JETBLUE AIRWAYS CORP
Form 4
May 19, 2005

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

OMB Number:	3235-0287
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(Print or Type Responses)

1. Name and Address of Reporting Person *
RHOADES M ANN

(Last) (First) (Middle)

JETBLUE AIRWAYS CORPORATION, 118-29 QUEENS BLVD.

(Street)

FOREST HILLS, NY 11375

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
JETBLUE AIRWAYS CORP [JBLU]

3. Date of Earliest Transaction (Month/Day/Year)
05/18/2005

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director
_____ 10% Owner
_____ Officer (give title below)
_____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amoun Underlying Securit (Instr. 3 and 4)	
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amo or Num of Share
Stock Option (Right to Purchase)	$ 22.13	05/18/2005		A		9,000 (1)		05/18/2005 (2)(3)	05/18/2015	Common Stock	9,0

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
RHOADES M ANN JETBLUE AIRWAYS CORPORATION 118-29 QUEENS BLVD. FOREST HILLS, NY 11375	X			

Signatures

M. Ann Rhoades	05/18/2005
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) The option was granted under the issuer's 2002 Stock Incentive Plan.

(2) The option is immediately exercisable for any or all of the shares underlying the option. However, any shares purchased under the option will be subject to repurchase by the Issuer, at the lower of the option price paid per share or the fair market value per share, should the reporting person cease service on the Issuer's board of directors prior to vesting in the shares.

(3) The shares subject to the option will vest upon the reporting person's completion of one year of service on the issuer's board of directors.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. Net decrease (increase) in accrued income receivable 316 (43) (2,693) (42,857) 2,602 (42,675)
Net decrease (increase) in other assets
23,128 2,699 (4,220) 8,555 345 30,507
Net increase in interest payable
375 6,436 377 (2,602) 4,586

Net increase in postretirement benefit obligation
2,407 2,407
Net increase in other liabilities
3,370 20 32,608 14,207 (31,560) 18,645
Total adjustments
(53,635) 133,258 132,021 402,281 (290,174) 323,751
Net cash provided by (used in) operating activities
175,965 4,492 (6,101) 537,871 (158,876) 553,351
Cash flows from investing activities:

Net (increase) decrease in money market investments
(62,300) 775 2,357 (334,854) 127,068 (266,954)
Purchases of investment securities:

Available-for-sale
(6,808) (2) (793,475) 732,365 (67,920)
Held-to-maturity
(2,749,665) (14,277,166) (17,026,831)
Other
(928) (46,858) (47,786)
Proceeds from calls, paydowns, maturities and redemptions of investment securities:

Available-for-sale
1,801,852 (735,548) 1,066,304
Held-to-maturity
2,559,000 900 14,284,651 16,844,551
Other
17,071 17,071
Proceeds from sale of investment securities available-for- sale
5,783 16,605 14,964 37,352
Proceeds from sale of other investment securities
245,484 2 865 1 246,352
Net repayments (disbursements) on loans
89,556 (21,550) (125,919) (753,204) (326,865) (1,137,982)
Proceeds from sale of loans
16,367 16,367
Acquisition of loan portfolios
(22,312) (22,312)
Capital contribution to subsidiary
(300) 500 (200)
Assets acquired, net of cash
(2,378) (2,378)
Mortgage servicing rights purchased
(25,596) (25,596)
Acquisition of premises and equipment
(513) (69,094) (69,607)
Proceeds from sale of premises and equipment
29,501 29,501
Proceeds from sale of foreclosed assets
113,776 113,776
Net cash provided by (used in) investing activities

80,537 (3,570) (123,625) (46,254) (203,180) (296,092)

Cash flows from financing activities:

Net increase in deposits
2,148,419 2,249 2,150,668
Net increase in federal funds purchased and assets sold under agreements to repurchase
105,503 549,555 (130,200) 524,858
Net decrease in other short-term borrowings
(125,787) (45,242) (2,575,473) 127,274 (2,619,228)
Payments of notes payable
(4,583) (1,443,198) 202,449 (1,245,332)
Proceeds from issuance of notes payable
298 89,293 731,496 821,087
Dividends paid to parent company
(159,200) 159,200

74

Explanation of Responses:

Table of Contents

(In thousands)	Popular, Inc. Holding Co.	PIBI Holding Co.	PNA Holding Co.	All other Subsidiaries and eliminations	Elimination entries	Popular, Inc. Consolidated
Dividends paid	(142,898)					(142,898)
Proceeds from issuance of common stock	12,836					12,836
Treasury stock acquired	(63)			(289)		(352)
Capital contribution from parent				(200)	200	
Net cash (used in) provided by financing activities	(255,614)		144,971	(748,890)	361,172	(498,361)
Net increase (decrease) in cash and due from banks	888	922	15,245	(257,273)	(884)	(241,102)
Cash and due from banks at beginning of period	2	157	322	949,868	(191)	950,158
Cash and due from banks at end of period	$ 890	$1,079	$ 15,567	$ 692,595	$ (1,075)	$ 709,056

75

Table of Contents

Note 27 Subsequent Events

Transaction with Goldman Sachs

On November 3, 2008, the Corporation completed the sale of the loan and servicing assets of PFH to various Goldman Sachs affiliates. This transaction is described in Note 3 to the consolidated financial statements.

Restructuring Plans

On October 17, 2008, the Board of Directors of Popular, Inc. approved two restructuring plans. The restructuring plan for Banco Popular North America (the BPNA Restructuring Plan) contemplates the following measures: closing, consolidation or sale of underperforming branches in all existing markets; the shutting down, sale or downsizing of lending businesses that do not generate deposits or fee income; and the reduction of general expenses associated with functions supporting the aforementioned branch and balance sheet initiatives.

It is anticipated that the BPNA Restructuring Plan will result in estimated combined charges for the Corporation of $36.6 million, to be recognized during the fourth quarter of 2008 and in 2009, broken down as follows:

($ in millions)	
Severance, bonuses and other benefits	$14.4
Lease contract terminations and write-off of leasehold improvements	17.9
Other costs, mostly write-downs of core deposit intangibles	4.3
Total	$36.6

As a result of the BPNA Restructuring Plan, the exiting and downsizing of certain business lines and reductions in support functions, the Corporation expects an overall headcount reduction of 30% or about 640 full-time equivalent positions.

The restructuring plan of E-LOAN (the E-LOAN 2008 Restructuring Plan) contemplates E-LOAN ceasing to operate as a direct lender in the fourth quarter of 2008. E-LOAN will continue to market deposit accounts under its name for the benefit of BPNA and offer loan customers the option of being referred to a trusted consumer lending partner.

It is anticipated that the E-LOAN Restructuring Plan will result in estimated combined charges for the Corporation of $13.6 million, to be recognized during the fourth quarter of 2008 and in 2009, broken down as follows:

($ in millions)	
Severance, bonuses and other benefits	$ 6.1
Lease contract terminations and write-off of leasehold improvements	2.5
Other costs, principally write-downs of equipment and other intangibles	5.0
Total	$13.6

These estimates are preliminary as management is still in the process of evaluating the cost of implementing the restructuring plans. Accordingly, no assurance can be given that the final charges may not differ by a significant amount from these estimates.

BPNA and E-LOAN are part of the BPNA reportable segment.

Table of Contents

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

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

OVERVIEW

Popular, Inc. (the Corporation or Popular) is a diversified, publicly owned financial holding company subject to the supervision and regulation of the Board of Governors of the Federal Reserve System. The Corporation is a financial services provider with operations in Puerto Rico, the United States, the Caribbean and Latin America. As the leading financial institution in Puerto Rico, the Corporation offers retail and commercial banking services through its principal banking subsidiary, Banco Popular de Puerto Rico (BPPR), as well as auto and equipment leasing and financing, mortgage loans, consumer lending, investment banking, broker-dealer and insurance services through specialized subsidiaries. In the United States, the Corporation operates Banco Popular North America (BPNA), including its wholly-owned subsidiary E-LOAN, and Popular Financial Holdings (PFH). BPNA is a community bank providing a broad range of financial services and products. BPNA operates branches in New York, California, Illinois, New Jersey, Florida and Texas. E-LOAN markets deposit accounts under its name for the benefit of BPNA and offers loan customers the option of being referred to a trusted consumer lending partner for loan products. PFH operations were discontinued in the third quarter of 2008. Disclosures on the discontinued operations as well as recent restructuring plans in the BPNA and E-LOAN subsidiaries are included in this MD&A. The Corporation, through its transaction processing company, EVERTEC, continues to use its expertise in technology as a competitive advantage in its expansion throughout the United States, the Caribbean and Latin America, as well as internally servicing many of its subsidiaries system infrastructures and transactional processing businesses. Note 25 to the consolidated financial statements presents information about the Corporation s business segments.

The Corporation reported a net loss of $668.5 million for the quarter ended September 30, 2008, compared with a net income of $36.0 million in the same quarter of 2007. Table A provides selected financial data and performance indicators for the quarter and nine-month periods ended September 30, 2008 and 2007.

The following items principally impacted financial results for the quarter ended September 30, 2008:

- Losses of $457.3 million, net of tax, related to the discontinued operations of the U.S.-based reporting segment Popular Financial Holdings. The losses included write-downs of assets held-for-sale to fair value, losses on the sale of loans, restructuring charges and an unfavorable impact to income tax due to the recording of a valuation allowance on deferred tax assets of $171.2 million.

- Losses from continuing operations of $211.2 million, net of tax, primarily resulting from a valuation allowance of $189.2 million against the Corporation s deferred tax assets related to U.S. operations which negatively impacted income tax expense and higher provision for loan losses of $165.8 million as a result of higher credit losses, particularly in real estate related loans.

Financial results for the quarter and nine months ended September 30, 2008 and 2007 are summarized in Table A. The Corporation retrospectively adjusted certain information, principally that impacting the statement of operations, to present in a separate line item the results from discontinued operations from prior periods presented in this Form 10-Q for comparability purposes. The discussions in this MD&A pertain to Popular, Inc. s continuing operations, unless otherwise indicated.

Net Loss from Continuing Operations:

Financial results for the quarter ended September 30, 2008 for Popular s continuing operations were principally impacted by the following items (on a pre-tax basis compared to the third quarter of 2007):

- Higher income tax expense by $125.3 million, which includes a $189.2 million adjustment to recognize a valuation allowance on a part of the deferred tax assets related to the Corporation s continuing U.S. operations. Given that the Corporation files a consolidated U.S. tax return for its

Table of Contents

U.S. operations, the Corporation can continue to benefit from the net operating losses carryforward derived from the PFH reportable segment losses. Based on the internal assessment of the realization of the U.S. deferred tax asset, during the third quarter of 2008, management determined that it was appropriate to establish a valuation allowance of $360.4 million, of which $189.2 million of the impact in income tax expense is accounted as part of the Corporation s continuing operations. Refer to the Income Taxes section of this MD&A for further information on deferred tax assets.

Higher provision for loan losses for the third quarter of 2008 by $165.8 million, including $61.9 million in specific reserves for loans classified as impaired under SFAS No. 114. The increase in provision for loan losses was driven principally by higher net charge-offs and deteriorating credit quality trends. Details on credit quality indicators are included in the Credit Risk Management and Loan Quality Section in this MD&A. The current state of the economy and uncertainty in the private and public sectors has had an adverse effect on the credit quality of the Corporation s loan portfolios.

Lower net interest income by $7.4 million, and

Higher operating expenses by $4.0 million.

The above were partially offset by higher non-interest income by $11.0 million.

