

POPULAR INC
Form 10-Q
November 08, 2012
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

x **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended September 30, 2012

Commission File Number: 001-34084

POPULAR, INC.

(Exact name of registrant as specified in its charter)

Puerto Rico
(State or other jurisdiction of
Incorporation or organization)

66-0667416
(IRS Employer
Identification Number)

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Popular Center Building

209 Muñoz Rivera Avenue

Hato Rey, Puerto Rico
(Address of principal executive offices)

(787) 765-9800

00918
(Zip code)

(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. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "accelerated filer, large accelerated filer and smaller reporting company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: Common Stock, \$0.01 par value, 103,105,983 shares outstanding as of October 31, 2012.

Table of Contents

POPULAR, INC.

INDEX

	Page
<u>Part I – Financial Information</u>	
Item 1. Financial Statements	
<u>Unaudited Consolidated Statements of Financial Condition at September 30, 2012 and December 31, 2011</u>	4
<u>Unaudited Consolidated Statements of Operations for the quarters and nine months ended September 30, 2012 and 2011</u>	5
<u>Unaudited Consolidated Statements of Comprehensive Income for the quarters and nine months ended September 30, 2012 and 2011</u>	6
<u>Unaudited Consolidated Statements of Changes in Stockholders' Equity for the nine months ended September 30, 2012 and 2011</u>	7
<u>Unaudited Consolidated Statements of Cash Flows for the nine months ended September 30, 2012 and 2011</u>	8
<u>Notes to Unaudited Consolidated Financial Statements</u>	9
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	126
Item 3. Quantitative and Qualitative Disclosures about Market Risk	193
Item 4. Controls and Procedures	193
<u>Part II – Other Information</u>	
Item 1. Legal Proceedings	193
Item 1A. Risk Factors	193
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	194
Item 6. Exhibits	195
<u>Signatures</u>	196

Table of Contents

Forward-Looking Information

The information included in this Form 10-Q contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements may relate to Popular, Inc. (the Corporation, Popular, we, us, our) 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, delinquency trends, market risk and the impact of interest rate changes, capital markets conditions, capital adequacy and liquidity, and the effect of legal proceedings and new accounting standards on the Corporation's financial condition and results of operations. All statements contained herein that are not clearly historical in nature are forward-looking, and the words anticipate, believe, continues, expect, estimate, intend, project and similar expressions and future or conditional verbs such as will, would, should, could, may, or similar 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 Popular's control, could cause actual results to differ materially from those expressed in, or implied by, such forward-looking statements. Factors that might cause such a difference include, but are not limited to:

the rate of growth in the economy and employment levels, as well as general business and economic conditions;

changes in interest rates, as well as the magnitude of such changes;

the fiscal and monetary policies of the federal government and its agencies;

changes in federal bank regulatory and supervisory policies, including required levels of capital and the impact of proposed capital standards on our capital ratios;

the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) on our businesses, business practices and cost of operations;

regulatory approvals that may be necessary to undertake certain actions or consummate strategic transactions such as acquisitions and dispositions;

the relative strength or weakness of the consumer and commercial credit sectors and of the real estate markets in Puerto Rico and the other markets in which borrowers are located;

the performance of the stock and bond markets;

competition in the financial services industry;

additional Federal Deposit Insurance Corporation (FDIC) assessments; and

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possible legislative, tax or regulatory changes.

Other possible events or factors that could cause results or performance to differ materially from those expressed in these forward-looking statements include the following: negative economic conditions that adversely affect the general economy, housing prices, the job market, consumer confidence and spending habits which may affect, among other things, the level of non-performing assets, charge-offs and provision expense; changes in interest rates and market liquidity which may reduce interest margins, impact funding sources and affect our ability to originate and distribute financial products in the primary and secondary markets; adverse movements and volatility in debt and equity capital markets; changes in market rates and prices which may adversely impact the value of financial assets and liabilities; liabilities resulting from litigation and regulatory investigations; changes in accounting standards, rules and interpretations; increased competition; our ability to grow our core businesses; decisions to downsize, sell or close units or otherwise change our business mix; and management's ability to identify and manage these and other risks. 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. Investors should refer to the Corporation's Annual Report on Form 10-K for the year ended December 31, 2011 as well as Part II, Item 1A of this Form 10-Q for a discussion of such factors and certain risks and uncertainties to which the Corporation is subject.

