326	$35,502,628	($5,883,301)	$35,637,804

POPULAR, INC.
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE QUARTER ENDED SEPTEMBER 30, 2010
(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	$ 80,700				($80,700)	
Loans	1,217			$ 484,729	(1,063)	$ 484,883
Money market investments	2	$ 15		1,391	(17)	1,391
Investment securities	5,673	7	$ 81	56,848	(5,332)	57,277
Trading account securities				7,136		7,136
Total interest and dividend income	87,592	22	81	550,104	(87,112)	550,687
INTEREST EXPENSE:						
Deposits				86,346	(16)	86,330
Short-term borrowings	8		185	15,816	(1,064)	14,945
Long-term debt	26,485		7,635	33,868	(5,494)	62,494
Total interest expense	26,493		7,820	136,030	(6,574)	163,769
Net interest income (expense)	61,099	22	(7,739)	414,074	(80,538)	386,918
Provision for loan losses				215,013		215,013
Net interest income (expense) after provision for loan losses	61,099	22	(7,739)	199,061	(80,538)	171,905
Service charges on deposit accounts				48,608		48,608
Other service fees				100,029	793	100,822
Net gain on sale and valuation adjustments				3,732		3,732

of investment securities						
Trading account profit				5,860		5,860
Loss on sale of loans, including adjustments to indemnity reserves, and valuation adjustments on loans held-for-sale				(1,573)		(1,573)
FDIC loss share expense				(36,936)		(36,936)
Fair value change in equity appreciation instrument				10,641		10,641
Gain on sale of processing and technology business	640,802					640,802
Other operating (loss) income	(18)	3,370	(2,166)	25,772	(2,390)	24,568
Total non-interest income (loss)	640,784	3,370	(2,166)	156,133	(1,597)	796,524
OPERATING EXPENSES:						
Personnel costs:						
Salaries	2,843	91		113,492		116,426
Pension and other benefits	704	11		24,064		24,779
Total personnel costs	3,547	102		137,556		141,205
Net occupancy expenses	689	8	1	27,727		28,425
Equipment expenses	708	1		24,723		25,432
Other taxes	513			13,359		13,872
Professional fees	19,151	3	3	29,645	(578)	48,224
Communications	127	5	5	9,377		9,514
Business promotion	221			11,039		11,260
Printing and supplies	18			2,858		2,876
FDIC deposit insurance				17,183		17,183
Loss on early extinguishment of debt	15,750			9,698		25,448
Other operating expenses	(2,926)	(100)	108	49,024	(409)	45,697
Amortization of intangibles				2,411		2,411
Total operating expenses	37,798	19	117	334,600	(987)	371,547

Income (loss) before income tax and equity in losses of subsidiaries	664,085	3,373	(10,022)	20,594	(81,148)	596,882
Income tax expense (benefit)	84,664	1,335	(297)	16,495	191	102,388
Income (loss) before equity in losses of subsidiaries	579,421	2,038	(9,725)	4,099	(81,339)	494,494
Equity in undistributed losses of subsidiaries	(84,927)	(24,235)	(14,330)		123,492	
NET INCOME (LOSS)	$494,494	($22,197)	($24,055)	$ 4,099	$ 42,153	$494,494

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

(In thousands)	Popular, Inc. Holding Co.	PIBI Holding Co.	PNA Holding Co.	All other subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
INTEREST AND DIVIDEND INCOME:						
Dividend income from subsidiaries		$ 7,500	$ 15,000		($22,500)	
Loans	$ 1,995		2	$ 371,173	(1,804)	$ 371,366
Money market investments	14	331		1,511	(346)	1,510
Investment securities	8,469	11	175	72,613	(6,908)	74,360
Trading account securities				7,227		7,227
Total interest and dividend income	10,478	7,842	15,177	452,524	(31,558)	454,463
INTEREST EXPENSE:						
Deposits				119,280	(339)	118,941
Short-term borrowings	28		15	17,892	(1,793)	16,142
Long-term debt	19,917		10,524	19,757	(7,207)	42,991
Total interest expense	19,945		10,539	156,929	(9,339)	178,074
Net interest (expense) income	(9,467)	7,842	4,638	295,595	(22,219)	276,389
Provision for loan losses				331,063		331,063
Net interest (expense) income after provision for loan losses	(9,467)	7,842	4,638	(35,468)	(22,219)	(54,674)
Service charges on deposit accounts				54,208		54,208
Other service fees				101,240	(3,626)	97,614
Net gain (loss) on sale and valuation	2,058	(3,574)		(5,485)	(2,058)	(9,059)

adjustments of investment securities						
Trading account profit				7,579		7,579
Loss on sale of loans and valuation adjustments on loans held-for-sale				(8,728)		(8,728)
Other operating (loss) income	(7)	4,440	3,076	13,471	(2,550)	18,430
Total non-interest income	2,051	866	3,076	162,285	(8,234)	160,044
OPERATING EXPENSES:						
Personnel costs:						
Salaries	6,543	83		97,190	(994)	102,822
Pension and other benefits	2,109	11		25,629	(24)	27,725
Total personnel costs	8,652	94		122,819	(1,018)	130,547
Net occupancy expenses	659	7		27,603		28,269
Equipment expenses	1,178			23,805		24,983
Other taxes	855			12,254		13,109
Professional fees	4,034	3	3	25,868	(1,214)	28,694
Communications	115	6	5	11,776		11,902
Business promotion	222			8,683		8,905
Printing and supplies	19			2,838		2,857
FDIC deposit insurance				16,506		16,506
Gain on early extinguishment of debt				(77,381)	(1,923)	(79,304)
Other operating expenses	(41,604)	(100)	(51,786)	125,664	(421)	31,753
Amortization of intangibles				2,379		2,379
Total operating expenses	(25,870)	10	(51,778)	302,814	(4,576)	220,600
Income (loss) before income tax and equity in losses of subsidiaries	18,454	8,698	59,492	(175,997)	(25,877)	(115,230)
Income tax expense (benefit)	350	17	(32)	5,303	693	6,331
	18,104	8,681	59,524	(181,300)	(26,570)	(121,561)

Income (loss) before equity in losses of subsidiaries						
Equity in undistributed losses of subsidiaries	(139,665)	(135,566)	(188,234)		463,465	
Loss from continuing operations	(121,561)	(126,885)	(128,710)	(181,300)	436,895	(121,561)
Loss from discontinued operations, net of income tax				(3,427)		(3,427)
Equity in undistributed losses of discontinued operations	(3,427)	(3,427)	(3,427)		10,281	
NET LOSS	($124,988)	($130,312)	($132,137)	($184,727)	$ 447,176	($124,988)

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POPULAR, INC.
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010
(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	$ 168,100	$ 7,500			($175,600)	
Loans	4,301			$1,224,330	(3,785)	$1,224,846
Money market investments	52	237	$ 1	4,326	(290)	4,326
Investment securities	19,113	24	242	183,761	(18,022)	185,118
Trading account securities				20,313		20,313
Total interest and dividend income	191,566	7,761	243	1,432,730	(197,697)	1,434,603
INTEREST EXPENSE:						
Deposits				270,157	(238)	269,919
Short-term borrowings	46		307	49,225	(3,822)	45,756
Long-term debt	86,231		22,960	93,450	(18,524)	184,117
Total interest expense	86,277		23,267	412,832	(22,584)	499,792
Net interest income (expense)	105,289	7,761	(23,024)	1,019,898	(175,113)	934,811
Provision for loan losses				657,471		657,471
Net interest income (expense) after provision for loan losses	105,289	7,761	(23,024)	362,427	(175,113)	277,340
Service charges on deposit accounts				149,865		149,865
Other service fees				307,677	(1,810)	305,867
				4,210		4,210

Net gain on sale and valuation adjustments of investment securities						
Trading account profit				8,101		8,101
Loss on sale of loans, including adjustments to indemnity reserves, and valuation adjustments on loans held-for-sale				(23,106)		(23,106)
FDIC loss share expense				(13,602)		(13,602)
Fair value change in equity appreciation instrument				35,035		35,035
Gain on sale of processing and technology business	640,802					640,802
Other operating income (loss)	1,198	14,931	(3,640)	54,199	(3,612)	63,076
Total non-interest income (loss)	642,000	14,931	(3,640)	522,379	(5,422)	1,170,248
OPERATING EXPENSES:						
Personnel costs:						
Salaries	13,806	282		307,716	(381)	321,423
Pension and other benefits	2,274	39		76,451	(18)	78,746
Total personnel costs	16,080	321		384,167	(399)	400,169
Net occupancy expenses	2,096	26	2	84,235		86,359
Equipment expenses	2,148	1		72,082		74,231
Other taxes	1,337			37,298		38,635
Professional fees	26,103	10	9	85,194	(1,818)	109,498
Communications	360	16	10	31,242		31,628
Business promotion	663			29,096		29,759
Printing and supplies	58			7,840		7,898
FDIC deposit insurance				49,894		49,894
Loss on early extinguishment of debt	15,750			10,676		26,426
Other operating expenses	(26,014)	(299)	324	146,812	(1,359)	119,464
				6,915		6,915

Amortization of intangibles						
Total operating expenses	38,581	75	345	945,451	(3,576)	980,876
Income (loss) before income tax and equity in losses of subsidiaries	708,708	22,617	(27,009)	(60,645)	(176,959)	466,712
Income tax expense (benefit)	83,025	3,136	(297)	26,864	373	113,101
Income (loss) before equity in losses of subsidiaries	625,683	19,481	(26,712)	(87,509)	(177,332)	353,611
Equity in undistributed losses of subsidiaries	(272,072)	(200,353)	(167,324)		639,749	
NET INCOME (LOSS)	$ 353,611	($180,872)	($194,036)	($87,509)	$ 462,417	$ 353,611

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

(In thousands)	Popular, Inc. Holding Co.	PIBI Holding Co.	PNA Holding Co.	All other subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
INTEREST AND DIVIDEND INCOME:						
Dividend income from subsidiaries	$ 73,625	$ 7,500	$ 15,000		($96,125)	
Loans	7,756		41	$ 1,154,719	(7,138)	$ 1,155,378
Money market investments	105	923	2,156	7,026	(3,186)	7,024
Investment securities	29,943	59	622	213,976	(20,939)	223,661
Trading account securities				28,638		28,638
Total interest and dividend income	111,429	8,482	17,819	1,404,359	(127,388)	1,414,701
INTEREST EXPENSE:						
Deposits				398,515	(3,083)	395,432
Short-term borrowings	125		42	60,496	(7,187)	53,476
Long-term debt	45,867		50,880	58,919	(21,808)	133,858
Total interest expense	45,992		50,922	517,930	(32,078)	582,766
Net interest income (expense)	65,437	8,482	(33,103)	886,429	(95,310)	831,935
Provision for loan losses				1,053,036		1,053,036
Net interest income (expense) after provision for loan losses	65,437	8,482	(33,103)	(166,607)	(95,310)	(221,101)
Service charges on deposit accounts				161,412		161,412
Other service fees				304,544	(5,960)	298,584
	3,008	(10,163)		230,005	(2,058)	220,792

Net gain (loss) on sale and valuation adjustments of investment securities						
Trading account profit				31,241		31,241
Loss on sale of loans and valuation adjustments on loans held-for-sale				(35,994)		(35,994)
Other operating income (loss)	676	12,799	(423)	35,197	(3,670)	44,579
Total non-interest income (loss)	3,684	2,636	(423)	726,405	(11,688)	720,614
OPERATING EXPENSES:						
Personnel costs:						
Salaries	18,255	272		297,691	(994)	315,224
Pension and other benefits	6,404	46		90,394	(24)	96,820
Total personnel costs	24,659	318		388,085	(1,018)	412,044
Net occupancy expenses	1,947	22	2	78,763		80,734
Equipment expenses	2,752		3	73,534		76,289
Other taxes	2,698			36,671		39,369
Professional fees	11,025	10	(58)	73,547	(3,881)	80,643
Communications	331	15	18	35,751		36,115
Business promotion	728			26,033		26,761
Printing and supplies	54			8,610		8,664
FDIC deposit insurance				61,954		61,954
Gain on early extinguishment of debt				(77,381)	(1,923)	(79,304)
Other operating expenses	(65,059)	(300)	(51,768)	223,341	(1,259)	104,955
Amortization of intangibles				7,218		7,218
Total operating expenses	(20,865)	65	(51,803)	936,126	(8,081)	855,442
Income (loss) before income tax and equity in losses of subsidiaries	89,986	11,053	18,277	(376,328)	(98,917)	(355,929)
Income tax (benefit) expense	(876)	46	324	(15,611)	908	(15,209)

Income (loss) before equity in losses of subsidiaries	90,862	11,007	17,953	(360,717)	(99,825)	(340,720)
Equity in undistributed losses of subsidiaries	(431,582)	(547,385)	(567,624)		1,546,591	
Loss from continuing operations	(340,720)	(536,378)	(549,671)	(360,717)	1,446,766	(340,720)
Loss from discontinued operations, net of income tax				(19,972)		(19,972)
Equity in undistributed losses of discontinued operations	(19,972)	(19,972)	(19,972)		59,916	
NET LOSS	($360,692)	($556,350)	($569,643)	($380,689)	$1,506,682	($360,692)

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POPULAR, INC.
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 (UNAUDITED)

(In thousands)	Popular, Inc. Holding Co.	PIBI Holding Co.	PNA Holding Co.	All other subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
Cash flows from operating activities:						
Net income (loss)	$ 353,611	($180,872)	($194,036)	($87,509)	$ 462,417	$ 353,611
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:						
Equity in undistributed losses of subsidiaries	272,072	200,353	167,324		(639,749)	
Depreciation and amortization of premises and equipment	587		2	46,495		47,084
Provision for loan losses				657,471		657,471
Amortization of intangibles				6,915		6,915
Fair value adjustment of mortgage servicing rights				19,959		19,959
Net amortization of premiums and deferred fees (accretion of discounts)	15,636		206	(165,932)	(487)	(150,577)
Net gain on sale and valuation adjustment of investment securities				(4,210)		(4,210)
Fair value change in equity appreciation instrument				(35,035)		(35,035)
FDIC loss share expense				13,602		13,602
Net loss (gain) on disposition of premises and equipment	8			(2,001)		(1,993)
Net loss on sale of loans and valuation adjustments on loans held-for-sale				23,106		23,106
Loss on early extinguishment of debt	15,750			10,676		26,426
Gain on sale of processing and technology businesses, net of transaction costs	(616,186)					(616,186)
(Earnings) losses from investments under the equity method	(1,198)	(14,931)	3,640	(2,354)	(1,301)	(16,144)
	11,411			(11,363)	2,410	2,458

