POPULAR INC
Form 10-Q
May 10, 2007

Table of Contents

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

þ **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended March 31, 2007
Commission File Number: 000-13818
POPULAR, INC.

(Exact name of registrant as specified in its charter)

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

(787) 765-9800

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

(Former name, former address and former fiscal year, if changed since last report)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. þ Yes o No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer þ Accelerated filer o Non-accelerated filer o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes þ No
Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: Common Stock $6.00 par value 279,360,885 shares outstanding as of May 7, 2007.

POPULAR, INC.
INDEX

Table of Contents

Forward-Looking Information

The information included in this Form 10-Q contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements may relate to the Corporation s financial condition, results of operations, plans, objectives, future performance and business, including, but not limited to, statements with respect to the adequacy of the allowance for loan losses, market risk and the impact of interest rate changes, capital adequacy and liquidity, and the effect of legal proceedings and new accounting standards on the Corporation s financial condition and results of operations. All statements contained herein that are not clearly historical in nature are forward-looking, and the words anticipate, believe, continues, expect, estimate, intend, and similar expressions and future or conditional verbs such as will, would, should, could, might, can, may, expressions are generally intended to identify forward-looking statements.

These statements are not guarantees of future performance and involve certain risks, uncertainties, estimates and assumptions by management that are difficult to predict. Various factors, some of which are beyond the Corporation s control, could cause actual results to differ materially from those expressed in, or implied by, such forward-looking statements. Factors that might cause such a difference include, but are not limited to: the rate of growth in the economy, as well as general business and economic conditions; changes in interest rates, as well as the magnitude of such changes; the fiscal and monetary policies of the federal government and its agencies; the relative strength or weakness of the consumer and commercial credit sectors and of the real estate markets; the performance of the stock and bond markets; competition in the financial services industry; possible legislative, tax or regulatory changes; and difficulties in combining the operations of acquired entities.

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

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

Table of Contents

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

(In thousands, except share information)	**March 31, 2007**	December 31, 2006	March 31, 2006
ASSETS			
Cash and due from banks	**$ 753,550**	$ 950,158	$ 860,606
Money market investments:			
Federal funds sold	**389,000**	84,350	488,200
Securities purchased under agreements to resell	**227,046**	202,181	491,710
Time deposits with other banks	**24,162**	15,177	10,005
	640,208	301,708	989,915
Investment securities available-for-sale, at fair value:			
Pledged securities with creditors right to repledge	**3,729,502**	3,743,924	5,934,017
Other investment securities available-for-sale	**5,748,859**	6,106,938	5,576,651
Investment securities held-to-maturity, at amortized cost (market value at March 31, 2007 - $88,868; December 31, 2006 - $92,764; March 31, 2006 $345,217)	**87,483**	91,340	344,385
Other investment securities, at lower of cost or realizable value (realizable value at March 31, 2007 - $153,339; December 31, 2006 - $412,593; March 31, 2006 $415,131)	**152,951**	297,394	304,609
Trading account securities, at fair value:			
Pledged securities with creditors right to repledge	**344,401**	193,619	365,096
Other trading securities	**303,749**	188,706	144,516
Loans held-for-sale, at lower of cost or market value	**1,049,230**	719,922	535,719
Loans held-in-portfolio:			
Loans held-in-portfolio pledged with creditors right to repledge	**563,871**	306,320	21,210
Other loans held-in-portfolio	**31,578,452**	32,019,044	31,174,832
Less Unearned income	**310,936**	308,347	301,376
Allowance for loan losses	**541,748**	522,232	468,321
	31,289,639	31,494,785	30,426,345
Premises and equipment, net	**591,008**	595,140	600,792
Other real estate	**89,479**	84,816	82,352
Accrued income receivable	**284,791**	248,240	274,620
Other assets	**1,326,044**	1,611,890	1,388,662
Goodwill	**668,616**	667,853	655,743
Other intangible assets	**105,154**	107,554	107,675

	$47,164,664	$47,403,987	$48,591,703
LIABILITIES AND STOCKHOLDERS EQUITY			
Liabilities:			
Deposits:			
Non-interest bearing	**$ 4,177,446**	$ 4,222,133	$ 4,453,965
Interest bearing	**20,560,607**	20,216,198	18,957,847
	24,738,053	24,438,331	23,411,812
Federal funds purchased and assets sold under agreements to repurchase	**6,272,417**	5,762,445	8,315,380
Other short-term borrowings	**3,201,972**	4,034,125	2,645,521
Notes payable	**8,368,825**	8,737,246	9,933,218
Other liabilities	**846,979**	811,424	798,102
	43,428,246	43,783,571	45,104,033
Commitments and contingencies (See Note 12)			
Minority interest in consolidated subsidiaries	**110**	110	113
Stockholders equity:			
Preferred stock, $25 liquidation value; 30,000,000 shares authorized; 7,475,000 shares issued and outstanding in all periods presented	**186,875**	186,875	186,875
Common stock, $6 par value; 470,000,000 shares authorized in all periods presented; 292,448,935 shares issued (December 31, 2006 292,190,924; March 31, 2006 291,497,120) and 279,073,657 outstanding (December 31, 2006 278,741,547; March 31, 2006 278,072,323)	**1,754,694**	1,753,146	1,748,983
Surplus	**530,073**	526,856	486,863
Retained earnings	**1,673,826**	1,594,144	1,526,634
Accumulated other comprehensive loss, net of tax of ($74,005) (December 31, 2006 ($84,143); March 31, 2006 ($82,657))	**(203,935)**	(233,728)	(255,265)
Treasury stock at cost, 13,375,278 shares (December 31, 2006 13,449,377; March 31, 2006 13,424,797)	**(205,225)**	(206,987)	(206,533)
	3,736,308	3,620,306	3,487,557
	$47,164,664	$47,403,987	$48,591,703

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

4

Table of Contents

POPULAR, INC.
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

(In thousands, except per share information)	Quarter ended March 31, 2007	2006
INTEREST INCOME:		
Loans	**$644,114**	$591,835
Money market investments	**4,609**	7,982
Investment securities	**115,491**	133,533
Trading account securities	**9,381**	8,860
	773,595	742,210
INTEREST EXPENSE:		
Deposits	**173,102**	124,411
Short-term borrowings	**124,809**	124,803
Long-term debt	**120,702**	133,232
	418,613	382,446
Net interest income	**354,982**	359,764
Provision for loan losses	**96,346**	48,947
Net interest income after provision for loan losses	**258,636**	310,817
Service charges on deposit accounts	**48,471**	47,469
Other service fees (See Note 13)	**87,849**	80,346
Net gain on sale and valuation adjustments of investment securities	**81,771**	12,340
Trading account (loss) profit	**(14,164)**	11,475
Gain on sale of loans and valuation adjustments on loans held-for-sale	**3,434**	47,261
Other operating income	**44,815**	29,942
	510,812	539,650
OPERATING EXPENSES:		
Personnel costs:		
Salaries	**136,479**	135,532
Pension, profit sharing and other benefits	**41,896**	42,520
	178,375	178,052
Net occupancy expenses	**32,014**	28,638
Equipment expenses	**32,396**	33,197
Other taxes	**11,847**	10,241
Professional fees	**35,987**	37,078
Communications	**17,062**	17,300
Business promotion	**28,372**	32,823
Printing and supplies	**4,276**	4,632

Other operating expenses	**32,016**	28,831
Impact of change in fiscal period of certain subsidiaries		9,741
Amortization of intangibles	**2,983**	2,721
	375,328	383,254
Income before income tax	**135,484**	156,396
Income tax	**16,837**	37,893
NET INCOME	**$118,647**	$118,503
NET INCOME APPLICABLE TO COMMON STOCK	**$115,669**	$115,525
BASIC EARNINGS PER COMMON SHARE (EPS)	**$ 0.41**	$ 0.42
DILUTED EPS	**$ 0.41**	$ 0.42
DIVIDENDS DECLARED PER COMMON SHARE	**$ 0.16**	$ 0.16

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

Table of Contents

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

(In thousands)	Quarter ended March 31, **2007**	2006
Preferred stock:		
Balance at beginning and end of year	**$ 186,875**	$ 186,875
Common stock:		
Balance at beginning of year	**1,753,146**	1,736,443
Common stock issued under the Dividend Reinvestment Plan	**1,488**	1,184
Issuance of common stock		11,312
Stock options exercised	**60**	44
Balance at end of period	**1,754,694**	1,748,983
Surplus:		
Balance at beginning of year	**526,856**	452,398
Common stock issued under the Dividend Reinvestment Plan	**2,628**	2,789
Issuance of common stock		28,281
Issuance cost of common stock		1,527
Stock options expense on unexercised options, net of forfeitures	**440**	768
Stock options exercised	**149**	100
Transfer from retained earnings		1,000
Balance at end of period	**530,073**	486,863
Retained earnings:		
Balance at beginning of year	**1,594,144**	1,456,612
Net income	**118,647**	118,503
Cumulative effect of accounting change (adoption of SFAS No. 156 and EITF 06-5)	**8,667**	
Cash dividends declared on common stock	**(44,654)**	(44,503)
Cash dividends declared on preferred stock	**(2,978)**	(2,978)
Transfer to surplus		(1,000)
Balance at end of period	**1,673,826**	1,526,634
Accumulated other comprehensive loss:		
Balance at beginning of year	**(233,728)**	(176,000)
Other comprehensive income (loss), net of tax	**29,793**	(79,265)
Balance at end of period	**(203,935)**	(255,265)
Treasury stock at cost:		
Balance at beginning of year	**(206,987)**	(207,081)

Purchase of common stock	**(10)**	
Reissuance of common stock	**1,772**	548
Balance at end of period	**(205,225)**	(206,533)
Total stockholders equity	**$3,736,308**	$3,487,557

Disclosure of changes in number of shares:

	March 31, 2007	December 31, 2006	March 31, 2006
Preferred Stock:			
Balance at beginning and end of period	**7,475,000**	7,475,000	7,475,000
Common Stock Issued:			
Balance at beginning of year	**292,190,924**	289,407,190	289,407,190
Issued under the dividend reinvestment plan	**247,947**	858,905	197,196
Issuance of common stock		1,885,380	1,885,380
Stock options exercised	**10,064**	39,449	7,354
Balance at end of period	**292,448,935**	292,190,924	291,497,120
Treasury stock	**(13,375,278)**	(13,449,377)	(13,424,797)
Common Stock outstanding	**279,073,657**	278,741,547	278,072,323

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

Table of Contents

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

(In thousands)	Quarter ended March 31, **2007**	2006
Net income	**$ 118,647**	$ 118,503
Other comprehensive income (loss), before tax:		
Foreign currency translation adjustment	**1,780**	(686)
Adjustment of pension and postretirement benefit plans	**(519)**	
Unrealized holding gains (losses) on securities available-for-sale arising during the period	**39,520**	(91,965)
Reclassification adjustment for gains included in net income	**(119)**	(12,340)
Net (loss) gain on cash flow hedges	**(892)**	1,200
Reclassification adjustment for losses included in net income	**161**	161
	39,931	(103,630)
Income tax (expense) benefit	**(10,138)**	24,365
Total other comprehensive income (loss), net of tax	**29,793**	(79,265)
Comprehensive income	**$ 148,440**	$ 39,238

Disclosure of accumulated other comprehensive loss:

(In thousands)	**March 31, 2007**	December 31, 2006	March 31, 2006
Foreign currency translation adjustment	**$ (34,921)**	$ (36,701)	$ (37,001)
Minimum pension liability adjustment		(3,893)	(2,354)
Tax effect		1,518	918
Adoption of SFAS No. 158		3,893	
Tax effect		(1,518)	
Net of tax amount			(1,436)
Underfunding of pension and postretirement benefit plans	**(69,779)**	(69,260)	
Tax effect	**27,214**	27,034	
Net of tax amount	**(42,565)**	(42,226)	
Unrealized losses on securities available-for-sale	**(172,842)**	(212,243)	(299,995)
Tax effect	**46,567**	57,146	82,162
Net of tax amount	**(126,275)**	(155,097)	(217,833)

Unrealized (losses) gains on cash flows hedges	**(641)**	90	1,185
Tax effect	**224**	(37)	(423)
Net of tax amount	**(417)**	53	762
Cumulative effect of accounting change, net of tax	**243**	243	243
Accumulated other comprehensive loss, net of tax	**$(203,935)**	$(233,728)	$(255,265)

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

Table of Contents

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

(In thousands)	Quarter ended March 31, **2007**	2006
Cash flows from operating activities:		
Net income	$ 118,647	$ 118,503
Less: Impact of change in fiscal period of certain subsidiaries, net of tax		(6,129)
Net income before change in fiscal period	118,647	124,632
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization of premises and equipment	19,994	21,437
Provision for loan losses	96,346	48,947
Amortization of intangibles	2,983	2,721
Amortization and fair value adjustment of servicing assets	10,229	13,501
Net gain on sale and valuation adjustment of investment securities	(81,771)	(12,340)
Net gain on disposition of premises and equipment	(3,677)	(1,512)
Net gain on sale of loans and valuation adjustments on loans held-for-sale	(3,434)	(47,261)
Net amortization of premiums and accretion of discounts on investments	6,331	7,012
Net amortization of premiums and deferred loan origination fees and costs	23,930	31,887
Earnings from investments under the equity method	(14,229)	(4,261)
Stock options expense	490	800
Deferred income taxes	(19,394)	(5,411)
Net disbursements on loans held-for-sale	(1,685,149)	(1,923,081)
Acquisitions of loans held-for-sale	(282,110)	(447,046)
Proceeds from sale of loans held-for-sale	1,280,146	2,166,951
Net decrease in trading securities	346,150	835,124
Net increase in accrued income receivable	(36,551)	(30,589)
Net decrease (increase) in other assets	35,160	(18,428)
Net (decrease) increase in interest payable	(315)	23,849
Net increase in postretirement benefit obligation	728	1,585
Net increase in other liabilities	1,208	3,286
Total adjustments	(302,935)	667,171
Net cash (used in) provided by operating activities	(184,288)	791,803
Cash flows from investing activities:		
Net increase in money market investments	(272,064)	(240,350)
Purchases of investment securities:		
Available-for-sale	(28,186)	(175,975)
Held-to-maturity	(5,670,466)	(7,747,198)
Other	(6,744)	(10,580)
Proceeds from calls, paydowns, maturities and redemptions of investment securities:		

Available-for-sale	399,204	247,055
Held-to-maturity	5,674,358	7,556,192
Other	2,454	25,074
Proceeds from sale of investment securities available-for-sale		43,894
Proceeds from sale of other investment securities	246,352	
Net repayments on loans	50,493	201,051
Proceeds from sale of loans	962	73,038
Acquisition of loan portfolios	(784)	(141,658)
Assets acquired, net of cash	(1,823)	(218)
Acquisition of premises and equipment	(26,117)	(38,799)
Proceeds from sale of premises and equipment	14,307	14,452
Proceeds from sale of foreclosed assets	41,835	33,516
Net cash provided by (used in) investing activities	423,781	(160,506)
Cash flows from financing activities:		
Net increase in deposits	297,872	769,477
Net increase (decrease) in federal funds purchased and assets sold under agreements to repurchase	509,972	(500,232)
Net decrease in other short-term borrowings	(832,153)	(161,597)
Payments of notes payable	(416,272)	(900,117)
Proceeds from issuance of notes payable	47,719	106,252
Dividends paid	(47,591)	(45,768)
Proceeds from issuance of common stock	4,362	42,983
Treasury stock acquired	(10)	
Net cash used in financing activities	(436,101)	(689,002)
Cash effect of change in fiscal period of certain subsidiaries		11,914
Net decrease in cash and due from banks	(196,608)	(45,791)
Cash and due from banks at beginning of period	950,158	906,397
Cash and due from banks at end of period	$ 753,550	$ 860,606

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

Table of Contents

Notes to Unaudited Consolidated Financial Statements

Note 1 Nature of operations and basis of presentation

Popular, Inc. (the Corporation or Popular) is a diversified, publicly-owned financial holding company subject to the supervision and regulation of the Board of Governors of the Federal Reserve System. The Corporation is a full service financial services provider with operations in Puerto Rico, the United States, the Caribbean and Latin America. As the leading financial institution based 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 has established a community banking franchise providing a broad range of financial services and products to the communities it serves. Banco Popular North America (BPNA) operates branches in California, Texas, Illinois, New York, New Jersey and Florida. Popular Financial Holdings (PFH) offers mortgage and personal loans, while E-LOAN provides online consumer direct lending to obtain mortgage, auto and home equity loans, and provides an online platform to raise deposits for BPNA. The Corporation also owns a financial transaction processing operation, EVERTEC, which strives to use its expertise in technology and electronic banking 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 21 to the consolidated financial statements presents further information about the Corporation s business segments.

The unaudited consolidated financial statements include the accounts of Popular, Inc. and its majority-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. The Corporation also consolidates the variable interest entities for which it is the primary beneficiary and therefore will absorb the majority of the entity s expected losses, receive a majority of the entity s expected returns, or both. These unaudited statements are, in the opinion of management, a fair statement of the results for the periods reported and include all necessary adjustments, all of a normal recurring nature, for a fair statement of such results. Certain reclassifications have been made to the prior period consolidated financial statements to conform to the 2007 presentation.

The statement of condition data as of December 31, 2006 was derived from audited financial statements. Certain information and note disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States of America have been condensed or omitted from the statements presented as of March 31, 2007, December 31, 2006 and March 31, 2006 pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, these financial statements should be read in conjunction with the audited consolidated financial statements of the Corporation for the year ended December 31, 2006, included in the Corporation s 2006 Annual Report. The Corporation s Form 10-K filed on March 1, 2007 incorporates by reference the 2006 Annual Report.

Note 2 Recent Accounting Developments

SFAS No. 155 Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140. SFAS No. 155 permits companies to elect, on a transaction-by-transaction basis, to apply a fair value measurement to hybrid financial instruments that contain an embedded derivative that would otherwise require bifurcation under SFAS No. 133. The statement also clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133; establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation; clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives; and amends SFAS No. 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. The adoption of SFAS No. 155 in the first quarter of 2007 did not have a material impact on the Corporation s consolidated financial statements.

SFAS No. 156 Accounting for Servicing of Financial Assets an amendment of FASB No. 140

SFAS No. 156 requires that all separately recognized servicing assets and liabilities be initially measured at fair value, if practicable. For subsequent measurements, SFAS No. 156 permits companies to choose between using an amortization method or a fair value measurement method for reporting purposes by class of servicing asset or liability. The Corporation adopted SFAS No. 156 in January 2007. The Corporation elected the fair value measurement for mortgage servicing rights (MSRs). Servicing rights associated with Small Business Administration (SBA) commercial loans will continue to be accounted at the lower of cost or market method. The initial impact of adoption of the fair value measurement for MSRs was included as a cumulative effect of a change in accounting principle directly in stockholders equity and resulted in a net increase in stockholders equity of approximately $9.6 million, net of deferred taxes. Refer to Note 7 to the consolidated financial statements for required SFAS No. 156 disclosures.

FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement 109 (FIN 48)

In 2006, the FASB issued FIN 48 which clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with SFAS No. 109. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition related to income taxes. The accounting provisions of FIN 48 were effective for the Corporation beginning in the first quarter of 2007. Based on management s assessment, there was no impact on retained earnings as of January 1, 2007 due to the initial application of the provisions of FIN 48. Also, as a result of the implementation, the Corporation did not recognize any change in the liability for unrecognized tax benefits. Refer to Note 14 to the consolidated financial statements for further information on FIN 48 disclosures.

EITF Issue No. 06-03 How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation) (EITF 06-03)

EITF 06-03 provides that the presentation of taxes assessed by a governmental authority that is directly imposed on a revenue-producing transaction between a seller and a customer on either a gross basis (included in revenues and costs) or on a net basis (excluded from revenues) is an accounting policy decision that should be disclosed. The Corporation s accounting policy is to present taxes collected from customers and remitted to governmental authorities on a net basis. The corresponding amounts recognized in the consolidated financial statements are not significant.

EITF Issue No. 06-5 Accounting for Purchases of Life Insurance Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4, Accounting for Purchases of Life Insurance (EITF 06-5)

EITF 06-5 focuses on how an entity should determine the amount that could be realized under the insurance contract at the balance sheet date in applying FTB 85-4, and whether the determination should be on an individual or group policy basis. At the September 2006 meeting, the Task Force affirmed as a final consensus that the cash surrender value and any additional amounts provided by the contractual terms of the insurance policy that are realizable at the balance sheet date should be considered in determining the amount that could be realized under FTB 85-4, and any amounts that are not immediately payable in cash to the policyholder should be discounted to their present value. Additionally, the Task Force affirmed as a final consensus the tentative conclusion that in determining the amount that could be realized, companies should assume that policies will be surrendered on an individual-by-individual basis, rather than surrendering the entire group policy. Also, the Task Force reached a consensus that contractual limitations on the ability to surrender a policy do not affect the amount to be reflected under FTB 85-4, but, if significant, the nature of those restrictions should be disclosed. The Corporation adopted the EITF 06-5 guidance in the first quarter of 2007 and as a result recorded a $0.9 million cumulative effect adjustment to beginning retained earnings (reduction of capital) for the existing bank-owned life insurance arrangement.

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

Table of Contents

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 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Corporation will adopt the provisions of SFAS No. 157 commencing with the first quarter of 2008. The Corporation is evaluating the impact that this accounting pronouncement may have in its consolidated financial statements and disclosures.

SFAS No. 159 Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities

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 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 new statement does not eliminate disclosure requirements included in other accounting standards, including requirements for disclosures about fair value measurements included in FASB Statements No. 157, *Fair Value Measurements,* and No. 107, *Disclosures about Fair Value of Financial Instruments.* SFAS No. 159 is effective as of the beginning of an entity s first fiscal year beginning after November 15, 2007. Early adoption is permitted as of the beginning of the previous fiscal year provided that the entity makes that choice in the first 120 days of that fiscal year and also elects to apply the provisions of SFAS No. 157. The Corporation will adopt the provisions of SFAS No. 159 commencing in January 2008. Management is evaluating the impact that this recently issued accounting standard may have on its consolidated financial statements.

Note 3 Restrictions on cash and due from banks and highly liquid securities

The Corporation s subsidiary banks are required by federal and state regulatory agencies to maintain average reserve balances with the Federal Reserve Bank or with a correspondent bank. Those required average reserve balances were $614 million at March 31, 2007 (December 31, 2006 $621 million; March 31, 2006 $607 million). Cash and due from banks as well as other short-term, highly liquid securities are used to cover the required average reserve balances.

In compliance with rules and regulations of the Securities and Exchange Commission, at March 31, 2007, the Corporation had securities with a market value of $445 thousand (December 31, 2006 $445 thousand; March 31, 2006 $446 thousand) segregated in a special reserve bank account for the benefit of brokerage customers of its broker-dealer subsidiary. These securities are classified in the consolidated statement of condition within the other trading securities category.

As required by the Puerto Rico International Banking Center Law, at March 31, 2007, the Corporation maintained separately for its two international banking entities (IBEs), $600 thousand in time deposits, equally split for the two IBEs, which were considered restricted assets (December 31, 2006 $600 thousand; March 31, 2006 $600 thousand).

The Corporation had restricted securities available-for-sale with a market value of $1.3 million at March 31, 2007 (December 31, 2006 $1.2 million; March 31, 2006 $1.3 million) to comply with certain requirements of the Insurance Code of Puerto Rico.

As part of a line of credit facility with a financial institution, at March 31, 2007, the Corporation maintained restricted cash of $1.9 million as collateral (December 31, 2006 $1.9 million; March 31, 2006 $1.9 million). The cash is being held in certificates of deposits which mature in less than 90 days. The line of credit is used to support letters of credit.