Banco Popular de Puerto Rico reportable segment s net income amounted to $35.4 million for the quarter ended September 30, 2008, compared to net income of $80.2 million for the same quarter in 2007. The Corporation s banking business in Puerto Rico continues to feel the pressure of weak economic conditions. The reduction in net income, when comparing the results for the 2008 and 2007 third quarters, was principally attributed to an increase in its provision for loan losses of $62.8 million. Revenues derived from deposit accounts and other service fees increased 7%. Management in the Puerto Rico operations continues focusing on addressing credit-related challenges and on implementing additional income opportunities and cost reduction initiatives to mitigate the additional provision expense. The expense reduction efforts include (i) reducing headcount by attrition (leveraging human resources through internal mobility), (ii) focusing on projects that will result in immediate contributions to profitability, and (iii) rationalizing product lines that consistently fail to deliver adequate returns on equity. Banco Popular de Puerto Rico will consolidate its consumer-finance operations, Popular Finance, into its retail banking operations. Popular Finance stopped originating loans on November 1, 2008. Some of Popular Finance s 44 branches will continue to operate as customer-service operations. The remaining branches of Popular Finance will be closed or sold. Employees at Popular Finance will be relocated to support other business lines at the Puerto Rico operations.

EVERTEC, the Corporation s processing business, continues to perform well, reporting net income of $8.5 million in the third quarter of 2008, compared to $8.1 million in the same quarter of the previous year, for an increase of approximately 5%.

Banco Popular North America (BPNA) reportable segment, which includes E-LOAN, reported a net loss for the quarter ended September 30, 2008 of $139.0 million, compared to a net loss of $1.1 million in the same quarter of 2007. Of the results for the quarter ended September 30, 2008, $51.7 million of those losses pertain to BPNA, while $87.4 million pertains to E-LOAN. These operations were impacted by an increase of $103.0 million in the provision for loan losses compared to the same quarter of 2007 and by $94.5 million valuation allowance established for part of the deferred tax assets in the third quarter of 2008. The Corporation has concluded that an accelerated downturn of the U.S. economy requires a leaner, more efficient U.S. business model. As such, the Corporation is reducing the size of its banking operations in the U.S. mainland to a level suited to present economic conditions. The objective of the restructuring plan for this reportable segment is to improve profitability in the short term, increase liquidity and lower credit costs, and over time achieve a greater integration with corporate functions in Puerto Rico. Refer to the Subsequent Events section of this MD&A for information on the BPNA restructuring plan approved by the Corporation s Board of Directors in October 2008.

Table of Contents

TABLE A
Financial Highlights

Financial Condition Highlights	**At September 30,**			**Average for the nine months****		
(In thousands)	2008	2007	Variance	2008	2007	Variance
Money market investments	$ 309,497	$ 635,097	$ (325,600)	$ 651,043	$ 449,722	$ 201,321
Investment and trading securities	8,962,130	9,999,296	(1,037,166)	8,949,770	10,574,675	(1,624,905)
Loans	26,581,169*	33,320,804	(6,739,635)	26,513,808	25,110,127	1,403,681
Total earning assets	35,852,796*	43,955,197	(8,102,401)	36,114,621	36,134,524	(19,903)
Total assets	40,390,142	47,280,131	(6,889,989)	41,391,639	47,168,015	(5,776,376)
Deposits	27,911,397	26,601,515	1,309,882	27,268,864	24,972,662	2,296,202
Borrowings	8,479,537*	16,016,991	(7,537,454)	7,519,439	9,750,011	(2,230,572)
Stockholders equity	3,007,473	3,803,721	(796,248)	3,440,296	3,870,770	(430,474)

Operating Highlights	**Third Quarter**			**Nine months ended September 30,**		
(In thousands, except per share information)	2008	2007	Variance	2008	2007	Variance
Net interest income	$ 324,282	$331,646	$ (7,364)	$ 990,338	$ 968,342	$ 21,996
Provision for loan losses	252,160	86,340	165,820	602,561	219,477	383,084
Non-interest income	187,928	176,925	11,003	688,477	683,078	5,399
Operating expenses	322,915	318,961	3,954	976,548	973,372	3,176
(Loss) income from continuing operations before income tax	(62,865)	103,270	(166,135)	99,706	458,571	(358,865)
Income tax expense	148,308	23,056	125,252	152,467	105,598	46,869
(Loss) income from continuing operations, net of income tax	(211,173)	80,214	(291,387)	(52,761)	352,973	(405,734)
Loss from discontinued operations, net of income tax	(457,370)	(44,211)	(413,159)	(488,242)	(123,373)	(364,869)
Net (loss) income	$(668,543)	$ 36,003	$(704,546)	$(541,003)	$ 229,600	$(770,603)
Net (loss) income applicable to common stock	$(679,772)	$ 33,024	$(712,796)	$(561,213)	$ 220,665	$(781,878)
Earnings per common share:						
Basic and diluted (losses) earnings from continuing operations	$ (0.79)	$ 0.28	$ (1.07)	$ (0.26)	$ 1.23	$ (1.49)
Basic and diluted (losses) earnings from discontinued operations	$ (1.63)	$ (0.16)	$ (1.47)	$ (1.74)	$ (0.44)	$ (1.30)
Basic and diluted (losses) earnings Total	$ (2.42)	$ 0.12	$ (2.54)	$ (2.00)	$ 0.79	$ (2.79)

Selected Statistical Information

	Third Quarter		**Nine months ended September 30,**	
	2008	2007	2008	2007
Common Stock Data Market price				
High	$ 11.17	$ 16.18	$ 14.07	$ 18.94
Low	5.12	11.38	5.12	11.38

End	8.29	12.28	8.29	12.28
Book value per share at period end	8.59	12.94	8.59	12.94
Dividends declared per share	0.08	0.16	0.40	0.48
Dividend payout ratio	(6.65%)	135.35%	(23.85%)	60.71%
Profitability Ratios Return on assets	(6.55%)	0.30%	(1.75%)	0.65%
Return on common equity	(93.32)	3.52	(24.57)	8.01
Net interest spread (taxable equivalent)	3.42	3.27	3.44	3.22
Net interest margin (taxable equivalent)	3.89	3.88	3.92	3.83
Capitalization Ratios Equity to assets	8.54%	8.29%	8.31%	8.21%
Tangible equity to assets	6.97	6.77	6.75	6.68
Internal capital generation	(80.56)	(1.20)	(26.24)	2.98
Tier I capital to risk adjusted assets	9.09	10.73	9.09	10.73
Total capital to risk adjusted assets	10.35	11.98	10.35	11.98
Leverage ratio	7.17	8.31	7.17	8.31

* Excludes assets / liabilities from discontinued operations as of September 30, 2008 as follows: $626 million in loans, $630 million in earning assets, and $166 million in borrowings. These are included as part of Assets / Liabilities from discontinued operations in the consolidated statement of condition as of such date.

** Excludes averages of assets / liabilities from discontinued operations. Averages for September 30,

2007 were
retrospectively
adjusted to
conform to the
September 30,
2008
presentation.

79

Table of Contents

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

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

The description of the Corporation s business contained in Item 1 of the Corporation s Form 10-K for the year ended December 31, 2007, while not all inclusive, discusses additional information about the business of the Corporation and risk factors, many beyond the Corporation s control that, in addition to the other information in this Form 10-Q, including Item 1A of Part III; readers should consider.

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

The shares of the Corporation s common (BPOP) and preferred stock (BPOPO and BPOPP) are traded on the National Association of Securities Dealers Automated Quotation (NASDAQ) system.

DISCONTINUED OPERATIONS

On August 29, 2008, the Corporation announced that it had entered into an agreement to sell loans, residual interests and servicing related assets of PFH and Popular, FS to Goldman Sachs Mortgage Company, Goldman, Sachs & Co. and Litton Loan Servicing, LP. The transaction closed on November 3, 2008. This sale resulted in a reduction in assets, mostly accounted at fair value, of over $900 million, and provided over $700 million in additional liquidity.

In addition, on September 18, 2008, the Corporation announced the consummation of the sale of manufactured housing loans of PFH to 21st Mortgage Corp. and Vanderbilt Mortgage and Finance, Inc. The transaction provided approximately $198 million in cash and resulted in a reduction in unpaid principal balance of loans held at PFH of approximately $309 million.

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

The proceeds from the PFH asset sales will be used for repayment of the Corporation s medium-term notes due in

Table of Contents

2009 as well as other debt maturities. The Corporation reported a net loss for the discontinued operations of $457.3 million in the third quarter of 2008. The loss included write-downs of assets held-for-sale to fair value, losses on the sale of loans, restructuring charges and the recording of a valuation allowance on deferred tax assets of $171.2 million.

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

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

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

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

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

As part of these actions at PFH, the Corporation entered into a restructuring plan (the PFH Discontinuance Restructuring Plan) to eliminate employment positions, terminate contracts and incur other costs associated with the sale. Further information on the restructuring plan is provided in the Restructuring Plans section in this MD&A.
As of September 30, 2008, on a pro-forma basis after giving effect to the sale of PFH s loan and servicing assets described above, the Corporation s capital ratios are estimated as follows: Tier I capital ratio of approximately 9.43%, total capital ratio of approximately 10.69%, and leverage ratio of approximately 7.15%. Refer to Table K for the Corporation s regulatory capital ratios and amounts of total risk-based capital, Tier I risk-based capital and Tier I leverage at September 30, 2008.

81

Table of Contents

SUBSEQUENT EVENTS

Transaction with Goldman Sachs

On November 3, 2008, the Corporation completed the sale of the loans and servicing assets of PFH to various Goldman Sachs affiliates. Refer to the Discontinued Operations section of this MD&A for further information.

Restructuring Plans

The Corporation has concluded that an accelerated downturn of the U.S. economy requires a leaner, more efficient U.S. business model. As such, the Corporation is reducing the size of its banking operations in the U.S. mainland to a level suited to present economic conditions. On October 17, 2008, the Board of Directors of Popular, Inc. approved two restructuring plans for the BPNA reportable segment. The objective of the restructuring plans is to improve profitability in the short term, increase liquidity and lower credit costs, and over time achieve a greater integration with corporate functions in Puerto Rico.

The restructuring plan for Banco Popular North America (banking operations) (the BPNA Restructuring Plan) contemplates the following measures: closing, consolidation or sale of underperforming branches in all existing markets; the shutting down, sale or downsizing of lending businesses that do not generate deposits or fee income; and the reduction of general expenses associated with functions supporting the aforementioned branch and balance sheet initiatives.

It is anticipated that the BPNA Restructuring Plan will result in estimated combined charges for the Corporation of $36.6 million, to be recognized during the fourth quarter of 2008 and in 2009, broken down as follows:

($ in millions)	
Severance, bonuses and other benefits	$14.4
Lease contract terminations and write-off of leasehold improvements	17.9
Other costs, mostly write-downs of core deposit intangibles	4.3
Total	$36.6

As a result of the BPNA Restructuring Plan, the exiting and downsizing of certain business lines and reductions in support functions, the Corporation expects an overall headcount reduction of 30% or about 640 full-time equivalent positions.

The BPNA Restructuring Plan is expected to achieve annual expense savings at BPNA of approximately $50 million and is expected to be rolled out in the fourth quarter 2008 with an estimated completion date of June 2009.

The restructuring plan of E-LOAN (the E-LOAN 2008 Restructuring Plan) contemplates E-LOAN ceasing to operate as a direct lender in the fourth quarter of 2008. E-LOAN will continue to market deposit accounts under its name for the benefit of BPNA and offer loan customers the option of being referred to a trusted consumer lending partner. All operational and support functions will be transferred to BPNA and EVERTEC by July 2009.

It is anticipated that the E-LOAN 2008 Restructuring Plan will result in estimated combined charges for the Corporation of $13.6 million, to be recognized during the fourth quarter of 2008 and in 2009, broken down as follows:

($ in millions)	
Severance, bonuses and other benefits	$ 6.1
Lease contract terminations and write-off of leasehold improvements	2.5
Other costs, principally write-downs of equipment and other intangibles	5.0
Total	$13.6

Table of Contents

Annualized expected savings from the E-LOAN 2008 Restructuring Plan are estimated at approximately $37 million. These estimates are preliminary as management is still in the process of evaluating the cost of implementing the restructuring plans. Accordingly, no assurance can be given that the final charges may not differ by a significant amount from these estimates.