Deferred income taxes, net of valuation						
Net disbursements on loans held-for-sale				(494,312)		(494,312)
Acquisitions of loans held-for-sale				(213,897)		(213,897)
Proceeds from sale of loans held-for-sale				57,831		57,831
Net decrease in trading securities				565,611		565,611
Net (increase) decrease in accrued income receivable	(59)	118	102	1,733	(88)	1,806
Net decrease in other assets	2,918	5,669	1,987	19,999	(25,052)	5,521
Net (decrease) increase in interest payable	(3,778)		2,082	(32,951)	88	(34,559)
Net increase in postretirement benefit obligation				1,825		1,825
Net increase (decrease) in other liabilities	52,804	3,144	(1,743)	39,235	2,462	95,902
Total adjustments	(250,035)	194,353	173,600	502,403	(661,717)	(41,396)
Net cash provided by (used in) operating activities	103,576	13,481	(20,436)	414,894	(199,300)	312,215
Cash flows from investing activities:						
Net (increase) decrease in money market investments	(164,801)	50,237	(68)	(924,899)	114,618	(924,913)
Purchases of investment securities:						
Available-for-sale	(34,500)			(671,328)	17,150	(688,678)
Held-to-maturity	(26,927)			(25,271)		(52,198)
Other				(44,021)		(44,021)
Proceeds from calls, paydowns, maturities and redemptions of investment securities:						
Available-for-sale				1,329,390		1,329,390
Held-to-maturity	271,928	250		23,889	(245,000)	51,067
Other				108,470		108,470
Proceeds from sale of investment securities available-for-sale				396,676		396,676
Net (disbursements) repayments on loans	(481,194)			1,347,236	426,893	1,292,935
Proceeds from sale of loans				15,908		15,908
Acquisition of loan portfolios				(130,488)		(130,488)

Capital contribution to subsidiary	(1,095,000)	(495,000)	(495,000)		2,085,000	
Cash received from acquisitions				261,311		261,311
Net proceeds from sale of processing and technology businesses	617,976			24,346		642,322
Mortgage servicing rights purchased				(598)		(598)
Acquisition of premises and equipment	(878)			(39,458)		(40,336)
Proceeds from sale of premises and equipment	116			13,387		13,503
Proceeds from sale of foreclosed assets	74			120,338		120,412
Net cash (used in) provided by investing activities	(913,206)	(444,513)	(495,068)	1,804,888	2,398,661	2,350,762

POPULAR, INC.
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS CONTINUED
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 (UNAUDITED)

(In thousands)	Popular, Inc. Holding Co.	PIBI Holding Co.	PNA Holding Co.	All other subsidiaries and eliminations	All other Elimination entries	Popular, Inc. Consolidated
Cash flows from financing activities:						
Net decrease in deposits				(601,350)	26,611	(574,739)
Net decrease in assets sold under agreements to repurchase				(109,851)	(164,800)	(274,651)
Net (decrease) increase in other short-term borrowings	(24,225)		24,500	584,116	(400,375)	184,016
Payments of notes payable and subordinated notes	(250,000)		(4,000)	(3,274,449)	247,000	(3,281,449)
Proceeds from issuance of notes payable				111,101		111,101
Prepayment penalties paid on cancellation of debt	(15,750)			(9,725)		(25,475)
Net proceeds from issuance of depository shares	1,100,613				1,618	1,102,231
Dividends paid to parent company		(63,900)		(111,700)	175,600	
Treasury stock acquired	(530)					(530)
Capital contribution from parent		495,000	495,000	1,095,000	(2,085,000)	
Net cash provided by (used in) financing activities	810,108	431,100	515,500	(2,316,858)	(2,199,346)	(2,759,496)
Net increase (decrease) in cash and due from banks	478	68	(4)	(97,076)	15	(96,519)
Cash and due from banks at beginning of period	1,174	300	738	677,606	(2,488)	677,330

Cash and due from banks at end of period	$	1,652	$	368	$	734	$	580,530	($2,473)	$	580,811

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

(In thousands)	Popular, Inc. Holding Co.	PIBI Holding Co.	PNA Holding Co.	All other subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
Cash flows from operating activities:						
Net loss	($360,692)	($556,350)	($569,643)	($380,689)	$ 1,506,682	($360,692)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:						
Equity in undistributed losses of subsidiaries	451,554	567,357	587,596		(1,606,507)	
Depreciation and amortization of premises and equipment	1,369		2	47,662		49,033
Provision for loan losses				1,053,036		1,053,036
Amortization of intangibles				7,218		7,218
Amortization and fair value adjustment of servicing assets				17,598		17,598
Net (accretion of discounts) amortization of premiums and deferred fees	2,291			48,430	(108)	50,613
Net (gain) loss on sale and valuation adjustment of investment securities	(3,008)	10,163		(230,005)	2,058	(220,792)
Gains from changes in fair value related to instruments measured at fair value pursuant to SFAS No. 159				(1,674)		(1,674)
Net loss (gain) on disposition of premises and	2,943			(1,247)		1,696

equipment						
Net loss on sale of loans and valuation adjustments on loans held-for-sale				41,202		41,202
(Gain) loss on early extinguishment of debt	(26,439)		(51,898)	955	(1,922)	(79,304)
(Earnings) losses from investments under the equity method	(676)	(12,799)	423	47	(1,302)	(14,307)
Stock options expense	69			93		162
Deferred income taxes, net of valuation	(876)		31	(76,800)	1,201	(76,444)
Net disbursements on loans held-for-sale				(919,719)		(919,719)
Acquisitions of loans held-for-sale				(280,243)		(280,243)
Proceeds from sale of loans held-for-sale				65,258		65,258
Net decrease in trading securities				1,302,093		1,302,093
Net decrease in accrued income receivable	890	296	1,809	23,839	(1,899)	24,935
Net decrease in other assets	7,799	5,796	976	58,671	(46,307)	26,935
Net increase (decrease) in interest payable	2,374		(9,497)	(52,539)	1,899	(57,763)
Net increase in postretirement benefit obligation				3,652		3,652
Net increase (decrease) in other liabilities	5,633	(39)	(20,311)	33,972	46,176	65,431
Total adjustments	443,923	570,774	509,131	1,141,499	(1,606,711)	1,058,616
Net cash provided by (used in) operating activities	83,231	14,424	(60,512)	760,810	(100,029)	697,924
Cash flows from investing activities:						
Net decrease (increase) in money market investments	79,643	(6,825)	449,835	(304,212)	(522,610)	(304,169)

Purchases of investment securities:						
Available-for-sale	(249,603)			(4,047,796)	191,484	(4,105,915)
Held-to-maturity	(51,539)			(3,023)		(54,562)
Other				(36,601)		(36,601)
Proceeds from calls, paydowns, maturities and redemptions of investment securities:						
Available-for-sale	14,226			1,247,575		1,261,801
Held-to-maturity	27,318			109,217		136,535
Other				62,480		62,480
Proceeds from sale of investment securities available-for-sale	426,666			3,590,320	(191,484)	3,825,502
Proceeds from sale of other investment securities				52,294		52,294
Net repayments on loans	655,305		8,200	679,468	(676,355)	666,618
Proceeds from sale of loans				325,414		325,414
Acquisition of loan portfolios				(37,965)		(37,965)
Capital contribution to subsidiary	(795,000)	(795,000)	(445,000)		2,035,000	
Transfer of shares of a subsidiary	(42,971)		42,971			
Mortgage servicing rights purchased				(1,029)		(1,029)
Acquisition of premises and equipment	(268)			(55,357)		(55,625)
Proceeds from sale of premises and equipment	14,938			21,167		36,105
Proceeds from sale of foreclosed assets	47			107,673		107,720
Net cash provided by (used in) investing activities	78,762	(801,825)	56,006	1,709,625	836,035	1,878,603

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POPULAR, INC.
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS CONTINUED
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009 (UNAUDITED)

(In thousands)	Popular, Inc. Holding Co.	PIBI Holding Co.	PNA Holding Co.	All other subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
Cash flows from financing activities:						
Net decrease in deposits				(1,591,464)	424,356	(1,167,108)
Net decrease in federal funds purchased and assets sold under agreements to repurchase	(44,471)			(788,926)	89,680	(743,717)
Net decrease in other short-term borrowings	(16,553)		(500)	(661,159)	676,355	(1,857)
Payments of notes payable			(798,380)	(8,622)		(807,002)
Proceeds from issuance of notes payable			1,099	60,001		61,100
Dividends paid to parent company				(96,125)	96,125	
Dividends paid	(71,438)					(71,438)
Issuance costs and fees paid on exchange of preferred stock and trust preferred securities	(28,562)				3,944	(24,618)
Treasury stock acquired	(13)					(13)
Capital contribution from parent		795,000	795,000	445,000	(2,035,000)	
Net cash (used in) provided by financing activities	(161,037)	795,000	(2,781)	(2,641,295)	(744,540)	(2,754,653)
Net increase (decrease) in cash and due from banks	956	7,599	(7,287)	(170,860)	(8,534)	(178,126)

Cash and due from banks at beginning of period	2	89	7,668	777,994	(766)	784,987
Cash and due from banks at end of period	$ 958	$ 7,688	$ 381	$ 607,134	($9,300)	$ 606,861

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

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

OVERVIEW

The Corporation is a diversified, publicly owned financial holding company subject to the supervision and regulation of the Board of Governors of the Federal Reserve System. The Corporation has operations in Puerto Rico, the United States, the Caribbean and Latin America. In Puerto Rico, the Corporation provides retail and commercial banking services through its principal banking subsidiary, Banco Popular de Puerto Rico (BPPR), as well as auto and equipment leasing and financing, mortgage loans, investment banking, broker-dealer and insurance services through specialized subsidiaries. In the United States, the Corporation operates Banco Popular North America (BPNA), including its wholly-owned subsidiary E-LOAN. BPNA is a community bank providing a broad range of financial services and products to the communities it serves. BPNA operates branches in New York, California, Illinois, New Jersey and Florida. E-LOAN markets deposit accounts under its name for the benefit of BPNA. The Corporation has a 49% interest in EVERTEC, which provides transaction processing services throughout the Caribbean and Latin America.

The Overview section that follows provides a description of two significant transactions that impacted the Corporation s operations during 2010, namely the Westernbank FDIC-assisted transaction in the second quarter of 2010 and the sale of 51% interest in its former subsidiary EVERTEC in the third quarter of 2010.

The Corporation reported net income of $494.5 million for the quarter ended September 30, 2010, compared with a net loss of $125.0 million for the quarter ended September 30, 2009. For the nine months ended September 30, 2010, the Corporation s net income totaled $353.6 million, compared to a net loss of $360.7 million for the same period in 2009. Table A provides selected financial data and performance indicators for the quarters ended September 30, 2010 and 2009.

As discussed in further detail below, the financial results for the third quarter were mostly impacted by the following factors:

- An after-tax gain of $531.0 million, net of transaction costs, on the sale of a 51% interest in EVERTEC;

- Net interest income reflects a $78.5 million discount accretion on covered loans acquired in the Westernbank FDIC-assisted transaction that are accounted for under ASC Subtopic 310-20 due to their revolving characteristics. This was offset in part by a reduction in non-interest income resulting from the reduction of the FDIC indemnification asset for approximately 80% of the discount accreted on ASC Subtopic 310-20 covered loans. Also, net interest income for the quarter ended September 30, 2010 included $56.5 million of discount accretion on covered loans accounted for under ASC Subtopic 310-30;

- Operating expenses reflect $25.4 million of prepayment penalties or premiums mostly to extinguish high cost debt;

- While net charge-offs and the provision for loan losses decreased significantly as compared to the third quarter of 2009, they increased from the second quarter of 2010. Net charge-offs and the provision for loan losses in the Corporation s U.S. mainland operations declined when compared to the second quarter reflecting continued improvement in credit quality for the Corporation s U.S. operations. The Corporation s Puerto Rico operations reflected increased net charge-offs and provision for loan losses, primarily related to continued losses in the construction and commercial loan portfolios.

Key Events and Third Quarter Milestones:

On September 30, 2010, the Corporation completed the sale of a majority interest in its processing and technology business EVERTEC, including the businesses transferred in an internal reorganization as discussed in Note 3 to the

consolidated financial statements. Under the terms of the sale, an unrelated third party acquired a 51% interest in EVERTEC for cash under a leverage buy-out. The Corporation retained the remaining 49% interest. The Corporation s investment in EVERTEC is currently accounted for under the equity method and the investment amounted to $177 million as of September 30, 2010, which is included in other assets in the consolidated statement of condition. As a result of the sale, the Corporation recognized a pre-tax gain, net of transaction costs, of approximately $616.2 million ($531.0 million after-tax), of which $640.8 million was separately disclosed within non-interest income in the consolidated statement of operations and $24.6 million are included as operating expenses (transaction costs). In connection with the sale, Popular entered into various agreements including a master services agreement pursuant to which EVERTEC will continue providing various processing and information technology services to Popular, BPPR, and their respective subsidiaries. The net cash proceeds received by the Corporation after transaction costs and taxes were approximately $528.6 million. The sale had a positive impact of approximately 2.19% on Tier 1 Common, 2.31% on Tier 1 Capital and Total Capital ratios, and of approximately 1.20% on Popular s Tier 1 Leverage ratio. This transaction completes the Corporation s capital plan. The capital raise was agreed with the Corporation s regulators as a condition to be eligible to participate in the FDIC-assisted transaction. In April 2010, Popular raised $1.1 billion in a public equity offering, which when combined with the gain in the EVERTEC transaction, resulted in $1.6 billion in additional capital. Refer to Tables A and J of this MD&A for information on the Corporation s capital ratios.