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

Table of Contents**POPULAR, INC.****CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION****(UNAUDITED)**

(In thousands, except share information)	September 30, 2012	December 31, 2011
Assets:		
Cash and due from banks	\$ 477,342	\$ 535,282
Money market investments:		
Federal funds sold	38,358	75,000
Securities purchased under agreements to resell	240,761	252,668
Time deposits with other banks	646,544	1,048,506
Total money market investments	925,663	1,376,174
Trading account securities, at fair value:		
Pledged securities with creditors right to repledge	181,133	402,591
Other trading securities	45,785	33,740
Investment securities available-for-sale, at fair value:		
Pledged securities with creditors right to repledge	1,464,402	1,737,868
Other investment securities available-for-sale	3,655,899	3,271,955
Investment securities held-to-maturity, at amortized cost (fair value at September 30, 2012 \$124,102; December 31, 2011 \$125,254)	122,072	125,383
Other investment securities, at lower of cost or realizable value (realizable value at September 30, 2012 - \$215,140; December 31, 2011 \$181,583)	213,389	179,880
Loans held-for-sale, at lower of cost or fair value	337,049	363,093
Loans held-in-portfolio:		
Loans not covered under loss sharing agreements with the FDIC	20,851,108	20,703,192
Loans covered under loss sharing agreements with the FDIC	3,903,867	4,348,703
Less Unearned income	97,255	100,596
Allowance for loan losses	761,172	815,308
Total loans held-in-portfolio, net	23,896,548	24,135,991
FDIC loss share asset	1,559,057	1,915,128
Premises and equipment, net	525,733	538,486
Other real estate not covered under loss sharing agreements with the FDIC	252,024	172,497
Other real estate covered under loss sharing agreements with the FDIC	125,514	109,135
Accrued income receivable	133,943	125,209
Mortgage servicing assets, at fair value	158,367	151,323
Other assets	1,724,927	1,462,393
Goodwill	647,757	648,350
Other intangible assets	56,762	63,954
Total assets	\$ 36,503,366	\$ 37,348,432
Liabilities and Stockholders Equity		
Liabilities:		
Deposits:		
Non-interest bearing	\$ 5,404,470	\$ 5,655,474

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Interest bearing	20,915,029	22,286,653
Total deposits	26,319,499	27,942,127
Assets sold under agreements to repurchase	1,944,564	2,141,097
Other short-term borrowings	1,206,200	296,200
Notes payable	1,866,377	1,856,372
Other liabilities	1,097,742	1,193,883
Total liabilities	32,434,382	33,429,679
Commitments and contingencies (See Note 19)		
Stockholders' equity:		
Preferred stock, 30,000,000 shares authorized; 2,006,391 shares issued and outstanding	50,160	50,160
Common stock, \$0.01 par value; 170,000,000 shares authorized; 103,112,305 shares issued at September 30, 2012 (December 31, 2011 102,634,640) and 103,097,143 shares outstanding (December 31, 2011 102,590,457)	1,031	1,026
Surplus	4,131,681	4,123,898
Accumulated deficit	(54,183)	(212,726)
Treasury stock at cost, 15,162 shares at September 30, 2012 (December 31, 2011 44,183)	(270)	(1,057)
Accumulated other comprehensive loss, net of tax	(59,435)	(42,548)
Total stockholders' equity	4,068,984	3,918,753
Total liabilities and stockholders' equity	\$ 36,503,366	\$ 37,348,432

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

Table of Contents**POPULAR, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS****(UNAUDITED)**