Legislation

On October 3, 2008, Congress passed the Emergency Economic Stabilization Act of 2008 (EESA), which provides the U.S. Secretary of the United States Treasury Department (Treasury) with broad authority to deploy up to $750 billion into the financial system to help restore stability and liquidity to U.S. markets. On October 24, 2008, Treasury announced plans to direct $250 billion of this authority into preferred stock investments by Treasury in qualified financial institutions as part of the Troubled Asset Relief Program (TARP) Capital Purchase Program.

The program is voluntary and requires an institution to comply with a number of restrictions and provisions, including limits on executive compensation, stock redemptions and declaration of dividends. Applications must be submitted by November 14, 2008 and are subject to approval by the Treasury. This program provides for a minimum investment of 1% of Risk-Weighted Assets, with a maximum investment equal to the lesser of 3% of Total Risk-Weighted Assets or $25 billion. The perpetual preferred stock investment will have a dividend rate of 5% per year, until the fifth anniversary of the Treasury investment, and a dividend rate of 9%, thereafter. This program also requires the Treasury to receive warrants for common stock equal to 15% of the capital invested by the Treasury. Participation in the program is not automatic and subject to approval by the Treasury.

Furthermore, the EESA included a provision for an increase in the amount of deposits insured by the Federal Deposit Insurance Corporation (FDIC) to $250,000. On October 14, 2008, the FDIC announced a new program the Temporary Liquidity Guarantee Program that provides unlimited deposit insurance on funds in noninterest-bearing transaction deposit accounts not otherwise covered by the existing deposit insurance limit of $250,000.

RESTRUCTURING PLANS IN PLACE AS OF SEPTEMBER 30, 2008

PFH Discontinuance Restructuring Plan

As previously indicated in the Discontinued Operations section of this MD&A, in August 2008 the Corporation entered into a new restructuring plan for its PFH operations to eliminate employment positions, terminate contracts and incur other costs associated with the discontinuance of PFH s operations It is anticipated that the PFH Discontinuance Restructuring Plan will result in estimated combined charges for the Corporation of approximately $14 million, from which $5.1 million was recognized during the third quarter of 2008 and the remainder is expected to be recognized during the fourth quarter of 2008 and 2009. The costs consist of severance bonuses and other employee benefits, lease and contract termination expenses, and other costs, principally consisting of software, equipment and fixed asset impairments. Full-time equivalent employees at the PFH reportable segment were 299 as of September 30, 2008.

83

Table of Contents

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

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

(a) Fixed assets and prepaid expenses

(b) Severance, retention bonuses and other employee benefits

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

PFH Branch Network Restructuring Plan

Given the disruption in the capital markets since the summer of 2007 and its impact on funding, management of the Corporation concluded during the fourth quarter of 2007 that it would be difficult to generate an adequate return on the capital invested at Equity One s consumer service branches.

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

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

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

(a) Severance, retention bonuses and other benefits

(b) Lease terminations

(c) Contract cancellations and branch closing costs

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

Table of Contents

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

(In thousands)	Impairments on long-lived assets	Restructuring costs	Total
Quarter ended:			
December 31, 2007	$ 1,892		$ 1,892
March 31, 2008		$17,029	17,029
June 30, 2008		(433)	(433)
September 30, 2008		63	63
Total	$ 1,892	$16,659	$18,551

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

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

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

E-LOAN Restructuring Plan

As indicated in the 2007 Annual Report, in November 2007, the Corporation began a restructuring plan for its Internet financial services subsidiary E-LOAN (the E-LOAN Restructuring Plan). This plan included a substantial reduction of marketing and personnel costs at E-LOAN and changes in E-LOAN s business model. At that time, the changes included concentrating marketing investment toward the Internet and the origination of first mortgage loans that qualify for sale to government sponsored entities (GSEs). Also, as a result of escalating credit costs in the current economic environment and lower liquidity in the secondary markets for mortgage related products, in the fourth quarter of 2007, the Corporation determined to hold back the origination by E-LOAN of home equity lines of credit, closed-end second lien mortgage loans and auto loans. The E-LOAN Restructuring Plan resulted in charges recorded in the fourth quarter of 2007 amounting to $231.9 million, which included $211.8 million in non-cash impairment

losses related to its goodwill and trademark intangible assets.

The cost-control plan initiative and changes in loan origination strategies incorporated as part of the plan resulted in the elimination of over 400 positions between the fourth quarter of 2007 and first quarter of 2008. Full-time equivalent employees at E-LOAN were 300 as of September 30, 2008, compared with 806 as of September 30, 2007.

Table of Contents

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

(In thousands)	Restructuring costs
Balance at January 1, 2008	$ 8,808
Payments	(4,628)
Reversals	(301)
Balance at March 31, 2008	3,879
Payments	(936)
Balance at June 30, 2008	2,943
Payments	(460)
Reversals	(1,036)
Balance as of September 30, 2008	$ 1,447

The Corporation does not expect to incur additional significant restructuring costs related to this specific E-LOAN Restructuring Plan during the remainder of year 2008. The associated liability outstanding as of September 30, 2008 is mostly related to lease terminations.

The E-LOAN Restructuring Plan charges are part of the results of the BPNA reportable segment. Refer to Note 25 to the consolidated financial statements for disclosures on the financial results of E-LOAN for the quarter and nine months ended September 30, 2008 and the comparable periods in 2007.

These costs related to E-LOAN do not consider the new restructuring plan approved in October 2008 which was disclosed in the Subsequent Events section of this MD&A and which eliminated loan origination activities at E-LOAN.

SFAS No. 159 FAIR VALUE OPTION ELECTION

SFAS No. 159 provides entities the option to measure certain financial assets and financial liabilities at fair value with changes in fair value recognized in earnings each period. SFAS No. 159 permits the fair value option election on an instrument-by-instrument basis at initial recognition of an asset or liability or upon an event that gives rise to a new basis of accounting for that instrument.

As indicated in Note 2 to the consolidated financial statements, the Corporation elected to measure at fair value certain loans and borrowings outstanding at January 1, 2008 pursuant to the fair value option provided by SFAS No. 159. All of these financial instruments pertained to the operations of Popular Financial Holdings, and at the SFAS No. 159 adoption date included:

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

Approximately $287 million of owned-in-trust loans and $287 million of bond certificates associated with PFH securitization activities that were outstanding as of December 31, 2007. The owned-in-trust loans are pledged as collateral for the bond certificates as a financing vehicle through on-balance sheet securitization transactions. The owned-in-trust loans include first lien residential mortgage loans, closed-end second lien loans, mixed-use / multi-family loans (small commercial category) and manufactured housing loans. The

majority of the portfolio is comprised of first lien residential mortgage loans.

86

Table of Contents

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

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

The fair value adjustments in the loan portfolios recorded upon adoption of SFAS No. 159 on January 1, 2008 were mainly the result of factors such as:

In general, the loan portfolio is, in the most part, considered subprime and due to market conditions, considered distressed assets in a very illiquid market.

There was a significant deterioration in the delinquency profile of the second-lien closed-end mortgage loan portfolio

Property values obtained on subprime loans in foreclosure were declining dramatically. As property values do not justify initiating a foreclosure action, the loan in essence could behave as an unsecured loan.

A substantial share of PFH s closed-end second lien portfolio has combined loan-to-values greater than 90%.

The consumer loans measured at fair value also include home equity lines of credit that although were considered prime based on FICO scores, the portfolio had deteriorated. Similar to second lien closed-end loans, the HELOCs were also behaving as an unsecured loan.

Certain of the loan portfolios were trading at distressed levels based on the small trading activity available for the products and the expected return by the investors rather than the actual performance and fundamentals of these loans.

Similar factors and continuing disruptions in the capital markets and credit deterioration contributed to the further decline in value of the loan portfolio during 2008.

The following table presents the differences as of September 30, 2008 between the aggregate fair value, including accrued interest, and aggregate unpaid principal balance (UPB) of those loans / notes payable for which the fair value

option was elected. The fair value of these assets as of September 30, 2008 was determined based on the pricing terms of the sales agreement with Goldman Sachs.

(In thousands)	Aggregate fair value as of September 30, 2008	Aggregate UPB as of September 30, 2008	Unrealized (loss) gain
Loans:			
Mortgage	$ 442,140	$ 779,071	$(336,931)
Consumer	78,802	246,090	(167,288)
Commercial	62,870	120,556	(57,686)
Total loans	$ 583,812	$ 1,145,717	$(561,905)
Notes payable (bond certificates)	$(166,436)	$ (242,883)	$ 76,447

During the quarter and nine-months ended September 30, 2008, the Corporation recognized $137.2 million and $169.8 million, respectively, in losses attributable to changes in the fair value of loans, including net losses attributable to changes in instrument-specific credit spreads. During the quarter and nine months ended September 30, 2008, the Corporation recognized $3.4 million and $9.6 million, respectively, in losses attributable to changes in

87

the fair value of notes payable (bond certificates). These losses were included in the caption Loss from discontinued operations, net of tax in the consolidated statement of operations.

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

The following table provides information on non-performing loans measured at fair value pursuant to SFAS No. 159.

Non-Performing Loans Measured at Fair Value pursuant to SFAS No. 159

(Dollars in thousands)	Fair value as of September 30, 2008	Unpaid principal balance as of September 30, 2008	Unrealized losses
Commercial	$ 5,704	$ 16,399	$ (10,695)
Mortgage	58,693	160,356	(101,663)
Consumer	405	8,678	(8,273)
Total non-performing loans measured at fair value	$ 64,802	$ 185,433	$ (120,631)
Loans past due 90 days or more	$ 64,802	$ 185,433	$ (120,631)

RECENT ACCOUNTING PRONOUNCEMENTS AND INTERPRETATIONS

SFAS No. 157 Fair Value Measurements

SFAS No. 157, issued in September 2006, defines fair value, establishes a framework of measuring fair value and requires enhanced disclosures about fair value measurements. SFAS No. 157 requires companies to disclose the fair value of its financial instruments according to a fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets carried at fair value will be classified and disclosed in one of the three categories in accordance with the hierarchy. The three levels of the fair value hierarchy are (1) quoted market prices for identical assets or liabilities in active markets, (2) observable market-based inputs or unobservable inputs that are corroborated by market data, and (3) unobservable inputs that are not corroborated by market data. SFAS No. 157 was effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. In February 2008, the Financial Accounting Standards Board (FASB) issued financial staff position FSP FAS No. 157-2 which defers for one year the effective date for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value on a nonrecurring basis. The staff position also amends SFAS No. 157 to exclude SFAS No. 13 Accounting for Leases and its related interpretive accounting pronouncements that address leasing transactions. The Corporation adopted the provisions of SFAS No. 157 that were not deferred by FSP FAS No. 157-2, commencing in the first quarter of 2008. The provisions of SFAS No. 157 are to be applied prospectively. Refer to Note 13 to these consolidated financial statements for the disclosures required for the nine-month period ended September 30, 2008. The adoption of SFAS No. 157 in January 1, 2008 did not have an impact in beginning retained earnings.

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

In October 2008, the FASB issued FASB Staff Position No. FAS 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active (FSP 157-3). FSP 157-3 clarifies the application of FAS 157 in a market that is not active. The FSP is intended to address the following application issues: (a) how the reporting entity s own assumptions (that is, expected cash flows and appropriately risk-adjusted discount rates) should be considered

when measuring fair value when relevant observable inputs do not exist; (b) how available observable inputs in a market that is not active should be considered when measuring fair value; and (c) how the use of market quotes (for example, broker quotes or pricing services for the same or similar financial assets) should be considered when assessing the relevance of observable and unobservable inputs available to measure fair value. FSP 157-3 is

88

Table of Contents

effective on issuance, including prior periods for which financial statements have not been issued. The Corporation adopted FSP 157-3 for the quarter ended September 30, 2008 and the effect of adoption on the consolidated financial statements was not material.

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

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

The Corporation adopted the provisions of SFAS No. 159 in January 2008 as previously described in the SFAS No. 159 Fair Value Option Election section in this MD&A and in Note 12 to the consolidated financial statements.

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

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

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

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

in those amounts to be recorded in earnings. Management will be evaluating the effects that SFAS No. 141(R) will have on the financial condition, results of operations, liquidity, and the disclosures that will be presented on the consolidated financial statements.