Table of Contents

Note 4 Pledged Assets

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

(In thousands)	**March 31, 2007**	December 31, 2006	March 31, 2006
Investment securities available-for-sale	**$ 2,825,470**	$ 2,645,272	$ 2,648,586
Investment securities held-to-maturity	**502**	658	810
Loans held-for-sale		332,058	28,398
Loans held-in-portfolio	**9,548,747**	10,260,198	11,667,733
	$12,374,719	$13,238,186	$14,345,527

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

Note 5 Investment Securities Available-For-Sale

The amortized cost, gross unrealized gains and losses and approximate market value (or fair value for certain investment securities where no market quotations are available) of investment securities available-for-sale as of March 31, 2007, December 31, 2006 and March 31, 2006 were as follows:

	AS OF MARCH 31, 2007			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
U.S. Treasury securities	$ 502,445		$ 27,102	$ 475,343
Obligations of U.S. Government sponsored entities	6,322,704	$ 392	115,897	6,207,199
Obligations of Puerto Rico, States and political subdivisions	117,895	282	3,116	115,061
Collateralized mortgage obligations	1,597,684	5,378	13,055	1,590,007
Mortgage-backed securities	1,021,608	1,770	22,739	1,000,639
Equity securities	70,109	4,197	3,399	70,907
Others	18,515	690		19,205
	$9,650,960	$12,709	$185,308	$9,478,361

	AS OF DECEMBER 31, 2006			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
U.S. Treasury securities	$ 504,653		$ 29,818	$ 474,835
Obligations of U.S. Government sponsored entities	6,603,252	$ 57	147,524	6,455,785

Obligations of Puerto Rico, States and political subdivisions	118,214	265	3,537	114,942
Collateralized mortgage obligations	1,657,613	4,904	17,191	1,645,326
Mortgage-backed securities	1,061,850	1,458	26,492	1,036,816
Equity securities	70,954	6,692	3,901	73,745
Others	46,326	3,087		49,413
	$10,062,862	$16,463	$228,463	$9,850,862

Table of Contents

	AS OF MARCH 31, 2006			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
U.S. Treasury securities	$ 526,258		$ 39,042	$ 487,216
Obligations of U.S. Government sponsored entities	7,814,649		222,747	7,591,902
Obligations of Puerto Rico, States and political subdivisions	108,047	$ 499	1,892	106,654
Collateralized mortgage obligations	1,868,088	6,944	19,374	1,855,658
Mortgage-backed securities	1,350,993	4,510	36,249	1,319,254
Equity securities	59,511	7,030	199	66,342
Others	82,874	1,109	341	83,642
	$11,810,420	$20,092	$319,844	$11,510,668

The following table shows the Corporation s gross unrealized losses and market value of investment securities available-for-sale, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at March 31, 2007, December 31, 2006 and March 31, 2006:

	AS OF MARCH 31, 2007		
	Less than 12 Months		
(In thousands)	Amortized Cost	Gross Unrealized Losses	Market Value
Obligations of U.S. Government sponsored entities	$320,519	$ 6,849	$313,670
Obligations of Puerto Rico, States and political subdivisions	19,329	293	19,036
Collateralized mortgage obligations	333,165	2,187	330,978
Mortgage-backed securities	15,728	184	15,544
Equity securities	22,639	3,372	19,267
	$711,380	$12,885	$698,495

	12 months or more		
(In thousands)	Amortized Cost	Gross Unrealized Losses	Market Value
U.S. Treasury securities	$ 502,445	$ 27,102	$ 475,343
Obligations of U.S. Government sponsored entities	5,847,813	109,048	5,738,765
Obligations of Puerto Rico, States and political subdivisions	58,452	2,823	55,629
Collateralized mortgage obligations	570,196	10,868	559,328
Mortgage-backed securities	912,630	22,555	890,075
Equity securities	300	27	273

$7,891,836	$172,423	$7,719,413

Table of Contents

(In thousands)	Amortized Cost	Total Gross Unrealized Losses	Market Value
U.S. Treasury securities	$ 502,445	$ 27,102	$ 475,343
Obligations of U.S. Government sponsored entities	6,168,332	115,897	6,052,435
Obligations of Puerto Rico, States and political subdivisions	77,781	3,116	74,665
Collateralized mortgage obligations	903,361	13,055	890,306
Mortgage-backed securities	928,358	22,739	905,619
Equity securities	22,939	3,399	19,540
	$8,603,216	$185,308	$8,417,908

	AS OF DECEMBER 31, 2006 Less than 12 Months		
(In thousands)	Amortized Cost	Gross Unrealized Losses	Market Value
U.S. Treasury securities	$ 19,421	$ 134	$ 19,287
Obligations of U.S. Government sponsored entities	425,076	4,345	420,731
Obligations of Puerto Rico, States and political subdivisions	21,426	259	21,167
Collateralized mortgage obligations	501,705	4,299	497,406
Mortgage-backed securities	28,958	484	28,474
Equity securities	11,180	3,699	7,481
	$1,007,766	$13,220	$994,546

	12 months or more		
(In thousands)	Amortized Cost	Gross Unrealized Losses	Market Value
U.S. Treasury securities	$ 485,232	$ 29,684	$ 455,548
Obligations of U.S. Government sponsored entities	6,097,274	143,179	5,954,095
Obligations of Puerto Rico, States and political subdivisions	55,238	3,278	51,960
Collateralized mortgage obligations	564,217	12,892	551,325
Mortgage-backed securities	954,293	26,008	928,285
Equity securities	300	202	98
	$8,156,554	$215,243	$7,941,311

(In thousands)	Amortized Cost	Total Gross Unrealized Losses	Market Value
U.S. Treasury securities	$ 504,653	$ 29,818	$ 474,835
Obligations of U.S. Government sponsored entities	6,522,350	147,524	6,374,826
Obligations of Puerto Rico, States and political subdivisions	76,664	3,537	73,127
Collateralized mortgage obligations	1,065,922	17,191	1,048,731
Mortgage-backed securities	983,251	26,492	956,759
Equity securities	11,480	3,901	7,579
	$9,164,320	$228,463	$8,935,857

14

Table of Contents

(In thousands)	Amortized Cost	AS OF MARCH 31, 2006 Less than 12 Months Gross Unrealized Losses	Market Value
U.S. Treasury securities	$ 29,259	$ 323	$ 28,936
Obligations of U.S. Government sponsored entities	4,249,522	118,785	4,130,737
Obligations of Puerto Rico, States and political subdivisions	15,572	77	15,495
Collateralized mortgage obligations	651,405	7,333	644,072
Mortgage-backed securities	266,027	4,734	261,293
Equity securities	35	1	34
Others	14,104	341	13,763
	$5,225,924	$131,594	$5,094,330

(In thousands)	Amortized Cost	12 months or more Gross Unrealized Losses	Market Value
U.S. Treasury securities	$ 496,999	$ 38,719	$ 458,280
Obligations of U.S. Government sponsored entities	3,565,127	103,962	3,461,165
Obligations of Puerto Rico, States and political subdivisions	66,501	1,815	64,686
Collateralized mortgage obligations	367,529	12,041	355,488
Mortgage-backed securities	887,313	31,515	855,798
Equity securities	300	198	102
	$5,383,769	$188,250	$5,195,519

(In thousands)	Amortized Cost	Total Gross Unrealized Losses	Market Value
U.S. Treasury securities	$ 526,258	$ 39,042	$ 487,216
Obligations of U.S. Government sponsored entities	7,814,649	222,747	7,591,902
Obligations of Puerto Rico, States and political subdivisions	82,073	1,892	80,181
Collateralized mortgage obligations	1,018,934	19,374	999,560
Mortgage-backed securities	1,153,340	36,249	1,117,091
Equity securities	335	199	136
Others	14,104	341	13,763

	$10,609,693	$319,844	$10,289,849

At March 31, 2007, Obligations of Puerto Rico, States and political subdivisions include approximately $58 million in Commonwealth of Puerto Rico Appropriation Bonds (Appropriation Bonds) the rating on which was downgraded in May 2006 by Moody s Investors Service (Moody s) to Ba1, or one notch below investment grade. Standard & Poor s (S&P), another nationally recognized credit rating agency, rated the Appropriation Bonds BBB-, which is still considered investment grade. As of March 31, 2007, these Appropriation Bonds represented approximately $2.5 million in unrealized losses in the Corporation s available-for-sale investment securities portfolio. The Corporation is closely monitoring the political and economic situation of the Island as part of its evaluation of its available-for-sale portfolio for any declines in value that management may consider being other-than-temporary. Management has the intent and ability to hold these investments for a reasonable period of time for a forecasted recovery of fair value up to (or beyond) the cost of these investments.

The unrealized loss positions of available-for-sale securities at March 31, 2007, except for the obligations of the Puerto Rico government described above, are primarily associated with U.S. government sponsored entities and Treasury obligations, and to a lesser extent, U.S. Agency and government sponsored-issued mortgage-backed securities and collateralized mortgage obligations. The vast majority of these securities are rated the equivalent of AAA by the major rating agencies. The investment portfolio is structured primarily with highly liquid securities which possess a large and efficient secondary market. Valuations are performed at least on a quarterly basis using third party providers and dealer quotes. Management believes that the unrealized losses in these available-for-sale securities at March 31, 2007 are temporary and are substantially related to market interest rate fluctuations and not to the deterioration in the creditworthiness of the issuers. Also, management has the intent and ability to hold these investments for a reasonable period of time for a forecasted recovery of fair value up to (or beyond) the cost of these investments.

During the quarter ended March 31, 2007, the Corporation recognized through earnings approximately $29.3 million in losses in interest-only securities classified as available-for-sale and $7.6 million in losses in equity securities that management considered to be other-than-temporarily impaired.

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

	March 31, 2007		December 31, 2006		March 31, 2006	
(In thousands)	Amortized Cost	Market Value	Amortized Cost	Market Value	Amortized Cost	Market Value
FNMA	$1,307,581	$1,292,296	$1,539,651	$1,517,525	$1,715,490	$1,691,774
FHLB	6,015,720	5,902,317	6,230,841	6,086,885	7,652,208	7,435,051
Freddie Mac	1,073,605	1,063,275	1,149,185	1,134,853	1,291,314	1,271,426

Table of Contents

Note 6 Investment Securities Held-to-Maturity

The amortized cost, gross unrealized gains and losses and approximate market value (or fair value for certain investment securities where no market quotations are available) of investment securities held-to-maturity as of March 31, 2007, December 31, 2006 and March 31, 2006 were as follows:

	AS OF MARCH 31, 2007			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Obligations of Puerto Rico, States and political subdivisions	$70,862	$1,493	$145	$72,210
Collateralized mortgage obligations	368		20	348
Others	16,253	68	11	16,310
	$87,483	$1,561	$176	$88,868

	AS OF DECEMBER 31, 2006			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Obligations of U.S. Government sponsored entities	$ 3,017			$ 3,017
Obligations of Puerto Rico, States and political subdivisions	72,152	$1,559	$161	73,550
Collateralized mortgage obligations	381		21	360
Others	15,790	60	13	15,837
	$91,340	$1,619	$195	$92,764

	AS OF MARCH 31, 2006			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Obligations of U.S. Government sponsored entities	$238,520	$ 57	$ 2	$238,575
Obligations of Puerto Rico, States and political subdivisions	73,045	925	216	73,754
Collateralized mortgage obligations	456		25	431
Others	32,364	108	15	32,457
	$344,385	$1,090	$258	$345,217

The following table shows the Corporation s gross unrealized losses and fair value of investment securities held-to-maturity, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at March 31, 2007, December 31, 2006 and March 31, 2006:

	AS OF MARCH 31, 2007		
	12 months or more and Total		
(In thousands)	Amortized Cost	Gross Unrealized Losses	Market Value
Obligations of Puerto Rico, States and political subdivisions	$25,272	$145	$25,127
Collateralized mortgage obligations	368	20	348
Others	1,250	11	1,239
	$26,890	$176	$26,714

Table of Contents

	AS OF DECEMBER 31, 2006		
	12 months or more and Total		
(In thousands)	Amortized Cost	Gross Unrealized Losses	Market Value
Obligations of Puerto Rico, States and political subdivisions	$26,623	$161	$26,462
Collateralized mortgage obligations	381	21	360
Others	1,250	13	1,237
	$28,254	$195	$28,059

	AS OF MARCH 31, 2006		
	Less than 12 months		
(In thousands)	Amortized Cost	Gross Unrealized Losses	Market Value
Obligations of U.S. Government sponsored entities	$13,577	$ 2	$13,575
Obligations of Puerto Rico, States and political subdivisions	11,255	102	11,153
Others	1,250	15	1,235
	$26,082	$119	$25,963

	12 months or more		
(In thousands)	Amortized Cost	Gross Unrealized Losses	Market Value
Obligations of Puerto Rico, States and political subdivisions	$22,389	$114	$22,275
Collateralized mortgage obligations	456	25	431
Others	250		250
	$23,095	$139	$22,956

	Total		
(In thousands)	Amortized Cost	Gross Unrealized Losses	Market Value
Obligations of U.S. Government sponsored entities	$13,577	$ 2	$13,575
Obligations of Puerto Rico, States and political subdivisions	33,644	216	33,428
Collateralized mortgage obligations	456	25	431
Others	1,500	15	1,485

	$49,177	$258	$48,919

Management believes that the unrealized losses in the held-to-maturity portfolio at March 31, 2007 are temporary and are substantially related to market interest rate fluctuations and not to deterioration in the creditworthiness of the issuers. Management has the intent and ability to hold these investments until maturity.

Note 7 Mortgage Servicing Rights

The Corporation recognizes as assets the rights to service loans for others whether these are purchased or the servicing rights result from asset transfers (sales and securitizations). Commencing in 2007 and in accordance with SFAS No. 156, the Corporation no longer records servicing rights for on-balance sheet securitization transactions.

Effective January 1, 2007, under SFAS No. 156, the Corporation identified servicing rights related to residential mortgage loans as a class of servicing rights and elected to apply fair value accounting to these mortgage servicing rights (MSRs). These MSRs are segregated between loans serviced by PFH and by the Corporation s banking subsidiaries. Fair value determination is performed on a subsidiary basis, with assumptions varying in accordance with the types of assets or markets served (i.e. PFH primarily subprime mortgage loans vs. banking subsidiaries primarily conforming loans). Servicing rights associated with Small Business Administration (SBA) commercial loans, the other class of servicing assets held by the Corporation, will continue to be accounted at the lower of cost or market method. Classes of servicing rights were determined based on market inputs used in estimating the fair value of the servicing assets in the different markets or types of assets served. Although the Corporation currently does not hedge the risk of changes in the fair value of MSRs, it may do so in the future as part of the Corporation s risk management practices. Management also considered trends in the markets and elections by other major participants in the industries served in determining the accounting methodology to be followed for the different types of servicing rights.

Under the fair value accounting method of SFAS No. 156, purchased MSRs and MSRs resulting from asset transfers are capitalized and carried at fair value. Prior to the adoption of SFAS No. 156, the Corporation capitalized purchased residential MSRs at cost, and MSRs from asset transfers based on the relative fair value of the servicing right and the residential mortgage loan at the time of sale. Prior to SFAS No. 156, both purchased MSRs and MSRs from asset transfers were accounted at quarter-end at the lower of cost or market value.

Effective January 1, 2007, upon the remeasurement of the MSRs at fair value in accordance with SFAS No. 156, the Corporation recorded a cumulative effect adjustment to increase the 2007 beginning balance of retained earnings in stockholders equity. The table below reconciles the balance of MSRs as of December 31, 2006 and January 1, 2007.

(In thousands)	Banking subsidiaries Residential MSRs	PFH Residential MSRs	Total
Balance at December 31, 2006	$ 77,801	$ 82,338	$160,139
Remeasurement upon adoption of SFAS No. 156 (a)	13,630	1,700	15,330
Balance at January 1, 2007	$ 91,431	$ 84,038	$175,469

(a) The remeasurement effect, net of deferred taxes, amounted to $9.6 million on a consolidated basis.

At the end of each quarter, the Corporation uses a discounted cash flow model to estimate the fair value of MSRs, which is benchmarked against third party opinions of value. The discounted cash flow model incorporates assumptions that market participants use in estimating future net servicing income, including estimates of prepayment speeds, discount rate, cost to service, escrow account earnings, contractual servicing fee income, prepayment and late fees, among other considerations. The Corporation uses assumptions in the model that it believes are comparable to those used by brokers or other service providers. Refer to Note 8 Retained Interests on Mortgage Loan Sales / Securitizations for information on assumptions used in the valuation model of MSRs as of March 31, 2007.

Table of Contents

The change in MSRs measured using the fair value method for the quarter ended March 31, 2007 was:

(In thousands)	Banking subsidiaries Residential MSRs	PFH Residential MSRs	Total
Fair value at January 1, 2007	$ 91,431	$ 84,038	$ 175,469
Purchases	795		795
Servicing from securitizations or asset transfers	6,054		6,054
Changes due to payments on loans (1)	(2,120)	(8,412)	(10,532)
Changes in fair value due to changes in valuation model inputs or assumptions	2,261	(1,404)	857
Fair value at March 31, 2007	$ 98,421	$ 74,222	$ 172,643

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

The changes in amortized MSRs for the quarter ended March 31, 2006 were:

(In thousands)	Residential MSRs
Balance at December 31, 2005	$ 137,701
Rights originated	31,407
Rights purchased	8,272
Amortization	(16,759)
Balance at March 31, 2006	$ 160,621
Less: Valuation allowance	446
Balance at March 31, 2006, net of valuation allowance	$ 160,175
Fair value at March 31, 2006	$ 182,288

Residential mortgage loans serviced for others were $14.8 billion at March 31, 2007 (December 31, 2006 $13.3 billion; March 31, 2006 $11.5 billion).

Net mortgage servicing fees, a component of other service fees in the consolidated statement of income, include the changes from period to period in fair value of the MSRs, which may result from changes in the valuation model inputs or assumptions (principally reflecting changes in discount rates and prepayment speed assumptions) and other changes, representing changes due to collection / realization of expected cash flows. Prior to the adoption of SFAS No. 156, the Corporation carried residential MSRs at the lower of cost or market, with amortization of MSRs and changes in the MSRs valuation allowance recognized in net mortgage servicing fees.

Note 8 Retained Interests on Sales of Mortgage Loans

Popular Financial Holdings

The Corporation, through its consumer lending subsidiary PFH, has retained mortgage servicing rights and interest-only securities (IOs or residual interests) on securitizations of subprime mortgage loans.

IOs retained as part of off-balance sheet securitizations of subprime mortgage loans prior to 2006 are classified as investment securities available-for-sale and are presented at fair value in the unaudited consolidated statements of condition. PFH s IOs classified as available-for-sale as of March 31, 2007 amounted to $19 million. In the quarter ended March 31, 2007, the Corporation recognized other-than-temporary impairment losses of $29.3 million on these IOs.

Commencing in January 2006, the IOs derived from newly-issued PFH s off-balance sheet securitizations are accounted as trading securities. As such, any valuation adjustment related to these particular IOs is being recorded as part of trading account profit (loss) in the consolidated statements of income. IOs accounted for as trading securities from PFH s securitizations approximated $14 million at March 31, 2007. In the first quarter of 2007, the Corporation recognized trading losses of $23.5 million on these IOs.

Table of Contents

Key economic assumptions used to estimate the fair value of IOs and MSRs derived from PFH s securitizations and the sensitivity of residual cash flows to immediate changes in those assumptions were as follows:

	March 31, 2007			December 31, 2006		
		MSRs			MSRs	
(In thousands)	IOs	Fixed-rate loans	ARM loans	IOs	Fixed-rate loans	ARM loans
Carrying amount of retained interests	$ 32,870	$32,983	$ 26,830	$ 85,965	$38,017	$29,838
Fair value of retained interests	$ 32,870	$32,983	$ 26,830	$ 85,965	$37,815	$32,212
Weighted average life of collateral (in years)	2.7 years	3.1 years	2.0 years	3.2 years	3.1 years	2.1 years
Weighted average prepayment speed (annual rate)	28% (Fixed-rate loans) 35% (ARM loans)	28%	35%	28% (Fixed-rate loans) 35% (ARM loans)	28%	35%
Impact on fair value of 10% increase in prepayment rate	($ 1,425)	$ 312	($ 147)	($ 5,543)	$ 210	($ 149)
Impact on fair value of 20% increase in prepayment rate	($ 2,234)	$ 457	($ 192)	($ 9,284)	$ 234	($ 200)
Weighted average discount rate (annual rate)	25%	17%	17%	17%	16%	16%
Impact on fair value of 10% adverse change	($ 1,915)	($ 795)	($ 537)	($ 4,172)	($ 901)	($ 542)
Impact on fair value of 20% adverse change	($ 3,718)	($ 1,555)	($1,012)	($ 8,081)	($ 1,761)	($ 1,060)
Expected credit losses (annual rate)	3.17% to 6.46%			1.28% to 3.19%		
Impact on fair value of 10% adverse change	($ 6,539)			($ 4,792)		
Impact on fair value of 20% adverse change	($ 12,307)			($ 9,558)		

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

The amounts included in the tables above exclude any purchased MSRs since these assets were not derived from securitizations or loan sales executed by the Corporation. Purchased MSRs are valued under the same framework and the valuations are based on substantially similar assumptions.

Banking subsidiaries

The Corporation s banking subsidiaries also retain servicing responsibilities in connection with the wholesale of mortgage loans to third-parties. Also, servicing responsibilities are retained under pooling / selling arrangements of mortgage loans into mortgage-backed securities, primarily GNMA and FNMA securities. Substantially all mortgage loans securitized by the Corporation s banking subsidiaries in which the Corporation retains a servicing right have fixed rates. Under the servicing agreements, the banking subsidiaries do not earn significant prepayment penalties on the underlying loans serviced.

Table of Contents

Key economic assumptions used in measuring the MSRs at the date of the securitizations and whole loan sales by the banking subsidiaries performed during the quarter ended March 31, 2007 were:

	MSRs
Prepayment speed	13.0%
Weighted average life (in years)	7.7 years
Discount rate (annual rate)	10.0%

Key economic assumptions used to estimate the fair value of MSRs derived from transactions performed by the banking subsidiaries and the sensitivity of residual cash flows to immediate changes in those assumptions were as follows:

(In thousands)	March 31, 2007 MSRs	December 31, 2006 MSRs
Fair value of retained interests	$ 81,687	$ 73,332
Weighted average life (in years)	9.9 years	9.2 years
Weighted average prepayment speed (annual rate)	10.1%	14.0%
Impact on fair value of 10% adverse change	($ 3,259)	($ 1,868)
Impact on fair value of 20% adverse change	($ 5,490)	($ 4,151)
Weighted average discount rate (annual rate)	10.6%	10.3%
Impact on fair value of 10% adverse change	($ 3,751)	($ 2,142)
Impact on fair value of 20% adverse change	($ 6,420)	($ 4,200)

The amounts of MSRs presented in the table above exclude purchased MSRs.

The expected credit losses for the residential mortgage loans securitized / sold by the Corporation s banking subsidiaries, including securitizations effected on a recourse basis, are minimal.

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

Note 9 Derivative Instruments and Hedging Activities

Refer to Note 28 to the consolidated financial statements included in the 2006 Annual Report for a complete description of the Corporation s derivative activities.

Table of Contents

Cash Flow Hedges

Derivative financial instruments designated as cash flow hedges outstanding as of March 31, 2007 and December 31, 2006 were as follows:

As of March 31, 2007

(In thousands)	Notional amount	Derivative assets	Derivative liabilities	Equity OCI	Ineffectiveness
Asset Hedges					
Forward commitments	$ 165,300	$ 47	$ 40	$ 4	
Liability Hedges					
Interest rate swaps	$ 390,000	$ 646	$ 1,012	($238)	

As of December 31, 2006

(In thousands)	Notional amount	Derivative assets	Derivative liabilities	Equity OCI	Ineffectiveness
Asset Hedges					
Forward commitments	$ 190,000	$ 175	$ 2	$ 106	
Liability Hedges					
Interest rate swaps	$ 390,000	$ 887	$ 523	$ 237	

The Corporation utilizes forward contracts to hedge the sale of mortgage-backed securities with duration terms over one month. Interest rate forwards are contracts for the delayed delivery of securities which the seller agrees to deliver on a specified future date at a specified price or yield. These forward contracts are used to hedge a forecasted transaction and thus qualify for cash flow hedge accounting in accordance with SFAS No. 133, as amended. Changes in the fair value of the derivatives are recorded in other comprehensive income. The amount included in accumulated other comprehensive income corresponding to these forward contracts is expected to be reclassified to earnings in the next twelve months. The contracts outstanding at March 31, 2007 have a maximum remaining maturity of 79 days.

Non-Hedging Activities

Financial instruments designated as non-hedging derivatives outstanding at March 31, 2007 and December 31, 2006 were as follows:

As of March 31, 2007

		Fair Values	
(In thousands)	Notional amount	Derivative assets	Derivative liabilities
Forward contracts	$ 637,141	$ 570	$ 258
Futures contracts	2,000	4	
Call options and put options	75,500	291	63
Interest rate swaps associated with:			

- short-term borrowings	400,000	1,355	
- bond certificates offered in an on-balance sheet securitization	478,358	560	1,357
- financing of auto loan portfolio held-for-investment	429,622		212
- swaps with corporate clients	510,138		1,274
- swaps offsetting position of corporate client swaps	510,138	1,274	
- investment securities	89,385		2,054
- mortgage loan portfolio prior to securitization	325,000	134	1,262
Credit default swap	33,463		
Foreign currency and exchange rate commitments w/ clients	158		2
Foreign currency and exchange rate commitments w/ counterparty	157	3	
Interest rate caps	798,576	2,861	
Interest rate caps for benefit of corporate clients	50,000		42
Indexed options on deposits	196,296	39,372	
Indexed options on S&P Notes	31,152	5,781	
Bifurcated embedded options	218,966		44,372
Mortgage rate lock commitments	294,190	418	299
Total	$5,080,240	$52,623	$51,195

Table of Contents

As of December 31, 2006

(In thousands)	Notional amount	Fair Values Derivative assets	Derivative liabilities
Forward contracts	$ 400,572	$ 1,277	$ 125
Call options and put options	37,500	83	46
Interest rate swaps associated with:			
- short-term borrowings	400,000	2,153	
- bond certificates offered in an on-balance sheet securitization	516,495	90	1,168
- financing of auto loan portfolio held-for-investment	470,146	728	
- auto loans approvals locked interest rates	17,442	22	
- swaps with corporate clients	410,533		2,146
- swaps offsetting position of corporate client swaps	410,533	2,146	
- investment securities	89,385		1,645
- mortgage loan portfolio prior to securitization	75,000	302	
Credit default swap	33,463		
Foreign currency and exchange rate commitments w/ clients	103		2
Foreign currency and exchange rate commitments w/ counterparty	103	2	
Interest rate caps	889,417	4,099	
Interest rate caps for benefit of corporate clients	50,000		90
Indexed options on deposits	204,946	38,323	
Indexed options on S&P Notes	31,152	5,648	
Bifurcated embedded options	229,455		43,844
Mortgage rate lock commitments	215,676	13	635
Total	$4,481,921	$54,886	$49,701

Interest Rate Swaps

The Corporation has an interest rate swap outstanding to economically hedge the payments of the bond certificates offered as part of a securitization. This swap is marked-to-market quarterly and recognized as part of interest expense. The Corporation recognized gains of $281 thousand for the quarter ended March 31, 2007 due to changes in their fair value.

The Corporation has interest rate swaps to economically hedge the cost of short-term debt. For the first quarter of 2007, the Corporation recognized as part of short-term interest expense a loss of $798 thousand due to changes in these swaps fair value.

Additionally, the Corporation entered into amortizing swap contracts to economically convert to a fixed rate the cost of funds associated with a held-for-investment auto loan portfolio. For the quarter ended March 31, 2007, losses of $940 thousand were recognized as part of long-term interest expense.

The Corporation has interest rate swaps to economically hedge the changes in fair value of loans acquired and originated prior to securitization. During the quarter ended March 31, 2007, losses of $1.4 million were recognized as part of long-term interest expense.

Interest Rate Caps

The Corporation has interest rate caps in conjunction with a series of mortgage loan securitizations that are used to limit the interest rate payable to the security holders. These interest rate caps are designated as non-hedging derivative instruments and are marked-to-market currently in the consolidated statements of income. Losses of $1.2 million for the first quarter of 2007 were recognized as part of long-term interest expense.

Forward Contracts

The Corporation has loan sales commitments to economically hedge the changes in fair value of mortgage loans held-for-sale associated with interest rate lock commitments through both mandatory and best efforts forward sale agreements. These contracts are entered into in order to optimize the gain on sales of loans. These contracts are recognized at fair value with changes directly reported in income as part of gain on sale of loans. For the first quarter of 2007, losses of $672 thousand were recognized due to changes in fair value of these forward sale commitments.

Table of Contents

Note 10 Goodwill and Other Intangible Assets
The changes in the carrying amount of goodwill for the quarters ended March 31, 2007 and 2006, allocated by reportable segment were as follows (refer to Note 21 for the definition of the Corporation s reportable segments):

	2007			
(In thousands)	Balance at January 1, 2007	Goodwill acquired	Other	Balance at March 31, 2007
Banco Popular de Puerto Rico:				
P.R. Commercial Banking	$ 14,674			$ 14,674
P.R. Consumer and Retail Banking	34,999			34,999
P.R. Other Financial Services	4,391			4,391
Popular North America:				
Banco Popular North America	568,647			568,647
Popular Financial Holdings				
EVERTEC	45,142	$775	($12)	45,905
Total Popular, Inc.	$667,853	$775	($12)	$ 668,616

	2006			
(In thousands)	Balance at January 1, 2006	Purchase accounting adjustments	Other	Balance at March 31, 2006
Banco Popular de Puerto Rico:				
P.R. Commercial Banking	$ 14,674			$ 14,674
P.R. Consumer and Retail Banking	34,999			34,999
P.R. Other Financial Services	4,110			4,110
Popular North America:				
Banco Popular North America	542,834	$1,966	($210)	544,590
Popular Financial Holdings	14,236	3		14,239
EVERTEC	43,131			43,131
Total Popular, Inc.	$653,984	$1,969	($210)	$ 655,743

Purchase accounting adjustments consist of adjustments to the value of the assets acquired and liabilities assumed resulting from the completion of appraisals or other valuations, adjustments to initial estimates recorded for transaction costs, if any, and contingent consideration paid during a contractual contingency period. The purchase accounting adjustments during the first quarter of 2006 at the PNA reportable segment were mostly related to the E-LOAN acquisition.