(In thousands, except per share information)	Quarter ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Interest income:				
Loans	\$ 387,381	\$ 428,999	\$ 1,164,665	\$ 1,294,834
Money market investments	862	886	2,774	2,759
Investment securities	39,945	51,085	128,828	157,183
Trading account securities	5,815	10,788	17,669	29,332
Total interest income	434,003	491,758	1,313,936	1,484,108
Interest expense:				
Deposits	43,000	65,868	143,193	213,419
Short-term borrowings	9,876	13,744	36,503	41,478
Long-term debt	37,701	42,835	112,032	141,999
Total interest expense	90,577	122,447	291,728	396,896
Net interest income	343,426	369,311	1,022,208	1,087,212
Provision for loan losses non-covered loans	83,589	150,703	247,846	306,177
Provision for loan losses covered loans	22,619	25,573	78,284	89,735
Net interest income after provision for loan losses	237,218	193,035	696,078	691,300
Service charges on deposit accounts	45,858	46,346	138,577	138,778
Other service fees	64,784	62,664	192,850	179,623
Net gain (loss) on sale and valuation adjustments of investment securities	64	8,134	(285)	8,044
Trading account (loss) profit	(2,266)	2,912	(11,692)	3,287
Net gain on sale of loans, including valuation adjustments on loans held-for-sale	18,495	20,294	18,569	14,756
Adjustments (expense) to indemnity reserves on loans sold	(8,717)	(10,285)	(17,990)	(29,587)
FDIC loss share (expense) income	(6,707)	(5,361)	(19,387)	49,344
Fair value change in equity appreciation instrument				8,323
Other operating income	4,198	(2,314)	32,699	38,350
Total non-interest income	115,709	122,390	333,341	410,918
Operating expenses:				
Personnel costs	111,550	111,724	349,377	328,823
Net occupancy expenses	24,409	25,885	73,534	76,428
Equipment expenses	11,447	10,517	33,688	33,314
Other taxes	12,666	12,391	38,178	38,986
Professional fees	53,412	48,756	153,644	144,923
Communications	6,500	6,800	20,276	21,198
Business promotion	14,924	14,650	44,754	35,842
FDIC deposit insurance	24,173	23,285	72,006	68,640
Loss on early extinguishment of debt	43	109	25,184	8,637
Other real estate owned (OREO) expenses	5,896	3,234	22,441	11,885
Other operating expenses	22,854	22,541	73,714	63,555
Amortization of intangibles	2,481	2,463	7,605	6,973

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Total operating expenses	290,355	282,355	914,401	839,204
Income before income tax	62,572	33,070	115,018	263,014
Income tax expense (benefit)	15,384	5,537	(46,317)	114,664
Net Income	\$ 47,188	\$ 27,533	\$ 161,335	\$ 148,350
Net Income Applicable to Common Stock	\$ 46,257	\$ 26,602	\$ 158,543	\$ 145,558
Net Income per Common Share Basic	\$ 0.45	\$ 0.26	\$ 1.55	\$ 1.42
Net Income per Common Share Diluted	\$ 0.45	\$ 0.26	\$ 1.55	\$ 1.42

Dividends Declared per Common Share

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

Table of Contents**POPULAR, INC.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(UNAUDITED)**

(In thousands)	Quarter ended, September 30,		Nine months ended, September 30,	
	2012	2011	2012	2011
Net income	\$ 47,188	\$ 27,533	\$ 161,335	\$ 148,350
Other comprehensive (loss) income before tax:				
Foreign currency translation adjustment	(120)	(222)	(1,066)	(1,950)
Reclassification adjustment for losses included in net income				10,084
Adjustment of pension and postretirement benefit plans				
Amortization of net losses	6,289	3,243	18,868	9,730
Amortization of prior service cost	(50)	(240)	(150)	(720)
Unrealized holding (losses) gains on securities available-for-sale arising during the period	(6,567)	29,021	(33,022)	59,822
Reclassification adjustment for (gains) losses included in net income	(64)	(8,134)	285	(8,044)
Unrealized net losses on cash flow hedges	(6,285)	(6,295)	(12,612)	(9,939)
Reclassification adjustment for net losses (gains) included in net income	3,701	4,139	9,677	7,333
Other comprehensive (loss) income before tax	(3,096)	21,512	(18,020)	66,316
Income tax benefit (expense)	244	(708)	1,133	(4,780)
Total other comprehensive (loss) income, net of tax	(2,852)	20,804	(16,887)	61,536
Comprehensive income, net of tax	\$ 44,336	\$ 48,337	\$ 144,448	\$ 209,886