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

In December 2007, the FASB issued SFAS No. 160, which amends ARB No. 51, to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 will require entities to classify noncontrolling interests as a component of stockholders equity on the consolidated financial statements and will require subsequent changes in ownership interests in a subsidiary to be accounted for as an equity transaction. Additionally, SFAS No. 160 will require entities to recognize a gain or loss upon the loss of control of a subsidiary and to remeasure any ownership interest retained at fair value on that date. This statement also requires expanded disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS No. 160 is effective on a prospective basis for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008, except for the presentation and disclosure requirements, which are required to be applied retrospectively. Early adoption is not permitted. Management will be evaluating the effects, if any, that the adoption of this statement will have on its consolidated financial statements.

SFAS No. 161 Disclosures about Derivative Instruments and Hedging Activities

In March 2008, the FASB issued SFAS No. 161, an amendment of SFAS No. 133. The standard requires enhanced disclosures about derivative instruments and hedged items that are accounted for under SFAS No. 133 and related interpretations. The standard will be effective for all of the Corporation s interim and annual financial statements for periods beginning after November 15, 2008, with early adoption permitted. The standard expands the disclosure requirements for derivatives and hedged items and has no impact on how the Corporation accounts for these instruments. Management will be evaluating the enhanced disclosure requirements.

SFAS No. 162 The Hierarchy of Generally Accepted Accounting Principles"

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

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

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

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

Table of Contents

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

The objective of FSP FAS 140-3, issued by the FASB in February 2008, is to provide implementation guidance on whether the security transfer and contemporaneous repurchase financing involving the transferred financial asset must be evaluated as one linked transaction or two separate de-linked transactions.

Current practice records the transfer as a sale and the repurchase agreement as a financing. The FSP FAS 140-3 requires the recognition of the transfer and the repurchase agreement as one linked transaction, unless all of the following criteria are met: (1) the initial transfer and the repurchase financing are not contractually contingent on one another; (2) the initial transferor has full recourse upon default, and the repurchase agreement s price is fixed and not at fair value; (3) the financial asset is readily obtainable in the marketplace and the transfer and repurchase financing are executed at market rates; and (4) the maturity of the repurchase financing is before the maturity of the financial asset. The scope of this FSP is limited to transfers and subsequent repurchase financings that are entered into contemporaneously or in contemplation of one another.

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

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

FSP FAS 142-3, issued by the FASB in April 2008, amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142 Goodwill and Other Intangible Assets . In developing these assumptions, an entity should consider its own historical experience in renewing or extending similar arrangements adjusted for entity specific factors or, in the absence of that experience, the assumptions that market participants would use about renewals or extensions adjusted for the entity specific factors.

FSP FAS 142-3 shall be applied prospectively to intangible assets acquired after the effective date. This FSP will be effective for the Corporation on January 1, 2009. Early adoption is prohibited. The Corporation will be evaluating the potential impact of adopting this FSP.

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

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

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 securities classification and related values, loans and allowance for loan losses, retained interests on transfers of financial assets (valuations of residual interests and mortgage servicing rights), income taxes, goodwill and other intangible assets, and pension and postretirement benefit obligations. For a summary of the Corporation s previously identified critical accounting policies and estimates, refer to that particular section in the MD&A included in Popular, Inc. s 2007 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, 2007 (the 2007 Annual Report).

91

Also, refer to Note 1 to the consolidated financial statements included in the 2007 Annual Report for a summary of the Corporation s significant accounting policies.
Furthermore, commencing in the first quarter of 2008, management identified as critical accounting policies and estimates the Fair Value Measurement of Financial Instruments as a result of the adoption of SFAS No. 157 and SFAS No. 159.
As disclosed in the Corporation's 2007 Annual Report, management considers income taxes as a critical accounting estimate. Given the magnitude of the valuation allowance recorded on deferred tax assets as of September 30, 2008, this MD&A includes a discussion of the Corporation's accounting policy with respect to this accounting aspect.
Income taxes are accounted for in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes (SFAS No. 109). The Corporation records income taxes under the asset and liability method, whereby deferred tax assets and liabilities are recognized based on the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis, and attributable to operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply in the years in which the temporary differences are expected to be recovered or paid. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period when the changes are enacted. SFAS No. 109 requires a reduction of the carrying amounts of deferred tax assets by a valuation allowance if, based on the available evidence, it is more likely than not (defined by SFAS No. 109 as a likelihood of more than 50 percent) that such assets will not be realized. Accordingly, the need to establish valuation allowances for deferred tax assets are assessed periodically by the Corporation based on the SFAS No. 109 more-likely-than-not realization threshold criterion. In the assessment for a valuation allowance, appropriate consideration is given to all positive and negative evidence related to the realization of the deferred tax assets. This assessment considers, among other matters, all sources of taxable income available to realize the deferred tax asset, including the future reversal of existing temporary differences, the future taxable income exclusive of reversing temporary differences and carryforwards, taxable income in carryback years and tax-planning strategies. In making such assessments, significant weight is given to evidence that can be objectively verified.
The valuation of deferred tax assets requires judgment in assessing the likely future tax consequences of events that have been recognized in our financial statements or tax returns and future profitability. Our accounting for deferred tax consequences represents our best estimate of those future events. Changes in our current estimates, due to unanticipated events or otherwise, could have a material impact on our financial condition and results of operations.
Fair Value Measurement of Financial Instruments
Effective January 1, 2008, the Corporation is required to determine the fair market values of its financial instruments based on the fair value hierarchy established in SFAS No. 157, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.
The Corporation currently measures at fair value on a recurring basis its trading assets, available-for-sale securities, mortgage servicing rights and residual interests on a recurring basis. From time to time, the Corporation may be required to record at fair value other assets on a nonrecurring basis, such as loans held-for-sale, loans held-for-investment and certain other assets. These nonrecurring fair value adjustments typically result from the application of lower-of-cost-or-market accounting or write-downs of individual assets. Also, the Corporation carries certain loans and borrowings at fair value upon the adoption of SFAS No. 159. These loans and borrowings are part of the assets held-for-sale by PFH as of September 30, 2008 and are included in the categories of Assets / Liabilities from discontinued operations in the consolidated statement of condition.
The Corporation categorizes its assets and liabilities measured at fair value under the three-level hierarchy as required by SFAS No. 157. The classification of assets and liabilities within the hierarchy is based on whether the inputs to the valuation methodology used for fair value measurement are observable or unobservable. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect the Corporation s estimates about assumptions that market participants would use in pricing the asset or liability based on the best information available. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

Table of Contents

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- Valuations include unobservable inputs that are supported by little or no market activity and that are significant to the fair value measurement of the financial asset or liability. The fair value is estimated using modeling techniques such as discounted cash flow analyses. These modeling techniques incorporate assessments regarding assumptions that market participants would use in pricing the asset or the liability, including assumptions about the risks inherent in a particular valuation technique, the effect of a restriction on the sale or use of an asset, and the risk of nonperformance. Assessments with respect to assumptions that market participants would make are inherently difficult to determine and use of different assumptions could result in material changes to these fair value measurements.

Refer to Note 13 to the consolidated financial statements for information on the Corporation s fair value measurement disclosures required by SFAS No. 157, including assets and liabilities categorized by the three levels of the hierarchy.

As of September 30, 2008, approximately $7.8 billion or 95% out of the $8.2 billion of assets from continuing operations measured at fair value on a recurring basis used market-based or market-derived valuation inputs in their valuation methodology and, therefore, were classified as Level 1 or Level 2. Approximately 5% of the assets from continuing operations measured at fair value on a recurring basis were classified as Level 3 since their valuation methodology considered significant unobservable inputs. The assets from discontinued operations measured at fair value on a recurring basis amounting to $0.6 billion were all classified as Level 3 in the hierarchy. Also, the bond certificates from discontinued operations measured at fair value were classified as Level 3 in the hierarchy. Additionally, the Corporation reported $796 million of financial assets that were measured at fair value on a nonrecurring basis during the nine-month period ended September 30, 2008 that were still held as of such date and were all classified as Level 3 in the hierarchy.

The estimate of fair value reflects the Corporation s judgment regarding appropriate valuation methods and assumptions. The amount of judgment involved in estimating the fair value of a financial instrument is affected by a number of factors, such as type of instrument, the liquidity of the market for the instrument, and the contractual characteristics of the instrument.

In determining fair value, 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.

If listed prices or quotes are not available, the Corporation employs valuation models that primarily use market-based inputs including yield curves, interest rates, volatilities, and credit curves, among other considerations. When market observable data is not available, the valuation of financial instruments becomes more subjective and involves substantial judgment. The need to use unobservable inputs generally results from the lack of market liquidity for certain types of loans and securities, which results in diminished observability of both actual trades and assumptions that would otherwise be available to value these instruments. When fair values are estimated based on modeling techniques, such as discounted cash flow models, the Corporation considers assumptions such as interest rates, prepayment speeds, default rates, loss severity rates and discount rates. Valuation adjustments are limited to those necessary to ensure that the financial instrument s fair value is adequately representative of the price that would be received or paid in the marketplace. These adjustments include, for example, amounts that reflect counterparty credit quality, the Corporation s creditworthiness, and constraints on liquidity.

Table of Contents

As of September 30, 2008, the Corporation s portfolio of trading and investment securities available-for-sale amounted to $8.0 billion and represented 98% of the Corporation s assets from continuing operations measured at fair value on a recurring basis. As of September 30, 2008, net unrealized gains on the trading portfolio approximated $11.8 million, while for securities available-for-sale the unrealized net losses approximated $23.6 million. Fair values for most of the Corporation s trading and investment securities are classified under the Level 2 category. Refer to Note 13 to the consolidated financial statements for more detailed information on the significant security types, hierarchy levels and general description of the particular valuation methodologies for trading and investment securities. Also, Note 6 provides a detail of the Corporation s investment securities available-for-sale, which represent a significant share of the financial assets measured at fair value as of September 30, 2008.

The fair value of a loan is impacted by the nature of the asset and the market liquidity and activity. When available, the Corporation uses observable market data, including recent closed market transactions, to value loans. When this data is unobservable, the Corporation uses valuation methodologies using current market interest rate data adjusted for factors such as credit risk. When appropriate, loans are valued using collateral values as a practical expedient. As previously indicated, the Corporation measured at fair value $584 million in loans as of September 30, 2008 pursuant to the SFAS No. 159 election which were classified as part of Assets from discontinued operations . The loans measured at fair value pursuant to SFAS No. 159 were valued internally utilizing the pricing terms of the sales agreement with Goldman Sachs as the best available fair value indicator.

Mortgage servicing rights (MSRs), which amounted to $165 million as of September 30, 2008 including $37 million of MSRs from discontinued operations, do not trade in an active market with readily observable prices. MSRs for the banking operations are priced using a discounted cash flow model. The valuation model considers servicing fees, portfolio characteristics, prepayments assumptions, delinquency rates, late charges, other ancillary revenues, cost to service and other economic factors. Refer to the Critical Accounting Policies / Estimates section of the 2007 Annual Report for information on the valuation methodologies followed by the Corporation with respect to MSRs. Disclosure of the key economic assumptions used to measure MSRs and a sensitivity analysis to adverse changes to these assumptions is included in Note 8 to the consolidated financial statements. The MSRs related to PFH operations were valued as of September 30, 2008 by allocating a portion of the estimated fair value of the servicing related assets to be sold to Goldman Sachs, which was based on the price terms under the agreement. PFH s MSRs are included as part of Assets from discontinued operations in the consolidated statement of condition.

NET INTEREST INCOME

Net interest income is the Corporation s primary source of earnings. Tables B and C present the different components of the Corporation s net interest income from continuing operations, on a taxable equivalent basis, for the quarter and nine months ended September 30, 2008, compared with the same periods in 2007, segregated by major categories of interest earning assets and interest bearing liabilities.