Also, in August 2010, Popular successfully completed the Westernbank s systems and branch conversions. All retail and commercial accounts were converted to Popular s applications. Refer to the Westernbank FDIC-assisted Transaction section in this Overview section for a description of the assets acquired and liabilities assumed. Out of the estimated 1,440 full-time equivalent employees (FTEs) that Westernbank had at the time of acquisition, the Corporation has hired to date close to 816 FTEs. The Corporation retained a limited number of the branches, some of which were consolidated with existing branches of BPPR.

The Corporation s operations in Puerto Rico continue to experience high level of charge-offs in the commercial and construction loan portfolios principally due to reductions in real estate collateral values. Credit management has remained a primary area of focus in the BPPR reportable segment, principally in the commercial and construction lending areas. The BPPR reportable segment reported net income of $12.5 million for the quarter ended September 30, 2010, compared with a net loss of $13.5 million for the same quarter of 2009. The provision for loan losses of the BPPR reportable segment amounted to $182.2 million for the quarter ended September 30, 2010, compared with $153.4 million in the third quarter of 2009. As compared with the quarter ended June 30, 2010, the provision for loan losses for the quarter ended September 30, 2010 increased by $59.9 million.

Given the challenging economic environment in Puerto Rico, the Corporation s credit metrics for its Puerto Rico operations will remain under pressure for the rest of 2010, particularly with respect to mortgage related assets. The economy on the Island has remained sluggish during 2010 and job creation continues to be a challenge. The government administration has taken a pragmatic approach toward a turnaround, reducing the budget deficit by close to 60% through difficult yet necessary cost-cutting initiatives. In September 2010, the Puerto Rico government signed into law an aggressive housing incentive package, providing a much needed jolt to the residential housing market. The whole package is generous, targets primarily new homes but also benefits existing ones, and has a ten-month sunset, which should create a sense of urgency. The program reduces cash outlays at closing and grants significant tax exemptions, such as no capital gain tax in the future sale of an acquired new home, no tax on rental income for 10 years and no property taxes for 5 years on new homes. Following the enactment of this new law, the Corporation has seen an increase in interest among potential buyers, evidenced by a significant increase in the signing of new options agreements, which are indicative of future sales activity.

In the U.S. mainland, management remains focused on managing legacy assets and improving the performance of BPNA s core banking business. The credit performance of BPNA has improved, resulting in a reduction in the provision for loan losses for the third quarter of 2010 of $144.9 million compared with the third quarter of 2009 and $47.1 million compared with the second quarter of 2010. BPNA s reportable segment reported a net loss of $14.6 million in the quarter ended September 30, 2010, compared with net losses of $169.9 million in the same quarter of 2009. Net charge-offs in the U.S. operations for the third quarter of 2010 fell below $100 million for the

first time since the third quarter of 2008 and marked the third consecutive quarter in which loan losses have declined. The U.S. operations have followed the general credit trends on the mainland demonstrating progressive improvement; nonetheless, credit quality continues to be closely monitored. BPNA s provision for loan losses in the

third quarter of 2009 was more than five times larger than what it was in the quarter ended September 30, 2010. BPNA s top line income has remained steady. Management is working on increasing BPNA s customer base as it moves from being mainly a Hispanic bank to a more broad-based community bank. To that end, in July 2010, the Corporation launched a rebranding pilot program in Illinois changing the name of the bank from Banco Popular North America to Popular Community Bank in order to appeal to a broader demographic group.

The discussion that follows provides highlights of the Corporation s results of operations for the quarter ended September 30, 2010 compared to the results of operations for the same quarter in 2009. It also provides some highlights with respect to the Corporation s financial condition, credit quality, capital and liquidity.

Financial highlights:

Net interest income for the third quarter of 2010 increased $110.5 million, compared with the third quarter of 2009. The net interest margin on a taxable equivalent basis increased from 3.51% for the quarter ended September 30, 2009 to 4.52% for the quarter ended September 30, 2010. The improvement in the net interest margin was mainly influenced by the discount accretion on the Westernbank acquired loan portfolio, which totaled $135.0 million for the third quarter of 2010. The higher yield in earning assets was accompanied with a reduction in the cost of deposits. The favorable variance from the acquired covered loans was partially offset by a decline in the average volume of non-covered loans, principally in the commercial and consumer portfolios, and in investment securities.

The provision for loan losses for the quarter ended September 30, 2010 decreased by $116.1 million compared with the same quarter in the previous year. This decrease was mainly the result of higher amounts provisioned during 2009, particularly for commercial and construction loans, U.S. mainland non-conventional residential mortgage loans and home equity lines of credit, combined with specific reserves recorded for loans considered impaired. The deteriorated conditions of the Puerto Rico and U.S. economies that prevailed during 2009, declines in property values, and slowdown in consumer spending, negatively impacted the Corporation s net charge-offs and non-performing assets levels, thus requiring substantial reserve increases in 2009. Since September 30, 2009, loans held-in-portfolio, excluding covered loans, decreased by approximately $2.3 billion, particularly in the commercial, construction and consumer loan portfolios. This decrease in the loan portfolio balance also contributed to the lower level of provision for loan losses for the third quarter of 2010. The ratio of allowance for loan losses to loans held-in-portfolio, excluding covered loans, was 5.62% as of September 30, 2010, compared with 5.32% as of December 31, 2009, and 4.95% as of September 30, 2009.

During the nine months ended September 30, 2010, the Corporation experienced improved delinquency levels in certain portfolios, such as home equity lines of credit and closed-end second mortgages at E-LOAN and some consumer loan portfolios in Puerto Rico. Management recognizes that the Puerto Rico and U.S. mainland economies remain fragile, unemployment is still elevated and real estate markets continue to be unstable. Therefore, it may be early to expect that this recent favorable experience on non-performing loans in certain portfolios is indicative of a sustainable longer-term trend. Management continues reinforcing loan management and workout teams.

Non-interest income for the quarter ended September 30, 2010 increased $636.5 million, compared with the quarter ended September 30, 2009, mainly associated with the $640.8 million gain recognized, before tax and transaction costs, on the sale of an ownership interest in EVERTEC.

Operating expenses for the quarter ended September 30, 2010 increased by $150.9 million compared with the same quarter of the previous year mainly due to transaction costs on the EVERTEC sale, higher personnel costs principally related to Westerbank and losses on the early extinguishment of debt. Also, influencing the increase in operating expenses is the fact that operating expenses for the third quarter of 2009 included a gain on extinguishment of debt of $79.3 million, principally associated to the exchange of trust preferred securities for common stock.

Income tax expense amounted to $102.4 million for the quarter ended September 30, 2010, compared with

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income tax expense of $6.3 million for the quarter ended September 30, 2009. The increase was primarily the result of the gain on the EVERTEC transaction and higher taxable income from the Puerto Rico operations. Refer to the Income Taxes section in this MD&A for a discussion of the tax variance and a reconciliation of the effective tax rate for the quarters ended September 30, 2010 and 2009.

Total assets amounted to $40.8 billion as of September 30, 2010, compared with $34.7 billion as of December 31, 2009 and $35.6 billion as of September 30, 2009. The increase in total assets, when compared to December 31, 2009, was principally in loans held-in-portfolio by $2.4 billion, due to the loan portfolio acquired in the Westernbank FDIC-assisted transaction, partially offset by reductions in the Corporation s non-covered loan portfolio. Also, the increase in total assets was related to the $3.3 billion FDIC loss share indemnification asset and a $1.0 billion increase in money market investments, principally related to the proceeds from the EVERTEC sale, partially offset by a decline in investment securities available-for-sale by $953 million. The decline in the Corporation s loan portfolio, excluding the impact of the increase due to the covered loans acquired, was influenced by high levels of loan charge-offs and the impact of exiting origination channels at BPNA as part of the restructuring activities undertaken during 2009. Also, the decline in loan originations reflects low demand in a weak economic environment.

Refer to Table Q in the Financial Condition section of this MD&A for the percentage allocation of the composition of the Corporation s financing to total assets. Deposits totaled $27.7 billion as of September 30, 2010, compared with $25.9 billion as of December 31, 2009 and $26.4 billion as of September 30, 2009. The increase in deposits was associated with the Westernbank FDIC-assisted transaction, partially offset by lower volume of brokered certificates of deposits and reductions due to the effect of closure, sale and consolidation of branches in the U.S. mainland operations, and the attrition impact due to the reduction in the pricing of deposits, including internet deposits. Borrowed funds amounted to $7.7 billion as of September 30, 2010, compared with $5.3 billion as of December 31, 2009 and $5.5 billion as of September 30, 2009. The increase in borrowings from December 31, 2009 to September 30, 2010 was related to the note issued to the FDIC in the Westernbank FDIC-assisted transaction, which had a carrying amount of $3.3 billion as of September 30, 2010, partially offset by the impact of deleveraging strategies.

In late 2008, the Corporation discontinued the operations of Popular Financial Holdings (PFH) by selling assets and closing service branches and other units. The loss from discontinued operations, net of taxes, for the quarter and nine months ended September 30, 2009 was $3.4 million and $20.0 million, respectively. This loss was primarily related to salary and other expenses incurred in providing loan portfolio servicing to affiliated companies and other costs for employees that were retained for a transition period, as well as adjustments to indemnity reserves on loans sold in prior periods. The results of PFH are presented as part of Loss from discontinued operations, net of income tax in Table A. The discussions in this MD&A pertain to Popular, Inc. s continuing operations, unless otherwise indicated.

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TABLE A
Financial Highlights

Financial Condition Highlights	**As of September 30,**			**Average for the nine months**		
(In thousands)	2010	2009	Variance	2010	2009*	Variance
Money market investments	$ 2,023,949	$ 1,098,823	$ 925,126	$ 1,558,383	$ 1,194,107	$ 364,276
Investment and trading securities	6,597,136	7,827,552	(1,230,416)	7,002,398	8,237,875	(1,235,477)
Loans	26,263,797	24,471,516	1,792,281	24,951,632	25,102,124	(150,492)
Earning assets	34,884,882	33,397,891	1,486,991	33,512,413	34,534,106	(1,021,693)
Total assets	40,820,716	35,637,804	5,182,912	38,027,298	37,089,769	937,529
Deposits	27,740,044	26,382,898	1,357,146	26,482,395	27,028,450	(546,055)
Borrowings	7,692,869	5,460,789	2,232,080	7,522,719	6,021,727	1,500,992
Stockholders equity	4,109,200	2,742,456	1,366,744	3,041,119	2,960,735	80,384

Operating Highlights	**Third Quarter**			**Nine months ended September 30,**		
(In thousands, except per share information)	2010	2009	Variance	2010	2009	Variance
Net interest income	$ 386,918	$ 276,389	$ 110,529	$ 934,811	$ 831,935	$ 102,876
Provision for loan losses	215,013	331,063	(116,050)	657,471	1,053,036	(395,565)
Non-interest income	796,524	160,044	636,480	1,170,248	720,614	449,634
Operating expenses	371,547	220,600	150,947	980,876	855,442	125,434
Income (loss) from continuing operations before income tax	596,882	(115,230)	712,112	466,712	(355,929)	822,641
Income tax expense (benefit)	102,388	6,331	96,057	113,101	(15,209)	128,310
Income (loss) from continuing operations, net of income tax	494,494	(121,561)	616,055	353,611	(340,720)	694,331
Loss from discontinued operations, net of income tax		(3,427)	3,427		(19,972)	19,972
Net income (loss)	$ 494,494	($124,988)	$ 619,482	$ 353,611	($360,692)	$714,303
Net income applicable to common stock	$ 494,494	$ 595,614	($101,120)	$ 161,944	$ 310,604	$ 43,007
Net income (loss) per common share:						
Net income from continuing operations basic and diluted	$ 0.48	$ 1.41	($0.93)	$ 0.19	$ 1.00	($0.81)
Net loss from discontinued operations basic and diluted		(0.01)	0.01		(0.06)	0.06
Total net income per common share basic and diluted	$ 0.48	$ 1.40	($0.92)	$ 0.19	$ 0.94	($0.75)

Third Quarter

Nine months ended September 30,

Selected Statistical Information	2010	2009	2010	2009
Common Stock Data				
Market price				
High	$ 2.95	$ 2.83	$ 4.02	$ 5.52
Low	2.45	1.04	1.75	1.04
End	2.90	2.83	2.90	2.83
Book value per common share at period end	3.97	4.21	3.97	4.21
Dividends declared per common share				0.02
Profitability Ratios				
Return on assets	4.87%	(1.38%)	1.24%	(1.30%)
Return on common equity	57.27	(26.24)	16.31	(31.48)
Net interest spread (taxable equivalent)	4.32	3.07	3.47	3.00
Net interest margin (taxable equivalent)	4.52	3.51	3.75	3.45
Capitalization Ratios				
Average equity to average assets	8.63%	7.74%	8.00%	7.98%
Tier I capital to risk-weighted assets	14.87	10.23	14.87	10.23
Total capital to risk-weighted assets	16.16	11.53	16.16	11.53
Leverage ratio	9.99	7.93	9.99	7.93

* Excludes discontinued operations.

As a financial services company, the Corporation s earnings are significantly affected by general business and economic conditions. Lending and deposit activities and fee income generation are influenced by the level of business spending and investment, consumer income, spending and savings, capital market activities, competition, customer preferences, interest rate conditions and prevailing market rates on competing products. The Corporation continuously monitors general business and economic conditions, industry-related indicators and trends, competition, interest rate volatility, credit quality indicators, loan and deposit demand, operational and systems

efficiencies, revenue enhancements and changes in the regulation of financial services companies. The Corporation operates in a highly regulated environment and may be adversely affected by changes in federal and local laws and regulations. Also, competition with other financial institutions could adversely affect its profitability.

The description of the Corporation s business contained in Item 1 of the Corporation s Form 10-K for the year ended December 31, 2009, while not all inclusive, discusses additional information about the business of the Corporation and risk factors, many beyond the Corporation s control that, in addition to the other information in this Form 10-Q, including Item 1A of Part II, readers should consider.

The Corporation s common stock is traded on the National Association of Securities Dealers Automated Quotations (NASDAQ) system under the symbol BPOP.