During the fourth quarter of 2006, a goodwill impairment loss of $14 million was recognized in the Popular North America segment, specifically at Popular Financial Holdings, due to a restructuring plan. Refer to Note 22 for information on this plan.

At March 31, 2007, other than goodwill, the Corporation had $65 million of identifiable intangibles with indefinite useful lives, mostly associated with E-LOAN s trademark (December 31, 2006 $65 million; March 31, 2006 $59 million).

Table of Contents

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

	March 31, 2007		December 31, 2006		March 31, 2006	
(In thousands)	**Gross Amount**	**Accumulated Amortization**	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Core deposits	**$76,708**	**$50,285**	$76,708	$48,367	$76,956	$42,795
Other customer relationships	**11,672**	**2,670**	11,156	2,171	8,393	884
Other intangibles	**9,099**	**3,980**	9,099	3,426	9,320	2,234
Total	**$97,479**	**$56,935**	$96,963	$53,964	$94,669	$45,913

During the quarter ended March 31, 2007, the Corporation recognized $3.0 million in amortization expense related to other intangible assets with definite lives (March 31, 2006 $2.7 million).

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

	(In thousands)
2007	$10,346
2008	8,564
2009	6,742
2010	5,787
2011	4,112

No significant events or circumstances have occurred that would reduce the fair value of any reporting unit below its carrying amount.

Note 11 Borrowings

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

(In thousands)	March 31, 2007	December 31, 2006	March 31, 2006
Federal funds purchased	$1,390,015	$1,276,818	$1,448,640
Assets sold under agreements to repurchase	4,882,402	4,485,627	6,866,740
	$6,272,417	$5,762,445	$8,315,380

Table of Contents

Other short-term borrowings consisted of:

(In thousands)	March 31, 2007	December 31, 2006	March 31, 2006
Advances with FHLB paying interest at:			
-fixed rates ranging from 5.40% to 5.44% (March 31, 2006 4.81% to 5.00%)	$ 355,000	$ 230,000	$ 250,000
-a floating rate of 0.06% over the fed funds rate (Fed funds rate at March 31, 2006 was 4.88%)			105,000
Advances under credit facilities with other institutions at:			
-fixed rates ranging from 5.32% to 5.57% (March 31, 2006 4.32% to 4.96%)	433,000	386,000	144,214
-floating rates ranging from 0.45% to 0.75% over the 1-month LIBOR rate (1-month LIBOR rate at March 31, 2006 was 4.83%)		481,062	24,202
-a floating rate of 0.20% (March 31, 2006 0.16%) over the 3-month LIBOR rate (3-month LIBOR rate at March 31, 2007 was 5.35%; March 31, 2006 5.00%)	10,000	10,000	20,000
Commercial paper at rates ranging from 4.80% to 5.41% (March 31, 2006 3.97% to 4.89%)	99,578	193,383	376,813
Term funds purchased at:			
-fixed rates ranging from 5.28% to 5.38% (March 31, 2006 4.59% to 4.81%)	1,935,000	2,140,900	1,375,000
-a floating rate of 0.08% over the fed funds rate (Fed funds rate at March 31, 2007 was 5.38%; March 31, 2006 - 4.88%)	275,000	500,000	350,000
Others	94,394	92,780	292
	$3,201,972	$4,034,125	$2,645,521

Note: Refer to the Corporation s Form 10-K for the year ended December 31, 2006, for rates and maturity information corresponding to the borrowings outstanding as of such date.

Table of Contents

Notes payable consisted of:

(In thousands)	March 31, 2007	December 31, 2006	March 31, 2006
Advances with FHLB:			
-maturing from 2007 through 2018 paying interest at fixed rates ranging from 3.07% to 6.55% (March 31, 2006 1.77% to 6.98%)	$ 237,289	$ 289,881	$ 663,847
-maturing in 2008 paying interest monthly at a floating rate of 0.75% over the 1-month LIBOR rate (1-month LIBOR rate at March 31, 2007 was 5.32%; March 31, 2006 4.83%)	250,000	250,000	250,000
-maturing in 2007 paying interest quarterly at the 3-month LIBOR rate less 4 basis points (3-month LIBOR rate at March 31, 2007 was 5.35%; March 31, 2006 5.00%)	6,000	6,000	7,250
-maturing in 2007 paying interest monthly at the 1-month LIBOR rate plus 2 basis points (1-month LIBOR rate at March 31, 2007 was 5.32%; March 31, 2006 4.83%)	5,000	5,000	5,000
Advances under revolving lines of credit maturing in 2007 paying interest monthly at a floating rate of 0.90% over the 1-month LIBOR rate (1-month LIBOR rate at March 31, 2007 was 5.32%; March 31, 2006 4.83%)	410,737	426,687	279,626
Advances under revolving lines of credit with maturities until 2008 paying interest quarterly at a floating rate of 0.35% (March 31, 2006 0.35% to 0.45%) over the 3-month LIBOR rate (3-month LIBOR rate at March 31, 2007 was 5.35%; March 31, 2006 5.00%)	69,996	69,994	94,989
Term notes with maturities ranging from 2007 through 2011 paying interest semiannually at fixed rates ranging from 3.35% to 5.65% (March 31, 2006 2.70% to 6.80%)	2,014,533	2,014,928	2,461,984
Term notes with maturities until 2009 paying interest quarterly at floating rates ranging from 0.35% to 0.40% (March 31, 2006 0.35%) over the 3-month LIBOR rate (3-month LIBOR rate at March 31, 2007 was 5.35 %; March 31, 2006 5.00%)	349,399	349,295	149,682
Term notes with maturities until 2030 paying interest monthly at fixed rates ranging from 3.00% to 6.00 %	3,100	3,100	3,100
Term notes with maturities until 2013 paying interest monthly at a floating rate of 3.00% over the 10-year US treasury notes rate (average 10-year US treasury notes rate at March 31, 2007 was 4.62%; March 31, 2006	8,833	10,428	12,127

4.85%)			
Secured borrowings with maturities until 2015 paying interest monthly at fixed rates ranging from 3.86% to 7.12% (March 31, 2006 2.48% to 7.12%)	2,611,445	2,695,916	3,266,705
Secured borrowings with maturities until 2015 paying interest monthly at rates ranging from 0.10% to 3.50% over the 1-month LIBOR rate (1-month LIBOR rate at March 31, 2007 was 5.32%; March 31, 2006 4.83%)	1,495,005	1,708,650	1,854,642
Notes linked to the S&P 500 Index maturing in 2008	36,342	36,112	33,997
Junior subordinated deferrable interest debentures with maturities ranging from 2027 to 2034 with fixed interest rates ranging from 6.13% to 8.33% (Refer to Note 17)	849,672	849,672	849,672
Other	21,474	21,583	597
	$8,368,825	$8,737,246	$9,933,218

Note: Refer to the Corporation s Form 10-K for the year ended December 31, 2006, for rates and maturity information corresponding to the borrowings outstanding as of such date.

Table of Contents

Note 12 Commitments and Contingencies
Commercial letters of credit and stand-by letters of credit amounted to $23 million and $186 million, respectively, at March 31, 2007 (December 31, 2006 $21 million and $181 million; March 31, 2006 $23 million and $183 million). There were also other commitments outstanding and contingent liabilities, such as commitments to extend credit.
At March 31, 2007, the Corporation recorded a liability of $774 thousand (December 31, 2006 $658 thousand; March 31, 2006 $688 thousand), which represents the fair value of the obligations undertaken in issuing the guarantees under standby letters of credit. The fair value approximates the fee received from the customer for issuing such commitments. These fees are deferred and are recognized over the commitment period. The liability was included as part of other liabilities in the consolidated statements of condition. The standby letters of credit were issued to guarantee the performance of various customers to third parties. The contract amounts in standby letters of credit outstanding represent the maximum potential amount of future payments the Corporation could be required to make under the guarantees in the event of nonperformance by the customers. These standby letters of credit are used by the customer as a credit enhancement and typically expire without being drawn upon. The Corporation s standby letters of credit are generally secured, and in the event of nonperformance by the customers, the Corporation has rights to the underlying collateral provided, which normally includes cash and marketable securities, real estate, receivables and others. Management does not anticipate any material losses related to these instruments.
Popular, Inc. Holding Company (PIHC) fully and unconditionally guarantees certain borrowing obligations issued by certain of its wholly-owned consolidated subsidiaries which aggregated to $3.2 billion at March 31, 2007 (December 31, 2006 $3.3 billion and March 31, 2006 $4.1 billion). In addition, at March 31, 2007, PIHC fully and unconditionally guaranteed $824 million of capital securities (December 31, 2006 and March 31, 2006 $824 million) issued by four wholly-owned issuing trust entities that have been deconsolidated pursuant to FIN No. 46R.
The Corporation is a defendant in a number of legal proceedings arising in the normal course of business. Based on the opinion of legal counsel, management believes that the final disposition of these matters will not have a material adverse effect on the Corporation s financial position or results of operations.
Note 13 Other Service Fees
The caption of other service fees in the consolidated statements of income consists of the following major categories:

	Quarter ended March 31,	
(In thousands)	**2007**	2006
Credit card fees and discounts	**$23,524**	$22,573
Debit card fees	**16,101**	14,919
Insurance fees	**12,949**	12,141
Processing fees	**12,112**	10,279
Net mortgage servicing fees	**6,436**	2,952
Other	**16,727**	17,482
Total	**$87,849**	$80,346

Table of Contents

Note 14 Income Taxes

As indicated in Note 2, the Corporation adopted FIN 48 effective January 1, 2007. The initial adoption of FIN 48 had no impact on the Corporation s financial statements since management determined that there was no need to recognize changes in the liability for unrecognized tax benefits.

The reconciliation of unrecognized tax benefits, including accrued interest, for the quarter ended March 31, 2007 was as follows:

(In millions)	
Balance as of January 1, 2007	$20.4
Additions for tax positions of current period	1.7
Balance as of March 31, 2007	$22.1

As of March 31, 2007, the related accrued interest approximated $2.4 million. Management has determined that as of March 31, 2007 there is no need to accrue for the payment of penalties. The Corporation s policy is to report interest related to unrecognized tax benefits in income tax expense, while the penalties, if any, in other operating expenses in the consolidated statements of income.

After consideration of the effect on U.S. federal tax of unrecognized U.S. state tax benefits, the total amount of unrecognized tax benefits including U.S. and Puerto Rico that, if recognized, would affect the Corporation s effective tax rate was approximately $19.2 million.

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

The Corporation and its subsidiaries file income tax returns in Puerto Rico, the U.S. federal jurisdiction, various U.S. states and political subdivisions, and foreign jurisdictions. As of March 31, 2007, the following years remain subject to examination: U.S. Federal jurisdiction 2005 and 2006 and Puerto Rico 2003 through 2006. The U.S. Internal Revenue Service (IRS) commenced its examination of the Corporation s U.S. operations tax return for 2005 that is anticipated to be finished by the end of 2007. As of March 31, 2007, the IRS has not proposed any adjustment as a result of the audit. Although the outcome of tax audits is uncertain, the Corporation believes that adequate amounts of tax, interest and penalties have been provided for any adjustments that are expected to result from open years. The Corporation does not anticipate a significant change to the total amount of unrecognized tax benefits within the next 12 months.

Note 15 Stock-Based Compensation

The Corporation maintained a Stock Option Plan (the Stock Option Plan), which permitted the granting of incentive awards in the form of qualified stock options, incentive stock options, or non-statutory stock options of the Corporation. In April 2004, the Corporation s shareholders adopted the Popular, Inc. 2004 Omnibus Incentive Plan (the Incentive Plan), which replaced and superseded the Stock Option Plan. All outstanding award grants under the Stock Option Plan continue to remain outstanding at March 31, 2007 under the original terms of the Stock Option Plan.

Stock Option Plan

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

The following table presents information on stock options as of March 31, 2007:

(Not in thousands)

Exercise Price Range per Share	Options Outstanding	Weighted Average Exercise Price of Options Outstanding	Weighted Average Remaining Life of Options Outstanding (in years)	Options Exercisable (fully vested)	Weighted Average Exercise Price of Options Exercisable
$14.39 - $18.50	1,524,788	$ 15.81	5.49	1,388,460	$ 15.71
$19.25 - $27.20	1,604,989	$ 25.27	7.25	1,016,366	$ 25.05
$14.39 - $27.20	3,129,777	$ 20.66	6.39	2,404,826	$ 19.66

The aggregate intrinsic value of options outstanding and options exercisable as of March 31, 2007 was $13.4 million and $1.4 million, respectively.

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

(Not in thousands)	Options Outstanding	Weighted-Average Exercise Price
Outstanding at January 1, 2006	3,223,703	$ 20.63
Granted		
Exercised	(39,449)	15.78
Forfeited	(37,818)	23.75
Expired	(1,637)	24.05
Outstanding at December 31, 2006	3,144,799	$ 20.65
Granted		
Exercised	(10,064)	15.83
Forfeited	(1,679)	27.20
Expired	(3,279)	24.05
Outstanding at March 31, 2007	3,129,777	$ 20.66

The stock options exercisable at March 31, 2007 totaled 2,404,826 (March 31, 2006 1,964,536). The total intrinsic value of options exercised during the quarter ended March 31, 2007 was $28 thousand (March 31, 2006 $42 thousand).

There were no new grants issued by the Corporation under the Stock Option Plan during 2006 and 2007.

The cash received from the stock options exercised during the quarter ended March 31, 2007 amounted to $159 thousand.

The Corporation recognized $0.5 million in stock option expense for the quarter ended March 31, 2007 (March 31, 2006 $0.8 million), with a tax benefit of $0.2 million (March 31, 2006 $0.3 million). The total unrecognized compensation cost at March 31, 2007 related to non-vested stock option awards was $3.0 million and is expected to be recognized over a weighted-average period of 1.5 years.

Incentive Plan

The Incentive Plan permits the granting of incentive awards in the form of an Annual Incentive Award, a Long-term Performance Unit Award, an Option, a Stock Appreciation Right, Restricted Stock, Restricted Unit or Performance

Table of Contents

Share. Participants in the Incentive Plan are designated by the Compensation Committee of the Board of Directors (or its delegate as determined by the Board). Employees and directors of the Corporation and / or any of its subsidiaries are eligible to participate in the Incentive Plan. The shares may be made available from common stock purchased by the Corporation for such purpose, authorized but unissued shares of common stock or treasury stock. The Corporation s policy with respect to the shares of restricted stock has been to purchase such shares in the open market to cover each grant.

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

Beginning in 2007, the Corporation authorized the issuance of performance shares in addition to restricted shares under a long-term incentive plan. The performance shares award consists of the opportunity to receive shares of Popular, Inc. s common stock provided the Corporation achieves certain performance goals during a 3-year performance cycle. The compensation cost associated with the performance shares will be recorded ratably over a three-year performance period. The performance shares will be granted at the end of the three-year period and will be vested at grant date. As of March 31, 2007, no shares have been granted under this plan.

The following table summarizes the restricted stock activity under the Incentive Plan and related information:

(Not in thousands)	Restricted Stock	Weighted-Average Grant Date Fair Value
Non-vested at January 1, 2006	172,622	$ 27.65
Granted	444,036	20.54
Vested		
Forfeited	(5,188)	19.95
Non-vested at December 31, 2006	611,470	$ 22.55
Granted		
Vested	(69,471)	20.56
Forfeited	(588)	19.95
Non-vested at March 31, 2007	541,411	$ 22.81

During the quarter ended March 31, 2007, no shares of restricted stock were awarded to management under the Incentive Plan (March 31, 2006 444,036).

During the quarter ended March 31, 2007, the Corporation recognized $1.4 million (March 31, 2006 - $1.3 million) of restricted stock expense related to management incentive awards, with an income tax benefit of $0.5 million (March 31, 2006 $0.5 million). The total unrecognized compensation cost related to non-vested restricted stock awards was $5.1 million and is expected to be recognized over a weighted-average period of 3.0 years.

A vesting of restricted stocks triggered a shortfall of $0.2 million for the quarter ended March 31, 2007, which was recorded as an additional income tax expense.

Table of Contents

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

(Not in thousands)	Restricted Stock	Weighted-Average Grant Date Fair Value
Non-vested at January 1, 2006	46,948	$ 23.61
Granted	32,267	19.82
Vested	(2,601)	23.54
Forfeited		
Non-vested at December 31, 2006	76,614	$ 22.02
Granted	2,612	18.66
Vested	(15,011)	22.01
Forfeited		
Non-vested at March 31, 2007	64,215	$ 21.88

During the quarter ended March 31, 2007, the Corporation granted 2,612 (March 31, 2006 1,276) shares of restricted stock to members of the Board of Directors of Popular, Inc. and BPPR. During this period, the Corporation recognized $160 thousand, with a tax benefit of $62 thousand (March 31, 2006 $150 thousand, with a tax benefit of $59 thousand) of restricted stock expense related to these restricted stock grants.

Note 16 Pension and Other Benefits

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

The components of net periodic pension cost for the quarters ended March 31, 2007 and 2006 were as follows:

	Pension Plans March 31,		Benefit Restoration Plans March 31,	
(In thousands)	**2007**	2006	**2007**	2006
Service cost	**$ 3,106**	$ 3,135	**$ 237**	$ 262
Interest cost	**7,973**	7,641	**420**	400
Expected return on plan assets	**(10,524)**	(9,978)	**(368)**	(264)
Amortization of prior service cost	**52**	44	**(13)**	(13)
Amortization of net loss		488	**248**	276
Net periodic cost	**607**	1,330	**524**	661
Curtailment gain	**(246)**		**(258)**	
Total cost	**$ 361**	$ 1,330	**$ 266**	$ 661

During the first quarter of 2007, the Corporation adopted an amendment to freeze the benefits for all employees under the U.S. Retirement and Restoration plans. These plans were remeasured at January 31, 2007 to account for the freeze. The discount rate of the U.S. Retirement plan was changed to 4.5% to reflect the expected plan termination. The remeasurement and curtailment effects were considered for these plans and are included as part of the March 31, 2007 disclosures.

For the quarter ended March 31, 2007, contributions made to the pension and restoration plans approximated $1.4 million. The total contributions expected to be paid during 2007 for the pension and restoration plans approximate $2.2 million.

Table of Contents

The Corporation also provides certain health care benefits for retired employees of certain subsidiaries. The components of net periodic postretirement benefit cost for the quarters ended March 31, 2007 and 2006 were as follows:

	March 31,	
(In thousands)	**2007**	2006
Service cost	**$ 578**	$ 712
Interest cost	**1,889**	1,927
Amortization of prior service cost	**(262)**	(262)
Amortization of net loss		240
Total net periodic cost	**$2,205**	$2,617

For the quarter ended March 31, 2007, contributions made to the postretirement benefit plan approximated $1.7 million. The total contributions expected to be paid during 2007 for the postretirement benefit plan approximate $6.4 million.

Note 17 Trust Preferred Securities

At March 31, 2007 and 2006, the Corporation had established four trusts for the purpose of issuing trust preferred securities (the capital securities) to the public. The proceeds from such issuances, together with the proceeds of the related issuances of common securities of the trusts (the common securities), were used by the trusts to purchase junior subordinated deferrable interest debentures (the junior subordinated debentures) issued by the Corporation. The sole assets of the trusts consisted of the junior subordinated debentures of the Corporation and the related accrued interest receivable. These trusts are not consolidated by the Corporation under the provisions of FIN No. 46(R).

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

Financial data pertaining to the trusts follows:

(In thousands, including reference notes)

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

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

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

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

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

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

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

(g) Same as (f) above,

except that the investment company event does not apply for early redemption.

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

Under the Federal Reserve Board s risk-based capital guidelines, the capital securities are included as part of the Corporation s Tier I capital.

Note 18 Stockholders Equity

During the fourth quarter of 2005, existing shareholders of record of the Corporation s common stock at November 7, 2005 fully subscribed to an offering of 10,500,000 newly issued shares of Popular, Inc. s common stock at a price of $21.00 per share under a subscription rights offering. This offering resulted in approximately $216 million in additional capital, of which approximately $175 million impacted stockholders equity at December 31, 2005 and the remainder impacted the Corporation s financial condition in the first quarter of 2006. As of December 31, 2005, this subscription rights offering resulted in 8,614,620 newly issued shares of common stock; the remaining 1,885,380 were issued during the first quarter of 2006.

The Corporation has a dividend reinvestment and stock purchase plan under which stockholders may reinvest their quarterly dividends in shares of common stock at a 5% discount from the average market price at the time of issuance, as well as purchase shares of common stock directly from the Corporation by making optional cash payments at prevailing market prices.

The Corporation s authorized preferred stock may be issued in one or more series, and the shares of each series shall have such rights and preferences as shall be fixed by the Board of Directors when authorizing the issuance of that particular series. The Corporation s only outstanding class of preferred stock is its 6.375% noncumulative monthly income preferred stock, 2003 Series A. These shares of preferred stock are perpetual, nonconvertible and are redeemable solely at the option of the Corporation beginning on March 31, 2008. The redemption price per share is $25.50 from March 31, 2008 through March 30, 2009, $25.25 from March 31, 2009 through March 30, 2010 and $25.00 from March 31, 2010 and thereafter.

The Banking Act of the Commonwealth of Puerto Rico requires that a minimum of 10% of BPPR s net income for the year be transferred to a statutory reserve account until such statutory reserve equals the total of paid-in capital on common and preferred stock. Any losses incurred by a bank must first be charged to retained earnings and then to the reserve fund. Amounts credited to the reserve fund may not be used to pay dividends without the prior consent of the Puerto Rico Commissioner of Financial Institutions. The failure to maintain sufficient statutory reserves would preclude BPPR from paying dividends. BPPR s statutory reserve fund totaled $346 million at March 31, 2007 (December 31, 2006 $346 million; March 31, 2006 $317 million). During the three months ended March 31, 2006, BPPR transferred $1 million to the statutory reserve account. There were no transfers between the statutory reserve account and the retained earnings account during the quarter ended March 31, 2007.

Table of Contents

Note 19 Earnings per Common Share

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

(In thousands, except share information)	Quarter ended March 31, 2007	2006
Net income	**$ 118,647**	$ 118,503
Less: Preferred stock dividends	**2,978**	2,978
Net income applicable to common stock	**$ 115,669**	$ 115,525
Average common shares outstanding	**279,046,312**	278,085,861
Average potential common shares	**147,512**	329,676
Average common shares outstanding assuming dilution	**279,193,824**	278,415,537
Basic and diluted EPS	**$ 0.41**	$ 0.42

Potential common shares consist of common stock issuable under the assumed exercise of stock options and under restricted stock awards using the treasury stock method. This method assumes that the potential common shares are issued and the proceeds from exercise in addition to the amount of compensation cost attributed to future services are used to purchase common stock at the exercise date. The difference between the number of potential shares issued and the shares purchased is added as incremental shares to the actual number of shares outstanding to compute diluted earnings per share. Stock options that result in lower potential shares issued than shares purchased under the treasury stock method are not included in the computation of dilutive earnings per share since their inclusion would have an antidilutive effect in earnings per share. For the quarter ended March 31, 2007, there were 1,761,311 weighted average antidilutive stock options outstanding (March 31, 2006 1,898,838). All shares of restricted stock are treated as outstanding for purposes of this computation.

Note 20 Supplemental Disclosure on the Consolidated Statements of Cash Flows

As mentioned in Note 1 of the Corporation s 2006 Annual Report, as of the end of the first quarter of 2006, all subsidiaries of the Corporation had changed the reporting period to a December 31st calendar period. The impact of this change corresponds to the financial results for the month of December 2005 for those subsidiaries which implemented the change in the first reporting period of 2006.

The following table reflects the effect in the Consolidated Statements of Cash Flows of the change in reporting period mentioned above.

(In thousands)	Quarter ended March 31, 2006
Net cash used in operating activities	($ 80,906)
Net cash (used in) provided by investing activities	(104,732)
Net cash provided by financing activities	197,552
Net increase (decrease) in cash and due from banks	$ 11,914

Loans receivable transferred to other real estate and other property for the three months ended March 31, 2007 amounted to $38 million and $9 million, respectively (March 31, 2006 $36 million and $7 million, respectively). During the three months ended March 31, 2006, $464 million in non-conforming loans classified as held-in-portfolio were pooled into trading securities and subsequently sold. The cash inflow from this sale was reflected as operating activities in the consolidated statement of cash flows. In addition, the consolidated statements of cash flows exclude the effect of $343 million and $157 million in non-cash reclassifications of loans held-for-sale securitized into trading securities for the three months ended March 31, 2007 and 2006, respectively.

Note 21 Segment Reporting

Commencing in the first quarter of 2007, the Corporation s corporate structure consists of three reportable segments Banco Popular de Puerto Rico, Popular North America and EVERTEC. Also, a corporate group has been defined to support the reportable segments.

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

As indicated in the 2006 Annual Report, in January 2007, the Corporation announced a restructuring and integration plan (the Restructuring Plan) for PFH s businesses. The Restructuring Plan, which is being implemented throughout 2007, has the following four basic components:

- Exiting the wholesale subprime mortgage origination business during the first quarter of 2007, which entailed shutting down the wholesale broker, retail and call center business divisions;

- Consolidating support activities at PFH (Finance, Credit Risk, Compliance, Human Resources, Facilities) within BPNA to reduce expenses;

- Integrating PFH s existing commercial lending businesses (mortgage warehouse, mixed use, and construction lending) into BPNA s business lending groups; and

- Focusing on the core Equity One network of 132 consumer finance branches in 15 states.

As part of the Restructuring Plan, the Corporation also executed an internal corporate reorganization of its U.S. subsidiaries. In January 2007, E-LOAN, as well as all of its direct and indirect subsidiaries, with the exception of E-LOAN Insurance Services, Inc. and E-LOAN International, Inc., became operating subsidiaries of BPNA. Prior to the consummation of this U.S. reorganization, E-LOAN was a direct wholly-owned subsidiary of PFH. E-LOAN continues to offer its broad range of products and conducts its direct activities through its online platform. Management will be leveraging the E-LOAN brand, technology and internet financial services platform over the next several years to complement BPNA s community banking growth strategy.

This reorganization and the Restructuring Plan led management to redefine its business reportable segments. Commencing in 2007, the U.S. operations are defined as one reportable segment defined as Popular North America . This segment includes the operations of BPNA and PFH, including all of its wholly-owned subsidiaries.

The reportable segment disclosures for periods prior to 2007 were restated to reflect the new segmentation.

Banco Popular de Puerto Rico:

Given that Banco Popular de Puerto Rico constitutes approximately 73% of the Corporation s net income for the quarter ended March 31, 2007, and 54% of its total assets as of March 31, 2007, additional disclosures are provided for the business areas included in this reportable segment, as described below:

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

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

Other financial services include the trust and asset management service units of BPPR, the brokerage and investment banking operations of Popular Securities, and the insurance agency and reinsurance businesses

Table of Contents

of Popular Insurance, Popular Insurance V.I. and Popular Life Re. Most of the services that are provided by these subsidiaries generate profits based on fee income.