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

Average outstanding securities balances are based upon amortized cost excluding any unrealized gains or losses on securities available-for-sale. Non-accrual loans have been included in the respective average loans and leases categories. Loan fees collected and costs incurred in the origination of loans are deferred and amortized over the term of the loan as an adjustment to interest yield. Interest income for quarter and nine months ended September 30, 2008 included favorable impacts of $3.5 million and $13.0 million, respectively, consisting principally of amortization of loan origination costs and fees, amortization of net premiums on loans purchased, and prepayment penalties and late payment charges. The favorable impact for the quarter and nine month period ended September 30, 2007 was $6.8 million and $19.0 million, respectively. The negative variance in this category was mainly influenced by a lower amount of origination fees, prepayment penalties and late fees.

94

Table of Contents

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	
2008	2007	Variance	2008	2007	Variance		2008	2007	Variance	Rate	Volume
($ in millions)							(In thousands)				
$ 599	$ 538	$ 61	2.29%	5.27%	(2.98%)	Money market investments	$ 3,455	$ 7,155	$ (3,700)	$ (4,414)	$ 714
8,212	9,618	(1,406)	4.99	5.21	(0.22)	Investment securities	102,537	125,251	(22,714)	(5,497)	(17,217)
539	660	(121)	7.83	6.28	1.55	Trading securities	10,605	10,459	146	2,271	(2,125)
9,350	10,816	(1,466)	4.98	5.28	(0.30)		116,597	142,865	(26,268)	(7,640)	(18,628)
						Loans:					
15,936	15,085	851	5.91	7.76	(1.85)	Commercial *	236,661	294,923	(58,262)	(74,132)	15,870
1,115	1,164	(49)	7.81	7.94	(0.13)	Leasing	21,772	23,107	(1,335)	(383)	(952)
4,607	4,829	(222)	7.09	7.40	(0.31)	Mortgage	81,706	89,299	(7,593)	(3,575)	(4,018)
4,785	4,572	213	10.24	10.63	(0.39)	Consumer	122,883	122,106	777	(6,407)	7,184
26,443	25,650	793	6.98	8.21	(1.23)		463,022	529,435	(66,413)	(84,497)	18,084
$35,793	$36,466	$ (673)	6.46%	7.34%	(0.88%)	Total earning assets	$579,619	$672,300	$(92,681)	$(92,137)	$ (544)
						Interest bearing deposits:					
$ 5,108	$ 4,579	$ 529	1.77%	2.68%	(0.91%)	NOW and money market**	$ 22,771	$ 30,980	$ (8,209)	$(11,666)	$ 3,457
5,561	5,684	(123)	1.43	2.03	(0.60)	Savings	20,040	29,028	(8,988)	(6,050)	(2,938)
12,480	11,403	1,077	3.91	4.76	(0.85)	Time deposits	122,800	136,817	(14,017)	(27,609)	13,592
23,149	21,666	1,483	2.85	3.60	(0.75)		165,611	196,825	(31,214)	(45,325)	14,111
4,886	8,371	(3,485)	3.03	5.16	(2.13)	Short-term borrowings	37,233	108,971	(71,738)	(38,397)	(33,341)
2,235	948	1,287	5.05	5.17	(0.12)	Medium and long-term debt	28,355	12,341	16,014	(327)	16,341

30,270	30,985	(715)	3.04	4.07	(1.03)	Total interest bearing liabilities	231,199	318,137	(86,938)	(84,049)	(2,889)
4,106	3,980	126				Non-interest bearing demand deposits					
1,417	1,501	(84)				Other sources of funds					
$35,793	$36,466	$ (673)	2.57%	3.46%	(0.89%)						
			3.89%	3.88%	0.01%	Net interest margin					
						Net interest income on a taxable equivalent basis	348,420	354,163	(5,743)	$ (8,088)	$ 2,345
			3.42%	3.27%	0.15%	Net interest spread					
						Taxable equivalent adjustment	24,138	22,517	1,621		
						Net interest income	$324,282	$331,646	$ (7,364)		

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

* Includes commercial construction loans.

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

As shown in Table B, the decrease in average earning assets was mainly due to the Corporation s strategy of not reinvesting maturities of low yielding investments. Increases in both commercial loans and consumer loans partially offset the reduction in the investments category. Construction loans accounted for 54% of the increase in the commercial loans category. The performance of these loans will continue to challenge the Corporation in the current economic environment; however the performance of these loans is being closely monitored. The increase in the consumer loans category was mainly due to a higher balance of home equity lines of credit (HELOCs) from the E-LOAN subsidiary. E-LOAN discontinued the origination of these loans earlier this year as part of its restructuring plan. The Corporation s funding mix was also modified with a portion of borrowings being replaced by brokered

95

Table of Contents

certificates of deposits and the Corporation increasing its long-term borrowings position in both BPPR and BPNA. Refer to the Financial Condition section of this MD&A for further discussion of variance explanations.

The decrease in net interest income was mainly the result of the following factors:

- The Federal Reserve (FED) lowered the federal funds target rate by 275 basis points from September 30, 2007 to September 30, 2008. The reduction in market rates impacted the yield of several of the Corporations earning assets during that period. These assets include; commercial and construction loans of which 63% have floating or adjustable rates; floating rate collateralized mortgage obligations, and HELOCs, as well as the origination of loans in a low interest rate environment.

- Liquidity concerns during the second half of 2007 prompted the Corporation to enter into certain financing agreements which limited the expected benefit of reduced market rates in the overall cost of funds. The increase of $1.3 billion in the quarterly average balance of brokered certificates of deposit, which carry a higher rate than short-term borrowings, impacted negatively the results for the third quarter of 2008.

- The previously mentioned reduction in the yield of floating rate HELOCs as well as reductions made during 2007 in the uncollectible interest reserve for credit cards, which generated a positive impact in income during the third quarter of 2007, contributed to the reduction in yield of the consumer loan portfolio.

Favorable items impacting net interest income include a lower cost for borrowings and interest bearing deposits. The decreases in market rates impacted the variance in addition to reductions in the rates paid for certain non-maturity deposits.

As shown in Table C, net interest income on a taxable equivalent basis for the nine month period ended September 30, 2008 increased mainly due to a change in the mix of average earning assets. Low yielding investments matured while the loan portfolio continued its growth. The dynamics of this movement left earning assets in line with the third quarter of 2007 while the loan portfolio yield is over 200 basis points higher than the investments.

Table of Contents

TABLE C

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

Nine-month period ended September 30,

Average Volume			Average Yields / Costs				Interest			Variance Attributable to	
008	2007	Variance	2008	2007	Variance		2008	2007	Variance	Rate	Volume
($ in millions)							(In thousands)				
651	$ 450	$ 201	2.97%	5.38%	(2.41%)	Money market investments	$ 14,459	$ 18,104	$ (3,645)	$ (9,992)	$ 6,347
8,254	9,953	(1,699)	5.07	5.14	(0.07)	Investment securities	313,800	383,929	(70,129)	(5,559)	(64,570
696	621	75	7.35	6.10	1.25	Trading securities	38,295	28,324	9,971	6,305	3,666
9,601	11,024	(1,423)	5.09	5.21	(0.12)		366,554	430,357	(63,803)	(9,246)	(54,557
						Loans:					
15,714	14,795	919	6.25	7.79	(1.54)	Commercial *	734,934	861,588	(126,654)	(175,918)	49,264
1,115	1,185	(70)	7.97	7.88	0.09	Leasing	66,672	70,055	(3,383)	780	(4,163
4,769	4,698	71	7.23	7.31	(0.08)	Mortgage	258,495	257,448	1,047	(2,813)	3,860
4,916	4,432	484	10.23	10.52	(0.29)	Consumer	376,719	349,092	27,627	(12,640)	40,267
26,514	25,110	1,404	7.23	8.18	(0.95)		1,436,820	1,538,183	(101,363)	(190,591)	89,228
36,115	$36,134	$ (19)	6.67%	7.28%	(0.61%)	Total earning assets	$1,803,374	$1,968,540	$ (165,166)	$(199,837)	$ 34,671
						Interest bearing deposits:					
4,996	$ 4,383	$ 613	1.92%	2.61%	(0.69%)	NOW and money market **	$ 71,919	$ 85,622	$ (13,703)	$ (25,459)	$ 11,756
5,606	5,741	(135)	1.56	1.99	(0.43)	Savings	65,295	85,481	(20,186)	(13,049)	(7,137
12,529	10,837	1,692	4.17	4.71	(0.54)	Time deposits	391,382	381,554	9,828	(54,022)	63,850
23,131	20,961	2,170	3.05	3.53	(0.48)		528,596	552,657	(24,061)	(92,530)	68,469
5,549	8,804	(3,255)	3.32	5.17	(1.85)	Short-term borrowings	137,824	340,162	(202,338)	(108,149)	(94,189
1,971	946	1,025	5.14	5.60	(0.46)	Medium and long-term debt	75,823	39,667	36,156	(3,511)	39,667

30,651	30,711	(60)	3.23	4.06	(0.83)	Total interest bearing liabilities	742,243	932,486	(190,243)	(204,190)	13,947
4,137	4,012	125				Non-interest bearing demand deposits					
1,327	1,411	(84)				Other sources of funds					
36,115	$36,134	$ (19)	2.75%	3.45%	(0.70%)						
			3.92%	3.83%	0.09%	Net interest margin					
						Net interest income on a taxable equivalent basis	1,061,131	1,036,054	25,077	$ 4,353	$ 20,724
			3.44%	3.22%	0.22%	Net interest spread					
						Taxable equivalent adjustment	70,793	67,712	3,081		
						Net interest income	$ 990,338	$ 968,342	$ 21,996		

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

* Includes commercial construction loans.

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

PROVISION FOR LOAN LOSSES

The provision for loan losses in the continuing operations totaled $252.2 million, or 148% of net charge-offs, for the quarter ended September 30, 2008, compared with $86.3 million or 136%, respectively, for the same quarter in 2007. The provision for loan losses for the quarter ended September 30, 2008, when compared with the same quarter in 2007, reflects higher net charge-offs by $107.1 million, mainly in construction loans by $53.9 million, consumer loans by $27.3 million, commercial loans by $18.0 million, and mortgage loans by $7.8 million. Provision and net charge-offs information for prior periods was retrospectively adjusted to exclude discontinued operations from continuing operations for comparative purposes.

97

Table of Contents

The current state of the economy and uncertainty in the private and public sectors has had an adverse effect on the credit quality of the Corporation s loan portfolios. The economic slowdown could cause those adverse effects to continue, as delinquency rates may increase in the short-term, until more sustainable economic growth resumes and property values stabilize.

The higher level of provision for the quarter ended September 30, 2008 was mainly attributable to the continuing deterioration in the commercial and construction loan portfolios due to current economic conditions and the slowdown in the United States housing sector. The allowance for loan losses for commercial and construction credits has increased, particularly the specific reserves for loans considered impaired. During the quarter ended September 30, 2008, the Corporation recorded $61.9 million in specific reserves for loans classified as impaired under SFAS No. 114.

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

NON-INTEREST INCOME

Non-interest income from continuing operations totaled $187.9 million for the quarter ended September 30, 2008, an increase of 6%, compared with the same quarter in 2007. For the nine-month period ended September 30, 2008, non-interest income from continuing operations totaled $688.5 million, an increase of 1% when compared to the same period of the previous year.

Refer to Table D for a breakdown of non-interest income by major categories for the quarters and nine months ended September 30, 2008 and 2007.

