Popular Securities, Inc.

(a wholly-owned subsidiary of Popular, Inc.)

Unaudited Statement of Financial Condition

June 30, 2007

Popular Securities, Inc.
(a wholly-owned subsidiary of Popular, Inc.)
Notes to Unaudited Statement of Financial Condition
June 30, 2007

(Dollars in thousands)

Assets		
Cash	$	445
Securities purchased under agreements to resell		212,138
Securities owned, at fair value		
Pledged securities with creditors' right to repledge		46,667
Other securities owned		144,978
Held in segregation		445
Receivables from brokers, dealers and counterparties		14,191
Accrued interest receivable		1,906
Prepaid Income Taxes		1,298
Fixed assets		2,054
Deferred tax asset		1,106
Other assets		1,464
Total assets	$	426,692
Liabilities and Stockholder's Equity		
Securities sold under agreements to repurchase	$	274,344
Payables to brokers, dealers and counterparties		89,073
Accrued interest payable		831
Accounts payable to affiliates		1,332
Accrued employee compensation and benefits		1,742
Deferred compensation		3,592
Other liabilities		2,762
Total liabilities		373,676
Stockholder's equity		
Capital stock, $25 stated value; 10,000 shares authorized; 1,000 shares issued and outstanding		25
Treasury stock, at cost		(664)
Additional paid-in capital		15,713
Retained earnings		37,942
Total stockholder's equity		53,016
Total liabilities and stockholder's equity	$	426,692

1. Nature of Business and Summary of Significant Accounting Policies

Popular Securities, Inc. (the "Company") is engaged in investment banking, brokerage and financial advisory services and is a member of the National Association of Securities Dealers, Inc. (NASD). The Company operates principally in the Commonwealth of Puerto Rico, with branches in New York City, Chicago and Texas, and is a wholly-owned subsidiary of Popular Inc.

The Company is a registered broker-dealer pursuant to section 15(b) of the Securities Exchange Act of 1934. In addition, the Company is licensed by the Office of the Commissioner of Financial Institutions of the Commonwealth of Puerto Rico as a registered broker-dealer and as an eligible similar institution under Regulation 5105.

The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America (GAAP) and industry practices. Following is a description of the more significant accounting policies followed by the Company:

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management believes that these estimates are adequate. Actual results could differ from those estimates.

Income Recognition

Securities owned transactions are recorded on the trade date, as if they had settled. Customers' securities transactions are recorded on a settlement-date basis with related commission income and expenses recorded on a trade-date basis for the institutional division and on a settlement-date basis for the retail division. The difference between the settlement date basis used for the retail division and the trade date basis required by GAAP is not material. Investment banking revenue is recorded as follows: 1) underwriting fees at the time the underwriting is completed and income is reasonably determinable, 2) corporate finance advisory fees as earned, according to the terms of the specific contracts and 3) sales concessions on a trade-date basis.

Securities Owned

Securities owned transactions are recorded on the trade-date, as if they had settled. Customer's securities transactions are recorded on a settlement-date basis with related commission income and expenses recorded on a trade-date basis for the institutional division and on a settlement-date basis for the retail division. The difference between the settlement date basis used for the retail division and the trade-date basis required by GAAP is not material. Investment banking revenue is recorded as follows: 1) underwriting fees at the time the underwriting is completed and income is reasonably determinable, 2) corporate finance advisory fees as earned, according to the terms of the specific contracts and 3) sales concessions on a trade-date basis.

The Company self clears its proprietary transactions. Non-proprietary transactions are cleared by its clearing broker.

Securities Purchased/Sold Under Agreements to Resell/Repurchase
Repurchase and resale agreements are treated as collateralized financing transactions and are carried at the amounts at which the securities will be reacquired or resold as specified in the respective agreements. Interest income and expense related to these agreements is recorded on the accrual basis.

It is the Company's policy to take possession of securities purchased under resale agreements and such collateral is not reflected in the financial statements. The Company monitors the market value of the securities received as collateral under the resale agreements as compared to the related receivable, including accrued interest, and requests additional collateral when deemed appropriate.

The Company maintains control over the securities sold under repurchase agreements. The securities pledged as collateral under such agreements are included in the financial statements.