Popular North America:

Popular North America, which includes the Corporation s U.S. operations, consists of:

BPNA, including its subsidiaries E-LOAN, Popular Leasing, U.S.A. and Popular Insurance Agency, U.S.A. BPNA operates through a branch network of over 135 branches in 6 states, while E-LOAN provides online consumer direct lending and supports BPNA s deposit gathering through its online platform. Popular Insurance Agency, U.S.A. offers investment and insurance services across the BPNA branch network. Popular Leasing, U.S.A. provides mainly small to mid-ticket commercial and medical equipment financing. The U.S. operations also include the mortgage business unit of Banco Popular, National Association.

PFH, which activities are described above.

All of Popular s U.S. operations now report to the same president. The PNA segment is disaggregated for additional disclosures between BPNA and PFH. The results of E-LOAN are included as part of BPNA for the quarters ended March 31, 2007 and 2006. PNA Holding Company only is included as part of the Corporate group.

EVERTEC:

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

Corporate:

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

The Corporation may periodically reclassify business segment results based on modifications to its management reporting and profitability measurement methodologies and changes in organizational alignment. The accounting policies of the individual operating segments are the same as those of the Corporation described in Note 1. Transactions between operating segments are primarily conducted at market rates, resulting in profits that are eliminated for reporting consolidated results of operations.

Table of Contents

\

2007

For the quarter ended March 31, 2007

(In thousands)	Banco Popular de Puerto Rico	Popular North America	EVERTEC	Intersegment Eliminations	Total Reportable Segments
Net interest income (loss)	$ 232,224	$ 132,095	($ 233)		$ 364,086
Provision for loan losses	46,998	49,341			96,339
Non-interest income	116,752	(18,306)	59,622	($ 34,333)	123,735
Amortization of intangibles	662	2,073	248		2,983
Depreciation expense	10,724	4,636	4,062	(18)	19,404
Other operating expenses	173,828	156,655	43,898	(34,364)	340,017
Income tax	30,495	(35,024)	3,935	19	(575)
Net income (loss)	$ 86,269	($63,892)	$ 7,246	$ 30	$ 29,653
Segment Assets	$25,644,976	$21,180,850	$230,080	($ 63,735)	$46,992,171

For the quarter ended March 31, 2007

(In thousands)	Total Reportable Segments	Corporate	Eliminations	Total Popular, Inc.
Net interest income (loss)	$ 364,086	($ 9,403)	$ 299	$ 354,982
Provision for loan losses	96,339	7		96,346
Non-interest income	123,735	129,663	(1,222)	252,176
Amortization of intangibles	2,983			2,983
Depreciation expense	19,404	588		19,992
Other operating expenses	340,017	13,943	(1,607)	352,353
Income tax	(575)	17,136	276	16,837
Net income (loss)	$ 29,653	$ 88,586	$ 408	$ 118,647
Segment Assets	$46,992,171	$6,436,771	($6,264,278)	$47,164,664

Table of Contents

2006

For the quarter ended March 31, 2006

(In thousands)	Banco Popular de Puerto Rico	Popular North America	EVERTEC	Intersegment Eliminations	Total Reportable Segments
Net interest income (loss)	$ 226,303	$ 143,179	($ 427)		$ 369,055
Provision for loan losses	23,789	25,158			48,947
Non-interest income	115,085	74,117	54,888	($ 33,930)	210,160
Amortization of intangibles	633	1,983	105		2,721
Depreciation expense	11,030	5,758	4,106	(19)	20,875
Other operating expenses	169,225	154,547	42,457	(33,944)	332,285
Impact of change in fiscal period	(2,072)	6,181			4,109
Income tax	38,653	8,968	2,718	13	50,352
Net income (loss)	$ 100,130	$ 14,701	$ 5,075	$ 20	$ 119,926
Segment Assets	$26,847,081	$21,289,438	$201,204	($111,962)	$48,225,761

For the quarter ended March 31, 2006

(In thousands)	Total Reportable Segments	Corporate	Eliminations	Total Popular, Inc.
Net interest income (loss)	$ 369,055	($ 9,591)	$ 300	$ 359,764
Provision for loan losses	48,947			48,947
Non-interest income	210,160	18,989	(316)	228,833
Amortization of intangibles	2,721			2,721
Depreciation expense	20,875	564		21,439
Other operating expenses	332,285	17,225	(157)	349,353
Impact of change in fiscal period	4,109	3,495	2,137	9,741
Income tax	50,352	(11,592)	(867)	37,893
Net income (loss)	$ 119,926	($ 294)	($ 1,129)	$ 118,503
Segment Assets	$48,225,761	$6,432,286	($6,066,344)	$48,591,703

During the three months ended March 31, 2007, the holding companies realized gains on sale of securities (before tax) of approximately $118.7 million, compared with gains on sale of securities, mainly marketable equity securities (before tax) of approximately $13.6 million in the quarter ended March 31, 2006. These net gains are included in non-interest income within the Corporate group.

Table of Contents

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

2007

For the quarter ended March 31, 2007

(In thousands)	Commercial Banking	Consumer and Retail Banking	Other Financial Services	Eliminations	Total Banco Popular de Puerto Rico
Net interest income	$ 90,428	$ 139,410	$ 2,247	$ 139	$ 232,224
Provision for loan losses	12,933	34,065			46,998
Non-interest income	23,107	73,894	19,851	(100)	116,752
Amortization of intangibles	220	333	109		662
Depreciation expense	3,804	6,645	275		10,724
Other operating expenses	44,305	113,449	16,174	(100)	173,828
Income tax	14,893	14,019	1,525	58	30,495
Net income	$ 37,380	$ 44,793	$ 4,015	$ 81	$ 86,269
Segment Assets	$11,292,949	$18,134,909	$596,197	($4,379,079)	$25,644,976

2006

For the quarter ended March 31, 2006

(In thousands)	Commercial Banking	Consumer and Retail Banking	Other Financial Services	Eliminations	Total Banco Popular de Puerto Rico
Net interest income	$ 81,153	$ 142,946	$ 2,723	($ 519)	$ 226,303
Provision for loan losses	5,655	18,134			23,789
Non-interest income	23,139	71,487	21,980	(1,521)	115,085
Amortization of intangibles	218	338	77		633
Depreciation expense	3,454	7,301	275		11,030
Other operating expenses	43,673	110,216	15,629	(293)	169,225
Impact of change in fiscal period			(2,072)		(2,072)
Income tax	16,073	19,353	3,712	(485)	38,653
Net income (loss)	$ 35,219	$ 59,091	$ 7,082	($ 1,262)	$ 100,130
Segment Assets	$10,750,862	$18,372,313	$1,025,734	($3,301,828)	$26,847,081

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

2007

For the quarter ended March 31, 2007

(In thousands)	Banco Popular North America	Popular Financial Holdings	Eliminations	Total Popular North America
Net interest income	$ 89,784	$ 41,654	$ 657	$ 132,095
Provision for loan losses	10,433	38,908		49,341
Non-interest income	56,942	(62,354)	(12,894)	(18,306)
Amortization of intangibles	2,073			2,073
Depreciation expense	4,023	613		4,636
Other operating expenses	105,687	51,320	(352)	156,655
Income tax	8,997	(39,156)	(4,865)	(35,024)
Net income (loss)	$ 15,513	($ 72,385)	($ 7,020)	($ 63,892)
Segment Assets	$12,862,809	$8,408,750	($ 90,709)	$21,180,850

2006

For the quarter ended March 31, 2006

(In thousands)	Banco Popular North America	Popular Financial Holdings	Eliminations	Total Popular North America
Net interest income	$ 97,308	$ 45,871		$ 143,179
Provision for loan losses	10,492	14,666		25,158
Non-interest income	53,026	21,154	($ 63)	74,117
Amortization of intangibles	1,894	89		1,983
Depreciation expense	4,199	1,559		5,758
Other operating expenses	105,906	48,641		154,547
Impact of change in fiscal period		6,181		6,181
Income tax	10,551	(1,561)	(22)	8,968
Net income (loss)	$ 17,292	($ 2,550)	($ 41)	$ 14,701
Segment Assets	$12,504,608	$8,848,496	($63,666)	$21,289,438

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

INTERSEGMENT REVENUES*	Quarter ended	
(In thousands)	**March 31, 2007**	March 31, 2006
Banco Popular dePuerto Rico:		

P.R. Commercial Banking	**$ 6**	($ 304)
P.R. Consumer and Retail Banking	**(15)**	(668)
P.R. Other Financial Services	**(129)**	(78)
Popular North America:		
Banco Popular North America	**(27)**	934
Popular Financial Holdings		
EVERTEC	**(34,168)**	(33,814)
Total	**($ 34,333)**	($ 33,930)

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

42

Table of Contents

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

Geographic Information

(In thousands)	Quarter ended **March 31, 2007**	March 31, 2006
Revenues**		
Puerto Rico	**$477,985**	$361,582
United States	**107,239**	206,802
Other	**21,934**	20,213
Total consolidated revenues	**$607,158**	$588,597

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

(In thousands)	**March 31, 2007**	December 31, 2006	March 31, 2006
Selected Balance Sheet Information:			
Puerto Rico			
Total assets	**$24,607,654**	$24,621,684	$25,997,603
Loans	**14,906,570**	14,735,092	14,105,008
Deposits	**13,602,697**	13,504,860	13,794,832
Mainland United States			
Total assets	**$21,330,513**	$21,570,276	$21,445,054
Loans	**17,319,205**	17,363,382	16,737,800
Deposits	**9,947,205**	9,735,264	8,447,759
Other			
Total assets	**$ 1,226,497**	$ 1,212,027	$ 1,149,046
Loans	**654,841**	638,465	587,577
Deposits *	**1,188,151**	1,198,207	1,169,221

* Represents deposits from BPPR operations located in the U.S. and British Virgin Islands.

Note 22 Restructuring Costs

During the first quarter of 2007, the Corporation recorded pre-tax restructuring costs in the Popular North America segment related to the Restructuring Plan as follows:

(In thousands)	First Quarter 2007

Personnel costs	$ 8,158(a)
Net occupancy expenses	4,413(b)
Equipment expenses	281
Professional fees	1,947(c)
Communications	67
Other operating expenses	269
Total	$15,135

(a) Severance, stay bonuses, related taxes, and other employee benefits

(b) Lease terminations

(c) Outplacement and professional service contract terminations

Table of Contents

Of the above restructuring costs, approximately $7.7 million were recognized as a liability as of March 31, 2007, and are expected to be paid out in the second and third quarter of 2007.

During the fourth quarter of 2006, and as a result of the Restructuring Plan, the Corporation recognized impairment charges on long-lived assets of $7.2 million, mainly associated with software and leasehold improvements, and an impairment in goodwill of $14.2 million.

As of March 31, 2007, it is anticipated that the Restructuring Plan will result in estimated combined charges of approximately $36.6 million, broken out as follows:

(In thousands)	Impairments on goodwill and long-lived assets	Restructuring costs	Total
Quarter ended:			
December 31, 2006	$21,471		$21,471
March 31, 2007		$ 15,135	15,135
June 30, 2007			
September 30, 2007			
Total	$21,471	$ 15,135	$36,606

The Corporation does not expect to incur additional significant restructuring costs in the remaining quarters of 2007. Settlement amounts in lease terminations may differ and are subject to the outcome of negotiations.

Note 23 Condensed Consolidating Financial Information of Guarantor and Issuers of Registered Guaranteed Securities

The following condensed consolidating financial information presents the financial position of Popular, Inc. Holding Company (PIHC) (parent only), Popular International Bank, Inc. (PIBI), Popular North America, Inc. (PNA), and all other subsidiaries of the Corporation as of March 31, 2007, December 31, 2006 and March 31, 2006, and the results of their operations and cash flows for the periods ended March 31, 2007 and 2006.

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

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

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

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

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

EVERTEC USA, Inc.

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

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

Table of Contents

The principal source of income for PIHC consists of dividends from BPPR. As a member subject to the regulations of the Federal Reserve System, BPPR and BPNA must obtain the approval of the Federal Reserve Board for any dividend if the total of all dividends declared by it during the calendar year would exceed the total of its net income for that year, as defined by the Federal Reserve Board, combined with its retained net income for the preceding two years, less any required transfers to surplus or to a fund for the retirement of any preferred stock. The payment of dividends by BPPR may also be affected by other regulatory requirements and policies, such as the maintenance of certain minimum capital levels. At March 31, 2007, BPPR could have declared a dividend of approximately $164 million without the approval of the Federal Reserve Board (December 31, 2006 $208 million; March 31, 2006 $139 million) and BPNA could have declared a dividend of $191 million (December 31, 2006- $246 million; March 31, 2006 $173 million). However, the Corporation has never received any dividend payments from its U.S. subsidiaries and it believes that the likelihood of receiving them in the foreseeable future is remote based on the growth it is undertaking in the U.S. mainland. Refer to Popular, Inc. s Form 10-K for the year ended December 31, 2006 for further information on dividend restrictions imposed by regulatory requirements and policies on the payment of dividends by BPPR, BPNA and BP, N.A.

Table of Contents

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

(In thousands)	Popular, Inc. Holding Co.	PIBI Holding Co.	PNA Holding Co.	All other Subsidiaries	Elimination Entries	Popular, Inc. Consolidated
ASSETS						
Cash and due from banks	$ 1,439	$ 97	$ 356	$ 838,907	($ 87,249)	$ 753,550
Money market investments	196,500	1,500	235	752,434	(310,461)	640,208
Investment securities available-for-sale, at fair value	7,608	60,749		9,422,482	(12,478)	9,478,361
Investment securities held-to-maturity, at amortized cost	430,000	2,153		85,330	(430,000)	87,483
Other investment securities, at lower of cost or realizable value	14,425	1	12,392	126,133		152,951
Trading account securities, at fair value				648,150		648,150
Investment in subsidiaries	3,186,977	1,065,820	2,001,751	753,343	(7,007,891)	
Loans held-for-sale, at lower of cost or market value				1,049,230		1,049,230
Loans held-in-portfolio	380,491		2,950,021	35,729,280	(6,917,469)	32,142,323
Less Unearned income				310,936		310,936
Allowance for loan losses	40			541,708		541,748
	380,451		2,950,021	34,876,636	(6,917,469)	31,289,639
Premises and equipment, net	25,226		134	565,797	(149)	591,008
Other real estate				89,479		89,479
Accrued income receivable	376	49	11,095	296,363	(23,092)	284,791
Other assets	62,951	59,576	45,532	1,211,228	(53,243)	1,326,044
Goodwill				668,616		668,616
Other intangible assets	554			104,600		105,154
	$4,306,507	$1,189,945	$5,021,516	$51,488,728	($ 14,842,032)	$47,164,664

LIABILITIES AND STOCKHOLDERS EQUITY						
Liabilities:						
Deposits:						
Non-interest bearing				$ 4,264,637	($ 87,191)	$ 4,177,446
Interest bearing				20,798,968	(238,361)	20,560,607
				25,063,605	(325,552)	24,738,053
Federal funds purchased and assets sold under agreements to repurchase			$ 126,115	6,206,402	(60,100)	6,272,417
Other short-term borrowings			919,525	4,505,077	(2,222,630)	3,201,972
Notes payable	$ 484,637		2,835,305	9,714,966	(4,666,083)	8,368,825
Subordinated notes				430,000	(430,000)	
Other liabilities	85,562	$ 93	90,372	761,199	(90,247)	846,979
	570,199	93	3,971,317	46,681,249	(7,794,612)	43,428,246
Minority interest in consolidated subsidiaries				110		110
Stockholders equity:						
Preferred stock	186,875					186,875
Common stock	1,754,694	3,961	2	70,421	(74,384)	1,754,694
Surplus	525,072	851,193	734,964	3,161,224	(4,742,380)	530,073
Retained earnings	1,678,827	387,292	331,808	1,753,773	(2,477,874)	1,673,826
Accumulated other comprehensive loss, net of tax	(203,935)	(52,594)	(16,575)	(177,674)	246,843	(203,935)
Treasury stock, at cost	(205,225)			(375)	375	(205,225)
	3,736,308	1,189,852	1,050,199	4,807,369	(7,047,420)	3,736,308
	$4,306,507	$1,189,945	$5,021,516	$51,488,728	($14,842,032)	$47,164,664

Table of Contents

POPULAR, INC.
CONDENSED CONSOLIDATING STATEMENT OF CONDITION
DECEMBER 31, 2006
(UNAUDITED)

(In thousands)	Popular, Inc. Holding Co.	PIBI Holding Co.	PNA Holding Co.	All other Subsidiaries	Elimination Entries	Popular, Inc. Consolidated
ASSETS						
Cash and due from banks	$ 2	$ 157	$ 322	$ 1,015,470	($ 65,793)	$ 950,158
Money market investments	8,700	1,075	2,553	508,424	(219,044)	301,708
Investment securities available-for-sale, at fair value		71,262		9,782,815	(3,215)	9,850,862
Investment securities held-to-maturity, at amortized cost	430,000	2,157		89,183	(430,000)	91,340
Other investment securities, at lower of cost or realizable value	143,469	5,001	26,152	122,772		297,394
Trading account securities, at fair value				382,325		382,325
Investment in subsidiaries	3,177,371	1,135,808	2,062,710	816,684	(7,192,573)	
Loans held-for-sale, at lower of cost or market value				719,922		719,922
Loans held-in-portfolio	467,649		2,958,559	35,467,096	(6,567,940)	32,325,364
Less Unearned income				308,347		308,347
Allowance for loan losses	40			522,192		522,232
	467,609		2,958,559	34,636,557	(6,567,940)	31,494,785
Premises and equipment, net	25,628		134	569,545	(167)	595,140
Other real estate				84,816		84,816
Accrued income receivable	1,058	12	11,581	264,089	(28,500)	248,240
Other assets	60,430	42,883	28,125	1,528,398	(47,946)	1,611,890
Goodwill				667,853		667,853
Other intangible assets	554			107,000		107,554
	$4,314,821	$1,258,355	$5,090,136	$51,295,853	($ 14,555,178)	$47,403,987

LIABILITIES AND STOCKHOLDERS EQUITY						
Liabilities:						
Deposits:						
Non-interest bearing				$ 4,287,868	($ 65,735)	$ 4,222,133
Interest bearing				20,283,441	(67,243)	20,216,198
				24,571,309	(132,978)	24,438,331
Federal funds purchased and assets sold under agreements to repurchase			$ 159,829	5,739,416	(136,800)	5,762,445
Other short-term borrowings	$ 150,787		894,959	5,297,595	(2,309,216)	4,034,125
Notes payable	484,406		2,835,595	9,651,217	(4,233,972)	8,737,246
Subordinated notes				430,000	(430,000)	
Other liabilities	59,322	$ 60	78,988	758,613	(85,559)	811,424
	694,515	60	3,969,371	46,448,150	(7,328,525)	43,783,571
Minority interest in consolidated subsidiaries				110		110
Stockholders equity:						
Preferred stock	186,875					186,875
Common stock	1,753,146	3,961	2	70,421	(74,384)	1,753,146
Surplus	521,855	851,193	734,964	3,182,285	(4,763,441)	526,856
Retained earnings	1,599,145	458,922	406,811	1,804,476	(2,675,210)	1,594,144
Accumulated other comprehensive loss, net of tax	(233,728)	(55,781)	(21,012)	(207,443)	284,236	(233,728)
Treasury stock, at cost	(206,987)			(2,146)	2,146	(206,987)
	3,620,306	1,258,295	1,120,765	4,847,593	(7,226,653)	3,620,306
	$4,314,821	$1,258,355	$5,090,136	$51,295,853	($14,555,178)	$47,403,987

Table of Contents

POPULAR, INC.
CONDENSED CONSOLIDATING STATEMENT OF CONDITION
MARCH 31, 2006
(UNAUDITED)

(In thousands)	Popular, Inc. Holding Co.	PIBI Holding Co.	PNA Holding Co.	All other Subsidiaries	Elimination Entries	Popular, Inc. Consolidated
ASSETS						
Cash and due from banks	$ 975	$ 7,415	$ 439	$ 905,160	($ 53,383)	$ 860,606
Money market investments	314,600	300	183	1,170,659	(495,827)	989,915
Investment securities available-for-sale, at fair value	11,319	63,986		11,441,847	(6,484)	11,510,668
Investment securities held-to-maturity, at amortized cost	430,000	2,167		342,218	(430,000)	344,385
Other investment securities, at lower of cost or realizable value	145,039	5,001	13,142	141,427		304,609
Trading account securities, at fair value				510,099	(487)	509,612
Investment in subsidiaries	3,047,205	1,166,381	2,085,191	818,175	(7,116,952)	
Loans held-for-sale, at lower of cost or market value				535,719		535,719
Loans held-in-portfolio	47,465		2,712,867	34,103,750	(5,668,040)	31,196,042
Less Unearned income				301,376		301,376
Allowance for loan losses	40			468,281		468,321
	47,425		2,712,867	33,334,093	(5,668,040)	30,426,345
Premises and equipment, net	26,231			574,783	(222)	600,792
Other real estate	99			82,253		82,352
Accrued income receivable	416	39	11,410	284,689	(21,934)	274,620
Other assets	56,541	43,409	28,025	1,267,580	(6,893)	1,388,662
Goodwill				655,743		655,743
Other intangible assets	554			107,121		107,675
	$4,080,404	$1,288,698	$4,851,257	$52,171,566	($13,800,222)	$48,591,703

LIABILITIES AND STOCKHOLDERS EQUITY						
Liabilities:						
Deposits:						
Non-interest bearing				$ 4,507,290	($ 53,325)	$ 4,453,965
Interest bearing				19,059,837	(101,990)	18,957,847
				23,567,127	(155,315)	23,411,812
Federal funds purchased and assets sold under agreements to repurchase			$ 33,000	8,662,217	(379,837)	8,315,380
Other short-term borrowings		$ 31,489	541,027	3,120,849	(1,047,844)	2,645,521
Notes payable	$ 532,736		3,057,588	10,932,175	(4,589,281)	9,933,218
Subordinated notes				430,000	(430,000)	
Other liabilities	60,111	1,188	62,859	713,895	(39,951)	798,102
	592,847	32,677	3,694,474	47,426,263	(6,642,228)	45,104,033
Minority interest in consolidated subsidiaries				113		113
Stockholders equity:						
Preferred stock	186,875					186,875
Common stock	1,748,983	3,961	2	70,385	(74,348)	1,748,983
Surplus	484,252	815,193	734,964	3,131,508	(4,679,054)	486,863
Retained earnings	1,529,245	498,823	452,861	1,780,841	(2,735,136)	1,526,634
Accumulated other comprehensive loss, net of tax	(255,265)	(61,956)	(31,044)	(233,639)	326,639	(255,265)
Treasury stock, at cost	(206,533)			(3,905)	3,905	(206,533)
	3,487,557	1,256,021	1,156,783	4,745,190	(7,157,994)	3,487,557
	$4,080,404	$1,288,698	$4,851,257	$52,171,566	($13,800,222)	$48,591,703

48

Table of Contents

POPULAR, INC.
CONDENSED CONSOLIDATING STATEMENT OF INCOME (LOSS)
FOR THE QUARTER ENDED MARCH 31, 2007
(UNAUDITED)

(In thousands)	Popular, Inc. Holding Co.	PIBI Holding Co.	PNA Holding Co.	All other Subsidiaries	Elimination Entries	Popular, Inc. Consolidated
INTEREST INCOME:						
Loans	$ 5,381		$ 37,755	$681,687	($ 80,709)	$644,114
Money market investments	147	$ 17	1	6,326	(1,882)	4,609
Investment securities	7,815	375	223	114,286	(7,208)	115,491
Trading account securities				9,381		9,381
	13,343	392	37,979	811,680	(89,799)	773,595
INTEREST EXPENSE:						
Deposits				173,662	(560)	173,102
Short-term borrowings	1,887		14,468	138,705	(30,251)	124,809
Long-term debt	8,366		36,852	137,364	(61,880)	120,702
	10,253		51,320	449,731	(92,691)	418,613
Net interest income (loss)	3,090	392	(13,341)	361,949	2,892	354,982
Provision for loan losses	7			96,339		96,346
Net interest income (loss) after provision for loan losses	3,083	392	(13,341)	265,610	2,892	258,636
Service charges on deposit accounts				48,471		48,471
Other service fees				115,311	(27,462)	87,849
Net gain (loss) on sale and valuation adjustment of investment securities	118,724	(7,600)		(29,353)		81,771
Trading account loss				(14,164)		(14,164)
Gain on sale of loans and valuation adjustments on loans held-for-sale				15,975	(12,541)	3,434
	9,233	10,009	(527)	34,986	(8,886)	44,815

Other operating income (loss)						
	131,040	2,801	(13,868)	436,836	(45,997)	510,812
OPERATING EXPENSES:						
Personnel costs:						
Salaries	6,100	96		130,725	(442)	136,479
Pension, profit sharing and other benefits	2,040	20		39,967	(131)	41,896
	8,140	116		170,692	(573)	178,375
Net occupancy expenses	553	7	1	31,453		32,014
Equipment expenses	288		2	32,155	(49)	32,396
Other taxes	375			11,472		11,847
Professional fees	2,482	11	64	68,541	(35,111)	35,987
Communications	142			16,963	(43)	17,062
Business promotion	282			28,430	(340)	28,372
Printing and supplies	18			4,258		4,276
Other operating expenses	(12,840)	(100)	116	45,224	(384)	32,016
Amortization of intangibles				2,983		2,983
	(560)	34	183	412,171	(36,500)	375,328
Income (loss) before income tax and equity in earnings of subsidiaries	131,600	2,767	(14,051)	24,665	(9,497)	135,484
Income tax	27,861		(4,918)	(2,058)	(4,048)	16,837
Income (loss) before equity in earnings of subsidiaries	103,739	2,767	(9,133)	26,723	(5,449)	118,647
Equity in earnings of subsidiaries	14,908	(74,991)	(66,466)	(76,836)	203,385	
NET INCOME (LOSS)	$118,647	($ 72,224)	($ 75,599)	($ 50,113)	$197,936	$118,647

49

Table of Contents

POPULAR, INC.
CONDENSED CONSOLIDATING STATEMENT OF INCOME
FOR THE QUARTER ENDED MARCH 31, 2006
(UNAUDITED)