TABLE D

Non-Interest Income

	Quarter ended September 30,			Nine months ended September 30,		
(In thousands)	2008	2007	$ Variance	2008	2007	$ Variance
Service charges on deposit accounts	$ 52,433	$ 49,704	$ 2,729	$155,319	$146,567	$ 8,752
Other service fees:						
Credit card fees and discounts	27,138	25,975	1,163	81,664	74,498	7,166
Debit card fees	28,170	16,228	11,942	79,880	49,184	30,696
Processing fees	13,044	11,674	1,370	38,587	35,463	3,124
Insurance fees	12,378	14,410	(2,032)	38,254	40,624	(2,370)
Sale and administration of investment products	6,890	8,043	(1,153)	25,966	22,614	3,352
Mortgage servicing fees, net of fair value adjustments	(1,407)	4,706	(6,113)	13,809	16,257	(2,448)
Trust fees	2,906	2,880	26	9,038	7,806	1,232
Other fees	6,183	5,947	236	19,451	19,266	185
Total other service fees	95,302	89,863	5,439	306,649	265,712	40,937
Net (loss) gain on sale and valuation adjustments of	(9,132)	(776)	(8,356)	69,430	112,842	(43,412)

investment securities						
Trading account profit	6,669	9,239	(2,570)	38,547	29,765	8,782
Gain on sale of loans and valuation adjustments on loans held-for-sale	6,522	6,975	(453)	25,696	40,224	(14,528)
Other operating income	36,134	21,920	14,214	92,836	87,968	4,868
Total non-interest income	$187,928	$176,925	$11,003	$688,477	$683,078	$ 5,399

Major variance explanations in non-interest income for the quarter ended September 30, 2008, when compared to the same quarter of the previous year, were as follows:

An increase in other operating income mostly related to $21.1 million in gains on the sale of a New York real estate property by the U.S. banking subsidiary during this quarter, which was partially offset by lower referral and escrow closing services income from E-LOAN due to the downsizing of its operations in 2008 and from lower revenues derived from investments accounted for under the equity method;

Other service fees for the quarter ended September 30, 2008, increased by 6% when compared to the same

98

Table of Contents

quarter of the previous year. A detail of other service fees by category is shown in the Table D. There were higher debit card fees as a result of higher revenues from merchants due in part to a change in the pricing structure for transactions processed from a fixed charge per transaction to a variable rate based on the amount of the transaction, as well as higher surcharging income from the use of Popular s automated teller machine network, which were partially offset by unfavorable changes in the fair value of the servicing assets during this quarter;

These variances were partially offset by:

Higher net loss on sale and valuation adjustments of investment securities, which consisted of the following:

	Quarter ended September 30,			Nine months ended September 30,		
(In thousands)	2008	2007	$ Variance	2008	2007	$ Variance
Net gain (loss) on sale of investment securities	$ 15	$(776)	$ 791	$78,577	$120,443	$(41,866)
Valuation adjustments of investment securities	(9,147)		(9,147)	(9,147)	(7,601)	(1,546)
Total	$(9,132)	$(776)	$(8,356)	$69,430	$112,842	$(43,412)

During the quarter ended September 30, 2008, the Corporation recorded other-than-temporary impairments on investment securities held by the corporate group of $9.1 million, principally associated to equity investments in a U.S. financial institution.

Major variance explanations in non-interest income for the nine months ended September 30, 2008, when compared to the same period in 2007, were as follows:

Other service fees for the nine months ended September 30, 2008, increased by 15% when compared to the same period of the previous year. Refer to Table D for a detail of other service fees by major categories. Debit card fees were the principal driver of the increase in other service fees due to similar factors described in the quarterly results. Also, credit card fees increased due to higher merchant fees and credit card interchange fees due to higher merchant sales volume;

Trading account profits increased for the nine-month period ended September 30, 2008, which was principally related to a gross gain of approximately $8.8 million on the sale of approximately $232 million in principal balance of residential mortgage loans originated in Puerto Rico from BPPR s portfolio, which were securitized into Fannie Mae mortgage-backed securities and sold in the secondary markets in the second quarter of 2008.

Service charges on deposit accounts also increased primarily in BPPR due to higher account analysis fees in commercial accounts which price structure varies according to transaction volume, compensating deposit balances and earnings credit given to the customer which also varies with interest rates;

Other operating income increased by $4.9 million. During the nine months ended September 30, 2008, the Corporation realized the $21.1 million gain on the sale of the New York real estate property and also a $12.8 million gain on the sale of six retail bank branches of BPNA in Houston, Texas to Prosperity Bank in January 2008. The impact of these two items was offset in part by lower revenues derived from investments accounted for under the equity method and lower other referral and escrow closing services income from E-LOAN due to the downsizing of its operations, among the principal factors.

The variances in those categories for the nine-month period were partially offset by:

Lower net gain on sale and valuation adjustments of investment securities by $43.4 million. The decrease in the net gain on sale of investment securities for the nine-month period ended September 30, 2008, compared with the same period in 2007, was mostly related to $118.7 million in realized gains on the sale of the Corporation s

interest in Telecomunicaciones de Puerto Rico, Inc. (TELPRI) during the first quarter of 2007. This was partially offset by $49.3 million in realized gains due to the redemption by Visa of shares of common stock held by the Corporation during the first quarter of 2008 and by $28.3 million in capital gains from sales of $2.4 billion in U.S. agency securities during the second quarter of 2008. The proceeds from the sale of securities in the second quarter of 2008 were reinvested primarily in U.S. agency securities, and to a lesser extent in mortgage-backed securities with a longer average duration.

Lower gain on sales of loans and unfavorable valuation adjustments on loans held-for-sale, which are broken down as follows:

	Quarter ended September 30,			Nine months ended September 30,		
(In thousands)	2008	2007	$ Variance	2008	2007	$ Variance
Gain on sales of loans	$6,877	$10,227	$(3,350)	$25,923	$46,161	$(20,238)
Lower of cost or market valuation adjustment on loans held-for-sale	(355)	(3,252)	2,897	(227)	(5,937)	5,710
Total	$6,522	$ 6,975	$ (453)	$25,696	$40,224	$(14,528)

The decrease in gains on sales of loans for the nine months ended September 30, 2008, when compared to the same period of the previous year, was primarily related to lower origination volumes and lower yields at E-LOAN due to the weakness in the U.S. mainland mortgage and housing market and to the downsizing of E-LOAN s operations, partially offset by higher gain on the sales of Small Business Administration (SBA) loans by the U.S. banking subsidiary and higher gain on the sales of leases by the U.S. leasing subsidiary.

OPERATING EXPENSES

Refer to Table E for a breakdown of operating expenses of the continuing operations by major categories.

TABLE E

Operating Expenses

	Quarter ended September 30,			Nine months ended September 30,		
(In thousands)	2008	2007	$ Variance	2008	2007	$ Variance
Personnel costs	$148,230	$145,273	$ 2,957	$459,515	$457,774	$ 1,741
Net occupancy expenses	26,510	27,083	(573)	81,218	76,185	5,033
Equipment expenses	26,305	28,324	(2,019)	84,312	87,259	(2,947)
Other taxes	13,301	12,766	535	39,905	35,644	4,261
Professional fees	31,780	29,498	2,282	88,964	87,689	1,275
Communications	12,574	15,115	(2,541)	38,137	44,669	(6,532)
Business promotion	16,216	27,479	(11,263)	51,064	83,410	(32,346)
Printing and supplies	3,269	3,760	(491)	10,763	11,536	(773)
Other operating expenses	40,764	27,429	13,335	113,722	81,176	32,546
Amortization of intangibles	3,966	2,234	1,732	8,948	8,030	918
Total	$322,915	$318,961	$ 3,954	$976,548	$973,372	$ 3,176

Personnel expenses rose by 2%, compared with the same quarter of the previous year. The increase in personnel costs is primarily a result of annual salary revisions and lower deferred salaries as a result of lower volume of loan originations. Excluding PFH, FTEs were 10,744 as of September 30, 2008, a decrease of 503 from the same date in 2007. This reduction was mainly due to a reduction in E-LOAN s headcount as a result of the E-LOAN Restructuring Plan by 506 full-time equivalent employees (FTEs), when compared to September 30, 2007.

Professional fees for the quarter ended September 30, 2008 increased when compared to the same quarter of 2007 as a result of consulting and advisory services associated to the U.S. sale transactions and valuation services. This was

partially offset by lower loan origination costs, such as appraisals and title recording fees, at E-LOAN, and temporary workforce services. For the quarter ended September 30, 2008, other operating expenses increased when compared to the same quarter of the previous year mainly due to higher FDIC insurance assessments, credit card interchange and processing costs, repossessed property expenses, and losses on disposition of assets, among others. There was also a higher amortization of intangibles for the quarter ended September 30, 2008 mostly due to fair value revisions to core deposit intangibles on the acquisition of the Citibank retail branches in Puerto Rico based on final analyses completed this quarter.

Partially offsetting these increases in quarterly results were reductions in business promotion, communication expenses, and equipment expenses. The reduction in business promotion for the quarter resulted principally from the downsizing of E-LOAN s operations and from cost control measures on marketing expenditures. The decrease in communication expenses for the quarter ended September 2008, compared with the same quarter in 2007, was

100

Table of Contents

mainly due to lower telephone expenses, including savings derived from changes in telephone communication technology. Equipment expenses also decreased primarily associated with E-LOAN.

For the nine-month period ended September 30, 2008, operating expenses for the continuing operations increased less than 1% compared with the same period of the previous year. Similar factors as described for the quarterly results principally impacted the variances. In addition, net occupancy expenses increased by 7% for the nine-month period ended September 30, 2008, when compared to the same period of the previous year mainly due to higher electricity and rental expenses. Increases in other taxes for the nine months ended September 30, 2008, when compared to the same period of 2007, resulted from higher personal property taxes resulting from tax settlement from previous years in certain Puerto Rico municipalities.

INCOME TAXES

Income tax expense from continuing operations amounted to $148.3 million for the quarter ended September 30, 2008, compared with income tax expense of $23.1 million for the same quarter of 2007. As previously indicated in the Overview section of this MD&A, during the quarter ended September 30, 2008, the Corporation recorded a valuation allowance on deferred tax assets of the U.S. mainland operations of $360.4 million. The recording of this valuation increased income tax expense by $189.2 million on the continuing operations and $171.2 million on the discontinued operations for the quarter and year-to-date periods ended September 30, 2008. The deferred tax assets and full valuation allowance pertains to the continuing operations for statement of condition purposes.

The components of the income tax expense (benefit) for the continuing operations for the quarter ended September 30, 2008 is as follows:

	Puerto Rico and other jurisdictions		U.S. jurisdiction		Consolidated	
(In thousands)	Amount	% of pre-tax income	Amount	% of pre-tax loss	Amount	% of pre-tax loss
Computed income tax at statutory rates	$ 13,356	39%	$ (33,989)	35%	$ (20,633)	33%
Benefits of net tax exempt interest income	(14,811)	(43)	(929)	1	(15,740)	25
Effect of income subject to preferential tax rate	66				66	
Difference in tax rates due to multiple jurisdictions	1,456	4			1,456	(2)
Deferred tax valuation allowance			189,232	(195)	189,232	(301)
State taxes and others	(929)	(3)	(5,144)	5	(6,073)	10
Income tax expense (benefit)	$ (862)	(3%)	$149,170	(154%)	$148,308	(235%)

Income tax expense for the continuing operations amounted to $152.5 million for the nine-month period ended September 30, 2008, compared with $105.6 million for the same period in 2007. The increase in income tax expense was primarily due to the impact on the recording of the valuation allowance previously indicated, partially offset by lower pre-tax earnings, and higher exempt interest income net of disallowance of expenses attributed to such exempt income.

The Corporation s deferred tax assets as of September 30, 2008 amounted to $1.0 billion ($663 million, net of the valuation allowance) compared to $520 million as of December 31, 2007. Note 21 to the consolidated financial statements provides the composition of the net deferred tax assets as of such dates. Of the deferred tax assets as of September 30, 2008, $322 million are related to the Corporation s U.S. mainland operations (net of the valuation allowance) and $341 million pertain to the Puerto Rico operations. Of the amount related to the U.S. operations, without considering the valuation allowance, $358 million is attributable to net operating losses of such operations, which had an expiration term of up to 20 years. The Corporation assessed the realization of the deferred tax assets by weighting all available negative and positive evidence, including future profitability, taxable income on carryback years and tax planning strategies. This evaluation was made in accordance with SFAS No. 109 Accounting for Income Taxes (SFAS No. 109) which requires the recognition of a valuation allowance for the deferred tax assets if it is more likely than not (a

101

likelihood of more than 50%) that some portion or all of the deferred tax asset will not be realized. The realization of the deferred tax assets is dependent upon the generation of enough taxable income before the end of the expiration period.