Receivables and Payables to Brokers-Dealers and Counterparties
At June 30, 2007, receivables and payables to broker dealers and counterparties consist of the following:

Receivables	
Clearing broker	$ 1,878
Fail to deliver	7,912
Cash pledged as collateral with counterparty	279
Investment banking fees	2,484
Other	1,638
	$ 14,191

Payables	
Notes payable under Tender Option Bond Program [1]	$ 81,685
Net unsettled transactions	4,731
Other	2,657
	$ 89,073

[1] Under the Tender Option Bond Program (TOB), the Company is selling bonds to a non-related financial institution for the purpose of having them placed into a trust, which issues two types of certificates, variable rate notes with a put (PUTTERs) and residual certificates (DRIVERs). The Company also purchased all the DRIVERs. Cash flows from the underlying bonds in the trust are divided between the PUTTERs and the DRIVERs. In accordance with the terms of the program the holders of the DRIVERs may, at any time, demand tender of a proportional stated amount of PUTTERs. In accordance with FAS No. 140, a transfer of financial assets shall not be accounted for as a sale if the transferor of the financial instruments maintains effective control over the transferred assets through the ability to unilaterally cause the holder to return specific assets, other than though a cleanup call. Given that the DRIVERs holder has the ability to unwind the securitization, in accordance with FAS 140 par. 9c the transaction fails sale accounting treatment. As such, the Company is recording on its financial statements the municipal

bonds and a liability equal to the notes payable to third parties included on the statement of condition as securities owned and payables to broker-dealers and counterparties, respectively.

Fixed Assets

Fixed assets are composed of furniture, equipment and leasehold improvements. Furniture and equipment are initially recorded at cost and depreciated using the straight-line method over the estimated useful life of the related assets (between 3 and 10 years). Leasehold improvements are amortized over the lesser of the economic useful life of the improvement or the term of the lease.

Income Taxes

A deferred tax asset or liability is recognized for the estimated future tax effects attributable to temporary differences. A related valuation allowance is recognized when it is more likely than not that the deferred tax asset will not be realized. A temporary difference is the difference between the tax basis of an asset or liability and its reported amount in the financial statements that will result in taxable or deductible amounts in future years when the reported amount of the asset or liability is recovered or settled.

Temporary differences giving rise to deferred tax assets and liabilities are attributable to deferred compensation, net unrealized gains and losses on securities owned and other revenues and expenses which are reported for tax purposes in different years than for financial reporting purposes.

Employee Compensation and Benefits

Popular, Inc., the parent company of the Company, manages the payroll process for the Company. Payroll is allocated based on actual hours worked for nonexempt employees and on contracts signed for exempt employees.

2. Securities Owned

Securities owned, at market value, as of June 30, 2007 were as follows:

United States Government and its agencies	$	7,024
State and municipal governments		121,439
Mortgage-backed securities		22,445
Corporate and other securities		41,182
	$	192,090

During the year ended November 30, 2004, the Company transferred approximately $61 million of GNMA mortgage-backed securities to an irrevocable trust in exchange for collateralized mortgage obligation (CMO) certificates. The Company derecognized the mortgage-backed securities transferred given that it relinquished control over such securities. The mortgage-backed securities transferred were accounted for at fair value prior to securitization. The Company subsequently retained approximately $25 million of such certificates including a residual interest certificate (interest only). Such residual interests are accounted for at fair value and included in the “Mortgage-backed securities” caption above. Cash flows on the residual retained interest were approximately $457 for the six months ended June 30, 2007.

3. Securities Owned Held in Segregation

US Treasury Bills with a market value of $445 have been segregated in a special reserve bank account for the benefit of customers under Rule 15c3-3 of the Securities and Exchange Commission.

4. Securities Purchased Under Agreements to Resell

The securities underlying the agreements to resell were delivered to, and are held by, the Company. The counterparties to such agreements maintain effective control over such securities. Although the Company is permitted by contract or custom to repledge the securities, it has agreed to resell to the counterparties the same or substantially similar securities at the maturity of the agreements.