(In thousands)	Popular, Inc. Holding Co.	PIBI Holding Co.	PNA Holding Co.	All other Subsidiaries	Elimination Entries	Popular, Inc. Consolidated
INTEREST INCOME:						
Loans	$ 2,664		$ 36,901	$620,050	($67,780)	$591,835
Money market investments	1,072	$ 66	38	10,416	(3,610)	7,982
Investment securities	7,609	313	223	132,368	(6,980)	133,533
Trading account securities				8,860		8,860
	11,345	379	37,162	771,694	(78,370)	742,210
INTEREST EXPENSE:						
Deposits				125,438	(1,027)	124,411
Short-term borrowings	54	446	6,477	132,338	(14,512)	124,803
Long-term debt	8,983		42,967	146,160	(64,878)	133,232
	9,037	446	49,444	403,936	(80,417)	382,446
Net interest income (loss)	2,308	(67)	(12,282)	367,758	2,047	359,764
Provision for loan losses				48,947		48,947
Net interest income (loss) after provision for loan losses	2,308	(67)	(12,282)	318,811	2,047	310,817
Service charges on deposit accounts				47,469		47,469
Other service fees				108,064	(27,718)	80,346
Net gain (loss) on sale and valuation adjustments of investment securities	152	13,490		(1,714)	412	12,340
Trading account loss				(647)	12,122	11,475
Gain on sale of loans				47,054	207	47,261
Other operating income	2,842	2,893		32,853	(8,646)	29,942
	5,302	16,316	(12,282)	551,890	(21,576)	539,650

OPERATING EXPENSES:						
Personnel costs:						
Salaries	5,892	93		129,818	(271)	135,532
Pension, profit sharing and other benefits	1,629	20		40,950	(79)	42,520
	7,521	113		170,768	(350)	178,052
Net occupancy expenses	603	4		28,031		28,638
Equipment expenses	394	1	4	32,813	(15)	33,197
Other taxes	266			9,975		10,241
Professional fees	4,428	11	38	66,333	(33,732)	37,078
Communications	137			17,182	(19)	17,300
Business promotion	2,463			30,360		32,823
Printing and supplies	27			4,605		4,632
Other operating expenses	(14,920)	(104)	107	44,072	(324)	28,831
Impact of change in fiscal period at certain subsidiaries			3,495	4,109	2,137	9,741
Amortization of intangibles				2,721		2,721
	919	25	3,644	410,969	(32,303)	383,254
Income (loss) before income tax and equity in earnings of subsidiaries	4,383	16,291	(15,926)	140,921	10,727	156,396
Income tax	777		(5,574)	40,617	2,073	37,893
Income (loss) before equity in earnings of subsidiaries	3,606	16,291	(10,352)	100,304	8,654	118,503
Equity in earnings of subsidiaries	114,897	1,991	11,942	7,768	(136,598)	
NET INCOME	$118,503	$18,282	$ 1,590	$108,072	($127,944)	$118,503

Table of Contents

POPULAR, INC.
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE QUARTER ENDED MARCH 31, 2007 (UNAUDITED)

(In thousands)	Popular, Inc. Holding Co.	PIBI Holding Co.	PNA Holding Co.	All other Subsidiaries	Elimination Entries	Consolidated Popular, Inc.
Cash flows from operating activities:						
Net income (loss)	$ 118,647	($72,224)	($75,599)	($50,113)	$ 197,936	$ 118,647
Adjustments to reconcile net income to net cash provided by (used in) operating activities:						
Equity in undistributed earnings of subsidiaries	(14,908)	74,991	66,466	76,836	(203,385)	
Depreciation and amortization of premises and equipment	588		1	19,423	(18)	19,994
Provision for loan losses	7			96,339		96,346
Amortization of intangibles				2,983		2,983
Amortization and fair value adjustment of servicing assets				10,229		10,229
Net (gain) loss on sale and valuation adjustment of investment securities	(118,724)	7,600		29,353		(81,771)
Net gain on disposition of premises and equipment				(3,677)		(3,677)
Net gain on sale of loans				(15,975)	12,541	(3,434)
Net amortization of premiums and accretion of discounts on investments		3		6,337	(9)	6,331
Net amortization of premiums and deferred loan origination fees and costs				26,198	(2,268)	23,930
Earnings from investments under the	(3,986)	(10,009)	527	(347)	(414)	(14,229)

equity method						
Stock options expense	217			273		490
Deferred income taxes	1,272		(4,918)	(15,845)	97	(19,394)
Net disbursements on loans held-for-sale				(1,685,149)		(1,685,149)
Acquisitions of loans held-for-sale				(282,110)		(282,110)
Proceeds from sale of loans held-for-sale				1,280,146		1,280,146
Net decrease in trading securities				346,150		346,150
Net decrease (increase) in accrued income receivable	682	(37)	485	(32,274)	(5,407)	(36,551)
Net decrease in other assets	2,503	6	822	26,216	5,613	35,160
Net (decrease) increase in interest payable	(88)		6,052	(11,686)	5,407	(315)
Net increase in postretirement benefit obligation				728		728
Net increase (decrease) in other liabilities	26,561	33	4,844	(20,136)	(10,094)	1,208
Total adjustments	(105,876)	72,587	74,279	(145,988)	(197,937)	(302,935)
Net cash provided by (used in) operating activities	12,771	363	(1,320)	(196,101)	(1)	(184,288)
Cash flows from investing activities:						
Net (increase) decrease in money market investments	(187,800)	(425)	2,317	(177,573)	91,417	(272,064)
Purchases of investment securities:						
Available-for-sale				(283,456)	255,270	(28,186)
Held-to-maturity	(426,756)			(5,243,710)		(5,670,466)
Other			(928)	(5,816)		(6,744)
Proceeds from calls, paydowns, maturities and redemptions of investment securities:						
Available-for-sale				645,202	(245,998)	399,204
Held-to-maturity	420,000			5,254,358		5,674,358
Other				2,454		2,454
Proceeds from sale of other investment securities	245,484	2	865	1		246,352

Net repayments (disbursements) on loans	87,151		8,538	(406,936)	361,740	50,493
Proceeds from sale of loans				962		962
Acquisition of loan portfolios				(784)		(784)
Capital contribution to subsidiary				(5,963)	5,963	
Assets acquired, net of cash				(1,823)		(1,823)
Acquisition of premises and equipment	(186)			(25,931)		(26,117)
Proceeds from sale of premises and equipment				14,307		14,307
Proceeds from sale of foreclosed assets				41,835		41,835
Dividends received from subsidiary	44,700			(44,700)		
Net cash provided by (used in) investing activities	182,593	(423)	10,792	(237,573)	468,392	423,781
Cash flows from financing activities:						
Net increase in deposits				490,446	(192,574)	297,872
Net (decrease) increase in federal funds purchased and assets sold under agreements to repurchase			(33,714)	466,986	76,700	509,972
Net (decrease) increase in other short-term borrowings	(150,787)		24,566	(792,518)	86,586	(832,153)
Payments of notes payable			(3,720)	(676,120)	263,568	(416,272)
Proceeds from issuance of notes payable	99		3,430	762,354	(718,164)	47,719
Dividends paid	(47,591)					(47,591)
Proceeds from issuance of common stock	4,362					4,362
Treasury stock acquired	(10)					(10)
Capital contribution from parent				5,963	(5,963)	

Net cash (used in) provided by financing activities	(193,927)		(9,438)	257,111	(489,847)	(436,101)
Net increase (decrease) in cash and due from banks	1,437	(60)	34	(176,563)	(21,456)	(196,608)
Cash and due from banks at beginning of period	2	157	322	1,015,470	(65,793)	950,158
Cash and due from banks at end of period	$ 1,439	$ 97	$ 356	$ 838,907	$ (87,249)	$ 753,550

Table of Contents

POPULAR, INC.
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE QUARTER ENDED MARCH 31, 2006
(UNAUDITED)

(In thousands)	Popular, Inc. Holding Co.	PIBI Holding Co.	PNA Holding Co.	All other Subsidiaries	Elimination Entries	Consolidated Popular, Inc.
Cash flows from operating activities:						
Net income	$ 118,503	$ 18,282	$ 1,590	$ 108,072	($127,944)	$ 118,503
Less: Impact of change in fiscal period of certain subsidiaries, net of tax			(2,271)	(2,638)	(1,220)	(6,129)
Net income before impact of change in fiscal period	118,503	18,282	3,861	110,710	(126,724)	124,632
Adjustments to reconcile net income to net cash provided by operating activities:						
Equity in undistributed earnings of subsidiaries	(114,897)	(1,991)	(11,942)	(7,768)	136,598	
Depreciation and amortization of premises and equipment	564			20,891	(18)	21,437
Provision for loan losses				48,947		48,947
Amortization of intangibles				2,721		2,721
Amortization of servicing assets				13,510	(9)	13,501
Net (gain) loss on sale and valuation adjustment of investment securities	(152)	(13,490)		1,714	(412)	(12,340)
Net gain on disposition of premises and equipment				(1,512)		(1,512)
Net gain on sale of loans				(47,054)	(207)	(47,261)
Net amortization of premiums and accretion of discounts	(133)	3		7,208	(66)	7,012

on investments						
Net amortization of premiums and deferred loan origination fees and costs	(23)			33,523	(1,613)	31,887
Earnings from investments under the equity method	(792)	(2,881)		(193)	(395)	(4,261)
Stock options expense	187			613		800
Deferred income taxes			(3,075)	(4,409)	2,073	(5,411)
Net disbursements on loans held-for-sale				(1,923,081)		(1,923,081)
Acquisitions of loans held-for-sale				(447,046)		(447,046)
Proceeds from sale of loans held-for-sale				2,166,951		2,166,951
Net decrease in trading securities				835,124		835,124
Net decrease (increase) in accrued income receivable	115	(6)	1,133	(29,449)	(2,382)	(30,589)
Net (increase) decrease in other assets	(11,221)	(1)	551	(8,753)	996	(18,428)
Net increase in interest payable	264	69	18,188	2,959	2,369	23,849
Net increase in postretirement benefit obligation				1,585		1,585
Net increase (decrease) in other liabilities	9,725	485	(1,262)	(6,827)	1,165	3,286
Total adjustments	(116,363)	(17,812)	3,593	659,654	138,099	667,171
Net cash provided by operating activities	2,140	470	7,454	770,364	11,375	791,803
Cash flows from investing activities:						
Net increase in money market investments	(84,600)		(37)	(110,530)	(45,183)	(240,350)
Purchases of investment securities:						
Available-for-sale		(7,954)		(273,651)	105,630	(175,975)
Held-to-maturity				(7,747,198)		(7,747,198)
Other				(10,580)		(10,580)
Proceeds from calls, paydowns, maturities and redemptions of investment securities:						

Available-for-sale				346,354	(99,299)	247,055
Held-to-maturity				7,556,192		7,556,192
Other	496			24,578		25,074
Proceeds from sale of investment securities available for sale	6,655	27,924		9,315		43,894
Net (disbursements) repayments on loans	(21,789)		119,522	89,952	13,366	201,051
Proceeds from sale of loans				73,038		73,038
Acquisition of loan portfolios				(141,658)		(141,658)
Capital contribution to subsidiary		(505)	(797)	(29,881)	31,183	
Assets acquired, net of cash				(218)		(218)
Acquisition of premises and equipment	(3,769)			(35,030)		(38,799)
Proceeds from sale of premises and equipment				14,452		14,452
Proceeds from sale of foreclosed assets				33,516		33,516
Dividends received from subsidiary	104,000			60,763	(164,763)	
Net cash provided by (used in) investing activities	993	19,465	118,688	(140,586)	(159,066)	(160,506)
Cash flows from financing activities:						
Net increase in deposits				726,357	43,120	769,477
Net (decrease) increase in federal funds purchased and assets sold under agreements to repurchase			(108,700)	(406,192)	14,660	(500,232)
Net (decrease) increase in other short-term borrowings		(14,623)	181,925	(534,464)	205,565	(161,597)
Payments of notes payable			(203,001)	(1,102,079)	404,963	(900,117)
Proceeds from issuance of notes payable	98		3,547	743,373	(640,766)	106,252
Dividends paid to parent company				(164,762)	164,762	
Dividends paid	(45,768)					(45,768)

Table of Contents

(In thousands)	Popular, Inc. Holding Co.	PIBI Holding Co.	PNA Holding Co.	All other Subsidiaries	Elimination Entries	Consolidated Popular, Inc.
Proceeds from issuance of common stock	42,816				167	42,983
Capital contribution from parent				31,184	(31,184)	
Net cash used in financing activities	(2,854)	(14,623)	(126,229)	(706,583)	161,287	(689,002)
Cash effect of change in fiscal period of certain subsidiaries			78	19,570	(7,734)	11,914
Net increase (decrease) in cash and due from banks	279	5,312	(9)	(57,235)	5,862	(45,791)
Cash and due from banks at beginning of period	696	2,103	448	962,395	(59,245)	906,397
Cash and due from banks at end of period	$ 975	$ 7,415	$ 439	$ 905,160	($53,383)	$ 860,606

53

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. 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 full service financial services provider with operations in Puerto Rico, the United States, the Caribbean and Latin America. As the leading financial institution based 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 has established a community banking franchise providing a broad range of financial services and products to the communities it serves. Banco Popular North America (BPNA) operates branches in California, Texas, Illinois, New York, New Jersey and Florida. Popular Financial Holdings (PFH) offers mortgage and personal loans, while E-LOAN provides online consumer direct lending to obtain mortgage, auto and home equity loans, and provides an online platform to raise deposits for BPNA. The Corporation also owns a financial transaction processing operation, EVERTEC, which strives to use its expertise in technology and electronic banking 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.

The main events impacting the financial results for the quarter ended March 31, 2007 included: (1) a one time gain on the sale of certain equity securities, (2) unfavorable adjustments in the value of interest-only securities (also known as residual assets or interests), (3) restructuring charges related to the U.S. operations and (4) an unfavorable lower of cost or market adjustment in the valuation of loans held-for-sale, all of which are described in the MD&A. Table A provides selected financial data and performance metrics for the quarters ended March 31, 2007 and 2006.

Financial highlights for the quarter ended March 31, 2007, compared with the same quarter in 2006, are described below.

Reduction in net interest income primarily due to a higher cost in funding earning assets. Table B summarizes the principal changes in average earning assets and funding sources and their corresponding yields and costs, on a taxable equivalent basis, for the quarter ended March 31, 2007, compared with the same quarter in 2006.

The provision for loan losses for the quarter ended March 31, 2007, when compared with the same quarter in 2006, reflects higher net charge-offs, mainly in the consumer loan portfolio in Puerto Rico and in the mortgage loan portfolio in the U.S. operations, especially in the subprime market, and growth in the commercial loan portfolio. Also, the level of provision for the quarter ended March 31, 2007, compared with the same quarter in the previous year, reflects current economic conditions and deteriorating credit quality trends, primarily in the subprime mortgage loan sector and in the commercial portfolio, evidenced by an increase in non-performing assets. Refer to the Credit Risk Management and Loan Quality section, including Tables K, L and M, for a more detailed analysis of the allowance for loan losses, net charge-offs, non-performing assets and credit quality metrics.

Non-interest income increased 10% compared with the same quarter in 2006, influenced by the net impact of factors such as:

- o Recognition of a pre-tax capital gain of $118.7 million on the sale of the Corporation s shares of common stock of Telecomunicaciones de Puerto Rico, Inc. (TELPRI) to Sercotel

Table of Contents

S.A. de C.V. in March 2007.

- Unfavorable valuation adjustments recorded in the first quarter of 2007 of $52.8 million in the fair value of interest-only securities originated by PFH in off-balance sheet securitizations performed in 2005 and 2006. As of March 31, 2007, the aggregate balance of PFH s interest-only securities recognized in the Corporation s statement of financial condition was $33 million. The reduction in the value of the interest-only securities since December 31, 2006 was the result of revisions in the discount rate and credit loss assumptions that were incorporated in the internal valuation models as of March 31, 2007 based on recent negative trends in the U.S. subprime market. As indicated in a prior Form 8-K filed in January 2007 and in the Corporation s 2006 Annual Report to Shareholders incorporated by reference in Popular, Inc. s Form 10-K, the Corporation exited the wholesale subprime mortgage loan origination business during the first quarter of 2007. In connection with this decision, it shut down the wholesale broker, retail and call center business divisions. Subprime mortgage loan securitizations that resulted in the accounting for interest-only securities involved loans originated through those channels.

- Unfavorable valuation adjustment recorded in the first quarter of 2007 of $16.9 million in the value of mortgage loans held-for-sale related primarily to the lower of cost or market analysis of the Corporation s U.S. portfolio. The loan portfolios subject to the valuation adjustment consist principally of subprime mortgage loans originated in the latter part of 2006 and in 2007 by the aforementioned business divisions that were transitionally shut down. The Corporation expects to sell or securitize most of this portfolio in 2007.

Refer to the Non-Interest Income section of this MD&A for other factors influencing the variance in non-interest income. Also, refer to the Critical Accounting Policies / Estimates section of this MD&A for more detailed information on the valuation of interest-only securities and changes in assumptions.

Lower operating expenses for the quarter ended March 31, 2007 by $7.9 million, or 2%, compared with the same quarter in 2006. Isolating the restructuring costs incurred in the first quarter of 2007 of $15.1 million, operating expenses decreased by approximately $23 million, or 6%, compared with the same quarter in 2006. This variance was impacted in part by the fact that operating expenses for 2006 included $9.7 million corresponding to the negative results for the month of December 2005 of those subsidiaries that changed the ends of their fiscal year in 2006 to align their year-end closings to December 31st, in line with the year end of the parent holding company. Also, there were lower personnel and business promotion costs in the quarter ended March 31, 2007. Refer to the Operating Expenses section for a breakdown of the restructuring charges by income statement category. Furthermore, refer to the Restructuring Plan section for information on PFH s restructuring and integration plan.

Total earning assets at March 31, 2007 decreased $1.2 billion, or 3%, compared with March 31, 2006 in part due to the implementation of strategies to reduce the Corporation s financial leverage by means of loan sales and not reinvesting the proceeds received upon maturity of low yielding investment securities. When compared to December 31, 2006, earning assets increased less than 1%. Refer to the Financial Condition section of this MD&A for descriptive information on the composition of assets, deposits, borrowings and capital of the Corporation.

Table of Contents

TABLE A

Financial Highlights

Financial Condition Highlights	**At March 31,**			**Average for the three months**		
(In thousands)	**2007**	2006	Variance	**2007**	2006	Variance
Money market investments	**$ 640,208**	$ 989,915	($ 349,707)	**$ 375,516**	$ 644,978	($ 269,462)
Investment and trading securities	**10,366,945**	12,669,274	(2,302,329)	**10,944,249**	13,034,368	(2,090,119)
Loans*	**32,880,617**	31,430,385	1,450,232	**32,657,846**	31,924,429	733,417
Total earning assets	**43,887,770**	45,089,574	(1,201,804)	**43,977,611**	45,603,775	(1,626,164)
Total assets	**47,164,664**	48,591,703	(1,427,039)	**47,310,284**	48,956,516	(1,646,232)
Deposits	**24,738,053**	23,411,812	1,326,241	**24,332,692**	22,643,620	1,689,072
Borrowings	**17,843,214**	20,894,119	(3,050,905)	**18,321,696**	21,931,525	(3,609,829)
Stockholders equity	**3,736,308**	3,487,557	248,751	**3,821,808**	3,658,269	163,539

Operating Highlights	**First Quarter**		
(In thousands, except per share information)	**2007**	2006	Variance
Net interest income	**$354,982**	$359,764	($ 4,782)
Provision for loan losses	**96,346**	48,947	47,399
Non-interest income	**252,176**	228,833	23,343
Operating expenses	**375,328**	383,254	(7,926)
Income tax	**16,837**	37,893	(21,056)
Net income	**$118,647**	$118,503	$ 144
Net income applicable to common stock	**$115,669**	$115,525	$ 144
Basic EPS	**$ 0.41**	$ 0.42	($ 0.01)
Diluted EPS	**$ 0.41**	$ 0.42	($ 0.01)

Selected Statistical Information	**First Quarter**	
	2007	2006
Common Stock Data Market price		
High	**$18.94**	$21.20
Low	**15.82**	19.54
End	**16.56**	20.76
Book value per share at period end	**12.72**	11.87
Dividends declared per share	**0.16**	0.16
Dividend payout ratio	**38.57%**	35.62%
Price/earnings ratio	**13.46**x	11.53x
Profitability Ratios Return on assets	**1.02%**	1.02%
Return on common equity	**12.91**	14.04
Net interest spread (taxable equivalent)	**2.90**	2.99
Net interest margin (taxable equivalent)	**3.43**	3.40
Effective tax rate	**12.43**	24.23
Overhead ratio**	**34.69**	42.92

Efficiency ratio ***	**71.84**	66.51
Capitalization Ratios - Equity to assets	**8.08%**	7.47%
Tangible equity to assets	**6.55**	6.01
Equity to loans	**11.70**	11.46
Internal capital generation	**7.43**	8.27
Tier I capital to risk adjusted assets	**10.80**	11.33
Total capital to risk adjusted assets	**12.05**	12.59
Leverage ratio	**8.17**	7.62

* Includes loans held-for-sale.

** Non-interest expense less non-interest income divided by net interest income.

*** Non-interest expense divided by net interest income plus recurring non-interest income (refer to the Operating expenses section of this MD&A for a description of items not considered recurring).

The Corporation, like other financial institutions, is subject to a number of risks, many of which are outside of management s control, though efforts are made to manage those risks while optimizing returns. Among the risks assumed are: (1) market risk, which is the risk that changes in market rates and prices will adversely affect the Corporation s financial condition or results of operations, (2) liquidity risk, which is the risk that the Corporation

56

Table of Contents

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, 2006, 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, readers should consider.

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

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

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 subprime mortgage loans securitizations (valuations of interest-only strips and mortgage servicing rights), income taxes, goodwill and other intangible assets, and pension and postretirement benefit obligations. For a summary of the Corporation s critical accounting policies, refer to that particular section in the MD&A included in Popular, Inc. s 2006 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, 2006 (the 2006 Annual Report). Also, refer to Note 1 to the consolidated financial statements included in the 2006 Annual Report for a summary of the Corporation s significant accounting policies.

As indicated in the 2006 Annual Report, one of the accounting policies / estimates considered critical by the Corporation s management is that associated with the valuation of interest-only securities (also known as residual interests). During the quarter ended March 31, 2007, management reviewed the critical assumptions used in the valuation of interest-only securities derived from off-balance sheet securitizations performed by PFH. As indicated in the Overview section, the Corporation recognized unfavorable valuation adjustments of $52.8 million in the fair value of interest-only securities. Of this amount, $29.3 million of the adjustment corresponded to interest-only securities classified as available-for-sale and $23.5 million corresponded to interest-only securities classified as trading securities. As of March 31, 2007, the aggregate balance of PFH s interest-only securities recognized in the

Corporation s statement of financial condition was $33 million. The unpaid principal balance of mortgage loans sold in off-balance sheet securitizations to which these interest-only securities are associated amounted to approximately $2.1 billion at March 31, 2007. This portfolio consisted of approximately 47% of fixed-rate mortgage loans and 53% of adjustable-rate mortgage loans.

As previously mentioned, during the first quarter of 2007, adjustments were made to two critical assumptions utilized for the valuation of interest-only securities, namely the discount rate and expected credit losses. There were no significant changes in the methodology or models used to value the interest- only securities that are described in the 2006 Annual Report.

During the first quarter of 2007, the subprime mortgage market experienced (1) deteriorating credit performance trends, particularly in loans originated in 2005 and 2006, (2) continued turmoil with subprime lenders due to increases in losses, bankruptcies and liquidity problems, (3) lower levels of housing activity and home price appreciation, and (4) a general tightening of credit standards that may adversely affect sub prime borrowers when trying to refinance their mortgages. These factors have led to an increase in cash flow uncertainty for investors in subprime mortgage securities thereby causing risk premiums to increase. Given the increase in risk premiums along with lower liquidity for subprime securities observed in the market, the Corporation changed the discount rate utilized to discount projected residual cash flows at the end of the first quarter of 2007 to 25% from 17% at the end of the fourth quarter in 2006.

With respect to credit losses, lower levels of home price appreciation, declining demand for housing units leading to rising inventories, housing affordability challenges and a general tightening of underwriting standards are expected to lead to higher future cumulative credit losses. Based on an analysis by management of PFH s historical collateral performance, risk model estimates and rating agency loss coverage levels, the cumulative credit loss assumptions were also changed during the first quarter of 2007. The changes reflect an increase in the cumulative credit loss estimate range for the nine securitization transactions completed and accounted for as gain on sale transactions between 2005 and 2006 of between 112 and 364 basis points.

The analysis performed showed that all transactions, from a cumulative loss standpoint, are performing better than the median loss projection calculated by Loan Performance Corporation s Risk Model (Risk Model). Notwithstanding, leading credit indicators of future loss performance (60 day delinquency, 90 day delinquency, foreclosure and REO levels) for the most recent four transactions show underperformance compared to the model projections. Although that tendency (i.e. higher delinquency but lower loss levels) has not been inconsistent with the historical performance of PFH s collateral when compared to the risk model, conditions in the housing and credit markets have changed materially. Furthermore, the overall industry credit performance of mortgage collateral originated in 2005 and 2006 is showing considerable underperformance relative to other vintages (i.e. higher delinquency levels at the same stage of seasoning), which implies higher cumulative losses than originally estimated.

Refer to Note 8 to the consolidated financial statements for information on key economic assumptions used in

measuring the fair value of the interest-only securities as of March 31, 2007. Also, such note provides a sensitivity analysis based on immediate changes to the most critical assumptions used in the valuations at March 31, 2007.
One of the Corporation s critical accounting policies relates to the valuation of mortgage servicing rights. As further described in Note 2 to the consolidated financial statements and in the Recent Accounting Pronouncements and Interpretations section included in this MD&A, in January 2007, the Corporation adopted SFAS No. 156 *Accounting for Servicing of Financial Assets an amendment of FASB No. 140.* The provisions of SFAS No. 156 will not have an impact on the estimation techniques, valuation assumptions and other subjective assessments associated with the mortgage servicing rights computations. Refer to Note 8 to the consolidated financial statements for information on key economic assumptions used in measuring the fair value of the mortgage servicing rights as of March 31, 2007 and to Note 7 for SFAS No. 156 required disclosures.
Also, during the quarter ended March 31, 2007, the Corporation adopted *FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement 109 (FIN 48)*, which also relates to one of the Corporation s critical accounting policies, namely income taxes. As indicated in the section below, the impact of the FIN 48 adoption in the first quarter of 2007 was not material to the Corporation. Refer to Note 14 to the consolidated financial statements for information on the financial impact and required disclosures.

RECENT ACCOUNTING PRONOUNCEMENTS AND INTERPRETATIONS

SFAS No. 155 Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments an Amendment of FASB Statements No. 133 and 140. SFAS No. 155 permits companies to elect, on a transaction-by-transaction basis, to apply a fair value measurement to hybrid financial instruments that contain an embedded derivative that would otherwise require bifurcation under SFAS No. 133. This statement also clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133, establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation; clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives; and amends SFAS No. 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. The adoption of SFAS No. 155 in the first quarter of 2007 did not have a material impact on the Corporation s consolidated financial statements.