The Corporation s U.S. mainland operations are in a cumulative loss position for the three-year period ended September 30, 2008. For purposes of assessing the realizability of the deferred tax assets in the U.S. mainland, this cumulative taxable loss position is considered significant negative evidence and has caused us to conclude that the Corporation will not be able to fully realize the deferred tax assets in the future. However, management has also concluded that $322 million of the U.S. deferred tax assets will be realized. In making this analysis, management evaluated the factors that contributed to these losses in order to assess whether these factors were temporary or indicative of a permanent decline in the earnings of the U.S. mainland operations. Based on the analysis performed, management determined that the cumulative loss position was caused primarily by a significant increase in credit losses in two of its main businesses due to the unprecedented current credit market conditions, losses related to the PFH discontinued business, and restructuring charges. In assessing the realizability of the deferred tax assets, management has considered all four sources of taxable income mentioned in SFAS No. 109 and described in the Critical Accounting Policies / Estimates section of this MD&A, including its forecast of future taxable income, which includes assumptions about the unprecedented deterioration in the economy and in credit quality. The forecast includes cost reductions initiated in connection with the reorganization of the U.S. mainland operations and two tax-planning strategies. The two strategies considered in management s analysis include reducing the level of interest expense in the U.S. operations by transferring such debt to the Puerto Rico operations and the transfer of a profitable line of business to the U.S. mainland operations. Based on the analysis as of September 30, 2008, and the weight of the evidence available, management determined that the Corporation s U.S. operations will not generate sufficient taxable income in the foreseeable future to fully realize the deferred tax assets. Accordingly, management concluded that it is more likely than not that the Corporation will not be able to fully realize the benefit of these deferred tax assets and thus, a valuation allowance for $360.4 million was recorded during the third quarter of 2008. Management will reassess the realizability of the deferred tax assets during the fourth quarter of the year. If future events differ from management s September 30, 2008 assessment, an additional or full valuation allowance may need to be established which would likely have a material adverse effect on the Corporation's results of operations, financial condition and capital position.

Refer to Note 21 to the consolidated financial statements for further information on the Corporation s income taxes. Also, you can refer to Item 1A. Risk Factors of this Form 10-Q for additional information.

REPORTABLE SEGMENT RESULTS

The Corporation s reportable segments for managerial reporting purposes consist of Banco Popular de Puerto Rico, EVERTEC and Banco Popular North America. These reportable segments pertain only to the continuing operations of Popular, Inc. As previously indicated, the operations of PFH that were considered a reportable segment were discontinued in the third quarter of 2008. Also, a Corporate group has been defined to support the reportable segments. For managerial reporting purposes, the costs incurred by the corporate group are not allocated to the reportable segments. For a description of the Corporation s reportable segments, including additional financial information and the underlying management accounting process, refer to Note 25 to the consolidated financial statements. Financial information for interim periods prior to 2008 was restated to conform to the 2008 presentation.

The Corporate group had a net loss of $138.0 million in the third quarter of 2008, compared with a net loss of $7.9 million in the same quarter of 2007. The Corporate group had net loss of $157.1 million for the nine months ended September 30, 2008, compared with net income of $66.4 million for the same period in 2007. The Corporate group's financial results for the quarter and nine months ended September 30, 2008 included an unfavorable impact to income taxes due to an allocation (for segment reporting purposes) of $116.3 million of the $360.4 million valuation allowance on the deferred tax assets of the U.S. mainland operations to Popular North America (PNA), holding company of the U.S. operations. PNA files a consolidated tax return. During the nine months ended September 30, 2007, the Corporate group realized net gains on the sale and valuation adjustment of investment securities approximating $107.3 million, mainly due to gains on the sale of the Corporation s interest in TELPRI during the first quarter of 2007.

102

Table of Contents

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 $35.4 million for the quarter ended September 30, 2008, a decrease of $44.8 million, or 56%, when compared with the same quarter in the previous year, primarily associated to an increase in the provision for loan losses. The main factors that contributed to the variance in results for the quarter ended September 30, 2008, when compared to the third quarter of 2007, included:

lower net interest income by $3.4 million, or 1%, primarily due to a lower rate environment in the latter part of 2007 and 2008. The lower market rates had a negative impact in the average yield of commercial and construction loans, as well as on the yield of floating rate collateralized mortgage obligations. In addition, the Corporation s strategy of not renewing low yielding investments contributed to a lower average balance in the investments category. Furthermore, the acquisition of brokered certificates of deposit during the latter part of 2007 prevented the Corporation s cost of funds from fully benefiting from the decreases in market rates. These unfavorable variances were partially offset by a reduction in the cost of non-maturity deposits as well as a lower cost of short-term borrowings.

higher provision for loan losses by $62.8 million, or 95%, primarily associated with the current economic conditions, including a recessionary cycle in Puerto Rico and deteriorating credit quality trends in the commercial and construction loan portfolios. During the quarter ended September 30, 2008, the Corporation recorded $32.7 million in specific reserves for loans classified as impaired under SFAS No. 114 in the Puerto Rico operations. The ratio of allowance for loan losses to loans held-in-portfolio for the Banco Popular de Puerto Rico reportable segment was 3.00% as of September 30, 2008, compared with 2.22% as of September 30, 2007. The provision for loan losses represented 124% of net charge-offs for the third quarter of 2008, compared with 136% of net charge-offs in the same period of 2007. The annualized net charge-offs to average loans held-in-portfolio for the Banco Popular de Puerto Rico operations was 2.60% for the quarter ended September 30, 2008, compared with 1.23% in the same quarter of the previous year.

higher non-interest income by $3.8 million, or 3%, mainly due to a favorable variance in the caption of other service fees during the third quarter of 2008, principally related to increase fee income from debit cards and credit cards; partially offset by unfavorable adjustments in the value of servicing rights primarily due to higher prepayment speed assumption. Also, there were higher service charges on deposit accounts by $2.8 million; partially offset by lower trading profits by $2.6 million, principally related to the mortgage banking operations.

higher operating expenses by $14.2 million, or 8%, primarily associated with higher credit card interchange and processing costs, personnel costs, professional fees and amortization of intangibles, among others.

lower income taxes by $31.8 million, due to an income tax benefit of $2.5 million in the third quarter of 2008 compared to an income tax expense of $29.2 million in the same quarter of the previous year. The variance was due to lower income before taxes and higher exempt interest income net of disallowance of expenses related to the exempt income.

Net income for the nine months ended September 30, 2008 totaled $226.7 million, a decrease of $20.4 million, or 8%, compared with the same period in the previous year. These results reflected:

higher net interest income by $15.2 million, or 2%;

higher provision for loan losses by $162.6 million, or 92%;

- higher non-interest income by $124.7 million, or 35%;
- higher operating expenses by $45.7 million, or 8%; and
- lower income tax expense by $48.1 million, or 55%.

Factors similar to those described in the quarterly variances above were the contributors to the variances in the nine-month periods. Also included in non-interest income for the nine months ended September 30, 2008 was the gain on redemption of Visa stock amounting to approximately $40.9 million recognized in the first quarter of 2008, $28.3 million in gains on the sale of $2.4 billion in U.S. agency securities during the second quarter of 2008, and higher trading profits by $8.8 million, principally due to the sale of mortgage-backed securities.

Table of Contents

EVERTEC

EVERTEC s net income for the quarter ended September 30, 2008 totaled $8.5 million, an increase of 5% compared with the results of the same quarter in the previous year.

The principal factors that contributed to the variance in results for the quarter ended September 30, 2008, when compared with the third quarter of 2007, included:

- higher non-interest income by $3.8 million, or 6%, primarily due to higher transaction processing fees mainly related to the automated teller machine (ATM) network and point-of-sale (POS) terminals, higher cash processing fees, information technology (IT) consulting services and business process outsourcing, among others.

- higher operating expenses by $3.1 million, or 6%, primarily due to higher personnel, professional fees and other operating expenses; and

- higher income tax expense by $0.2 million or 6%.

Net income for the nine months ended September 30, 2008 totaled $33.7 million, an increase of $11.8 million, or 54%, compared to $21.9 million for the same period in the previous year. These results reflected:

- higher non-interest income by $19.9 million, or 11%. The results for the nine months ended September 30, 2008 included $7.6 million in gains on the redemption of Visa stock held by ATH Costa Rica during the first quarter of 2008. Also, there were higher fees related to the volume of transactions processed in the ATM network and POS terminals, higher cash processing, item processing, payment processing, IT consulting services, and business process outsourcing.

- higher operating expenses by $5.7 million, or 4%; and

- higher income tax expense by $2.3 million, or 20%.

Banco Popular North America

Banco Popular North America reported a net loss of $139.0 million for the quarter ended September 30, 2008, compared to a net loss of $1.1 million for the third quarter of 2007. The main factors that contributed to the quarterly variance in this reportable segment included:

- lower net interest income by $4.6 million, or 5%;

- higher provision for loan losses by $103.0 million, primarily due to higher net charge-offs in the construction, mortgage, consumer and commercial loan portfolios. During the quarter ended September 30, 2008, the Corporation recorded $29.2 million in specific reserves for commercial, construction and mortgage loans classified as impaired under SFAS No. 114 in the Banco Popular North America reportable segment. Furthermore, the consumer loan portfolio has been impacted by higher losses in home equity lines of credit and second lien mortgage loans, which similar to first mortgage loans, have been unfavorably impacted by the deterioration in the U.S. residential housing market. The increase in the provision for loan losses considers inherent losses in the portfolios evidenced by an increase in non-performing loans in this reportable segment by $211 million, when compared to September 30, 2007. The ratio of allowance for loan losses to loans held-in-portfolio for the Banco Popular North America reportable segment was 2.37% as of September 30, 2008, compared with 0.97% as of September 30, 2007. The provision for loan losses represented 185% of net charge-offs for the third quarter of 2008, compared with 137% of net charge-offs in the same period of 2007. The annualized net charge-offs to average loans held-in-portfolio for the Banco Popular North America operations was 2.60% for the quarter ended September 30, 2008, compared with 0.62% in the same quarter of the previous year.

- higher non-interest income by $16.5 million, or 46%, mainly due to gains of $21.1 million on the sale of a real estate property;

lower operating expenses by $17.2 million, or 15%. E-LOAN s expenses were reduced by $20.2 million principally in business promotion, personnel costs, professional fees, equipment expenses and net occupancy expenses. The reduction at E-LOAN was partially offset by higher personnel costs by $1.3 million and other operating expenses at the banking subsidiary, including higher FDIC assessments.

104

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income tax expense of $61.4 million in the third quarter of 2008, compared with income tax benefit of $2.7 million in the third quarter of 2007. Although the BPNA reportable segment had higher operating losses in the third quarter of 2008, the tax benefits were offset by the recording of a $94.5 valuation allowance on deferred tax assets.

Net loss for the nine months ended September 30, 2008 totaled $175.3 million, compared to net income of $22.8 million for the same period in the previous year. These results reflected:

higher net interest income by $1.5 million, or less than 1%;

higher provision for loan losses by $220.5 million;

lower non-interest income of $3.0 million, or 2%, mainly due to lower gain on sale of loans and valuation adjustments on loans held-for-sale by $27.1 million primarily related to E-LOAN. This unfavorable variance was partially offset by the $12.8 million gain on the sale of the Texas branches and $21.1 million gain in the sale of real estate.

lower operating expenses by $46.9 million, or 14%; and

income tax expense of $33.4 million for the nine months ended September 30, 2008, compared to income tax expense of $10.2 million for the same period in the previous year.

FINANCIAL CONDITION

Refer to the consolidated financial statements included in this report for the Corporation s consolidated statements of condition and to Table A for financial highlights on major line items of the statements of condition. At September 30, 2008, total assets were $40.4 billion, which included $969 million from the discontinued operations. Total assets at December 31, 2007 were $44.4 billion and $47.3 billion at September 30, 2007. Assets from discontinued operations consisted mostly loans and mortgage servicing related assets. Total liabilities for the discontinued operations were $180 million, mostly in the form of secured borrowings.