The fair value of the collateral securities received by the Company on these transactions as of June 30, 2007 were as follows:

Repledged	$	229,015
	$	229,015

The repledged securities were used as underlying collateral for securities sold under agreements to repurchase.

5. Securities Sold Under Agreements to Repurchase

The following table summarizes certain information on securities sold under agreements to repurchase as of June 30, 2007.

Securities sold under agreements to repurchase	$	274,344
Maximum aggregate balance outstanding at any month-end	$	274,878
Average monthly aggregate balance outstanding	$	254,822
Weighted average interest rate:		
At June 30, 2007		5.34%
For the year		5.40%

6. Deferred Compensation

The Company sponsors two different non-qualified deferred compensation plans (the "Plans") for a select group of employees of its institutional division and retail division to defer their incentive performance bonus. Participation in the two Plans is required and automatic if certain criteria are met.

On October 22, 1999 the Company created a trust (the "Trust") to invest the amount deferred under one of its Plans, if so elected by the participant. The Trust's assets are subject to the claims of the Company's creditors in the event of the Company's insolvency until paid to participants at such times as specified above.

The principal balance held by the Trust and any realized and unrealized appreciation is exclusively for the benefit of Plan participants.

As of June 30, 2007, the Trust had 30,876 shares of common stock of Popular, Inc. These shares are carried as treasury stock in the Statement of Financial Condition, at cost.

Total Plan's liability as of June 30, 2007 amounted to $1,741 and is included as deferred compensation in the Statement of Financial Condition.

7. Employee Benefit Plan

The Company maintains a contributory savings plan which is available to employees with more than three months of service. Company contributions include a matching contribution and an additional discretionary profit sharing contribution. Employees are fully vested on these contributions after five years of service. The plan's trustee is an affiliated company.

8. Income Taxes

Temporary differences which give rise to the deferred tax asset at June 30, 2007, are as follows:

Deferred tax asset

Deferred compensation	$ 919
Other	187
	$ 1,106

9. Financial Instruments

The financial instruments of the Company are reported in the Statement of Financial Condition at market or estimated fair value or at carrying values that approximate fair values, because of their short-term nature.

Fair values for financial instruments are based on quoted market prices, quoted process for similar financial instruments or various pricing models based on discounted anticipated cash flows.

Transactions involving financial instruments sold, not yet purchased, entail an obligation to purchase a financial instrument at a future date. The Company may incur a loss if the market value of the financial instrument subsequently increases prior to the purchase of the instrument.

10. Derivative Activities

Derivative contracts are financial instruments, such as futures, forwards, swaps or option contracts, that derive their value from underlying assets, indices, reference rates or a combination of these factors. Derivatives may involve future commitments to purchase or sell financial instruments. The amounts exchanged are based on the specific terms of the contract with reference to specified rates, securities or indices.

Most of the Company's derivative transactions are entered into for trading purposes. The Company uses derivatives in its trading activities to facilitate customer transactions, to take proprietary positions and as a means of risk management. Gains and losses on derivatives used for trading purposes are generally included as "trading gain or loss" in the Statement of Income.

By using derivative instruments, the Company exposes itself to credit and market risk. If counterparty fails to fulfill its performance obligation under a derivative contract, the Company's credit risk will equal the fair-value gain in a derivative. Generally, when the fair value of a derivative contract is positive, this indicates that the counterparty owes the Company, thus creating a repayment risk for the Company. The repayment risk is minimized by requiring posting of collateral within certain thresholds. When the fair value of a derivative contract is negative, the Company owes the counterparty and, therefore, assumes no repayment risk.

Options are contracts that grant the purchaser the right to buy or sell the underlying asset by a certain date at a specified price. The risk involved with purchased option contracts is normally limited to the price of the options. Interest rate future contracts are commitments to either purchase or sell designated instruments, such as U.S. Treasury securities, at a future date for a specified price. Future contracts are generally traded on an exchange, and are marked to market daily, and are subject to margin requirements.

The notional amounts of derivative financial instruments represent the volume of these transactions and not the amounts potentially subject to market risk. In addition, measurement of market risk is meaningful only when all related and offsetting transactions are taken into consideration.