SFAS No. 156 Accounting for Servicing of Financial Assets an amendment of FASB No. 140

SFAS No. 156 requires that all separately recognized servicing assets and liabilities be initially measured at fair value, if practicable. For subsequent measurements, SFAS No. 156 permits companies to choose between using an amortization method or a fair value measurement method for reporting purposes by class of servicing asset or liability. The Corporation adopted SFAS No. 156 in January 2007. The Corporation elected the fair value measurement for mortgage servicing rights (MSRs). Servicing rights associated with Small Business Administration (SBA) commercial loans will continue to be accounted at the lower of cost or market method. The initial impact of adoption of the fair value measurement for MSRs was included as a cumulative effect of a change in accounting principle directly in stockholders equity and resulted in a net increase in stockholders equity of approximately $9.6 million, net of deferred taxes. Refer to Note 7 to the consolidated financial statements for required SFAS No. 156 disclosures.

FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement 109 (FIN 48)

In 2006, the FASB issued FIN 48, which clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with SFAS No. 109. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition related to income taxes. The accounting provisions of FIN 48 were effective for the Corporation beginning in the first quarter of 2007. Based on management s assessment, there was no impact on retained earnings as of January 1, 2007 due to the initial

application of the provisions of FIN 48. Also, as a result of the implementation, the Corporation did not recognize any change in the liability for unrecognized tax benefits. Refer to Note 14 to the consolidated financial statements for further information on the impact of FIN 48.

EITF Issue No. 06-03 How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation) (EITF 06-03)

EITF 06-03 provides that the presentation of taxes assessed by a governmental authority that is directly imposed on a revenue-producing transaction between a seller and a customer on either a gross basis (included in revenues and costs) or on a net basis (excluded from revenues) is an accounting policy decision that should be disclosed. The Corporation s accounting policy is to account on a net basis for the taxes collected from customers and remitted to governmental authorities. The corresponding amounts recognized in the consolidated financial statements are not significant.

EITF Issue No. 06-5 Accounting for Purchases of Life Insurance Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4, Accounting for Purchases of Life Insurance (EITF 06-5)

EITF 06-5 focuses on how an entity should determine the amount that could be realized under the insurance contract at the balance sheet date in applying FTB 85-4, and whether the determination should be on an individual or group policy basis. At the September 2006 meeting, the Task Force affirmed as a final consensus that the cash surrender value and any additional amounts provided by the contractual terms of the insurance policy that are realizable at the balance sheet date should be considered in determining the amount that could be realized under FTB 85-4, and any amounts that are not immediately payable in cash to the policyholder should be discounted to their present value. Additionally, the Task Force affirmed as a final consensus the tentative conclusion that in determining the amount that could be realized, companies should assume that policies will be surrendered on an individual-by-individual basis, rather than surrendering the entire group policy. Also, the Task Force reached a consensus that contractual limitations on the ability to surrender a policy do not affect the amount to be reflected under FTB 85-4, but, if significant, the nature of those restrictions should be disclosed. The Corporation adopted the EITF 06-5 guidance in the first quarter of 2007 and as a result recorded a $0.9 million cumulative effect adjustment to beginning retained earnings (reduction of capital) for the existing bank-owned life insurance arrangement.

SFAS No. 157 Fair Value Measurements

SFAS No. 157, issued in September 2006, defines fair value, establishes a framework for 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 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Corporation will adopt the provisions of SFAS No. 157 commencing with the first quarter of 2008. The Corporation is evaluating the impact that this accounting pronouncement may have in its consolidated financial statements and disclosures.

SFAS No. 159 Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities

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 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 new statement does not eliminate disclosure requirements included in other accounting standards, including requirements for disclosures about fair value measurements included in FASB Statements No. 157, *Fair Value Measurements* , and No. 107, *Disclosures about Fair Value of Financial Instruments* . SFAS No. 159 is effective as of the beginning of an entity s first fiscal year beginning after November 15, 2007. Early adoption is permitted as of the beginning of the previous fiscal year provided that the entity makes that choice in the first 120 days of that fiscal year and also elects to apply the provisions of SFAS No. 157. The Corporation will adopt the provisions of SFAS No. 159

commencing in January 2008. Management is evaluating the impact that this recently issued accounting standard may have on its consolidated financial statements.

NET INTEREST INCOME

Table B presents the different components of the Corporation s net interest income, on a taxable equivalent basis, for the quarter ended March 31, 2007, as compared with the same period in 2006, segregated by major categories of interest earning assets and interest bearing liabilities.

The interest earning assets include investment securities and loans that are exempt from income tax, principally in Puerto Rico (P.R.). The main sources of tax-exempt interest income are investments in obligations of some U.S. Government agencies and sponsored entities of the P.R. Commonwealth and its agencies, and assets held by the Corporation s international banking entities, which are tax-exempt under P.R. laws. To facilitate the comparison of all interest data 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 end. During the third quarter of 2005, the Government of P.R. approved a temporary, two-year additional tax of 2.5% for corporations, which increased the marginal tax rate from 39% to 41.5% for the years 2005-2006. In addition, during the second quarter of 2006, the Government of P.R. approved a temporary one-year additional tax of 2.0% for banking entities. The statutory income tax rate considered for the Corporation s P.R. operations in the quarter ended March 31, 2006 was 41.5%, compared to 39% for the quarter ended March 31, 2007. The taxable equivalent computation considers the interest expense disallowance required by the P.R. tax law, also affected by the mentioned increases in tax rates. The expiration of the temporary additional tax for the P.R. operations was the main reason for the decrease in the taxable equivalent benefit.

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 loan 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 the quarter ended March 31, 2007 included an unfavorable impact of $2.8 million, consisting principally of amortization of net loan origination costs (net of origination fees), and the amortization of net premiums on loans purchased. This negative impact was partially offset by prepayment penalties and late payment charges. The unfavorable impact for the quarter ended March 31, 2006 amounted to $7.4 million. The reduction for the first quarter 2007 as compared to the same quarter in the previous year was mainly the result of a lower balance of premium amortized related to mortgage loans purchased in the U.S. operations, mainly in years prior to 2006, due to reduced loan prepayments and to the direct impact of the maturity run-off of the purchased mortgage loan portfolio. During late 2005, as part of a strategic business decision, the Corporation reduced the volume of mortgage loans purchased, which in the past were used as part of securitization transactions.

Unfavorable items impacting net interest margin are detailed as follows:

- Higher cost of short-term borrowings as a result of the Federal Reserve (FED) tightening monetary policy. During 2006, the FED raised the federal funds target rate 75 basis points from March 2006 to June 2006, leaving it flat at 5.25%, the current level at March 31, 2007.

- Increased cost of interest bearing deposits as a result of savings and time deposits raised through the E-LOAN platform in the second half of 2006, which carry higher rates due to the competitive interest rates offered as part of the initial promotional campaign. Also, the Corporation raised a greater volume of certificates of deposit through non-internet channels, a higher cost deposit category. Furthermore, there was an increase in the costs of certain NOW and money market accounts influenced by competitive campaigns to attract and retain customers, mainly in the U.S. operations, as well as certain accounts with floating rates.

- Increased cost of long-term debt resulting mainly from secured debt with floating rates derived from on-balance sheet mortgage loan securitizations.

Table of Contents

TABLE B
Analysis of Levels & Yields on a Taxable Equivalent Basis
Quarter ended March 31,

Average Volume 2007	Average Volume 2006	Average Volume Variance	Average Yields / Costs 2007	Average Yields / Costs 2006	Average Yields / Costs Variance		Interest 2007	Interest 2006	Interest Variance	Variance Attributable to Rate	Variance Attributable to Volume
($ in millions)									(In thousands)		
$ 376	**$ 645**	$ (269)	**5.33%**	**5.29%**	0.04%	Money market investments	**$ 4,932**	**$ 8,415**	$ (3,483)	$ 48	$ (3,531)
10,352	**12,433**	(2,081)	**5.08**	**5.03**	0.05	Investment securities	**131,532**	**156,338**	(24,806)	1,223	(26,029)
592	**601**	(9)	**6.70**	**6.32**	0.38	Trading securities	**9,775**	**9,374**	401	555	(154)
11,320	**13,679**	(2,359)	**5.18**	**5.10**	0.08		**146,239**	**174,127**	(27,888)	1,826	(29,714)
						Loans:					
14,654	**12,938**	1,716	**7.80**	**7.30**	0.50	Commercial	**281,670**	**232,927**	48,743	15,866	32,877
1,205	**1,320**	(115)	**7.89**	**7.47**	0.42	Leasing	**23,771**	**24,633**	(862)	1,351	(2,213)
11,511	**12,773**	(1,262)	**7.05**	**6.74**	0.31	Mortgage	**202,964**	**215,101**	(12,137)	9,792	(21,929)
5,288	**4,894**	394	**10.78**	**10.23**	0.55	Consumer	**141,113**	**124,052**	17,061	4,517	12,544
32,658	**31,925**	733	**8.02**	**7.53**	0.49		**649,518**	**596,713**	52,805	31,526	21,279
$43,978	**$45,604**	$(1,626)	**7.29%**	**6.80%**	0.49%	**Total earning assets**	**$795,757**	**$770,840**	$ 24,917	$ 33,352	$ (8,435)
						Interest bearing deposits:					
$ 4,144	**$ 3,790**	$ 354	**2.50%**	**1.73%**	0.77%	NOW and money market*	**$ 25,548**	**$ 16,204**	$ 9,344	$ 6,783	$ 2,561
5,798	**5,519**	279	**1.96**	**1.28**	0.68	Savings	**27,985**	**17,373**	10,612	1,552	9,060
10,400	**9,473**	927	**4.66**	**3.89**	0.77	Time deposits	**119,569**	**90,834**	28,735	18,083	10,652
20,342	**18,782**	1,560	**3.45**	**2.69**	0.76		**173,102**	**124,411**	48,691	26,418	22,273
9,733	**11,477**	(1,744)	**5.20**	**4.41**	0.79	Short-term borrowings	**124,809**	**124,803**	6	24,646	(24,640)
8,588	**10,455**	(1,867)	**5.69**	**5.16**	0.53	Medium and long-term debt	**120,702**	**133,232**	(12,530)	11,974	(24,504)

38,663	**40,714**	(2,051)	**4.39**	**3.81**	0.58	**Total interest bearing liabilities**	**418,613**	**382,446**	36,167	63,038	(26,871)
3,991	**3,861**	130				Non-interest bearing demand deposits					
1,324	**1,029**	295				Other sources of funds					
$43,978	**$45,604**	$(1,626)	**3.86%**	**3.40%**	0.46%						
			3.43%	**3.40%**	0.03%	**Net interest margin**					
						Net interest income on a taxable equivalent basis	**377,144**	**388,394**	(11,250)	$(29,686)	$ 18,436
			2.90%	**2.99%**	(0.09%)	**Net interest spread**					
						Taxable equivalent adjustment	**22,162**	**28,630**	(6,468)		
						Net interest income	**$354,982**	**$359,764**	$ (4,782)		

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

* Includes interest bearing demand deposits corresponding to certain government

entities in
Puerto Rico.

Partially offsetting the unfavorable variances were the following:

Higher yields in commercial loans and construction loans, mainly in the portfolio with short-term repricing terms, which are favorably impacted by the rising interest rates. As of March 31, 2007, approximately 62% of the commercial and construction loan portfolio had floating or adjustable interest rates.

Higher yields in the mortgage loan portfolio in part as a result of higher rates for new loans, a reduction in the premium amortized for secured mortgage loans due to a reduction in prepayment speeds, and the sale of low yielding mortgage loans from the P.R. operations during 2006.

- Increase in the yield of consumer loans driven in part by home equity lines of credit with floating rates, an increase in the average balance of credit cards, which are mainly floating rate and the Corporation benefits from the increase in market rates, and an increase in the rate for the P.R.consumer loan portfolio.

The decrease in the average balance of earning assets was mainly the result of activities that occurred during 2006. These include the maturity of low yielding agency securities, sales of low yielding mortgage loans from the P.R. operations, and the reduction in origination volume experienced in the U.S. mortgage sector.

NON-INTEREST INCOME

Refer to Table C for a breakdown of non-interest income by major categories for the quarters ended March 31, 2007 and 2006.

TABLE C

Non-Interest Income

(In thousands)	Quarter ended March 31,		
	2007	2006	$ Variance
Service charges on deposit accounts	**$ 48,471**	$ 47,469	$ 1,002
Other service fees:			
Credit card fees and discounts	**$ 23,524**	$ 22,573	$ 951
Debit card fees	**16,101**	14,919	1,182
Insurance fees	**12,949**	12,141	808
Processing fees	**12,112**	10,279	1,833
Sale and administration of investment products	**7,260**	7,457	(197)
Mortgage servicing fees, net of amortization and fair value adjustments	**6,436**	2,952	3,484
Trust fees	**2,396**	2,331	65
Other fees	**7,071**	7,694	(623)
Total other service fees	**$ 87,849**	$ 80,346	$ 7,503
Net gain on sale and valuation adjustment of investment securities	**$ 81,771**	$ 12,340	$ 69,431
Trading account (loss) profit	**(14,164)**	11,475	(25,639)
Gain on sale of loans and valuation adjustments on loans held-for-sale	**3,434**	47,261	(43,827)
Other operating income	**44,815**	29,942	14,873
Total non-interest income	**$252,176**	$228,833	$ 23,343

The increase in non-interest income for the quarter ended March 31, 2007 compared with the same quarter in the previous year was mostly impacted by:

- Higher net gain on sale and valuation adjustments of investment securities, which is broken down as follows:

(In thousands)	Quarter ended March 31, 2007	Quarter ended March 31, 2006	$ Variance
Net gain on sale of investment securities	$ 118,725	$ 14,273	$ 104,452
Valuation adjustments of investment securities	(36,954)	(1,933)	(35,021)

Total	$ 81,771	$ 12,340	$ 69,431

As indicated in the Overview section of this MD&A, during the quarter ended March 31, 2007, the Corporation realized approximately $118.7 million in gains on the sale of the Corporation s interest in TELPRI. Gain on sale of investment securities in 2006 included $13.5 million in gains on sale of equity securities.

Table of Contents

As also indicated earlier in this MD&A, in the first quarter of 2007, the Corporation recorded an impairment in the value of interest-only securities classified as available-for-sale of $29.3 million associated with the adverse changes in the subprime market. Refer to the Critical Accounting Policies / Estimates section of this MD&A for further information on the factors that impacted the fair value reduction. Furthermore, in the quarter ended March 31, 2007, the Corporation recorded a $7.6 million unfavorable valuation adjustment in certain equity securities of a U.S. financial institution.

Trading account losses in the first quarter of 2007, compared with trading account profits in the same quarter in the previous year. This category is broken down as follows:

	Quarter ended		
(In thousands)	March 31, 2007	March 31, 2006	$ Variance
Mark-to-market of PFH s interest-only securities	$ (23,477)	$ 395	$ (23,872)
Other trading account profit (loss)	9,313	11,080	(1,767)
Total	$ (14,164)	$ 11,475	$ (25,639)

Similar to PFH s interest-only securities classified as available-for-sale, the interest-only securities classified as trading securities were also unfavorably impacted by the current conditions in the subprime market.

During the first quarter of 2007, the Corporation experienced higher unrealized gains on mortgage-backed securities included in the trading portfolio due to higher volume and higher price margins. This favorable variance was offset by $8.5 million in trading profits realized in the quarter ended March 31, 2006 associated with the pooling of approximately $464 million in mortgage loans at Banco Popular de Puerto Rico into Fannie Mae mortgage-backed securities that were sold to investors during that same quarter of 2006.

Lower gains on sales of loans and higher unfavorable valuation adjustments of loans held-for-sale as follows:

	Quarter ended		
(In thousands)	March 31, 2007	March 31, 2006	$ Variance
Gain on sales of loans	$ 20,356	$ 47,261	$ (26,905)
Lower of cost or market valuation adjustment on loans held-for-sale	(16,922)		(16,922)
Total	$ 3,434	$ 47,261	$ (43,827)

The decrease in gains on the sale of loans was primarily related to PFH, which experienced a lower volume of loans originated and sold due to exiting the wholesale subprime mortgage business. Also, in the first quarter of 2006, PFH completed two off-balance sheet mortgage loan securitizations involving approximately $652 million in loans, in which the Corporation realized approximately $11.5 million in gains during that quarter.

As indicated in the Overview section of this MD&A, the unfavorable valuation adjustment of mortgage loans held-for-sale resulted principally from deterioration in the U.S. subprime market experienced during the period.

Higher other service fees which are detailed by category in Table C. In general terms, the main increases in credit and debit card fees were the result of higher volume of credit card accounts, increased transactional volume, and reward program membership fees, among others. The favorable variance in mortgage servicing fee income was impacted in part by the adoption of SFAS No. 156 in the first quarter of 2007. As indicated earlier in this MD&A, the Corporation elected the fair value measurement to account for mortgage servicing rights. The residential mortgage servicing rights are no longer amortized in proportion to and over the period of estimated net servicing income. Refer to Note 7 to the consolidated financial statements for detailed information on the adoption of SFAS No. 156 and the impact to the financial statements. Any fair value adjustment of MSRs is being recorded in other service fees in the consolidated statement of operations together with the loan servicing fees charged to third-parties on the serviced portfolio.

Table of Contents

Higher other operating income in the first quarter of 2007, compared with the same quarter in 2006, resulted mainly from increased revenues from equity investments, miscellaneous gains on the sale of certain real estate properties and other mixed revenue sources.

OPERATING EXPENSES

Refer to Table D for a breakdown of operating expenses by major categories. Also, this table identifies the categories of the statement of income impacted by the restructuring costs related to PFH. These costs are segregated to ease in the financial comparison analysis.

TABLE D

Operating Expenses

(In thousands)	1st QTR 2007	Restructuring Costs (RC)	1st QTR 2007 excluding RC	1st QTR 2006	$ Variance excluding RC
Personnel costs	$ 178,375	$ 8,158	$ 170,217	$ 178,052	($ 7,835)
Net occupancy expenses	32,014	4,413	27,601	28,638	(1,037)
Equipment expenses	32,396	281	32,115	33,197	(1,082)
Other taxes	11,847		11,847	10,241	1,606
Professional fees	35,987	1,947	34,040	37,078	(3,038)
Communications	17,062	67	16,995	17,300	(305)
Business promotion	28,372		28,372	32,823	(4,451)
Printing and supplies	4,276		4,276	4,632	(356)
Other operating expenses	32,016	269	31,747	28,831	2,916
Impact of change in fiscal period of certain subsidiaries				9,741	(9,741)
Amortization of intangibles	2,983		2,983	2,721	262
Total	$ 375,328	$ 15,135	$ 360,193	$ 383,254	($23,061)

Isolating the severance costs associated with PFH s restructuring and integration plan (refer to the Restructuring Plan section later in this MD&A for details), personnel costs for the first quarter of 2007 decreased 4%, compared with the same quarter in 2006. Full-time equivalent employees (FTEs) were 11,995 at March 31, 2007, a decrease of 1,055 from the same date in 2006, primarily as a result of PFH s restructuring and integration plan, and restrictions on the recruiting for vacant positions as part of cost control measures throughout the Corporation. Other variances in personnel costs included lower accrual for medical insurance expenses and lower pension plan costs in part due to the freeze of BPNA s plan as disclosed in Note 16 to the consolidated financial statements. These favorable variances were partially offset by lower deferral of loan origination costs due in part to lower volume of originations resulting from the exited operations of PFH.

The reduction in business promotion resulted in part from lower sponsorship expenses and cost control measures on marketing expenditures. The decrease in professional fees, excluding the restructuring costs, included lower legal and audit fees, business strategy consulting fees, temporary services, and title, appraisal and recording fees associated with the loan business, among others.

As presented in Table A, the Corporation s efficiency ratio increased from 66.51% for the quarter ended March 31, 2006 to 71.84% in the same quarter in 2007. The efficiency ratio measures how much of a company s revenue is used to pay operating expenses. As stated in the Glossary of Selected Financial Terms included in the 2006 Annual Report, in determining the efficiency ratio the Corporation includes recurring non-interest income items, thus isolating income items that may be considered volatile in nature. Management believes that the exclusion of those items would permit greater comparability for analytical purposes. Amounts within non-interest income not considered recurring in nature by the Corporation amounted to $84.7 million in the quarter ended March 31, 2007, compared with $12.3 million in the same quarter of the previous year. These amounts corresponded principally to net gains on sale and valuation adjustments of investment securities available-for-sale and gains on the sale of real estate property. The efficiency ratio for the first quarter of 2007 was unfavorably impacted by the restructuring costs

Table of Contents

related to PFH. Also, the unfavorable mark-to-market of interest-only securities classified as trading, lower gains on the sales of loans and higher unfavorable valuation adjustments of loans held-for-sale more than offset the decrease in operating expenses.

INCOME TAX

Income tax expense for the quarter ended March 31, 2007 amounted to $16.8 million, a decrease of $21.1 million, or 56%, compared with $37.9 million in the same quarter of 2006. The effective tax rate for these quarters were 12.43% and 24.23%, respectively. The decrease was primarily due to lower income before tax mainly related to losses incurred in the U.S. operations. Also, the first quarter of 2007 was affected by higher income subject to a lower preferential tax rate on capital gains of 20%, namely the gain from the sale of TELPRI shares, and by the expiration in 2007 of the transitory provision approved by the Government of Puerto Rico which increased the statutory tax rate to all Puerto Rico corporations from 39% to 41.5% for the years 2005 and 2006. The decrease in income tax expense was partially offset by lower exempt interest income net of the disallowance of expenses attributed to such exempt income.

REPORTABLE SEGMENT RESULTS

The Corporation s reportable segments for managerial reporting consist of Banco Popular de Puerto Rico, Popular North America and EVERTEC. Also, a Corporate group has been defined to support the reportable segments. For managerial reporting purposes, the costs incurred by this latter group are not allocated to the three reportable segments.

As described later in the Restructuring Plan section of this MD&A, during the first quarter of 2007, the Corporation reorganized the legal structure of its U.S. operations taking into account the changes and expectations of PFH s restructuring and integration plan. These changes also impacted the Corporation s determination of reportable segments for managerial reporting purposes. Commencing in the first quarter of 2007, the U.S. operations constitute one reportable segment defined as Popular North America. This segment includes the operations of BPNA, including its wholly-owned subsidiary E-LOAN (legally transferred from PFH to BPNA in January 2007), and Popular Financial Holdings. For a description of the Corporation s reportable segments, including additional financial information and the underlying management accounting process, refer to Note 21 to the consolidated financial statements. Financial information for periods prior to 2007 was restated to conform to the 2007 presentation.

The Corporate group had a net gain of $88.6 million in the first quarter of 2007, compared with a net loss of $0.3 million in the same quarter of 2006. During the first quarter of 2007, the Corporation s holding companies realized gains on the sale of securities, net of other-than-temporary impairments, approximating $111.1 million, compared with $13.6 million in the first quarter of 2006. The variance in gain on sale of securities was mainly due to the sale of the Corporation s ownership interest in TELPRI.

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 $86.3 million for the quarter ended March 31, 2007, a decrease of $13.9 million, or 14%, when compared with the same quarter in the previous year. The main factors that contributed to the variance in results for the quarter ended March 31, 2007 when compared to the first quarter of 2006 included:

- higher net interest income by $5.9 million, or 3%. The increase was primarily related to the commercial banking business, which experienced a $9.3 million, or 11% growth, primarily in the commercial loan portfolio, coupled with the repricing of floating rate loans in a higher interest rate scenario. This favorable variance was partially offset by a decline of $3.5 million, or 2%, in the net interest income of the consumer and retail banking business. Both the consumer and commercial banking business were unfavorably impacted by increase in the cost of short-term funds.

higher provision for loan losses by $23.2 million, or 98%, primarily associated with growth in the commercial loan portfolio and higher net charge-offs primarily in the consumer and commercial loan portfolios. The allowance for loan losses to loans held-in-portfolio for the Banco Popular de Puerto Rico reportable segment was 2.10% at March 31, 2007, compared with 2.02% at March 31, 2006 and 2.09% at December 31, 2006. The provision for loan losses represented 116% of net charge-offs for the first quarter of 2007, compared with 120% of net charge-offs in the same period of 2006. The provision for the first quarter of 2007 considers deterioration in the loan portfolio in Puerto Rico due to the slowdown in the local economy.

higher non-interest income by $1.7 million, or 1%, mainly due to higher mortgage servicing, debit and credit card fees and discounts, and higher gains on the sale of certain real estate properties, partially offset by lower gains on the sale of loans and trading account profits.

an increase in operating expenses by $6.4 million, or 4%, primarily associated with last year s recognition of a favorable impact of $2.1 million from the change in fiscal period of Popular Securities, higher professional fees, other operating taxes and business promotion expenses.

lower income taxes by $8.2 million, or 21%, primarily due to lower taxable income and a lower statutory tax rate of 39%, compared with 41.5% in the first quarter of 2006.

EVERTEC

EVERTEC s net income for the quarter ended March 31, 2007 totaled $7.2 million, an increase of $2.2 million, or 43%, 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 March 31, 2007 when compared with the first quarter of 2006 included:

growth in non-interest income of $4.7 million, or 9%, as a result of higher electronic transactions processing fees related to the automated teller machine network. Also, the positive variance was due to business expansion, particularly in payment processing, cash processing, workforce management, and IT consulting services.

higher operating expenses by $1.5 million, or 3%, primarily personnel costs in part due to additional headcount resulting from various small-scale acquisitions during 2006 and 2007.

higher income tax expense by $1.2 million due to higher taxable income.

Popular North America

For the quarter ended March 31, 2007, net loss for the reportable segment of Popular North America totaled $63.9 million, compared to net income of $14.7 million for the first quarter of 2006. The main factors that contributed to this quarterly variance included:

lower net interest income by $11.1 million, or 8%, mainly due to higher costs of funds, principally savings and time deposits and short-term debt, partially offset by higher loan yields.

an increase in the provision for loan losses by $24.2 million, primarily due to higher net charge-offs in the mortgage loan portfolio, especially in the subprime mortgage portfolio, higher non-performing mortgage loans and the general situation in the subprime market in the U.S. mainland which deteriorated further in the first quarter of 2007.

lower non-interest income by $92.4 million, which includes the impact of the unfavorable valuation adjustments of residual interests (IOs) held by PFH, the valuation adjustment in the value of mortgage loans held-for-sale, and lower gains on the sale of loans, all of which were described previously in this MD&A.

lower operating expenses by $5.1 million, or 3%, mainly due to last year s recognition of PFH s subsidiaries impact of change in fiscal period, lower business promotion expenses and lower personnel costs due to reduction in headcount. The later was partially offset by the impact of the severance costs associated with the restructuring of PFH. Also, there were higher net occupancy expenses, also related with the restructuring.

lower income tax expense by $44.0 million mainly due to this quarter s net loss when compared to net income on the previous year.

RESTRUCTURING PLAN

As indicated in the 2006 Annual Report, in January 2007, the Corporation announced a restructuring plan (the Restructuring Plan) for PFH s businesses. Since PFH s performance was poor in 2006, origination volumes had dropped, net interest margin narrowed and the expense base was unsustainable, management initiated the restructuring actions. The Restructuring Plan, which is being implemented throughout 2007, has the following four basic components:

- Exiting the wholesale subprime mortgage origination business during the first quarter of 2007, which entailed shutting down the wholesale broker, retail and call center business divisions;
- Consolidating support activities at PFH (Finance, Credit Risk, Compliance, Human Resources, Facilities) within BPNA to reduce expenses;
- Integrating PFH s existing commercial lending businesses (mortgage warehouse and mixed use) into BPNA s business lending groups; and
- Focusing on the core Equity One network of 132 consumer finance branches in 15 states.