Reconciliation of net income per common share:

The following table provides a reconciliation of net income per common share for the quarters and nine months ended September 30, 2010 and September 30, 2009:

(In thousands, except per share information)	Quarter ended September 30, 2010	Quarter ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Net income (loss) from continuing operations	$ 494,494	($121,561)	$ 353,611	($340,720)
Net loss from discontinued operations		(3,427)		(19,972)
Deemed dividend on preferred stock [1]			(191,667)	
Preferred stock dividends [2]		5,974		(39,857)
Preferred stock discount accretion		(1,040)		(4,515)
Favorable impact from exchange of shares of Series A and B preferred stock for common stock, net of issuance costs		230,388		230,388
Favorable impact from exchange of Series C preferred stock for trust preferred securities		485,280		485,280
Net income applicable to common stock	$ 494,494	$ 595,614	$ 161,944	$ 310,604
Average common shares outstanding	1,021,374,014	425,672,578	839,196,564	330,325,348
Average potential dilutive common shares			312,961	
Average common shares outstanding assuming dilution	1,021,374,014	425,672,578	839,509,525	330,325,348
Basic and diluted net income per common share from continuing operations	$ 0.48	$ 1.41	$ 0.19	$ 1.00
Basic and diluted net loss per common share from discontinued operations		(0.01)		(0.06)
Total basic and diluted net income per common share	$ 0.48	$ 1.40	$ 0.19	$ 0.94

[1] Deemed dividend related to the issuance of depositary shares and the conversion of the preferred stock into shares of common stock in the second quarter of 2010.

[2]

Amount presented for the quarter ended September 30, 2009 represents the reversal of dividends on Series C preferred stock considered accrued as of June 30, 2009 for EPS purposes only. These cumulative dividends were not paid as dividends to the Series C preferred stockholders given the terms of the exchange agreement to new trust preferred securities, which was effected in August 2009.

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Westernbank FDIC-Assisted Transaction:
On April 30, 2010, BPPR entered into a purchase and assumption agreement with the FDIC to acquire certain assets and assume certain deposits and liabilities of Westernbank Puerto Rico, a Puerto Rico state-chartered bank headquartered in Mayaguez, Puerto Rico (Westernbank).
The following table presents balances recorded by the Corporation at the time of the Westernbank FDIC-assisted transaction on April 30, 2010.

(In thousands)	Book value prior to purchase accounting adjustments	Fair value adjustments	Additional consideration	As recorded by Popular, Inc. on April 30, 2010
Assets:				
Cash and money market investments	$ 358,132			$ 358,132
Investment in Federal Home Loan Bank stock	58,610			58,610
Covered loans	8,503,839	($4,286,847)		4,216,992
Non-covered loans	50,905	(6,909)		43,996
FDIC loss share indemnification asset		3,322,561		3,322,561
Covered other real estate owned	125,947	(52,712)		73,235
Core deposit intangible		24,415		24,415
Receivable from FDIC (associated to the note issued to the FDIC)			$ 111,101	111,101
Other assets	44,926			44,926
Total assets	$ 9,142,359	($999,492)	$ 111,101	$ 8,253,968
Liabilities:				
Deposits	$ 2,380,170	$ 11,465		$ 2,391,635
Note issued to the FDIC (including a premium of $11,612 resulting from the fair value adjustment)			$ 5,769,696	5,769,696
Equity appreciation instrument			52,500	52,500
Contingent liability on unfunded loan commitments		132,442		132,442
Accrued expenses and other liabilities	13,925			13,925
Total liabilities	$ 2,394,095	$ 143,907	$ 5,822,196	$ 8,360,198
Excess of assets acquired over liabilities assumed	$ 6,748,264			
Aggregate fair value adjustments		($1,143,399)		

Aggregate additional consideration, net	$ 5,711,095	
Goodwill on acquisition		$ 106,230

The assets acquired and liabilities assumed were recorded at their estimated fair values as of the April 30, 2010 transaction date. These fair value estimates are considered preliminary, and are subject to change for up to one year after the closing date of the acquisition as additional information relative to closing date fair values may become available.

The Corporation refers to the loans acquired in the Westernbank FDIC-assisted transaction, except credit cards, as covered loans as the Corporation will be reimbursed by the FDIC for a substantial portion of any future losses on such loans under the terms of the loss sharing agreements. Foreclosed other real estate properties are also covered under the loss sharing agreements. Pursuant to the terms of the loss sharing agreements, the FDIC s obligation to reimburse BPPR for losses with respect to assets covered by such agreements (collectively, covered assets) begins with the first dollar of loss incurred. On a combined basis, the FDIC will reimburse BPPR for 80% of all qualifying losses with respect to the covered assets. BPPR will reimburse the FDIC for 80% of qualifying recoveries with respect to losses for which the FDIC reimbursed BPPR. The loss sharing agreement applicable to single-family residential mortgage loans provides for FDIC loss sharing and BPPR reimbursement to the FDIC to last for ten years, and the loss sharing agreement applicable to commercial and other assets provides for FDIC loss sharing and BPPR reimbursement to the FDIC to last for five years, with additional recovery sharing for three years thereafter.

In June 2020, approximately ten years following the acquisition date, BPPR may be required to make a payment to the FDIC in the event that losses on covered assets under the loss sharing agreements have been less than originally

estimated as determined pursuant to a formula established under the agreements that is described in Note 2 to the accompanying consolidated financial statements.

The FDIC has certain rights to withhold loss sharing payments if BPPR does not perform its obligations under the loss sharing agreements in accordance with their terms and to withdraw the loss share protection if certain significant transactions are effected without FDIC consent.

Covered loans under loss sharing agreements with the FDIC are reported in loans exclusive of the estimated FDIC loss share indemnification asset. The covered loans acquired in the Westernbank transaction are, and will continue to be, reviewed for collectability. Refer to the Critical Accounting Policies / Estimates section of this MD&A for the Corporation s accounting policy on acquired loans and related indemnification assets.

As part of the consideration for the transaction, the FDIC received an equity appreciation instrument in which BPPR agreed to make a cash payment to the holder thereof equal to the product of (a) 50 million and (b) the amount by which the average volume weighted price of the Corporation s common stock over the two NASDAQ trading days immediately prior to the date on which the equity appreciation instrument is exercised exceeds $3.43 (Popular, Inc. s 20-day trailing average common stock price on April 27, 2010). The equity appreciation instrument is exercisable by the holder thereof, in whole or in part, up to May 7, 2011. As of April 30, 2010, the fair value of the equity appreciation instrument was estimated at $52.5 million, compared with $17.5 million as of September 30, 2010. The equity appreciation instrument is recorded as a liability and any subsequent changes in its estimated fair value are recognized in earnings, adding volatility to the Corporation s results of operations.

SUBSEQUENT EVENTS

Subsequent events are events and transactions that occur after the balance sheet date but before financial statements are issued. The effects of subsequent events and transactions are recognized in the financial statements when they provide additional evidence about conditions that existed at the balance sheet date. The Corporation has evaluated events and transactions occurring subsequent to September 30, 2010. Such evaluation resulted in no adjustments or additional disclosures in the consolidated financial statements for the quarter and nine months ended September 30, 2010.

REGULATORY REFORM

On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act). The Dodd-Frank Act implements sweeping changes in the regulation of financial institutions and will fundamentally change the system of oversight described under Item 1. Business Regulation and Supervision in our Annual Report on Form 10-K for the year ended December 31, 2009. The implications for our business practices, the regulatory and competitive environment in which we operate and our financial performance will depend to a large extent on the content of required future rulemaking by the Federal Reserve Board, the SEC and other agencies under the Dodd-Frank Act, as well as the development of market practices and structures under the regime established by the legislation. Among the numerous provisions of the Dodd-Frank Act that could have an effect on us are:

> **Heightened supervision of systemically important financial institutions and financial market utilities.** The Dodd-Frank Act creates a new systemic risk oversight body, the Financial Stability Oversight Council, that will, among other things, make recommendations to the Federal Reserve Board as to supervisory requirements and prudential standards applicable to systemically important financial institutions and entities that are designated as financial market utilities (defined to include persons that manage or operate a multilateral system for the purpose of transferring, clearing or settling payments, securities or other transactions among financial institutions, including repurchase agreements). The legislation will also subject these institutions to heightened risk-based capital, leverage, liquidity and risk-management requirements, including periodic stress tests, as well as limitations on credit exposures.

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Increased fees to banking regulators. The Dodd-Frank Act requires the Federal Reserve Board to assess fees against large banking entities such as us to cover the cost of examining and supervising these entities. The FDIC will also collect fees from entities it examines to cover the cost of the examination. In addition, the FDIC is required to amend its regulations regarding the assessment for federal deposit insurance to base such assessments on the average total consolidated assets of the insured depository institution (rather than on the amount of its deposits) during the assessment period, less the average tangible equity of the institution during the assessment period. The Dodd-Frank Act also eliminates the ceiling on the size of the Deposit Insurance Fund (currently 1.5% of estimated insured deposits), and raises the statutorily required floor for the Deposit Insurance Fund from 1.15% of estimated insured deposits to 1.35% of estimated insured deposits, or a comparable percentage of the revised assessment base required by the Act. These provisions generally will require an increase in the level of assessments for institutions such as the Corporation with assets exceeding $10 billion.

Increased capital requirements. The Collins Amendment provisions of the Dodd-Frank Act will subject us at a company-wide level to the same leverage and risk-based capital requirements that apply to depository institutions specifically, and direct banking regulators to develop enhanced capital requirements. In addition, these provisions will exclude trust preferred securities and cumulative preferred stock from Tier 1 capital, subject to phase-out from Tier 1 qualification for securities issued before May 19, 2010, with the phase-out commencing on January 1, 2013 and to be implemented incrementally over a three-year period commencing on that date. Debt or equity instruments issued to the Federal government or any agency before the end of the Treasury s authority to invest via TARP on October 4, 2010, are exempt from the Collins Amendment. A number of other governments and regulators, including the U.S. Treasury and the Basel Committee on Banking Supervision, have also called for increased capital requirements and increased quality of capital.

Interest on deposits. The Dodd-Frank Act repeals the federal prohibition on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts.

Derivatives regulation. The Dodd-Frank Act contains provisions designed to increase transparency in over-the-counter derivatives markets by requiring that all swaps (except those with non-financial end users) be executed and cleared through regulated facilities. In addition, the derivatives push-out provisions of the Dodd-Frank Act will essentially prevent us from conducting significant swaps-related activities through the Corporation or another insured depository institution subsidiary, subject to exceptions for certain interest rate and currency swaps and for hedging or risk mitigation activities directly related to the bank s business. These activities may be conducted elsewhere within the Corporation, subject to compliance with Sections 23A and 23B of the Federal Reserve Act and any other requirements imposed by the SEC, CFTC or Federal Reserve Board.

Increased costs for consumer lending activities. The Dodd-Frank Act includes a number of provisions that may reduce the revenues generated by, or increase the cost of conducting, our consumer lending businesses. These include provisions which: (1) amend the Truth-in-Lending Act with respect to mortgage originations, including originator compensation, minimum repayment standards and prepayment considerations; (2) restrict variable-rate lending by requiring the borrower s ability to repay to be determined for variable-rate loans by using the maximum rate that will apply during the first five years of a variable-rate loan term, and making more loans subject to provisions for higher cost loans, new disclosures, and certain other revisions; and (3) direct the Federal Reserve Board to issue rules which are expected to limit debit card interchange fees.

Executive compensation. The Dodd-Frank Act requires the SEC, the Federal Reserve Board and other agencies to jointly issue rules requiring enhanced reporting and regulation of incentive-based compensation

structures at regulated entities, including bank holding companies, banks, registered broker-dealers and registered investment advisors. In addition, the Federal Reserve Board has issued guidance designed to ensure that incentive compensation at banking institutions does not encourage excessive risk-taking.

Transactions with affiliates. The Dodd-Frank Act significantly expands the coverage and scope of the regulations that limit affiliate transactions within a banking organization, including coverage of the credit

exposure on derivative transactions, repurchase and reverse repurchase agreements, securities borrowing and lending transactions and transactions with sponsored hedge funds and private equity funds.

Expanded standards of care. The Dodd-Frank Act provides for expanded standards of care by market participants in dealing with clients and customers, including by providing the SEC with authority to adopt rules establishing fiduciary duties for broker-dealers and directing the SEC to examine and improve sales practices and disclosure by broker-dealers and investment advisers.

The specific impact of the Dodd-Frank Act on our businesses and the markets in which we operate will depend on the manner in which the relevant agencies develop and implement the required rules and the reaction of market participants to these regulatory developments. We anticipate that the process of rulemaking and the development of related market practices and structures will take several years. Although we cannot predict how regulatory implementation of the Dodd-Frank Act will occur, the related findings of various regulatory and commission studies, the interpretations issued as part of the rulemaking process and the final regulations that are issued with respect to various elements of the new law may cause changes that impact the profitability of our business activities and require that we change certain of our business practices, and could expose us to additional costs (including increased compliance costs). These changes may also require us to invest significant management attention and resources to make any necessary changes.

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

FASB Accounting Standards Update 2009-16, Transfers and Servicing (Accounting Standards Codification (ASC) Topic 860) Accounting for Transfers of Financial Assets (ASU 2009-16)

ASU 2009-16 amends previous guidance relating to transfers of financial assets and eliminates the concept of a qualifying special-purpose entity, removes the exception for guaranteed mortgage securitizations when a transferor has not surrendered control over the transferred financial assets, changes the requirements for derecognizing financial assets, and includes additional disclosures requiring more information about transfers of financial assets in which entities have continuing exposure to the risks related to the transferred financial assets. Among the most significant amendments and additions to this guidance are changes to the conditions for sales of financial assets which objective is to determine whether a transferor and its consolidated affiliates included in the financial statements have surrendered control over transferred financial assets or third-party beneficial interests, and the addition of the meaning of the term participating interest which represents a proportionate (pro rata) ownership interest in an entire financial asset. The requirements for sale accounting must be applied only to a financial asset in its entirety, a pool of financial assets in its entirety, or participating interests as defined in ASC paragraph 860-10-40-6A. This guidance has been applied as of the beginning of the first annual reporting period that began after November 15, 2009, for interim periods within that first annual reporting period and will be applied for interim and annual reporting periods thereafter. Earlier application was prohibited. The recognition and measurement provisions have been applied to transfers that have occurred on or after the effective date. On and after the effective date, existing qualifying special-purpose entities have been evaluated for consolidation in accordance with the applicable consolidation guidance in the Codification.