Investment securities

A breakdown of the Corporation s investment securities available-for-sale and held-to-maturity is provided in Table F. Notes 6 and 7 to the consolidated financial statements provide additional information by contractual maturity categories and unrealized gains / losses with respect to the Corporation s available-for-sale and held-to-maturity investment securities portfolio. The Corporation holds investment securities primarily for liquidity, yield enhancement and interest rate risk management. The portfolio primarily includes very liquid, high quality debt securities.

TABLE F

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

(In millions)	September 30, 2008	December 31, 2007	Variance	September 30, 2007	Variance
U.S. Treasury securities	$ 464.2	$ 471.1	$ (6.9)	$ 475.8	$ (11.6)
Obligations of U.S. Government sponsored entities	5,111.3	5,893.1	(781.8)	6,014.6	(903.3)
Obligations of Puerto Rico, States and political subdivisions	286.4	178.0	108.4	178.3	108.1
Collateralized mortgage obligations	1,553.1	1,396.8	156.3	1,469.7	83.4
Mortgage-backed securities	850.5	1,010.1	(159.6)	949.5	(99.0)
Equity securities	14.7	34.0	(19.3)	41.3	(26.6)
Others	8.4	16.5	(8.1)	28.6	(20.2)

Total	$8,288.6	$8,999.6	$(711.0)	$9,157.8	$(869.2)

The vast majority of these investment securities, or approximately 97%, are rated the equivalent of AAA by the major rating agencies. The mortgage-backed securities (MBS) and collateralized mortgage obligations (CMOs) are investment grade securities, all of which are rated AAA by at least one of the three major rating agencies as of September 30, 2008. All MBS held by the Corporation and approximately 88% of the CMOs held as of September 30, 2008 are guaranteed by government sponsored entities.

105

Table of Contents

The decline in the Corporation s available-for-sale and held-to-maturity investment portfolios from the end of the third quarter of 2007 and year-end 2007 to September 30, 2008 was mainly associated with maturities of securities.

Loan portfolio

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

TABLE G

Loans Ending Balances

(In thousands)	September 30, 2008(2)	December 31, 2007	Variance September 30, 2008 Vs. December 31, 2007	September 30, 2007	Variance September 30, 2008 Vs. September 30, 2007
Loans held-in-portfolio, net of unearned:					
Commercial	$13,832,344	$13,661,643	$ 170,701	$13,706,245	$ 126,099
Construction	2,134,250	1,941,372	192,878	1,757,589	376,661
Lease financing	1,124,021	1,097,803	26,218	1,156,773	(32,752)
Mortgage (1)	4,487,501	6,071,374	(1,583,873)	10,480,501	(5,993,000)
Consumer	4,757,919	5,249,264	(491,345)	5,796,393	(1,038,474)
Total loans held-in-portfolio	$26,336,035	$28,021,456	$(1,685,421)	$32,897,501	$(6,561,466)
Loans held-for-sale measured at lower of cost or market:					
Commercial	$ 24,920	$ 24,148	$ 772	$ 63,228	$ (38,308)
Lease financing		66,636	(66,636)		
Mortgage	220,214	1,363,426	(1,143,212)	360,075	(139,861)
Consumer		435,336	(435,336)		
Total loans held-for-sale measured at lower of cost or market	$ 245,134	$ 1,889,546	$(1,644,412)	$ 423,303	$ (178,169)

(1) Includes residential construction.

(2) Loans from discontinued operations for the period ended September 30,

2008 are presented as part of Assets from discontinued operations in the consolidated statement of condition. Refer to Note 3 to the consolidated financial statements for further information.

The growth in the commercial and construction loan portfolio was principally attained at the BPPR and BPNA segments. The growth in the construction loan portfolio included loans to builders and developers of residential real estate and other commercial property.

The reduction in mortgage loans held-in-portfolio from December 31, 2007 to September 30, 2008 was primarily due to the discontinued operations of PFH. As of December 31, 2007 the PFH reportable segment had $1.4 billion in mortgage loans held-in-portfolio. Also, the decrease was due to the securitization into FNMA mortgage-backed securities of approximately $307 million (UPB) of residential mortgage loans by BPPR in the second quarter of 2008. As indicated previously in the Non-Interest Income section of this MD&A, $232 million of these MBS were sold in the secondary markets during the second quarter of 2008. The sale proceeds were reinvested in U.S. agency securities. The objective of the sale was to reduce the Corporation s level of mortgage loans retained in portfolio and enhance its return on risk-weighted capital. The decrease in mortgage loans held-for-sale was associated to the origination and pooling of loans by E-LOAN and the mortgage banking subsidiary in the Puerto Rico operations. The reduction in mortgage loans held-in-portfolio from September 30, 2007 to the same date in 2008 was influenced by similar factors coupled with the impact of the recharacterization transaction completed by PFH in December 2007 which, at that time, resulted in a reduction of approximately $3.2 billion in loans. The PFH reportable segment held $5.9 billion in mortgage loans held-in-portfolio at September 30, 2007.

The decrease in consumer loans held-in-portfolio from December 31, 2007 to September 30, 2008 was mainly due to the impact of the reclassification of PFH s discontinued operations as well as the sales of auto loan portfolios by E-LOAN during June 2008 and lower volume of personal loans in Banco Popular de Puerto Rico operations. The PFH reportable segment held consumer loans held-in-portfolio amounting to $242 million at December 31, 2007 and $1.0 billion at September 30, 2007.

Table of Contents

The reduction in mortgage and consumer loans held-for-sale from the end of 2007 to September 30, 2008 was mainly due to the sale of $1.4 billion of PFH s loans to American General on March 1, 2008. The decrease in the lease financing portfolio held-for-sale from December 31, 2007 to September 30, 2008 was principally due to the sale of approximately $66 million of lease financings by Popular Equipment Finance, a subsidiary of BPNA, during the first quarter of 2008.

Other assets

Table H provides a breakdown of the Other Assets caption presented in the consolidated statements of condition. The other assets related to the discontinued operations were disclosed separately.

TABLE H

Breakdown of Other Assets

(In thousands)	September 30, 2008(1)	December 31, 2007	Variance September 30, 2008 Vs. December 31, 2007	September 30, 2007	Variance September 30, 2008 Vs. September 30, 2007
Net deferred tax assets	$ 663,260	$ 525,369	$ 137,891	$ 420,288	$ 242,972
Securitization advances and related assets		168,599	(168,599)	82,980	(82,980)
Bank-owned life insurance program	222,298	215,171	7,127	212,698	9,600
Prepaid expenses	153,698	188,237	(34,539)	187,725	(34,027)
Investments under the equity method	117,766	89,870	27,896	85,806	31,960
Derivative assets	50,335	76,958	(26,623)	64,981	(14,646)
Trade receivables from brokers and counterparties	17,100	1,160	15,940	8,714	8,386
Others	187,762	191,630	(3,868)	181,497	6,265
Total	$1,412,219	$1,456,994	$ (44,775)	$1,244,689	$ 167,530

(1) Other assets from discontinued operations for the period ended September 30, 2008 are presented as part of Assets from discontinued operations in the consolidated statement of condition. Refer

to Note 3 to the consolidated financial statements for further information on the discontinued operations. Deferred tax assets, net of the valuation allowance, for statement of condition purposes are included as part of continuing operations as of September 30, 2008.

Explanations for the principal variances in the continuing operations from December 31, 2007 and September 30, 2007 to September 30, 2008 were:

Increase in net deferred tax assets was mostly due the net operating losses of the U.S. operations recognized during the nine months ended September 30, 2008 and an increase related to timing differences in the recognition of the provision for loan losses under GAAP and actual net charge offs under the tax code, partially offset by the aforementioned recording of the valuation allowance on deferred tax assets of the U.S. operations. Refer to the Income Tax section of this MD&A for further information and to Note 21 to the consolidated financial statements for a detail of deferred tax assets.

Securitization advances and related assets as of December 31, 2007 and September 30, 2007 pertained to the PFH reportable segment that was discontinued in 2008. Related balances outstanding as of September 30, 2008 are included as part of Assets from discontinued operations in the consolidated statement of condition.

Other assets from the discontinued operations amounted to $282 million at September 30, 2008, compared to $204 million at December 31, 2007 and $108 million at September 30, 2007. These other assets consisted principally of servicing advances. The increase in servicing advance requirements was primarily as a result of slower prepayment rates and higher delinquency levels. The Corporation, acting as a servicer in certain PFH securitization transactions, is required under certain servicing agreements to advance its own funds to meet contractual remittance requirements for investors, process foreclosures and pay property taxes and insurance premiums. Funds are also advanced to maintain and market real estate properties on behalf of investors. As the servicer, the Corporation is required to advance funds only to the extent that it believes the advances are recoverable. The advances have the highest standing in terms of repayment priority over payments made to bondholders of each securitization trust. The Corporation funds these advances from several internal and external funding sources. As of September 30, 2008, the servicing advances were held-for-sale and accounted at lower of cost or market value, with value indicators determined based on the price terms stipulated in the agreement with the prospective third-party buyer indicated in

Table of Contents

Note 3 to the consolidated financial statements. As of December 31, 2007 and September 30, 2007, the servicing advances were accounted at cost and were deemed collectible in full.

Deposits, borrowings and capital

The composition of the Corporation s financing to total assets at September 30, 2008 and December 31, 2007 is included in Table I as follows:

TABLE I

Financing to Total Assets

(Dollars in millions)	September 30, 2008	December 31, 2007	% increase (decrease) from December 31, 2007 to September 30, 2008	% of total assets September 30, 2008	% of total assets December 31, 2007
Non-interest bearing deposits	$ 4,066	$ 4,511	(9.9%)	10.0%	10.2%
Interest-bearing core deposits	15,978	15,553	2.7	39.6	35.0
Other interest-bearing deposits	7,868	8,271	(4.9)	19.5	18.6
Federal funds and repurchase agreements	3,730	5,437	(31.4)	9.2	12.2
Other short-term borrowings	507	1,502	(66.2)	1.3	3.4
Notes payable	4,242	4,621	(8.2)	10.5	10.4
Others	992	934	6.2	2.5	2.1
Stockholders equity	3,007	3,582	(16.1)	7.4	8.1

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

TABLE J

Deposits Ending Balances

(In thousands)	September 30, 2008	December 31, 2007	Variance September 30, 2008 Vs. December 31, 2007	September 30, 2007	Variance September 30, 2008 Vs. September 30, 2007
Demand deposits *	$ 4,731,724	$ 5,115,875	$ (384,151)	$ 4,641,736	$ 89,988
Savings, NOW and money market deposits	9,884,674	9,804,605	80,069	9,328,094	556,580
Time deposits	13,294,999	13,413,998	(118,999)	12,631,685	663,314
Total	$27,911,397	$28,334,478	$ (423,081)	$26,601,515	$ 1,309,882

* Includes interest and non-interest bearing demand deposits.

Brokered certificates of deposit totaled $3.1 billion at September 30, 2008 and December 31, 2007, and represented 11% of total deposits. Brokered certificates of deposit amounted to $2.1 billion at September 30, 2007, or 8% of total deposits. Brokered certificates of deposit, which are typically sold through an intermediary to small retail investors, provide access to longer-term funds that are available in the market area and provide the ability to raise additional funds without pressuring retail deposit pricing. One of the strategies followed by management in response to the unprecedented market disruptions during 2007 was the utilization of brokered certificates of deposit to replace uncommitted lines of credit. Management reduced partially the overall outstanding balance of brokered certificates of deposit during the quarter ended June 30, 2008 when brokered certificates of deposit totaled $2.1 billion. This reduction was replaced with short-term borrowings. During the quarter ended September 30, 2008, the Corporation s banking subsidiary in Puerto Rico increased brokered certificates of deposit to further strengthen its level of on-hand liquidity amidst the recent financial industry developments of the third quarter.

The decrea