As part of the Restructuring Plan, the Corporation also executed an internal corporate reorganization of its U.S. subsidiaries. In January 2007, E-LOAN, as well as all of its direct and indirect subsidiaries, with the exception of E-LOAN Insurance Services, Inc. and E-LOAN International, Inc., became operating subsidiaries of BPNA. Prior to the consummation of this U.S. reorganization, E-LOAN was a direct wholly-owned subsidiary of PFH. E-LOAN continues to offer its broad range of products and conducts its direct activities through its online platform. Management will be leveraging the E-LOAN brand, technology and internet financial services platform over the next several years to complement BPNA s community banking growth strategy.

This reorganization and the Restructuring Plan led management to redefine its business reportable segments. Commencing in 2007, the U.S. operations are defined as one reportable segment defined as Popular North America . This segment includes the operations of BPNA and PFH, including all of its wholly-owned subsidiaries.

During the first quarter of 2007, the Corporation recorded pre-tax restructuring charges in the Popular North America segment related to the Restructuring Plan as follows:

(In thousands)	1st Quarter 2007
Severance, stay bonuses and other benefits	$ 8,158
Outplacement costs	1,203
Lease terminations	4,413
Others	1,361
Total restructuring costs	$ 15,135

Refer to the Operating Expenses section of this MD&A for the classification of these charges in the consolidated statement of income. Of the above restructuring costs, approximately $7.7 million were recognized as a liability as of March 31, 2007, and are expected to be paid out in the second and third quarter of 2007 with operating cash flows. These costs correspond primarily to lease terminations and severance payments.

During the fourth quarter of 2006, and as a result of the Restructuring Plan, the Corporation recognized impairment charges on long-lived assets of $7.2 million, mainly associated with software and leasehold improvements, and an impairment in goodwill of $14.2 million.

As of March 31, 2007, it is anticipated that the Restructuring Plan will result in estimated combined charges of approximately $36.6 million, broken out as follows:

(In thousands)	Impairments on goodwill and long-lived assets	Restructuring costs	Total
Quarter ended:			
December 31, 2006	$ 21,471		$21,471
March 31, 2007		$15,135	15,135
June 30, 2007			
September 30, 2007			
Total	$ 21,471	$15,135	$36,606

The Corporation does not expect to incur additional significant restructuring costs in the remaining quarters of 2007. Settlement amounts in lease terminations may differ and are subject to the outcome of negotiations.

It is anticipated that the cost reduction initiatives resulting from the Restructuring Plan will result in an expense reduction of approximately $39 million on an annualized basis, related to approximately $34 million in salary and benefits, $3 million in net occupancy expenses and $2 million in equipment expenses.

The Corporation exited the wholesale broker, retain mortgage and call center origination channels during the first quarter of 2007. In addition, the Corporation had previously exited the asset acquisition channel in early 2006. Certain mortgage loan assets originated through these channels are expected to run-off over the course of several years, which may average between 24 to 36 months.

PFH has conducted mortgage loan securitizations since 1997. Securitizations conducted prior to 2001 and certain securitizations conducted during 2005 and 2006 qualified for sale accounting under the provisions of SFAS No. 140. Accordingly, the loans sold in these off-balance sheet securitizations are not consolidated in the Corporation s financial statements. The unpaid principal balances (UPB) of the sold loans amounted to $2.1 billion at March 31, 2007. The outstanding balance of residual interests (IOs) and MSRs related to these off-balance sheet securitizations was $33 million and $31 million, respectively, at March 31, 2007. As previously mentioned, during the quarter ended March 31, 2007, the Corporation recognized other-than-temporary impairments amounting to $52.8 million related to these IOs.

The business channels exited also originated mortgage loans, which were used by PFH in conducting asset securitizations that did not meet the sale criteria under SFAS No. 140; accordingly, the transactions were treated as on-balance sheet securitizations for accounting purposes. The outstanding balance of those loans, which are part of PFH s portfolio owned at March 31, 2007, was $4.2 billion. The composition of this portfolio is presented in Table E under the column Owned-in-Trust . This portfolio has approximately $108 million in unamortized net premiums and net deferred origination fees / costs. Securitized debt in the form of bond certificate principal due to investors amounted to $4.1 billion at March 31, 2007. The excess of trust assets over associated bond certificates is presented in the table below. The impact of the allowance for loan losses related to the loans owned-in-trust is not included in the computation below.

(In millions)	March 31, 2007
Loans	$ 4,240
Other real estate	63
Securitization advances	43
Delinquency advances	11

Escrow advances		18
Total		4,375
Less: Balance of bond certificates		(4,106)
Excess	$	269

As of March 31, 2007, the exited lines of business also had outstanding $0.9 billion in mortgage loans that were not sold / securitized, and are included in Table E under the column Owned . The remaining $1.1 billion presented under this column in Table E is the outstanding balance of loans originated through the branch network and customer loan center.

Financial results for PFH s exited operations for the first quarter of 2007 were an estimated loss of $73.1 million, net of taxes. The net loss considers the impairments in the valuation of the IOs taken this quarter and the restructuring charges previously mentioned.

Table E PFH Mortgage Loan Portfolio (excludes loans held-for-sale)
Performance Trends

	Owned-in-Trust (a)		Owned (b)	
(Dollars in thousands)	**March 31, 2007**	**December 31, 2006**	**March 31, 2007**	**December 31, 2006**
Current Balance ($) (c)	$ 4,240,499	$ 4,543,488	$ 1,994,727	$ 2,191,134
Weighted-average coupon (WAC)	7.55%	7.55%	9.04%	8.94%
Avg. Loan-to-Value (LTV) (d)	83.43%	83.39%	74.75%	78.38%
Avg. Loan Balance ($)	$ 139,508	$ 139,942	$ 64,913	$ 68,514
Avg. FICO® (e)	633	632	622	622
Bankruptcy (% of $)	2.47%	2.18%	3.45%	2.95%
Total Delinquency	10.57%	10.93%	9.68%	8.67%
30 Days (% of $)	2.63%	3.48%	2.63%	2.54%
60 Days (% of $)	1.13%	1.30%	1.04%	0.89%
90+ Days (% of $)	1.94%	1.84%	3.05%	2.48%
Foreclosure (% of $)	4.86%	4.31%	2.96%	2.75%
Business Channel				
Broker	16%	17%	18%	22%
Asset Acquisition	72%	72%	18%	17%
Retail Mortgage (call centers)	6%	6%	4%	5%
Customer Loan Center (CLC) (f)	4%	4%	5%	6%
Decentralized (branches)			52%	47%
Other	2%	1%	3%	3%
Product Type				
Fixed-rate	62%	60%	73%	69%
ARM (Adjustable rate mortgage)	27%	29%	15%	20%
Balloon	4%	4%	11%	10%
Interest only Fixed	1%	1%		
Interest only ARM	6%	6%	1%	1%

(a) Owned-in-trust represents mortgage loans securitized in on-balance sheet securitizations, as such, are part of PFH s portfolio under SFAS No. 140.

(b) Owned portfolio represents

mortgage loans originated / acquired, but not sold / securitized.

(c) Excluding deferred fees, origination costs, net premiums and other items.

(d) LTV a lending risk ratio calculated by dividing the total amount of the mortgage or loan by the fair value of the property.

(e) FICO® The Corporation uses external credit scores as a useful measure for assessing the credit quality of a borrower. These scores are numbers supplied by credit information providers, based on statistical models that summarize an individual s credit record. FICO® scores, developed by Fair Isaac Corporation, are the most commonly used credit scores.

(f) CLC Unit that anticipates possible refinancing needs of the customer and makes efforts to retain the customer by offering the company s products.

Table of Contents

FINANCIAL CONDITION

Refer to the consolidated financial statements included in this Form 10-Q for the Corporation s consolidated statements of condition as of March 31, 2007, December 31, 2006 and March 31, 2006. Also, refer to Table A for financial highlights on major line items of the consolidated statement of condition.

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

TABLE F

Loans Ending Balances

(In thousands)	**March 31, 2007**	December 31, 2006	Variance March 31, 2007 vs. December 31, 2006	March 31, 2006	Variance March 31, 2007 vs. March 31, 2006
Commercial *	**$14,787,195**	$14,536,837	$ 250,358	$13,192,984	$1,594,211
Lease financing	**1,200,205**	1,226,490	(26,285)	1,324,867	(124,662)
Mortgage *	**11,615,031**	11,695,156	(80,125)	12,040,304	(425,273)
Consumer *	**5,278,186**	5,278,456	(270)	4,872,230	405,956
Total	**$32,880,617**	$32,736,939	$ 143,678	$31,430,385	$1,450,232

* Includes loans held-for-sale

The increase in commercial loans from March 31, 2006 to March 31, 2007 reflected growth in credit lines on the corporate, construction, public and small business sectors. Construction loans, which are included within the commercial category in Table F, amounted to $1.5 billion at March 31, 2007, compared with $1.4 billion at December 31, 2006 and $1.1 billion at March 31, 2006.

The decline in mortgage loans from March 31, 2006 to the same date in 2007 was in part due to certain large transactions disclosed in the 2006 Annual Report that took place during that year which involved bulk sales of mortgage loans, off-balance sheet securitizations of subprime mortgage loans, and pooling of loans and sales of the newly issued FNMA securities. These sales and securitizations were part of the Corporation s strategy to deleverage its balance sheet and reduce low-yielding assets. Also, the reduction is in part due to lower origination volume resulting from exiting certain business channels of the PFH operations, as described in the Restructuring Plan and Overview of Mortgage Loan Exposure at PFH sections of this MD&A.

A breakdown of the consumer loan portfolio is presented in Table G.

TABLE G

Breakdown of Consumer Loans

(In thousands)	**March 31, 2007**	December 31, 2006	Variance March 31, 2007 vs. December 31, 2006	March 31, 2006	Variance March 31, 2007 vs. March 31, 2006
Personal	**$2,490,343**	$2,457,619	$ 32,724	$2,066,853	$423,490
Auto	**1,610,491**	1,636,415	(25,924)	1,668,352	(57,861)

Credit cards	**1,028,593**	1,032,546	(3,953)	987,480	41,113
Other	**148,759**	151,876	(3,117)	149,545	(786)
Total	**$5,278,186**	$5,278,456	($270)	$4,872,230	$405,956

The increase in personal loans from March 31, 2006 to the same date in 2007 was principally attributed to higher volume of home equity lines of credit in the Popular North America operations after a strategic decision was made in mid-2006 to substantially retain those loans in portfolio, and to growth in personal loans at BPPR which was associated with favorable customer response to mailing campaigns and cross selling initiatives.

71

Table of Contents

Investment and trading securities totaled $10.4 billion at March 31, 2007, compared with $10.6 billion at December 31, 2006 and $12.7 billion at March 31, 2006. The decline in the Corporation s investment securities portfolio from March 31, 2006 was mainly due to maturities of U.S. agency securities with low rates during 2006, which were not replaced, in part because the interest spread was not favorable and also as part of the Corporation s deleveraging strategy.

Refer to Note 10 to the consolidated financial statements for details on the composition of intangible assets.

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

TABLE H

Breakdown of Other Assets

(In thousands)	**March 31, 2007**	December 31, 2006	Variance March 31, 2007 vs. December 31, 2006	March 31, 2006	Variance March 31, 2007 vs. March 31, 2006
Net deferred tax assets	**$ 357,877**	$ 359,433	($ 1,556)	$ 332,761	$ 25,116
Bank-owned life insurance program	**207,906**	206,331	1,575	199,362	8,544
Servicing rights	**176,994**	164,999	11,995	164,384	12,610
Prepaid expenses	**162,951**	168,717	(5,766)	151,564	11,387
Securitization advances and related assets	**103,843**	181,387	(77,544)	231,435	(127,592)
Investments under the equity method	**103,103**	66,794	36,309	66,623	36,480
Derivative assets	**52,703**	55,413	(2,710)	69,990	(17,287)
Others	**160,667**	408,816	(248,149)	172,543	(11,876)
Total	**$1,326,044**	$1,611,890	($ 285,846)	$1,388,662	($ 62,618)

Explanations for the principal variances from December 31, 2006 to March 31, 2007 were:

The decrease in the others caption was mainly due to lower securities trade receivables outstanding at the end of the first quarter of 2007. At December 31, 2006 there were securities trade receivables outstanding for mortgage-backed securities sold prior to year-end, with a settlement date in January 2007.

The decrease in securitization advances and related assets was primarily associated to PFH s on-balance sheet securitization performed in December 2006, which required a pre-funded amount of $66 million to be held in trust. As disclosed in the 2006 Annual Report, this pre-funded amount was classified as an other asset in the consolidated statement of condition. In early 2007, PFH delivered additional loans to the securitization trust and received back the pre-funded amount.

Principal variances in other assets from March 31, 2006 to the same date in 2007 were mostly due to the following:

The decrease in securitization advances and related assets from March 31, 2006 associated with PFH s operations was primarily due to the collection during the third quarter of 2006 of excess cash held by the securitization trusts of approximately $69 million. Also, the reduction was related to the pre-funded amount explained in the previous paragraph.

A breakdown of the Corporation s deposits at period-end is included in Table I:

TABLE I

Deposits Ending Balances

(In thousands)	**March 31, 2007**	December 31, 2006	Variance March 31, 2007 vs. December 31, 2006	March 31, 2006	Variance March 31, 2007 vs. March 31, 2006
Demand deposits *	**$ 4,733,620**	$ 4,910,848	($ 177,228)	$ 4,938,702	($ 205,082)
Savings, NOW and money market deposits	**9,384,121**	9,200,732	183,389	8,837,151	546,970
Time deposits	**10,620,312**	10,326,751	293,561	9,635,959	984,353
Total	**$24,738,053**	$24,438,331	$ 299,722	$23,411,812	$ 1,326,241

* Includes interest and non-interest bearing demand deposits.

72

Table of Contents

Deposit growth since March 31, 2006 was primarily associated with savings and time deposits captured through the online webpage of E-LOAN.
Brokered certificates of deposit, included in the category of time deposits, totaled $685 billion at March 31, 2007, compared with $1.0 billion at March 31, 2006 and $866 million at December 31, 2006.The aggregate amount of overdrafts in demand deposit accounts that were reclassified to loans was $131 million at March 31, 2007, $136 million as of December 31, 2006 and $137 million as of March 31, 2006.
At March 31, 2007, borrowed funds totaled $17.8 billion, compared with $18.5 billion at December 31, 2006 and $20.9 billion at March 31, 2006. Refer to Note 11 to the consolidated financial statements for additional information on the Corporation s borrowings at March 31, 2007, December 31, 2006 and March 31, 2006.
Refer to the consolidated statements of condition and of stockholders equity included in this Form 10-Q for information on the composition of stockholders equity at March 31, 2007, December 31, 2006 and March 31, 2006. Also, the disclosures of accumulated other comprehensive loss, an integral component of stockholders equity, are included in the consolidated statements of comprehensive income (loss).
The Corporation offers a dividend reinvestment and stock purchase plan for stockholders that allows them to reinvest dividends in shares of common stock at a 5% discount from the average market price at the time of the issuance, as well as purchase shares of common stock directly from the Corporation by making optional cash payments.
The Corporation continues to exceed the well-capitalized guidelines under the federal banking regulations. Ratios and amounts of total risk-based capital, Tier 1 risk-based capital and Tier 1 leverage at March 31, 2007, March 31, 2006 and December 31, 2006 are presented on Table J. As of such dates, BPPR, BPNA and Banco Popular, National Association were all well-capitalized.
The average tangible equity amounted to $3.0 billion at March 31, 2007 and December 31, 2006, compared to $2.9 billion at March 31, 2006. Total tangible equity was $3.0 billion at March 31, 2007, $2.8 billion at December 31, 2006, and $2.7 billion at March 31, 2006. The average tangible equity to average tangible assets ratio was 6.55% at March 31, 2007, 6.25% at December 31, 2006 and 6.01% at March 31, 2006.

TABLE J
Capital Adequacy Data

(Dollars in thousands)	**March 31, 2007**	December 31, 2006	March 31, 2006
Risk-based capital			
Tier I capital	**$ 3,783,934**	$ 3,727,860	$ 3,660,551
Supplementary (Tier II) capital	**439,788**	441,591	407,638
Total capital	**$ 4,223,722**	$ 4,169,451	$ 4,068,189
Risk-weighted assets			
Balance sheet items	**$32,314,010**	$32,519,457	$29,963,042
Off-balance sheet items	**2,735,671**	2,623,264	2,338,272
Total risk-weighted assets	**$35,049,681**	$35,142,721	$32,301,314
Average assets	**$46,339,873**	$46,330,505	$48,045,828
Ratios:			
Tier I capital (minimum required 4.00%)	**10.80%**	10.61%	11.33%
Total capital (minimum required 8.00%)	**12.05**	11.86	12.59%
Leverage ratio *	**8.17**	8.05	7.62%

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

At March 31, 2007, the capital adequacy minimum requirement for Popular, Inc. was (in thousands): Total Capital of $2,803,975, Tier I Capital of $1,401,987, and a Tier I Leverage of $1,390,196 based on a 3% ratio or $1,853,595 based on a 4% ratio according to the Bank s classification.

OFF-BALANCE SHEET SECURITIZATION ACTIVITIES

In connection with PFH s securitization transactions, the Corporation is a party to pooling and servicing agreements pursuant to each of which the Corporation transfers (on a servicing retained basis) certain of the Corporation s loans to a special purpose entity, which in turn transfers the loans to a securitization trust fund that has elected to be treated as one or more Real Estate Mortgage Investment Conduits (REMICs). The two-step transfer of loans by the Corporation to a securitization trust fund, in which the Company surrenders control over the loans, is accounted for as a sale to the extent that consideration other than beneficial interests is received in exchange. SFAS No. 140 *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* sets forth the criteria that must be met for control over transferred assets to be considered to have been surrendered. When the Corporation transfers financial assets and the transfer fails any one of the SFAS No. 140 criteria, the Corporation is then prevented from derecognizing the transferred financial assets and the transaction is accounted for as a secured borrowing.

The trusts created as part of off-balance sheet mortgage loans securitizations, conducted prior to 2001, in 2005 and in 2006, are not consolidated in the Corporation s financial statements since the transactions qualified for sale accounting based on the provisions of SFAS No. 140. The investors and the securitization trusts have no recourse to the Corporation s assets or revenues. The Corporation s creditors have no recourse to any assets or revenues of the special purpose entity or the securitization trust funds. At March 31, 2007 and 2006, these trusts held approximately $2.2 billion and $2.3 billion, respectively, in assets in the form of mortgage loans. Their liabilities in the form of debt principal due to investors approximated $2.1 billion and $2.2 billion at March 31, 2007 and 2006, respectively. The Corporation retained servicing responsibilities and certain subordinated interests in these securitizations in the form of interest-only securities. Their value is subject to credit, prepayment and interest rate risks on the transferred financial assets. The servicing rights and interest-only securities retained by the Corporation are recorded in the statements of condition at fair value.

Table of Contents

CREDIT RISK MANAGEMENT AND LOAN QUALITY

Table K summarizes the movement in the allowance for loan losses and presents several loan loss statistics for the quarters ended March 31, 2007 and 2006.

TABLE K

Allowance for Loan Losses and Selected Loan Losses Statistics

	First Quarter		
(Dollars in thousands)	**2007**	2006	Variance
Balance at beginning of period	**$522,232**	$461,707	$ 60,525
Provision for loan losses	**96,346**	48,947	47,399
Impact of change in reporting period *		2,510	(2,510)
	618,578	513,164	105,414
Losses charged to the allowance:			
Commercial	**17,328**	12,453	4,875
Lease financing	**6,408**	5,016	1,392
Mortgage	**20,608**	11,317	9,291
Consumer	**47,207**	31,232	15,975
Subtotal	**91,551**	60,018	31,533
Recoveries:			
Commercial	**3,482**	4,359	(877)
Lease financing	**1,998**	3,786	(1,788)
Mortgage	**145**	131	14
Consumer	**9,096**	6,899	2,197
Subtotal	**14,721**	15,175	(454)
Net loans charged-off:			
Commercial	**13,846**	8,094	5,752
Lease financing	**4,410**	1,230	3,180
Mortgage	**20,463**	11,186	9,277
Consumer	**38,111**	24,333	13,778
Subtotal	**76,830**	44,843	31,987
Balance at end of period	**$541,748**	$468,321	$ 73,427
Ratios:			
Net charge-offs to average loans held-in-portfolio	**0.96%**	0.58%	
Provision to net charge-offs	**1.25**x	1.09x	

* Represents the net effect of provision for loan losses, less

net charge-offs corresponding to the impact of the change in fiscal period at certain subsidiaries (as described in the Overview section and in the 2006 Annual Report).

Table of Contents

Also, Table L presents annualized net charge-offs to average loans by loan category for the quarters ended March 31, 2007 and 2006.

TABLE L

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

	Quarter ended March 31,	
	2007	2006
Commercial	**0.38%**	0.25%
Lease financing	**1.46**	0.37
Mortgage	**0.74**	0.37
Consumer	**2.94**	2.02
	0.96%	0.58%

The increase in commercial loans net charge-offs to average loans held-in-portfolio ratio was mostly associated with deterioration in the economic conditions in Puerto Rico, triggered in part by the fiscal budgetary crisis and the uncertainty that prevails in the different markets in the Island. The annualized net charge-offs to average loans held-in-portfolio ratio for the quarter ended March 31, 2007 resulted at a similar level to the net charge-off ratio experienced in the fourth quarter of 2006 which was 0.37%.

The increase in net charge-offs to average loans held-in-portfolio in the lease financing portfolio was the result of higher delinquencies in Puerto Rico. This ratio for the quarter ended December 31, 2006 was 1.46%, similar to the ratio experienced in the first quarter of 2007.

Mortgage loans net charge-offs as a percentage of average mortgage loans held-in-portfolio increased primarily due to higher delinquency levels experienced in the U.S. mainland, primarily in the Corporation s subprime mortgage loan portfolio. This increase also reflects the impact of the significant reduction in mortgage loan portfolio at PFH. Refer to the Overview of Mortgage Loan Exposure at PFH section in this MD&A for information on PFH s mortgage loan portfolio, including credit statistics. Although deteriorating economic conditions have impacted the mortgage delinquency rates in Puerto Rico increasing the levels of non-accruing mortgage loans, historically the Corporation has experienced a low level of losses in its P.R. mortgage loan portfolio. For the quarter ended December 31, 2006, the consolidated ratio of mortgage loans net charge-offs to average mortgage loans held-in-portfolio was 0.68%.

Consumer loans net charge-offs as a percentage of average consumer loans held-in-portfolio rose primarily due to higher delinquencies in the Puerto Rico operations. For the quarter ended December 31, 2006, the ratio of consumer loans net charge-offs to average consumer loans held-in-portfolio was 2.88%.

Table of Contents

NON-PERFORMING ASSETS

A summary of non-performing assets, which includes past-due loans that are no longer accruing interest, renegotiated loans and real estate property acquired through foreclosure, is presented in Table M, along with certain credit quality metrics. For a summary of the Corporation s policy for placing loans on non-accrual status, refer to the sections of Loans and Allowance for Loan Losses included in Note 1 to the audited consolidated financial statements included in Popular, Inc. s 2006 Annual Report.

TABLE M

Non-Performing Assets

(Dollars in thousands)	**March 31, 2007**	As a percentage of loans HIP* by category	December 31, 2006	As a percentage of loans HIP* by category	$ Variance March 31, 2007 vs. December 31, 2006	March 31, 2006	As a percentage of loans HIP* by category	$ Variance March 31, 2007 vs. March 31, 2006
Commercial	**$200,508**	1.4%	$158,214	1.1%	$42,294	$138,602	1.1%	$ 61,906
Lease financing	**6,917**	0.6	11,898	1.0	(4,981)	3,455	0.3	3,462
Mortgage	**519,449**	4.9	499,402	4.5	20,047	407,433	3.5	112,016
Consumer	**43,000**	0.8	48,074	0.9	(5,074)	36,170	0.7	6,830
Total non-performing loans	**769,874**	2.4	717,588	2.2	52,286	585,660	1.9	184,214
Other real estate	**89,479**		84,816		4,663	82,352		7,127
Total non-performing assets	**$859,353**	2.70%	$802,404	2.51%	$56,949	$668,012	2.16%	$191,341
Accruing loans past due 90 days or more	**$110,946**		$ 99,996		$10,950	$ 90,770		$ 20,176
Non-performing assets to total assets	**1.82%**		1.69%			1.37%		
Allowance for loan losses to loans held-in-portfolio	**1.70**		1.63			1.52		
Allowance for loan losses to non-performing assets	**63.04**		65.08			70.11		
Allowance for loan losses to non-performing loans	**70.37**		72.78			79.96		

* HIP = held-in-porfolio

The increase in the non-performing mortgage loans since December 31, 2006 was mainly due to continued deterioration in the subprime market in the U. S. mainland as well as higher delinquencies triggered by the economic conditions in Puerto Rico. The increase experienced during the first quarter of 2007 was lower than the increase reported in the last quarter of 2006.

The rise in non-performing commercial loans reflected the current economic conditions, primarily in Puerto Rico. Refer to the Overview of Mortgage Loan Exposure at PFH section in this MD&A for information on PFH s mortgage loan portfolio and to Part II Other Information, Item 1A. Risk Factors, included in this Form 10-Q for further information on Puerto Rico s current economic condition.

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

The allowance for loan losses, which represents management s estimate of credit losses inherent in the loan portfolio, is maintained at a sufficient level to provide for these estimated loan losses based on evaluations of inherent risks in the loan portfolios. The Corporation s management evaluates the adequacy of the allowance for loan losses on a monthly basis. In this evaluation management considers current economic conditions and the resulting impact on Popular s loan portfolio, the composition of the portfolio by loan type and risk characteristics, historical loss experience, loss volatility, results of periodic credit reviews of individual loans, regulatory requirements and loan impairment measurement, among other factors. The increase in the Corporation s allowance level as of March 31, 2007 reflects the prevailing negative economic outlook, particularly in the non-prime mortgage business, and the continued difficulties regarding Puerto Rico s economy.

The Corporation s methodology to determine its allowance for loan losses is based on SFAS No. 114, *Accounting by Creditors for Impairment of a Loan* (as amended by SFAS No. 118) and SFAS No. 5, *Accounting for Contingencies.* Under SFAS No. 114, commercial loans over a predetermined amount are identified for evaluation on an individual basis, and specific reserves are calculated based on impairment analyses. SFAS No. 5 provides for the recognition of a loss contingency for a group of homogeneous loans, which are not individually evaluated under SFAS No. 114, when it is probable that a loss has been incurred and the amount can be reasonably estimated. To determine the allowance for loan losses under SFAS No. 5, the Corporation uses historical net charge-offs and volatility experience segregated by loan type and legal entity. As of March 31, 2007, there have been no significant changes in evaluation methods or assumptions from December 31, 2006 that had an effect on the Corporation s methodology for assessing the adequacy of the allowance for loan losses.