The Corporation adopted this new authoritative accounting guidance effective January 1, 2010. The Corporation evaluated transfers of financial assets executed during the nine months ended September 30, 2010 pursuant to the new accounting guidance, principally consisting of guaranteed mortgage securitizations (Government National Mortgage Association (GNMA) and Federal National Mortgage Association (FNMA) mortgage-backed securities), and determined that the adoption of ASU 2009-16 did not have a significant impact on the Corporation s accounting for such transactions or results of operations or financial condition for such period.

A securitization of a financial asset, a participating interest in a financial asset, or a pool of financial assets in which the Corporation (and its consolidated affiliates) (a) surrenders control over the transferred assets and (b) receives cash or other proceeds is accounted for as a sale. Control is considered to be surrendered only if all three of the following conditions are met: (1) the assets have been legally isolated; (2) the transferee has the ability to pledge or exchange the assets; and (3) the transferor no longer maintains effective control over the assets. When the Corporation transfers financial assets and the transfer fails any one of the above criteria, the Corporation is prevented from derecognizing

the transferred financial assets and the transaction is accounted for as a secured borrowing.

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The Corporation recognizes and initially measures at fair value a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract in either of the following situations: (1) a transfer of an entire financial asset, a group of entire financial assets, or a participating interest in an entire financial asset that meets the requirements for sale accounting; or (2) an acquisition or assumption of a servicing obligation of financial assets that do not pertain to the Corporation or its consolidated subsidiaries. Upon adoption of ASU 2009-16, the Corporation does not recognize either a servicing asset or a servicing liability if it transfers or securitizes financial assets in a transaction that does not meet the requirements for sale accounting and is accounted for as a secured borrowing.

Refer to Note 12 to the consolidated financial statements for disclosures on transfers of financial assets and servicing assets retained as part of guaranteed mortgage securitizations.

FASB Accounting Standards Update 2009-17, Consolidations (ASC Topic 810) Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities (ASU 2009-17) and FASB Accounting Standards Update 2010-10, Consolidation (ASC Topic 810): Amendments for Certain Investment Funds (ASU 2010-10)

ASU 2009-17 amends the guidance applicable to variable interest entities (VIEs) and changes how a reporting entity determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. This guidance replaces a quantitative-based risks and rewards calculation for determining which entity, if any, has both (a) a controlling financial interest in a VIE with an approach focused on identifying which entity has the power to direct the activities of a VIE that most significantly impact the entity s economic performance and (b) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE. This guidance requires reconsideration of whether an entity is a VIE when any changes in facts or circumstances occur such that the holders of the equity investment at risk, as a group, lose the power to direct the activities of the entity that most significantly impact the entity s economic performance. It also requires ongoing assessments of whether a variable interest holder is the primary beneficiary of a VIE. The amendments to the consolidated guidance affect all entities that were within the scope of the original guidance, as well as qualifying special-purpose entities (QSPEs) that were previously excluded from the guidance. ASU 2009-17 requires a reporting entity to provide additional disclosures about its involvement with VIEs and any significant changes in risk exposure due to that involvement. The Corporation adopted this new authoritative accounting guidance effective January 1, 2010. The new accounting guidance on VIEs did not have an effect on the Corporation s consolidated statement of condition or results of operations upon adoption.

The principal VIEs evaluated by the Corporation during the nine months ended September 30, 2010 included:
(1) GNMA and FNMA guaranteed mortgage securitizations and for which management has concluded that the Corporation is not the primary beneficiary (refer to Note 20 to the consolidated financial statements) and (2) the trust preferred securities for which management believes that the Corporation does not possess a significant variable interest on the trusts (refer to Note 17 to the consolidated financial statements).

Additionally, the Corporation has variable interests in certain investments that have the attributes of investment companies, as well as limited partnership investments in venture capital companies. However, in January 2010, the FASB issued *ASU 2010-10, Consolidation (ASC Topic 810), Amendments for Certain Investment Funds*, which deferred the effective date of the provisions of ASU 2009-17 for a reporting entity s interest in an entity that has all the attributes of an investment company; or for which it is industry practice to apply measurement principles for financial reporting purposes that are consistent with those followed by investment companies. The deferral allows asset managers that have no obligation to fund potentially significant losses of an investment entity to continue to apply the previous accounting guidance to investment entities that have the attributes of entities subject to ASC Topic 946 (the Investment Company Guide). The FASB also decided to defer the application of ASU 2009-17 for money market funds subject to Rule 2a-7 of the Investment Company Act of 1940. Asset managers would continue to apply the applicable existing guidance to those entities that qualify for the deferral. ASU 2010-10 did not defer the disclosure requirements in ASU 2009-17.

The Corporation was not required to consolidate existing VIEs for which it has a variable interest as of September 30, 2010. Refer to Note 20 to the consolidated financial statements for required disclosures associated with the guaranteed mortgage securitizations in which the Corporation holds a variable interest.

FASB Accounting Standards Update 2010-06, Fair Value Measurements and Disclosures (ASC Topic 820) Improving Disclosures about Fair Value Measurements (ASU 2010-06)

ASU 2010-06, issued in January 2010, revises two disclosure requirements concerning fair value measurements and clarifies two others. It requires separate presentation of significant transfers into and out of Levels 1 and 2 of the fair value hierarchy and disclosure of the reasons for such transfers. It will also require the presentation of purchases, sales, issuances and settlements within Level 3 on a gross basis rather than a net basis. The amendments also clarify that disclosures should be disaggregated by class of asset or liability and that disclosures about inputs and valuation techniques should be provided for both recurring and non-recurring fair value measurements. ASU 2010-06 has been effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the rollforward of activity in Level 3 fair value measurements, which are effective for interim and annual reporting periods beginning after December 15, 2010. This guidance impacts disclosures only and will not have an effect on the Corporation s consolidated statements of condition or results of operations. The Corporation s disclosures about fair value measurements are presented in Note 21 to the consolidated financial statements.

FASB Accounting Standards Update 2010-11, Derivatives and Hedging (ASC Topic 815): Scope Exception Related to Embedded Credit Derivatives (ASU 2010-11)

ASU 2010-11 clarifies the type of embedded credit derivative that is exempt from embedded derivative bifurcation requirements. The type of credit derivative that qualifies for the exemption is related only to the subordination of one financial instrument to another. As a result, entities that have contracts containing an embedded credit derivative feature in a form other than such subordination may need to separately account for the embedded credit derivative feature. The amendments in ASU 2010-11 are effective for each reporting entity at the beginning of its first fiscal quarter beginning after June 15, 2010. The adoption of this standard in the third quarter of 2010 did not have a significant impact on the Corporation s consolidated financial statements.

FASB Accounting Standards Update 2010-18, Receivables (ASC Topic 310): Effect of a Loan Modification When the Loan is Part of a Pool That is Accounted for as a Single Asset (ASU 2010-18)

The amendments in ASU 2010-18, issued in April 2010, affect any entity that acquires loans subject to ASC Subtopic 310-30, that accounts for some or all of those loans within pools, and that subsequently modifies one or more of those loans after acquisition. ASC Subtopic 310-30 provides guidance on accounting for acquired loans that have evidence of credit deterioration upon acquisition. As a result of the amendments in ASU 2010-18, modifications of loans that are accounted for within a pool under ASC Subtopic 310-30 do not result in the removal of those loans from the pool even if the modification of those loans would otherwise be considered a troubled debt restructuring. An entity will continue to be required to consider whether the pool of assets in which the loan is included is impaired if expected cash flows for the pool change. The amendments in ASU 2010-18 do not affect the accounting for loans under the scope of ASC Subtopic 310-30 that are not accounted for within pools. Loans accounted for individually under ASC Subtopic 310-30 continue to be subject to the troubled debt restructuring accounting provisions within ASC Subtopic 310-40, Receivables Troubled Debt Restructurings by Creditors. The amendments in ASU 2010-18 are effective for modifications of loans accounted for within pools under ASC Subtopic 310-30 occurring in the first interim or annual period ending on or after July 15, 2010. The amendments are to be applied prospectively. Early application is permitted. Upon initial adoption of the guidance in ASU 2010-18, an entity may make a one-time election to terminate accounting for loans as a pool under ASC Subtopic 310-30. This election may be applied on a pool-by-pool basis and does not preclude an entity from applying pool accounting to subsequent acquisitions of loans with credit deterioration. The Corporation elected to early adopt the provisions of this statement, effective with the closing of the Westernbank FDIC-assisted transaction on April 30, 2010. As a result, the accounting for modified loans follows the guidelines of ASU 2010-18; however, the adoption of these provisions did not have a significant impact on the Corporation s result of operations or financial position as of September 30, 2010.

FASB Accounting Standards Update 2010-20, Receivables (ASC Topic 310): Disclosure about the Credit Quality of Financing Receivables and the Allowance for Credit Losses (ASU 2010-20)

ASU 2010-20, issued in July 2010, expands disclosure requirements about the credit quality of financing receivables and allowance for credit losses. The objective of this ASU is for an entity to provide disclosures that facilitate financial statement users evaluation of the following: (1) the nature of credit risk inherent in the entity s portfolio of financing receivables; (2) how that risk is analyzed and assessed in arriving at the allowance for credit losses; and (3) the changes and reasons for those changes in the allowance for credit losses. Disclosures should be provided on a disaggregated basis on two defined levels: (1) portfolio segment; and (2) class of financing receivable. The ASU 2010-20 makes changes to existing disclosure requirements and includes additional disclosure requirements about financing receivables, including: the credit quality indicators of financing receivables at the end of the reporting period by class of financing receivables; the aging of past due financing receivables at the end of the reporting period by class of financing receivables; and the nature and extent of troubled debt restructurings that occurred during the period by class of financing receivables and their effect on the allowance for credit losses. The disclosure requirements as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. This guidance impacts disclosures only and will not have an effect on the Corporation s consolidated statements of condition or results of operations.

CRITICAL ACCOUNTING POLICIES / ESTIMATES

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

Management has discussed the development and selection of the critical accounting policies and estimates with the Corporation s Audit Committee. The Corporation has identified as critical accounting policies those related to Fair Value Measurement of Financial Instruments, Loans and Allowance for Loan Losses, Income Taxes, Goodwill and Pension and Postretirement Benefit Obligations. For a summary of these critical accounting policies and estimates, refer to that particular section in the MD&A included in Popular, Inc. s 2009 Financial Review and Supplementary Information to Stockholders, incorporated by reference in Popular, Inc. s Annual Report on Form 10-K for the year ended December 31, 2009 (the 2009 Annual Report). Also, refer to Note 1 to the consolidated financial statements included in the 2009 Annual Report for a summary of the Corporation s significant accounting policies. As a result of the Westernbank FDIC-assisted transaction, during the quarter ended September 30, 2010, management determined to incorporate Acquisition Accounting for Loans and Related Indemnification Asset as part of the Corporation s critical accounting policies / estimates due to the significance of the assets involved and significant judgment to various accounting, reporting and disclosure matters.

Acquisition Accounting for Loans and Related Indemnification Asset

Beginning in 2009, the Corporation accounts for its acquisitions under ASC Topic No. 805, *Business Combinations*, which requires the use of the purchase method of accounting. All identifiable assets acquired, including loans, are recorded at fair value. No allowance for loan losses related to the acquired loans is recorded on the acquisition date as the fair value of the loans acquired incorporates assumptions regarding credit risk. Loans acquired are recorded at fair value in accordance with the fair value methodology prescribed in ASC Topic 820, exclusive of the shared-loss agreements with the FDIC. These fair value estimates associated with the loans include estimates related to expected prepayments and the amount and timing of expected principal, interest and other cash flows.

Because the FDIC has agreed to reimburse the Corporation for losses related to the acquired loans in the Westernbank FDIC-assisted transaction, an indemnification asset was recorded at fair value at the acquisition date. The indemnification asset is recognized at the same time as the indemnified loans, and measured on the same basis, subject to collectability or contractual limitations. The loss share indemnification asset on the acquisition date

reflects the reimbursements expected to be received from the FDIC, using an appropriate discount rate, which reflects counterparty credit risk and other uncertainties.

The initial valuation of these loans and related indemnification asset requires management to make subjective judgments concerning estimates about how the acquired loans will perform in the future using valuation methods, including discounted cash flow analysis and independent third-party appraisals. Factors that may significantly affect the initial valuation include, among others, market-based and industry data related to expected changes in interest rates, assumptions related to probability and severity of credit losses, estimated timing of credit losses including the timing of foreclosure and liquidation of collateral, expected prepayment rates, required or anticipated loan modifications, unfunded loan commitments, the specific terms and provisions of any loss share agreements, and specific industry and market conditions that may impact discount rates and independent third-party appraisals.

Loans accounted for under ASC Subtopic 310-30 represent loans showing evidence of credit deterioration and that it is probable, at the date of acquisition, that the Corporation will not collect all contractually required principal and interest payments. Generally, acquired loans that meet the definition for nonaccrual status fall within the Corporation s definition of impaired loans under ASC Subtopic 310-30. Also, based on the fair value determined for the acquired portfolio, acquired loans that did not meet the definition of nonaccrual status also resulted in the recognition of a significant discount attributable to credit quality. Accordingly, an election was made by the Corporation to apply the accretable yield method (expected cash flow model of ASC Subtopic 310-30), as a loan with credit deterioration and impairment, instead of the standard loan discount accretion guidance of ASC Subtopic 310-20. These loans are disclosed as a loan that was acquired with credit deterioration and impairment.

Under ASC Subtopic 310-30, the covered loans acquired from the FDIC were aggregated into pools based on loans that had common risk characteristics. Each loan pool is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows. Characteristics considered in pooling loans in the Westernbank FDIC-assisted transaction included loan type, interest rate type, accruing status, and amortization type. Once the pools are defined, the Corporation maintains the integrity of the pool of multiple loans accounted for as a single asset.