As of June 30, 2007, the Company had ten interest rate swap contracts outstanding with aggregated notional amounts of $106,015, two of them maturing on March 30, 2008. Market value changes on these swaps are recognized in the Statement of Income in the period that such changes occur. Included in the Statement of Financial Condition as securities and other liabilities are the derivative asset of $340 and a derivative liability of $823 related to the fair value of the aforementioned interest rate swaps.

During 2006 the Company entered into a credit default swap with Lehman Brothers. The gross notional amounts of credit default swap as of June 30, 2007 amounted to $33,463. The fair value of this derivative financial instrument was $0 at June 30, 2007.

The following table summarizes the activity in derivatives transactions, options and futures, as of June 30, 2007:

	Notional Amount		Fair Value	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Futures contracts	$ -	$ 4,000	$ -	$ 29
Put option contracts	50,000	28,500	94	26
Call option contracts	-	19,500	-	138
	$ 50,000	$ 52,000	$ 94	$ 193

11. Concentrations of Credit Risk

The Company is engaged in various trading and brokerage activities in which counterparties primarily include broker-dealers, banks, and other financial institutions. In the event counterparties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty or issuer of the instrument. It is the Company's policy to review, as necessary, the credit standing of each counterparty. Also, the Company's main business is with individual customers and corporations in Puerto Rico.

At June 30, 2007, the Company had 100% of its repurchase agreements with an unrelated financial institution.

12. Commitments

At June 30, 2007, the Company has obligations under a number of noncancelable leases, for office space which require rental payments as follows:

	Minimum Payments	
Year	**Affiliates**	**Other**
2008	$ 692	$ 62
2009	717	26
2010	745	20
2011	321	0
2012 and thereafter	468	0
	$ 2,943	$ 108

Certain lease agreements contain provisions for future rent increases. The total amount of rental payments due over the lease term is being charged to rent expense on the straight-line method over the term of the lease. The difference between rent expense recorded and the amount paid is charged to "Deferred rent obligation", which is included in "Accounts payable to affiliates" in the accompanying Statement of Financial Condition. Total Deferred rent obligation as of June 30, 2007 amounted to $267.

13. Clearance Agreements

The Company has clearing and custody agreements with National Financial Services, Inc. ("NFS"), for its retail brokerage operation. The Company's institutional division self-clears its transactions through Bank of New York. NFS is member of various stock exchanges and subject to the rules and regulations of such organizations as well as those of the Securities and Exchange Commission. Under the terms of the agreements, NFS clears and executes the brokerage transactions of the Company's customers on a fully disclosed basis.

14. Guarantees

Under the terms of the clearance agreements with NFS, the clearing broker has the right to charge us for losses that result from a counterparty's, introduced by the Company, failure to fulfill its contractual obligations which default could have material effect on our business, financial condition and operating results. The Company is unable to develop an estimate of the maximum assumptions under these agreements and the probable exposures, however, the exposure at June 30, 2007 was immaterial.

15. Related Party Transactions

In the normal course of business, the Company enters into transactions with affiliated companies. At June 30, 2007 there were no transactions with affiliates outstanding.

16. Stock Option Plan

Popular Securities, Inc. participates in Popular, Inc.'s stock option plan, which permits the granting of incentive awards in the form of qualified stock options, incentive stock options, or non-statutory stock options of Popular, Inc. 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 maximum option term is generally ten years from the date of grant.

Popular, Inc. uses the fair value method of recording stock options as described in Statement of Financial Accounting Standards No. 123 "Accounting for Stock-Based Compensation". All future stock option grants will be expensed over the stock option vesting period based on the fair value at the date the options are granted.

17. Net Capital Requirements

As a registered broker-dealer, the Company is subject to the Uniform Net Capital Rule 15c3-1 (the "Rule") under the Securities Exchange Act of 1934 and has elected to compute its net capital in accordance with the alternative method of the Rule. Under the alternative method, the Company is required to maintain at all times a net capital equal to the greater of $250 or 2% of aggregate debit items computed in accordance with the Rule. At June 30, 2007, the Company's net capital of $10,454 was $10,168 in excess of required net capital of $286. The Company's ratio of debt to debt equity was 0%, which is below the maximum requirement specified by the Rule.