Under SFAS No. 114, the Corporation considers a commercial loan to be impaired when the loan amounts to $250,000 or more and interest and / or principal is past due 90 days or more, or, when the loan amounts to $500,000 or more and based on current information and events, it is probable that the debtor will be unable to pay all amounts due according to the contractual terms of the loan agreement. The Corporation s recorded investment in impaired commercial loans and the related valuation allowance calculated under SFAS No. 114 at March 31, 2007, December 31, 2006 and March 31, 2006 were:

	March 31, 2007		December 31, 2006		March 31, 2006	
(In millions)	**Recorded Investment**	**Valuation Allowance**	Recorded Investment	Valuation Allowance	Recorded Investment	Valuation Allowance
Impaired loans:						
Valuation allowance required	**$ 137.7**	**$ 41.5**	$ 125.7	$ 37.0	$ 70.9	$ 20.7
No valuation allowance required	**99.8**		82.5		46.7	
Total impaired loans	**$ 237.5**	**$ 41.5**	$ 208.2	$ 37.0	$ 117.6	$ 20.7

Average impaired loans during the first quarter of 2007 and 2006 were $225 million and $120 million, respectively. The Corporation recognized interest income on impaired loans of $2.1 million and $0.9 million for the quarters ended March 31, 2007 and March 31, 2006, respectively.

In addition to the non-performing loans included in Table M, there were $98 million of loans at March 31, 2007, which in management s opinion are currently subject to potential future classification as non-performing, and are considered impaired under SFAS No. 114. At December 31, 2006 and March 31, 2006, these potential problem loans approximated $103 million and $28 million, respectively. The increase in potential problem loans during 2006 was principally associated with particular commercial lending relationships in the Corporation s Puerto Rico banking operations.

Under standard industry practice, closed-end consumer loans are not customarily placed on non-accrual status prior to being charged-off. Excluding the closed-end consumer loans from non-accruing at March 31, 2007, adjusted non-performing assets would have been $816 million or 2.56% of loans held-in-portfolio and the allowance to non-performing loans ratio would have been 74.53%. At December 31, 2006, adjusted non-performing assets would have been $754 million or 2.36% of loans held-in-portfolio and the allowance to non-performing loans ratio would have been 78.00 %. At March 31, 2006, adjusted non-performing assets would have been $632 million or 2.05% of loans held-in-portfolio and the allowance to non-performing loans would have been 85.23%.

As explained in the 2006 Annual Report, the Corporation is exposed to geographical and government risk. Popular, Inc. has partly diversified its geographical risk as a result of its growth strategy in the United States and the Caribbean. The Corporation s assets and revenue composition by geographical area and by business segment

reporting is presented in Note 21 to the consolidated financial statements.
Refer to Part II Other Information, Item 1A. Risk Factors, included in this Form 10-Q for further information on Puerto Rico s current economic condition.
At March 31, 2007, the Corporation had $908 million of credit facilities granted to or guaranteed by the P.R. Government and its political subdivisions, of which $50 million are uncommitted lines of credit. Of these total credit facilities granted, $738 million in loans were outstanding at March 31, 2007. A substantial portion of the Corporation s credit exposure to the Government of Puerto Rico is either collateralized loans or obligations that have a specific source of income or revenues identified for their repayment. Some of these obligations consist of senior and subordinated loans to public corporations that obtain revenues from rates charged for services or products, such as water and electric power utilities. Public corporations have varying degrees of independence from the central Government and many receive appropriations or other payments from the central Government. The Corporation also has loans to various municipalities for which the good faith, credit and unlimited taxing power of the applicable municipality has been pledged to their repayment. These municipalities are required by law to levy special property taxes in such amounts as shall be required for the payment of all of its general obligation bonds and loans. Another portion of these loans consists of special obligations of various municipalities that are payable from the basic real and personal property taxes collected within such municipalities. The full good faith and credit obligations of the municipalities have a first lien on the basic property taxes.
Furthermore, as of March 31, 2007, the Corporation had outstanding $186 million in Obligations of Puerto Rico, States and Political Subdivisions as part of its investment portfolio. Refer to Notes 5 and 6 to the consolidated financial statements for additional information. Of that total, $163 million is exposed to the creditworthiness of the P.R. Government and its municipalities. Of that portfolio, $58 million are in the form of Puerto Rico Commonwealth Appropriation Bonds, which are currently rated Ba1, one notch below investment grade, by Moody s and BBB-, the lowest investment grade rating, by Standard & Poor s Rating Services (S&P), another nationally recognized credit rating agency.

Overview of Mortgage Loan Exposure at PFH

PFH historically originated mortgage loan production through various channels including asset acquisition, mortgage loan brokers and its retail branch network. As part of the Restructuring Plan, PFH has ceased originating loans through all channels except for loans originated directly through its consumer finance branches and the customer loan center (CLC). This is expected to result in a significant reduction in total origination of mortgage loans at PFH.
Subprime mortgage loans refer to mortgage loans made to individuals with a FICO® score of 660 or below. FICO® scores are used as an indicator of the probability of default for loans. A portion of the loans originated and retained by PFH is subprime under this definition.
As of March 31, 2007, mortgage loans held-in-portfolio outstanding at PFH amounted to $6.4 billion, as compared to $6.9 billion as of December 31, 2006 and $7.3 billion as of March 31, 2006. Of the balance as of March 31, 2007, $4.4 billion or approximately 70% had FICO® scores 660 or below. As distinguished by coupon type, 72% of the loan portfolio had fixed-rate coupons, while 28% had adjustable rates (ARMs).
As of March 31, 2007, $0.7 billion in ARMs were scheduled to readjust their rate for the first time during 2007, and $0.6 billion were scheduled to readjust their rate in 2008.
The average FICO® score for PFH s mortgage loans held-in-portfolio was 627 as of March 31, 2007 while the average loan-to-value ratio of the portfolio as of that date was 80.5%. The unpaid principal balance of loans originated in 2006 amounted to $1.2 billion, or approximately 15.5% of PFH s total loan portfolio and 3.7% of the Corporation s loan portfolio at March 31, 2007.
One of the characteristics of subprime loans is that their delinquency and charge-off rates tend to be higher than for agency conforming loans or Alt-A loans. Alt-A loans are loans usually made to borrowers who have unsteady sources of income or simply have too little documented income to qualify for a conforming loan. For the quarter ended March 31, 2007, the ratio of non-performing mortgage loans to mortgage loans held-in-portfolio for PFH amounted to 6.3%,

Table of Contents

while annualized charge-offs to average loans for the period amounted to 1.1%.

A portion of the mortgage loans held by PFH as of March 31, 2007 are pledged as collateral for asset-backed securities issued by the Corporation as a financing vehicle. These owned-in-trust loans pose similar risks to the Corporation as those loans owned outright, with the difference that part of the potential losses related to owned-in-trust loans may be borne by the bondholders under certain circumstances, primarily if cumulative loan losses exceed the level of overcollateralization. As of March 31, 2007, $4.2 billion in mortgage loans were owned-in-trust.

Overcollateralization is defined as a type of credit enhancement by which an issuer of bond certificates pledges collateral in excess of what is needed to adequately cover the repayment of the bond certificates.

For more detailed information on PFH s mortgage loan portfolio, please refer to Table N.

Table of Contents

Table N
Mortgage Loan Exposure at Popular Financial Holdings (excludes mortgage loans held-for-sale)
As of March 31, 2007

(In thousands)	Total Vintages	Vintage 2007	Vintage 2006	Vintage 2005	Vintage 2004	Vintage 2003 & Prior
Subprime mortgage loans Owned portfolio	$1,421,688	$116,432	$ 476,346	$ 400,567	$ 144,225	$ 284,118
FICO®-Average	599	603	601	607	598	585
Loan-to-value Average	83.0%	79.5%	80.7%	89.6%	88.1%	77.0%
% Fixed-rate	82.1%	92.4%	82.4%	69.0%	90.9%	91.3%
% ARM	17.9%	7.6%	17.6%	31.0%	9.1%	8.7%
Delinquencies %	11.5%		8.0%	13.6%	14.2%	18.1%
Non-performing %	7.2%		3.2%	9.4%	10.0%	12.3%
Charge-offs % First Quarter 2007 (a)	1.9%					
Subprime mortgage loans Owned-in-Trust	$2,960,095		$ 430,621	$1,129,023	$ 581,337	$ 819,114
FICO®-Average	606		591	607	617	608
Loan-to-value Average	83.5%		84.0%	83.1%	82.6%	84.3%
% Fixed-rate	62.8%		29.1%	48.1%	85.0%	85.0%
% ARM	37.2%		70.9%	51.9%	15.0%	15.0%
Delinquencies %	12.6%		7.7%	13.3%	9.7%	16.3%
Non-performing %	8.0%		4.6%	8.3%	6.1%	10.9%
Charge-offs % First Quarter 2007 (a)	1.5%					
Prime mortgage loans Owned portfolio	$ 478,106	$ 28,874	$ 139,002	$ 138,513	$ 66,764	$ 104,953
FICO®-Average	699	692	694	700	701	707
Loan-to-value Average	80.7%	78.2%	79.6%	88.4%	85.7%	71.4%
% Fixed-rate	85.5%	87.6%	78.5%	82.1%	88.1%	97.1%
% ARM	14.5%	12.4%	21.5%	17.9%	11.9%	2.9%
Delinquencies %	5.2%		4.2%	6.4%	5.1%	6.5%
Non-performing %	3.2%		1.5%	4.1%	4.1%	4.4%
Charge-offs % First Quarter 2007	0%					
Prime mortgage loans Owned-in-Trust	$1,277,861		$ 68,362	$ 438,174	$ 411,172	$ 360,153
FICO®-Average	698		695	697	702	699
Loan-to-value Average	84.1%		84.1%	85.3%	81.4%	85.7%
% Fixed-rate	76.1%		45.2%	51.8%	91.6%	93.9%
% ARM	23.9%		54.8%	48.2%	8.4%	6.1%
Delinquencies %	5.8%		5.5%	6.6%	4.1%	6.7%
Non-performing %	3.9%		3.9%	4.4%	3.0%	4.5%
Charge-offs % First Quarter 2007	0%					
Loans without FICO scores	$ 97,476	$ 14,177	$ 55,501	$ 8,715	$ 4,033	$ 15,050

PFH Mortgage Loans (b)	$6,235,226	$159,483	$1,169,832	$2,114,992	$1,207,531	$1,583,388
FICO®-Average	627	621	616	631	640	627
Loan-to-value Average	80.5%	74.4%	77.4%	85.4%	82.7%	82.5%
% Fixed-rate	72.2%	92.2%	61.0%	55.3%	88.1%	89.1%
% ARM	27.8%	7.8%	39.0%	44.7%	11.9%	10.9%
Delinquencies %	10.3%		7.0%	11.5%	8.1%	13.7%
Non-performing %	6.3%		3.4%	7.4%	5.4%	9.2%
Charge-offs % First Quarter 2007	1.1%					
Deferred fees, origination costs, net premiums and other items	$ 135,835					
PFH Total Mortgage Loans HIP	$6,371,061					

(a) The average balances used to calculate these net charge-offs to average loans ratios were calculated using the ending balances as of December 31, 2006 and March 31, 2007 for these business areas.

(b) Includes loans without FICO® scores.

81

Item 3. Quantitative and Qualitative Disclosures About Market Risk

MARKET RISK

Market risk is the risk of loss arising from adverse changes in the fair value of financial instruments or other assets due to changes in interest rates, currency exchange rates or equity prices. Interest rate risk, a component of market risk, is the exposure to adverse changes in net interest income due to changes in interest rates. Management considers interest rate risk a prominent market risk in terms of its potential impact on earnings. Interest rate risk may occur for one or more reasons, such as the maturity or repricing of assets and liabilities at different times, changes in short and long-term market interest rates, or the maturity of assets or liabilities may be shortened or lengthened as interest rates change. Depending on the duration and repricing characteristics of the Corporation s assets, liabilities and off-balance sheet items, changes in interest rates could either increase or decrease the level of net interest income.

The techniques for measuring the potential impact of the Corporation s exposure to market risk from changing interest rates, which were described in the 2006 Annual Report, have remained substantially constant from the end of 2006. Due to the importance of critical assumptions in measuring market risk, the risk models currently incorporate third-party developed data for critical assumptions such as prepayment speeds on mortgage-related products, estimates on the duration of the Corporation s deposits, and interest rate scenarios.

The Corporation maintains a formal asset and liability management process to quantify, monitor and control interest rate risk and to assist management in maintaining stability in the net interest margin under varying interest rate environments. Management employs a variety of measurement techniques including the use of an earnings simulation model to analyze the net interest income sensitivity to changing interest rates. Sensitivity analysis is calculated on a monthly basis using a simulation model, which incorporates actual balance sheet figures detailed by maturity and interest yields or costs, repricing characteristics, expected balance sheet dynamics, reinvestments, and other non-interest related data. Simulations are processed using various interest rate scenarios to determine potential changes to the future earnings of the Corporation. The asset and liability management group also performs validation procedures on various assumptions used as part of the sensitivity analysis. In addition, this group receives third-party validation reports for the mortgage related prepayment assumptions.

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

Based on the results of the sensitivity analyses as of March 31, 2007, the Corporation s net interest income for the next twelve months is estimated to decrease by $18.5 million in a hypothetical 200 basis points rising rate scenario, and the change for the same period, utilizing a similar hypothetical decline in the rate scenario, is an estimated increase of $10.5 million. Both hypothetical rate scenarios consider the gradual change to be achieved during a twelve-month period from the prevailing rates at March 31, 2007.

The Corporation maintains an overall interest rate risk management strategy that incorporates the use of derivative instruments to minimize significant unplanned fluctuations in net interest income that are caused by interest rate volatility. The market value of these derivatives is subject to interest rate fluctuations, and as a result, it could have a positive or negative effect in the Corporation s net interest income. Refer to Note 9 to the consolidated financial statements for further information on the Corporation s derivative instruments.

The Corporation conducts business in certain Latin American markets through several of its processing and information technology services and products subsidiaries. Also, it holds interests in Consorcio de Tarjetas Dominicanas, S.A. (CONTADO) and Centro Financiero BHD, S.A. (BHD) in the Dominican Republic. Although not significant, some of these businesses are conducted in the country s foreign currency. The resulting foreign currency translation adjustment, from operations for which the functional currency is other than the U.S. dollar, is reported in accumulated other comprehensive loss in the consolidated statements of condition, except for highly inflationary environments in which the effects are included in other operating income in the consolidated statements of income. At March 31, 2007, the Corporation had approximately $35 million in an unfavorable foreign currency translation adjustment as part of accumulated other comprehensive loss, compared with $37 million at December 31, 2006 and March 31, 2006.

LIQUIDITY

Liquidity risk may arise whenever the Corporation s ability to raise cash and the runoff of its assets are substantially less than the runoff of its liabilities and its commitments to fund loans, meet customer deposit withdrawals and other cash commitments. The Corporation has established policies and procedures to assist it in remaining sufficiently liquid to meet all of its financial obligations, finance expected future growth and maintain a reasonable safety margin for cash commitments under both normal operating conditions and under unpredictable circumstances of industry or market stress.

The Corporation has adopted contingency plans for raising financing under stress scenarios, where important sources of funds that are usually fully available are temporarily not willing to lend to the Corporation. These plans call for using alternate funding mechanisms such as the pledging or securitization of certain asset classes, committed credit lines, and loan facilities put in place with the FHLB and the FED. The Corporation has a substantial amount of assets available for raising funds through non-traditional channels and is confident that it has adequate alternatives to rely on under a scenario where some primary funding sources are temporarily unavailable.

The Corporation s liquidity position is closely monitored on an ongoing basis. Management believes that available sources of liquidity are adequate to meet the funding needs in the normal course of business.

The composition of the Corporation s financing to total assets at March 31, 2007 and December 31, 2006 follows.

(Dollars in millions)	**March 31, 2007**	December 31, 2006	% increase (decrease) from December 31, 2006 to March 31, 2007	% of total assets **March 31, 2007**	% of total assets December 31, 2006
Non-interest bearing deposits	**$ 4,177**	$ 4,222	(1.1%)	**8.9%**	8.9%
Interest-bearing core deposits	**14,979**	14,923	0.4	**31.8**	31.5
Other interest-bearing deposits	**5,582**	5,293	5.5	**11.8**	11.2
Federal funds and repurchase agreements	**6,272**	5,762	8.9	**13.3**	12.2
Other short-term borrowings	**3,202**	4,034	(20.6)	**6.8**	8.5
Notes payable	**8,369**	8,737	(4.2)	**17.7**	18.4
Others	**847**	813	4.2	**1.8**	1.7
Stockholders equity	**3,736**	3,620	3.2	**7.9**	7.6

The Corporation s core deposits, which consist of demand, savings, money markets, and time deposits under $100 thousand, constituted 77% of total deposits at March 31, 2007. Certificates of deposit with denominations of $100 thousand and over at March 31, 2007 represented 23% of total deposits. Their distribution by maturity was as follows:

(In thousands)	
3 months or less	$2,266,753
3 to 6 months	1,149,775
6 to 12 months	853,253
Over 12 months	1,311,831

$5,581,612

The consolidated statements of cash flows in the accompanying consolidated financial statements provide information on the Corporation s cash inflows and outflows.

Table of Contents

There have been no significant changes in the Corporation s aggregate contractual obligations since the end of 2006. Refer to Note 11 to the consolidated financial statements for the composition of the Corporation s borrowings at March 31, 2007. Also, refer to Note 12 to the consolidated financial statements for the Corporation s involvement in certain commitments at March 31, 2007.

Risks to Liquidity

Maintaining adequate credit ratings on Popular s debt obligations is an important factor for liquidity because the credit ratings influence the Corporation s ability to borrow, the cost at which it can raise financing and its access to funding sources. The credit ratings are based on the financial strength, credit quality and concentrations in the loan portfolio, the level and volatility of earnings, capital adequacy, the quality of management, the liquidity of the balance sheet, the availability of a significant base of core retail and commercial deposits, and the Corporation s ability to access a broad array of wholesale funding sources, among other factors. Changes in the credit rating of the Corporation or any of its subsidiaries to a level below investment grade may affect the Corporation s ability to raise funds in the capital markets. The Corporation s counterparties are sensitive to the risk of a rating downgrade. In the event of a downgrade, it may be expected that the cost of borrowing funds in the institutional market would increase. In addition, the ability of the Corporation to raise new funds or renew maturing debt may be more difficult.

In early August 2005, FitchRatings, a nationally recognized credit rating agency, changed the Corporation s rating outlook from stable to negative . Following the announcement by the Corporation of the acquisition of E-LOAN in 2005, Fitch expressed concerns indicating that, while the Corporation s capital profile is acceptable for current ratings, the level of tangible common equity would fall following the E-LOAN acquisition as a result of the intangibles recorded, primarily goodwill and trademark. Also, the outlook change considered the risk of greater exposure to the subprime lending business.

Management evaluated such concerns and took actions to address them. In the fourth quarter of 2005 and the first quarter of 2006, the Corporation issued additional shares of common stock to strengthen the level of tangible equity capital. Furthermore, strategic changes have been implemented at PFH that should have the effect of decreasing the growth of the subprime loan portfolio at the Corporation. Refer to the Restructuring Plan section in this MD&A for information on these particular efforts. In May 2007, Fitch changed the Corporation s senior debt rating to A- from A , while the outlook was revised to stable from negative . The primary drivers behind the changes are recent trends in the Corporation s credit quality and changes in core profitability as compared to a peer group of A- rated institutions. The rating for short-term obligations was maintained at F-1 .

The Corporation is also rated by two other nationally recognized credit rating agencies. In recent exchanges with these two agencies, the Corporation was advised that they are following closely recent trends in the Corporation s business. One area of concern is the decline in the profitability of the U.S. business during 2006 and possible impact of the remaining subprime exposure on future financial results. The second concern is the deterioration of general credit quality in the Puerto Rico economy and its possible impact on the level of future credit losses. Nonetheless, in March 2007 Moody s Investors Service upgraded the senior debt ratings for the Corporation. These were revised to A2 at the holding company level, from the previous level of A3 , an increase of one notch. The rating for short-term obligations was also increased to P-1 , which is Moody s highest classification. The outlook remains stable. As of March 31, 2007, the Corporation s ratings with Standard and Poor s had a stable outlook.

The Corporation and BPPR s debt ratings at March 31, 2007 were as follows:

	Popular, Inc.		BPPR	
	Short-term debt	Long-term debt	Short-term debt	Long-term debt
FitchRatings	F-1	A-	F-1	A-
Moody s	P-1	A2	P-1	A1
S&P	A-2	BBB+	A-2	A-

The ratings above are subject to revisions or withdrawal at any time by the assigning rating agency. Each rating should be evaluated independently of any other rating.

Table of Contents

Some of the Corporation s borrowings and deposits are subject to rating triggers , contractual provisions that accelerate the maturity of the underlying obligations in the case of a change in rating. Therefore, the need for the Corporation to raise funding in the marketplace could increase more than usual in the case of a rating downgrade. The amount of obligations subject to rating triggers that could accelerate the maturity of the underlying obligations was $14 million at March 31, 2007.

In the course of borrowing from institutional lenders, the Corporation has entered into contractual agreements to maintain certain levels of debt, capital and asset quality, among other financial covenants. If the Corporation were to fail to comply with those agreements, it may result in an event of default. Such failure may accelerate the repayment of the related obligations. An event of default could also affect the ability of the Corporation to raise new funds or renew maturing borrowings. At March 31, 2007, the Corporation had $1.1 billion in outstanding obligations subject to covenants, including those which are subject to rating triggers and those outstanding under the commercial paper program. At March 31, 2007, PFH was in breach of particular covenants in some credit facilities related to tangible net worth and leverage ratios. Certain written waivers were obtained. Obligations outstanding under these credit facilities approximated $0.6 billion at March 31, 2007.

Management believes that there have been no significant changes in liquidity risk compared with the disclosures in Popular, Inc. s 2006 Annual Report for the year ended December 31, 2006, except for matters covered in this MD&A.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

The Corporation s management, with the participation of the Corporation s Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Corporation s disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on such evaluation, the Corporation s Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Corporation s disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Corporation in the reports that it files or submits under the Exchange Act and such information is accumulated and communicated to management as appropriate, to allow timely decisions regarding required disclosures.

Internal Control Over Financial Reporting

There have been no changes in the Corporation s internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended on March 31, 2007 that have materially affected, or are reasonably likely to materially affect, the Corporation s internal control over financial reporting.

Part II Other Information

Item 1. Legal Proceedings

The Corporation and its subsidiaries are defendants in various lawsuits arising in the ordinary course of business. Management believes, based on the opinion of legal counsel, that the aggregate liabilities, if any, arising from such actions will not have a material adverse effect on the financial position and results of operations of the Corporation.

Table of Contents

Item 1A. Risk Factors

Except as noted below, there have been no material changes to the risk factors as previously disclosed under Item 1A. in the Corporation s Annual Report on Form 10-K for the year ended December 31, 2006.

The Corporation is exposed to greater risk because a significant portion of the business is concentrated in Puerto Rico, which has experienced an economic slowdown.

A significant portion of the Corporation s financial activities and credit exposure is concentrated in Puerto Rico (the Island). Consequently, the financial condition and results of operations are highly dependent on economic conditions in the Island. An extended economic slowdown, adverse political or economic developments in Puerto Rico, or natural disasters such as hurricanes affecting the Island, could result in a downturn in loan originations, an increase in the level of non-performing assets, an increase in the rate of foreclosure loss on mortgage loans and a reduction in the value of the Corporation s loans and loan servicing portfolio, all of which would adversely affect the Corporation s profitability.

The economy of Puerto Rico had a lackluster fiscal 2006 (twelve months ending in June, 2006) and the Commonwealth Government is projecting a contraction of 1.4% for the year ending June 30, 2007. Most sectors appear weak and are still in the process of bottoming out.

Retail sales for the calendar year ending November 2006, for which the most recent data is available, had declined 2.4% versus the previous year. Retail auto sales for the three months ending March 31, 2007, which are produced on a timelier basis, showed a decrease of 18.7% against the same period in 2006. Consumers finances appear to be under stress, and this is affecting aggregate spending in the economy.

The Commonwealth s fiscal situation still poses a challenge for growth. Government receipts for 2006 up to November 2006 were $7.6 billion, 2.5% below the previous year. In general terms, general fund revenue and sales tax receipts have been running below government projections, which increases the risk that revenues will not be sufficient to meet government spending in the current fiscal year, requiring measures to balance the deficit. The political process needed to address this scenario may be a source of instability, as it may impact business and consumer confidence.

Construction continues to reflect weakness in both the public and private sectors. The value of permits, including both the private and public sectors, decreased 10.9% in the calendar year ending in December 2006, as compared to the previous year. Permits in the private sector declined 6.3%, while in the public sector the drop was 26.3%.

Unemployment has been trending upward, reaching 10.7% in February of the current year. According to government statistics, total employment on the Island in February 2007 had declined by 19,700 jobs from February 2006, a decrease of 1.8%.

Tourism is the one sector that has not been significantly affected by the current slowdown. It continues to expand according to government statistics, and this may be due to a relative healthy U.S. economy, particularly in the Northeast.

In general, it is apparent that in 2006 the P.R. economy entered a recession, primarily due to weak Commonwealth Government finances, sluggish manufacturing, softer consumption and decreased government investment in construction.

The above economic concerns and uncertainty in the private and public sectors may also have an adverse effect on the credit quality of the Corporation s loan portfolios, as delinquency rates may increase in the short-term, until the economy stabilizes. Also, a potential reduction in consumer spending may also impact growth in other interest and non-interest revenue sources of the Corporation.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table sets forth the details of purchases of Common Stock during the quarter ended March 31, 2007 under the 2004 Omnibus Incentive Plan.

Issuer Purchases of Equity Securities

Not in thousands

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs (a)
January 1 January 31				8,601,209
February 1 February 28	2,612	$ 18.66	2,612	8,598,597
March 1 March 31				8,599,185
Total March 31, 2007	2,612	$ 18.66	2,612	8,599,185

(a) Includes shares forfeited.

Item 6. Exhibits

Exhibit No.	Exhibit Description
10.1	Amendment to 2005 Amended and Restated Incentive Award and Agreement, dated March 23, 2007, between Popular Inc. and Roberto R. Herencia
12.1	Computation of the ratios of earnings to fixed charges and preferred stock dividends.
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

POPULAR, INC.
(Registrant)

Date: May 9, 2007

By: /s/ Jorge A. Junquera
Jorge A. Junquera
Senior Executive Vice President &
Chief Financial Officer

Date: May 9, 2007

By: /s/ Ileana González Quevedo
Ileana González Quevedo
Senior Vice President & Corporate
Comptroller