POPULAR INC
Form 10-Q
May 10, 2007

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

þ **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
**For the quarterly period ended 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.

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**Forward-Looking Information**

The information included in this Form 10-Q contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements may relate to the Corporation s financial condition, results of operations, plans, objectives, future performance and business, including, but not limited to, statements with respect to the adequacy of the allowance for loan losses, market risk and the impact of interest rate changes, capital 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.

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**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.

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**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.

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**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.

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**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.

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**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.

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## Notes to Unaudited Consolidated Financial Statements

### Note 1 Nature of operations and basis of presentation

Popular, Inc. (the Corporation or Popular ) is a diversified, publicly-owned financial holding company subject to the supervision and regulation of the Board of Governors of the Federal Reserve System. The Corporation is a 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.

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*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

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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.

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**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 |

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| (In thousands) | Amortized Cost | AS OF MARCH 31, 2006 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**

| (In thousands) | Amortized Cost | Less than 12 Months 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 |

| (In thousands) | Amortized Cost | 12 months or more 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 |

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| (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 |

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| (In thousands) | AS OF MARCH 31, 2006<br>Less than 12 Months<br>Amortized Cost | 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) | 12 months or more<br>Amortized Cost | 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) | Total<br>Amortized Cost | 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-

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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 |

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**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 |

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| | 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.

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**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.

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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.

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.

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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.

***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 |

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**As of December 31, 2006**

| | | Fair Values | |
|---|---|---|---|
| (In thousands) | Notional amount | 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.

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**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).

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

| (In thousands) | **March 31, 2007** Gross Amount | **March 31, 2007** Accumulated Amortization | December 31, 2006 Gross Amount | December 31, 2006 Accumulated Amortization | March 31, 2006 Gross Amount | March 31, 2006 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 |

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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.

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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 |