Under ASC Subtopic 310-30, the difference between the undiscounted cash flows expected at acquisition and the fair value in the loans, or the accretable yield, is recognized as interest income using the effective yield method over the estimated life of the loan if the timing and amount of the future cash flows of the pool is reasonably estimable. The non-accretable difference represents the difference between contractually required principal and interest and the cash flows expected to be collected. Subsequent to the acquisition date, increases in cash flows over those expected at the acquisition date are recognized as interest income prospectively. Decreases in expected cash flows after the acquisition date are recognized by recording an allowance for loan losses.

The fair value discount of lines of credit with revolving privileges that are accounted for pursuant to the guidance of ASC Subtopic 310-20, represents the difference between the contractually required loan payment receivable in excess of the initial investment in the loan. This discount is accreted into interest income over the life of the loan if the loan is in accruing status. Any cash flows collected in excess of the carrying amount of the loan are recognized in earnings at the time of collection. The carrying amount of lines of credit with revolving privileges, which are accounted pursuant to the guidance of ASC Subtopic 310-20, are subject to periodic review to determine the need for recognizing an allowance for loan losses.

The FDIC loss share indemnification asset for loss share agreements is measured separately from the related covered assets as it is not contractually embedded in the assets and is not transferable with the assets should the assets be sold. The indemnification asset is recognized on the same basis as the assets subject to loss share protection. As such, for covered loans accounted pursuant to ASC Subtopic 310-30, decreases in expected reimbursements will be recognized in income prospectively consistent with the approach taken to recognize increases in cash flows on covered loans. For covered loans accounted for under ASC Subtopic 310-20, as the loan discount recorded as of the acquisition date is accreted into income, a reversal of the corresponding indemnification asset is recorded as a reduction in non-interest income.

Increases in expected reimbursements will be recognized in income in the same period that the allowance for credit losses for the related loans is recognized.

Over the life of the acquired loans that are accounted under ASC Subtopic 310-30, the Corporation continues to estimate cash flows expected to be collected on individual loans or on pools of loans sharing common risk characteristics. The Corporation evaluates at each balance sheet date whether the present value of its loans determined using the effective interest rates has decreased and if so, recognizes a provision for loan loss in its consolidated statement of operations and an allowance for loan losses in its consolidated statement of condition. For any increases in cash flows expected to be collected, the Corporation adjusts the amount of accretable yield recognized on a prospective basis over the loan s or pool s remaining life.

Loss assumptions used in the basis of the indemnified loans are consistent with the loss assumptions used to measure the indemnification asset. Fair value accounting incorporates into the fair value of the indemnification asset an element of the time value of money, which is accreted back into income over the life of the shared loss agreements. Upon the determination of an incurred loss, the loss share indemnification asset will be reduced by the amount owed by the FDIC. A corresponding claim receivable is recorded until cash is received from the FDIC.

These evaluations of estimated cash flows expected to be collected subsequent to acquisition on loans accounted pursuant to ASC Subtopic 310-30 and inherent losses on loans accounted pursuant to ASC Subtopic 310-20 require the continued usage of key assumptions and estimates. Given the current economic environment, the Corporation must apply judgment to develop its estimates of cash flows considering the impact of home price and property value changes, changing loss severities and prepayment speeds. Decreases in the expected cash flows for ASC Subtopic 310-30 loans and decreases in the net realizable value of ASC Subtopic 310-20 loans will generally result in a charge to the provision for credit losses resulting in an increase to the allowance for loan losses. These estimates are particularly sensitive to changes in loan credit quality.

The amount that the Corporation realizes on the covered loans and related indemnification assets could differ materially from the carrying value reflected in these financial statements, based upon the timing and amount of collections on the acquired loans in future periods. The Corporation s losses on these assets may be mitigated to the extent covered under the specific terms and provisions of any loss share agreements.

Refer to Notes 2, 4 and 11 to the accompanying consolidated financial statements for further discussions on the Westernbank FDIC-assisted transaction and loans acquired.

Goodwill

The Corporation s goodwill and other identifiable intangible assets having an indefinite useful life are tested for impairment. Intangibles with indefinite lives are evaluated for impairment at least annually and on a more frequent basis if events or circumstances indicate impairment could have taken place. Such events could include, among others, a significant adverse change in the business climate, an adverse action by a regulator, an unanticipated change in the competitive environment and a decision to change the operations or dispose of a reporting unit.

Under applicable accounting standards, goodwill impairment analysis is a two-step test. The first step of the goodwill impairment test involves comparing the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired; however, if the carrying amount of the reporting unit exceeds its fair value, the second step must be performed. The second step involves calculating an implied fair value of goodwill for each reporting unit for which the first step indicated possible impairment. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination, which is the excess of the fair value of the reporting unit, as determined in the first step, over the aggregate fair values of the individual assets, liabilities and identifiable intangibles (including any unrecognized intangible assets, such as unrecognized core deposits and trademark) as if the reporting unit was being acquired in a business combination and the fair value of the reporting unit was the price paid to acquire the reporting unit. The Corporation estimates the fair values of the assets and liabilities of a reporting unit, consistent with the requirements of the fair value measurements accounting standard, which defines fair value 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. 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. The adjustments to measure the assets, liabilities and intangibles at fair value are for the purpose of measuring the implied fair value of goodwill and such adjustments are not reflected in the

consolidated statement of condition. If the implied fair value of goodwill exceeds the goodwill

assigned to the reporting unit, there is no impairment. If the goodwill assigned to a reporting unit exceeds the implied fair value of the goodwill, an impairment charge is recorded for the excess. An impairment loss recognized cannot exceed the amount of goodwill assigned to a reporting unit, and the loss establishes a new basis in the goodwill. Subsequent reversal of goodwill impairment losses is not permitted under applicable accounting standards.

As of September 30, 2010, goodwill totaled $665 million. Note 14 to the consolidated financial statements provides an allocation of goodwill by business segment.

The Corporation performed the annual goodwill impairment evaluation for the entire organization during the third quarter of 2010 using July 31, 2010 as the annual evaluation date. The reporting units utilized for this evaluation were those that are one level below the business segments, which are the legal entities within the reportable segment. The Corporation follows push-down accounting, as such all goodwill is assigned to the reporting units when carrying out a business combination.

In determining the fair value of a reporting unit, the Corporation generally uses a combination of methods, including market price multiples of comparable companies and transactions, as well as discounted cash flow analysis. Management evaluates the particular circumstances of each reporting unit in order to determine the most appropriate valuation methodology. The Corporation evaluates the results obtained under each valuation methodology to identify and understand the key value drivers in order to ascertain that the results obtained are reasonable and appropriate under the circumstances. Elements considered include current market and economic conditions, developments in specific lines of business, and any particular features in the individual reporting units.

The computations require management to make estimates and assumptions. Critical assumptions that are used as part of these evaluations include:

- a selection of comparable publicly traded companies, based on nature of business, location and size;
- a selection of comparable acquisition and capital raising transactions;
- the discount rate applied to future earnings, based on an estimate of the cost of equity;
- the potential future earnings of the reporting unit; and
- the market growth and new business assumptions.

For purposes of the market comparable approach, valuations were determined by calculating average price multiples of relevant value drivers from a group of companies that are comparable to the reporting unit being analyzed and applying those price multiples to the value drivers of the reporting unit. Multiples used are minority based multiples and thus, no control premium adjustment is made to the comparable companies market multiples. While the market price multiple is not an assumption, a presumption that it provides an indicator of the value of the reporting unit is inherent in the valuation. The determination of the market comparables also involves a degree of judgment.

For purposes of the discounted cash flows (DCF) approach, the valuation is based on estimated future cash flows. The financial projections used in the DCF valuation analysis for each reporting unit are based on the most recent (as of the valuation date) financial projections presented to the Corporation s Asset / Liability Management Committee (ALCO). The growth assumptions included in these projections are based on management s expectations for each reporting unit s financial prospects considering economic and industry conditions as well as particular plans of each entity (i.e. restructuring plans, de-leveraging, etc.). The cost of equity used to discount the cash flows was calculated using the Ibbotson Build-Up Method and ranged from 8.42% to 23.24% for the 2010 analysis. The Ibbottson Build-Up Method builds up a cost of equity starting with the rate of return of a risk-free asset (10-year U.S. Treasury note) and adds to it additional risk elements such as equity risk premium, size premium and industry risk premium. The resulting discount rates were analyzed in terms of reasonability given the current market conditions and adjustments were made when necessary.

For BPNA, the only reporting unit that failed Step 1, the Corporation determined the fair value of Step 1 utilizing a market value approach based on a combination of price multiples from comparable companies and multiples from capital raising transactions of comparable companies. The market multiples used included price to book and price to

tangible book . Additionally, the Corporation determined the reporting unit fair value using a DCF analysis based on BPNA s financial projections, but assigned no weight to it given that the current market approaches provide a

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more meaningful measure of fair value considering the reporting unit s financial performance and current market conditions. The Step 1 fair value for BPNA under both valuation approaches (market and DCF) was below the carrying amount of its equity book value as of the valuation date (July 31), requiring the completion of Step 2. In accordance with accounting standards, the Corporation performed a valuation of all assets and liabilities of BPNA, including any recognized and unrecognized intangible assets, to determine the fair value of BPNA s net assets. To complete Step 2, the Corporation subtracted from BPNA s Step 1 fair value the determined fair value of the net assets to arrive at the implied fair value of goodwill. The results of the Step 2 indicated that the implied fair value of goodwill exceeded the goodwill carrying value of $402 million at July 31, 2010, resulting in no goodwill impairment. The reduction in BPNA s Step 1 fair value was offset by a reduction in the fair value of its net assets, resulting in an implied fair value of goodwill that exceeds the recorded book value of goodwill.

The analysis of the results for Step 2 indicates that the reduction in the fair value of the reporting unit was mainly attributed to the deteriorated fair value of the loan portfolios and not to the fair value of the reporting unit as a going concern entity. The current negative performance of the reporting unit is principally related to deteriorated credit quality in its loan portfolio, which agrees with the results of the Step 2 analysis. The fair value determined for BPNA s loan portfolio in the July 31, 2010 annual test represented a discount of 23.6%, compared with 20.2% at December 31, 2009. The discount is mainly attributed to market participant s expected rate of returns, which affected the market discount on the commercial and construction loan portfolios and deteriorated credit quality of the consumer and mortgage loan portfolios of BPNA. Refer to the Reportable Segments Results section of this MD&A, which provides highlights of BPNA s reportable segment financial performance for the quarter and nine-month periods ended September 30, 2010. BPNA s provision for loan losses, as a stand-alone legal entity, which is the reporting unit level used for the goodwill impairment analysis, amounted to $226 million for nine months ended September 30, 2010, which represented 144% of BPNA legal entity s net loss of $157 million for that period.

If the Step 1 fair value of BPNA declines further in the future without a corresponding decrease in the fair value of its net assets or if loan discounts improve without a corresponding increase in the Step 1 fair value, the Corporation may be required to record a goodwill impairment charge. The Corporation engaged a third-party valuator to assist management in the annual evaluation of BPNA s goodwill (including Step 1 and Step 2) as well as BPNA s loan portfolios as of the July 31, 2010 valuation date. Management discussed the methodologies, assumptions and results supporting the relevant values for conclusions and determined they were reasonable.

For the BPPR reporting unit, had the average reporting unit estimated fair value calculated in Step 1 using all valuation methodologies been approximately 16% lower, there would still be no requirement to perform a Step 2 analysis, thus there would be no indication of impairment on the goodwill recorded in BPPR at July 31, 2010. For the BPNA reporting unit, had the estimated implied fair value of goodwill calculated in Step 2 been approximately 63% lower, there would still be no impairment of the goodwill recorded in BPNA at July 31, 2010. The goodwill balance of BPPR and BPNA, as legal entities, represented approximately 91% of the Corporation s total goodwill balance as of the July 31, 2010 valuation date.

Furthermore, as part of the analyses, management performed a reconciliation of the aggregate fair values determined for the reporting units to the market capitalization of Popular, Inc. concluding that the fair value results determined for the reporting units in the July 31, 2010 annual assessment were reasonable.

The goodwill impairment evaluation process requires the Corporation to make estimates and assumptions with regard to the fair value of the reporting units. Actual values may differ significantly from these estimates. Such differences could result in future impairment of goodwill that would, in turn, negatively impact the Corporation s results of operations and the reporting units where the goodwill is recorded. Declines in the Corporation s market capitalization increase the risk of goodwill impairment in the future.

Management monitors events or changes in circumstances between annual tests to determine if these events or changes in circumstances would more likely than not reduce the fair value of a reporting unit below its carrying amount. As indicated in this MD&A, the economic situation in the United States and Puerto Rico, including deterioration in the housing market and credit market, continued to negatively impact the financial results of the Corporation during 2010.

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NET INTEREST INCOME

Net interest income, on a taxable equivalent basis, is presented with its different components on Tables B and C for the quarter and nine months ended September 30, 2010 as compared with the same periods in 2009, segregated by major categories of interest earning assets and interest bearing liabilities.

The interest earning assets include the investment securities and loans that are exempt from income tax, principally in Puerto Rico. The main sources of tax-exempt interest income are certain investments in obligations of the U.S. Government, its agencies and sponsored entities, and certain obligations of the Commonwealth of Puerto Rico and its agencies. Assets held by the Corporation s international banking entities, which previously were tax exempt under Puerto Rico law, have a temporary 5% tax rate. To facilitate the comparison of all interest related to these assets, the interest income has been converted to a taxable equivalent basis, using the applicable statutory income tax rates at each quarter, in the subsidiaries that have the benefit. The taxable equivalent computation considers the interest expense disallowance required by the Puerto Rico tax law. Under this law, the exempt interest can be deducted up to the amount of taxable income. BPPR s current tax position changed in the third quarter of 2010 and the benefit previously obtained from exempt investments is, for now, not applicable, therefore no adjustments were made to BPPR s net interest income since its current tax is the marginal tax rate.

Average outstanding securities balances are based upon amortized cost excluding any unrealized gains or losses on securities available-for-sale. Non-accrual loans have been included in the respective average loans and leases categories. Loan fees collected and costs incurred in the origination of loans are deferred and amortized over the term of the loan as an adjustment to interest yield. Prepayment penalties, late fees collected and the amortization of premiums / discounts on purchased loans are also included as part of the loan yield. Interest income for quarter and nine months ended September 30, 2010 included a favorable impact, excluding the discount accretion on covered loans accounted for under ASC 310-20 and ASC 310-30, of $5.9 million and $14.6 million, respectively, related to those items, compared to a favorable impact of $4.8 million and $17.1 million for the quarter and nine months ended September 30, 2009, respectively. The discount accretion on covered loans accounted for under ASC 310-20 and 310-30, as described below, was $78.5 million and $56.5 million, respectively for the quarter ended September 30, 2010.

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TABLE B

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

Quarter ended September 30,

Average Volume			Average Yields / Costs				Interest			Variance Attributable to	
2010	2009	Variance	2010	2009	Variance		2010	2009	Variance	Rate	Volume
($ in millions)									(In thousands)		
$ 1,560	$ 936	$ 624	0.35%	0.64%	(0.29%)	Money market investments	$ 1,391	$ 1,510	($119)	($310)	$ 191
6,139	7,551	(1,412)	3.74	4.53	(0.79)	Investment securities	57,393	85,459	(28,066)	(12,900)	(15,166)
500	517	(17)	6.56	6.79	(0.23)	Trading securities	8,262	8,857	(595)	(300)	(295)
8,199	9,004	(805)	3.27	4.25	(0.98)	Total money market, investment and trading securities	67,046	95,826	(28,780)	(13,510)	(15,270)
						Loans:					
12,955	15,034	(2,079)	4.81	4.93	(0.12)	Commercial	157,214	186,969	(29,755)	(4,439)	(25,316)
618	707	(89)	8.74	8.29	0.45	Leasing	13,506	14,665	(1,159)	762	(1,921)
4,627	4,443	184	6.02	6.35	(0.33)	Mortgage	69,685	70,564	(879)	(3,747)	2,868
3,814	4,269	(455)	10.40	9.75	0.65	Consumer	99,946	104,597	(4,651)	4,905	(9,556)
22,014	24,453	(2,439)	6.15	6.13	0.02	Sub-total loans	340,351	376,795	(36,444)	(2,519)	(33,925)
4,036		4,036	14.33		14.33	Covered loans	145,560		145,560		145,560
26,050	24,453	1,597	7.41	6.13	1.28	Total loans	485,911	376,795	109,116	(2,519)	111,635
$34,249	$33,457	$ 792	6.42%	5.62%	0.80%	Total earning assets	$552,957	$472,621	$ 80,336	($16,029)	$ 96,365
						Interest bearing deposits:					
$ 4,986	$4,768	$ 218	0.80%	1.02%	(0.22%)	NOW and money market*	$ 10,047	$ 12,284	($2,237)	($2,748)	$ 511
6,139	5,496	643	0.92	0.92		Savings	14,297	12,733	1,564	(59)	1,623
11,077	12,109	(1,032)	2.22	3.08	(0.86)	Time deposits	61,986	93,924	(31,938)	(23,749)	(8,189)

22,202	22,373	(171)	1.54	2.11	(0.57)	Total deposits	86,330	118,941	(32,611)	(26,556)	(6,055)
2,419	2,685	(266)	2.45	2.39	0.06	Short-term borrowings	14,945	16,142	(1,197)	548	(1,745)
6,309	2,676	3,633	3.94	6.37	(2.43)	Medium and long-term debt	62,494	42,991	19,503	9,658	9,845
30,930	27,734	3,196	2.10	2.55	(0.45)	Total interest bearing liabilities	163,769	178,074	(14,305)	(16,350)	2,045
4,908	4,309	599				Non-interest bearing demand deposits					
(1,589)	1,414	(3,003)				Other sources of funds					
$34,249	$33,457	$ 792	1.90%	2.11%	(0.21%)	Total source of funds					
			4.52%	3.51%	1.01%	Net interest margin					
						Net interest income on a taxable equivalent basis	389,188	294,547	94,641	$ 321	$ 94,320
			4.32%	3.07%	1.25%	Net interest spread					
						Taxable equivalent adjustment	2,270	18,158	(15,888)		
						Net interest income	$386,918	$276,389	$110,529		

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

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

The increase in net interest margin for the quarter ended September 30, 2010 compared with the same period in 2009 was driven mostly by:

$78.5 million discount accretion on covered loans acquired from the Westernbank FDIC-assisted transaction that are accounted for under ASC Subtopic 310-20 due to their revolving characteristics. Also, the discount accretion on covered loans accounted for under ASC Subtopic 310-30 amounted to $56.5 million for the quarter ended September 30, 2010. This impact is included in the line item Covered loans in Table A.

- a decrease in deposit costs associated to both a low interest rate scenario and management actions to reduce deposits costs, principally in certificates of deposits and money market accounts, as well as lower costs on brokered certificates of deposit; and

- higher yield in consumer loans mainly reflected in the credit cards portfolio, in part due to revisions made to the spread charged over the prime rate for different risk categories.

The above variances were partially offset by the following factors which affected negatively the Corporation s net interest margin:

- the excess liquidity from the capital issuance described in the Overview section, the proceeds of which were temporarily invested in money market investments with the Federal Reserve earning a very low interest rate, which reduced the yield on earning assets;

- the FDIC loss share indemnification asset of $3.3 billion, which is a non-interest earning asset being funded with interest bearing liabilities, mainly through the FDIC note at a 2.50% annual fixed interest rate. The accretion or amortization of the FDIC loss share indemnification asset goes through non-interest income;

- the conversion of $935 million of Series C preferred stock to trust preferred securities in August 2009 contributed to an increase of $10.5 million in interest expense for the quarter ended September 30, 2010, when compared with the same quarter in the previous year (these payments were characterized as dividends prior to the exchange). This negative effect was partially offset by the conversion of certain trust preferred securities into common stock, also in August 2009, which reduced the quarterly interest expense by $1.7 million; and

- increase in non-performing loans throughout the different loan portfolios, which balances are depicted in Table K of this MD&A.

Most loan categories decreased in volume, especially commercial and construction loan portfolios, due to lower origination activity and loan charge-offs. The consumer loan portfolio shows a decrease due to the slowdown in the auto and consumer loan origination activity in Puerto Rico, and the run-off of E-LOAN s home equity lines of credit (HELOCs) and closed-end second mortgages. On the positive side, the covered loans acquired in the Westernbank FDIC-assisted transaction, that contributed $4.0 billion in average loan volume during the third quarter of 2010, net of fair value adjustments, mitigated the decrease in the volume of earning assets. The covered loans, which are segregated in Table B, contributed $145.6 million to the Corporation s interest income during the quarter ended September 30, 2010. Investment securities decreased in average volume as a result of maturities and prepayments of mortgage-related investment securities, which funds were not reinvested due in part to deleveraging strategies, and to the sale of certain investment securities during the quarter ended September 30, 2010, which resulted in a net gain of $3.7 million before taxes for the quarter.

Also affecting net interest income is the increase in the volume of medium and long-term debt, particularly the note payable issued to the FDIC. Despite the deposits acquired on the FDIC-assisted transaction, the Corporation s deposit volume has declined, mainly time deposits, including brokered certificates of deposits, due to deleveraging in the U.S. mainland operations, which was driven by a reduction in the earning assets funded by such deposits.

As shown in Table C, net interest income on a taxable equivalent basis for the nine months ended September 30, 2010 had a positive variance of 47 basis points mostly due to the interest income on covered loans and a lower cost of funds, mainly deposits associated to both a lower interest rate scenario and management actions to reduce the cost of deposits, partially offset by the decrease in volume of earning assets, mainly commercial loans. The decrease in the taxable equivalent adjustment for the nine months ended September 30, 2010, compared with the previous year, relates to the fact that there were no benefits associated to BPPR s tax-exempt assets during the nine months ended September 30, 2010 as explained above.

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TABLE C

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

Nine months ended September 30,

Average Volume			Average Yields / Costs				Interest			Variance Attributable to	
2010	2009	Variance	2010	2009	Variance		2010	2009	Variance	Rate	Volume
($ in millions)							(In thousands)				
$ 1,558	$ 1,194	$ 364	0.37%	0.79%	(0.42%)	Money market investments	$ 4,326	$ 7,027	($2,701)	($2,476)	($225)
6,541	7,578	(1,037)	3.78	4.66	(0.88)	Investment securities	185,436	264,553	(79,117)	(44,078)	(35,039)
462	660	(198)	6.81	6.75	0.06	Trading securities	23,556	33,362	(9,806)	288	(10,094)
8,561	9,432	(871)	3.32	4.31	(0.99)	Total money market, investments and trading securities	213,318	304,942	(91,624)	(46,266)	(45,358)
						Loans:					
13,551	15,395	(1,844)	4.84	4.97	(0.13)	Commercial	490,346	572,368	(82,022)	(21,568)	(60,454)
638	798	(160)	8.71	8.37	0.34	Leasing	41,705	50,041	(8,336)	2,007	(10,343)
4,588	4,491	97	6.02	6.58	(0.56)	Mortgage	207,139	221,490	(14,351)	(19,054)	4,703
3,898	4,418	(520)	10.34	9.88	0.46	Consumer	301,401	326,904	(25,503)	7,300	(32,803)
22,675	25,102	(2,427)	6.13	6.23	(0.10)	Sub-total loans	1,040,591	1,170,803	(130,212)	(31,315)	(98,897)
2,276		2,276	10.99		10.99	Covered loans	187,279		187,279		187,279
24,951	25,102	(151)	6.58	6.23	0.35	Total loans	1,227,870	1,170,803	57,067	(31,315)	88,382
$33,512	$34,534	($1,022)	5.74%	5.71%	0.03%	Total earning assets	$1,441,188	$1,475,745	($34,557)	($77,581)	$ 43,024
						Interest bearing deposits:					
$ 4,998	$4,809	$ 189	0.82%	1.15%	(0.33%)	NOW and money market*	$ 30,628	$ 41,437	($10,809)	($11,998)	$ 1,189
5,881	5,545	336	0.92	0.99	(0.07)	Savings	40,273	40,979	(706)	(3,079)	2,373
10,967	12,405	(1,438)	2.43	3.37	(0.94)	Time deposits	199,018	313,016	(113,998)	(78,777)	(35,221)

21,846	22,759	(913)	1.65	2.32	(0.67)	Total deposits	269,919	395,432	(125,513)	(93,854)	(31,659)
2,414	2,976	(562)	2.53	2.40	0.13	Short-term borrowings	45,756	53,476	(7,720)	2,168	(9,888)
5,109	3,046	2,063	4.82	5.88	(1.06)	Medium and long-term debt	184,117	133,858	50,259	39,692	10,567
29,369	28,781	588	2.27	2.71	(0.44)	Total interest bearing liabilities	499,792	582,766	(82,974)	(51,994)	(30,980)
4,638	4,269	369				Non-interest bearing demand deposits					
(495)	1,484	(1,979)				Other sources of funds					
$33,512	$34,534	($1,022)	1.99%	2.26%	(0.27%)	Total source of funds					
			3.75%	3.45%	0.30%	Net interest margin					
						Net interest income on a taxable equivalent basis	941,396	892,979	48,417	($25,587)	$ 74,004
			3.47%	3.00%	0.47%	Net interest spread					
						Taxable equivalent adjustment	6,585	61,044	(54,459)		
						Net interest income	$ 934,811	$ 831,935	$ 102,876		

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

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

PROVISION FOR LOAN LOSSES

The provision for loan losses totaled $215.0 million, or 87% of net charge-offs, for the quarter ended September 30, 2010, compared with $331.1 million, or 123% of net charge-offs, for the third quarter of 2009. For the nine months ended September 30, 2010, the provision for loan losses totaled $657.5 million, or 97% of net charge-offs, compared with $1.1 billion, or 145% of net charge-offs, for the nine months ended September 30, 2009.

As indicated in the Overview section, the decrease in the provision for loan losses for the quarter and nine months ended September 30, 2010, as compared with the quarter and nine months ended September 30, 2009, was mainly the result of higher amounts provisioned during 2009, particularly for commercial and construction loans, U.S. mainland non-conventional residential mortgage loans and home equity lines of credit, combined with specific reserves recorded for loans considered impaired. The deteriorated conditions of the Puerto Rico and U.S. economies that prevailed during 2009, declines in property values, and the slowdown in consumer spending, negatively impacted the Corporation s net charge-offs and non-performing assets levels, thus requiring substantial reserve increases in 2009. Since September 30, 2009, loans held-in-portfolio, excluding the covered loans of the Westernbank FDIC-assisted transaction, decreased by approximately $2.3 billion, particularly commercial, construction and consumer loan portfolios. This decrease in the loan portfolio also contributed to the lower level of provision for loan losses for the third quarter of 2010.

As indicated previously, the covered loans were recognized at fair value upon acquisition. Based on management s analysis, there was no need to establish an allowance for loan losses for the covered loans from the acquisition date to September 30, 2010. Refer to the Credit Risk Management and Loan Quality section of this MD&A for a discussion on net charge-offs, non-performing assets and the allowance for loan losses.

NON-INTEREST INCOME

Refer to Table D for a breakdown on non-interest income by major categories for the quarters and nine months ended September 30, 2010 and 2009.

TABLE D

Non-Interest Income

	Quarters ended September 30,			Nine months ended September 30,		
(In thousands)	2010	2009	Variance	2010	2009	Variance
Service charges on deposit accounts	$ 48,608	$ 54,208	($5,600)	$ 149,865	$161,412	($11,547)
Other service fees:						
Debit card fees	27,711	26,986	725	83,480	80,867	2,613
Credit card fees and discounts	24,382	23,497	885	73,692	70,951	2,741
Processing fees	15,258	13,638	1,620	43,390	40,773	2,617
Insurance fees	11,855	11,463	392	34,929	36,014	(1,085)
Sale and administration of investment products	11,379	8,181	3,198	28,791	25,204	3,587
Mortgage servicing fees, net of fair value adjustments	1,306	4,869	(3,563)	15,487	18,301	(2,814)
Trust fees	3,534	3,260	274	10,168	9,364	804
Other fees	5,397	5,720	(323)	15,930	17,110	(1,180)
Total other service fees	100,822	97,614	3,208	305,867	298,584	7,283

Net gain (loss) on sale and valuation adjustments of investment securities	3,732	(9,059)	12,791	4,210	220,792	(216,582)
Trading account profit	5,860	7,579	(1,719)	8,101	31,241	(23,140)
Loss on sale of loans, including adjustments to indemnity reserves, and valuation adjustments on loans held-for-sale	(1,573)	(8,728)	7,155	(23,106)	(35,994)	12,888
FDIC loss share expense	(36,936)		(36,936)	(13,602)		(13,602)
Fair value change in equity appreciation instrument	10,641		10,641	35,035		35,035
Gain on sale of processing and technology business	640,802		640,802	640,802		640,802
Other operating income	24,568	18,430	6,138	63,076	44,579	18,497
Total non-interest income	$796,524	$160,044	$636,480	$1,170,248	$720,614	$ 449,634

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The increase in non-interest income for the quarter and nine months ended September 30, 2010, when compared with the same periods of the previous year, was principally due to the gain of $640.8 million, before tax and transaction costs, recognized on the sale of the 51% ownership interest in the Corporation s processing and technology business, EVERTEC.

Also impacting the favorable variance in non-interest income for the quarter ended September 30, 2010, when compared with the same quarter of the previous year, were higher gains on sales of investment securities by $3.5 million. Also, results for the quarter ended September 30, 2009 included $9.3 million in write-downs on equity securities available-for-sale and tax credit investments classified as other investment securities in the consolidated statement of condition.

Moreover, there were $10.6 million and $35.0 million in favorable changes in the fair value of the equity appreciation instrument issued to the FDIC during the quarter and nine months ended September 30, 2010, respectively, due to a decline in value in the Corporation s common stock since the equity appreciation instrument was issued to September 30, 2010, a reduction in the assumption of volatility related to the Corporation s stock price and a shorter period remaining for the expiration of the instrument.

In addition, there were lower losses on sales of loans, net of lower of cost of market valuation adjustment on loans held-for-sale, by $7.2 million and $12.9 million for the quarter and nine-month periods ended September 30, 2010, respectively, compared with the same periods in 2009. Contributing to the favorable variance for the quarter were higher gains of $3.0 million recorded by the Corporation s mortgage banking business related to residential mortgage loans securitized and $8.8 million in lower indemnity reserve adjustments in the BPNA reportable segment and PFH, partially offset by higher indemnity reserve adjustments in the BPPR reportable segment by $4.2 million. Contributing to the favorable variance for the nine-month period were higher gains of $13.2 million recorded by the Corporation s mortgage banking business related to residential mortgage loans securitized, $35.1 million in lower indemnity reserve adjustments in the BPNA reportable segment and PFH, partially offset by higher indemnity reserve adjustments in the BPPR reportable segment by $31.9 million.

The increase in provisioning for the indemnity reserve in the BPPR reportable segment for the quarter and nine months ended September 30, 2010 was associated to mortgage loans that had been previously sold with credit recourse by the BPPR reportable segment. This indemnity reserve adjustment was driven by increased foreclosure rates, repurchases, delinquency trends and loss severity levels experienced during 2010. The decrease in provisioning for the indemnity reserves at the BPNA reportable segment corresponded principally to lower volume of disbursements, reduced loss severities and the expiration of indemnification terms under standard representation and warranty arrangements, including a reduction of $18.8 million related to loans previously sold by E-LOAN and $16.1 million related to loans sold by Popular Equipment Finance during 2009.

These favorable variances were partially offset by $36.9 million and $13.6 million in losses in the caption of FDIC loss share expense for the quarter and nine months ended September 30, 2010, respectively. These losses resulted from a reduction in the indemnification asset by $71.6 million resulting principally from the Corporation s application of reciprocal accounting for covered loans accounted for under ASC Subtopic 310-20 due to their revolving characteristics, for which 80% of the losses are covered by the FDIC under loss share agreements. By accreting into interest income the discount on accruing loans accounted pursuant to ASC Subtopic 310-20, the carrying basis increases. With reciprocal accounting, the Corporation was required to reduce the indemnification asset by approximately 80% of the loan discount accreted, and thus record a reduction in non-interest income. The above $71.6 million decrease was partially offset by higher accretion of the indemnification asset, which amounted to $34.7 million for the quarter ended September 30, 2010 and $58.0 million for the period from April 30, 2010 through September 30, 2010. The time value of money incorporated into the present value computation of the indemnification asset is accreted into earnings over the life of the loss sharing agreements.

In addition, service charges on deposit accounts for the quarter and nine-month period ended September 30, 2010 decreased by $5.6 million and $11.5 million, respectively, when compared with the same periods in 2009, mostly in the BPNA reportable segment related to lower non-sufficient funds fees and reduced fees from money services clients.

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Also offsetting the favorable variances during the nine-month period ended September 30, 2010 were $182.7 million in gains derived from the sale of $3.4 billion in U.S. Treasury notes and U.S. agencies during the first quarter of 2009 by BPPR and $52.3 million in gains from the sale of equity securities in the second quarter of 2009 by BPPR and EVERTEC. The impact of these 2009 events, were partially offset by $15.8 million in write-downs on equity securities available-for-sale and tax credit investments classified as other investment securities during the nine-month period ended September 30, 2009.
The decrease in trading account profit by $23.1 million for the nine months ended September 30, 2010, when compared with the same period of the previous year, was mostly related to $43.7 million in lower realized gains as a result of a lower volume of mortgage-backed securities sold, partially offset by $16.4 million in higher unrealized gains of outstanding mortgage-backed securities.

OPERATING EXPENSES

Table E provides a breakdown of operating expenses by major categories.

TABLE E
Operating Expenses

	Quarters ended September 30,			Nine months ended September 30,		
(In thousands)	2010	2009	Variance	2010	2009	Variance
Personnel costs:						
Salaries	$116,426	$102,822	$ 13,604	$321,423	$315,224	$ 6,199
Pension and other benefits	24,779	27,725	(2,946)	78,746	96,820	(18,074)
Total personnel costs	141,205	130,547	10,658	400,169	412,044	(11,875)
Net occupancy expenses	28,425	28,269	156	86,359	80,734	5,625
Equipment expenses	25,432	24,983	449	74,231	76,289	(2,058)
Other taxes	13,872	13,109	763	38,635	39,369	(734)
Professional fees	48,224	28,694	19,530	109,498	80,643	28,855
Communications	9,514	11,902	(2,388)	31,628	36,115	(4,487)
Business promotion	11,260	8,905	2,355	29,759	26,761	2,998
Printing and supplies	2,876	2,857	19	7,898	8,664	(766)
FDIC deposit insurance	17,183	16,506	677	49,894	61,954	(12,060)
Loss (gain) on early extinguishment of debt	25,448	(79,304)	104,752	26,426	(79,304)	105,730
Other operating expenses	45,697	31,753	13,944	119,464	104,955	14,509
Amortization of intangibles	2,411	2,379	32	6,915	7,218	(303)
Total operating expenses	$371,547	$220,600	$150,947	$980,876	$855,442	$125,434

Other operating expenses for the quarter and nine months ended included a $15.8 million prepayment penalty on the repurchase and cancellation of $175 million in term notes in July 2010. Also, the Corporation incurred $9.7 million in prepayment penalties during the quarter ended September 30, 2010 on the cancellation of $180 million of FHLB advances and $54 million in public fund certificates of deposit as part of BPNA s deployment of excess liquidity and as part of a strategy to increase margin in future periods. The third quarter of 2009 included a gain on extinguishment of debt of $79.3 million, principally derived from the exchange of trust preferred securities for common stock.

Also, the increase in operating expenses was due to approximately $24.6 million in transaction costs related to the EVERTEC transaction.

Furthermore, salaries from full time equivalent employees retained from Westernbank operations, as discussed in the Overview section, as well as headcount retained on a temporary basis, was the principal contributor to the increase in personnel costs for the quarter September 30, 2010 when compared with the same quarter in 2009. The decrease in personnel costs for the nine months ended September 30, 2010, compared with the same period in 2009 was due to a reduction in salaries in the BPNA reportable segment due to restructuring and staff reductions during 2009 and a decrease in pension costs due to the plan freeze, partially offset by the salaries from Westernbank employees. Refer to Note 25 to the consolidated financial statements for a breakdown of the pension and postretirement costs.

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INCOME TAXES

Income tax expense amounted to $102.4 million for the quarter ended September 30, 2010, compared with income tax expense of $6.3 million for the same quarter of 2009. The increase in income tax expense was primarily due to higher income before tax on the Puerto Rico operations, lower exempt interest income net of disallowance of expenses attributed to such exempt income and an increase in non-deductible interest expense related to the Trust Preferred issued to the US Treasury in August 2009, as to which the Corporation agreed with the US Treasury not to deduct interest payments for tax purposes. These trust preferred securities are described in Note 17 to the consolidated financial statements. This increase was partially offset by an increase in income subject to preferential tax rate mainly driven by the gain on the sale of EVERTEC.

The components of income tax for the quarter ended September 30, 2010 and 2009 were as follows:

	Quarter ended			
	September 30, 2010		September 30, 2009	
(In thousands)	Amount	% of pre-tax income	Amount	% of pre-tax income
Computed income tax at statutory rates	$ 244,423	40.95%	($47,186)	40.95%
Net reversal (benefit) of net tax exempt interest income	6,317	1.06	(11,895)	10.32
Effect of income subject to preferential tax rate	(149,325)	(25.02)	(25)	0.02
Deferred tax asset valuation allowance	9,746	1.63	58,480	(50.75)
Non-deductible expenses	7,076	1.19	2,788	(2.42)
Difference in tax rates due to multiple jurisdictions	97	0.01	8,579	(7.44)
State taxes and others	(15,946)	(2.67)	(4,410)	3.83
Income tax expense	$ 102,388	17.15%	$ 6,331	(5.49%)

Although the Corporation reported a net income before income tax of $596.9 million, it recognized an income tax expense for the quarter ended September 30, 2010 of $102.4 million. This is in part the result of calculating the tax on the sale of EVERTEC at a preferential tax rate.

Income tax expense amounted to $113.1 million for the nine-month period ended September 30, 2010, compared with an income tax benefit of $15.2 million for the same period in 2009. The increase was principally due to higher income before tax in the Puerto Rico operations, lower net exempt interest income and an increase in non-deductible interest expense related to the trust preferred securities issued to the U.S. Treasury as compared to the same period of 2009. Also, in 2009 a temporary five-percent special surtax was imposed on all corporations doing business in Puerto Rico, resulting in an income tax benefit as a consequence of adjusting the deferred tax assets to reflect the increase in tax rate.

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The components of income tax for the nine months ended September 30, 2010 and 2009 were as follows:

	Nine months ended			
	September 30, 2010		September 30, 2009	
(In thousands)	Amount	% of pre-tax income	Amount	% of pre-tax income
Computed income tax at statutory rates	$ 191,118	40.95%	($145,752)	40.95%
Benefits of net tax exempt interest income	(5,828)	(1.25)	(38,751)	10.89
Effect of income subject to preferential tax rate	(150,431)	(32.23)	(59,298)	16.66
Deferred tax asset valuation allowance	71,582	15.34	203,709	(57.23)
Non-deductible expenses	20,958	4.48	2,788	(0.79)
Difference in tax rates due to multiple jurisdictions	6,371	1.37	31,252	(8.78)
State taxes and others	(20,669)	(4.43)	(9,157)	2.57
Income tax expense (benefit)	$ 113,101	24.23%	($15,209)	4.27%

Refer to Note 27 to the consolidated financial statements for a breakdown of the Corporation s deferred tax assets as of September 30, 2010.

REPORTABLE SEGMENT RESULTS

The Corporation s reportable segments for managerial reporting purposes consist of Banco Popular de Puerto Rico and Banco Popular North America (as defined in Note 29 to the consolidated financial statements). A Corporate group has been defined to support the reportable segments. For managerial reporting purposes, the costs incurred by the Corporate group are not allocated to the reportable segments.

As a result of the sale of a 51% interest in EVERTEC described in the Overview section, the Corporation no longer presents EVERTEC as a reportable segment and therefore, historical financial information for EVERTEC, including the merchant acquiring business that was part of the BPPR reportable segment, has been reclassified under Corporate for all periods discussed.

For a description of the Corporation s reportable segments, including additional financial information and the underlying management accounting process, refer to Note 29 to the consolidated financial statements.

The Corporate group had net income of $496.5 million for the third quarter of 2010, compared with net income of $65.9 million for the quarter ended September 30, 2009, and net income of $472.6 million for the nine months ended September 30, 2010 compared with $53.1 million for the same period in the previous year. The variance in the year-to-date results for the corporate group was principally due to:

- higher non-interest income by $658.9 million, principally due to the gain on sale of the processing and technology business in the third quarter of 2010;

- higher operating expenses by $119.6 million which were impacted by $15.8 million in losses on early extinguishment of debt related to the cancellation of $175 million in medium term notes of the bank holding company and $24.6 million in transaction costs related to the EVERTEC sale during the third quarter of 2010, compared with gains of $78.3 million associated to the extinguishment of junior subordinated debentures during the third quarter of 2009 as part of the exchange of trust preferred securities for shares of common stock of the Corporation; and

- higher income tax expense by $89.1 million principally due to higher taxable income resulting from the gain on the sale of the processing and technology business.

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

Banco Popular de Puerto Rico

The Banco Popular de Puerto Rico reportable segment reported net income of $12.5 million for the quarter ended September 30, 2010, compared with a net loss of $13.5 million for the same quarter of 2009. The principal factors that contributed to the variance in the financial results for the third quarter of 2010, when compared with the same

quarter of the previous year, included the following:

- higher net interest income by $118.8 million, or 55%, mainly as a result of the $78.5 million discount accretion on covered loans acquired from the Westernbank FDIC-assisted transaction that are accounted for under ASC Subtopic 310-20 due to their revolving characteristics and the $56.5 million discount accretion on covered loans accounted for under ASC Subtopic 310-30. The BPPR reportable segment s net interest yield was adversely impacted by funding the FDIC loss share indemnification asset, a non-interest earning asset, with interest bearing liabilities, mainly through the note issued to the FDIC. The BPPR reportable segment had a net interest