Tax effect allocated to each component of other comprehensive (loss) income:

(In thousands)	Quarter ended September 30,		Nine months ended, September 30,	
	2012	2011	2012	2011
Underfunding of pension and postretirement benefit plans	\$	\$	\$	\$
Amortization of net losses	(1,740)	(965)	(5,220)	(2,896)
Amortization of prior service cost	15	72	45	216
Unrealized holding (losses) gains on securities available-for-sale arising during the period	1,193	(1,611)	5,428	(4,101)
Reclassification adjustment for (gains) losses included in net income		1,233		1,219
Unrealized net losses on cash flow hedges	1,886	1,805	3,783	2,982
Reclassification adjustment for net losses (gains) included in net income	(1,110)	(1,242)	(2,903)	(2,200)
Income tax benefit (expense)	\$ 244	\$ (708)	\$ 1,133	\$ (4,780)

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

Table of Contents**POPULAR, INC.****CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY****(UNAUDITED)**

(In thousands)	Common stock	Preferred stock	Surplus	Accumulated deficit	Treasury stock	Accumulated other comprehensive income (loss)	Total
Balance at December 31, 2010	\$ 1,023	\$ 50,160	\$ 4,103,211	\$ (347,328)	\$ (574)	\$ (5,961)	\$ 3,800,531
Net income				148,350			148,350
Issuance of stock	2		5,392				5,394
Dividends declared:							
Preferred stock				(2,792)			(2,792)
Common stock purchases					(418)		(418)
Other comprehensive income, net of tax						61,536	61,536
Balance at September 30, 2011	\$ 1,025	\$ 50,160	\$ 4,108,603	\$ (201,770)	\$ (992)	\$ 55,575	\$ 4,012,601
Balance at December 31, 2011	\$ 1,026	\$ 50,160	\$ 4,123,898	\$ (212,726)	\$ (1,057)	\$ (42,548)	\$ 3,918,753
Net income				161,335			161,335
Issuance of stock	5		7,783				7,788
Dividends declared:							
Preferred stock				(2,792)			(2,792)
Common stock purchases					(276)		(276)
Common stock reissuance					1,063		1,063
Other comprehensive loss, net of tax						(16,887)	(16,887)
Balance at September 30, 2012	\$ 1,031	\$ 50,160	\$ 4,131,681	\$ (54,183)	\$ (270)	\$ (59,435)	\$ 4,068,984

Disclosure of changes in number of shares:	September 30, 2012	December 31, 2011	September 30, 2011
Preferred Stock:			
Balance at beginning and end of period	2,006,391	2,006,391	2,006,391
Common Stock Issued:			
Balance at beginning of year	102,634,640	102,292,916	102,292,916
Issuance of stock	477,665	341,724	194,110
Balance at end of the period	103,112,305	102,634,640	102,487,026
Treasury stock	(15,162)	(44,183)	(39,486)
Common Stock Outstanding	103,097,143	102,590,457	102,447,540

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

Table of Contents**POPULAR, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(UNAUDITED)**

(In thousands)	Nine months ended September 30,	
	2012	2011
Cash flows from operating activities:		
Net income	\$ 161,335	\$ 148,350
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	326,130	395,912
Amortization of intangibles	7,605	6,973
Depreciation and amortization of premises and equipment	34,953	34,864
Net accretion of discounts and amortization of premiums and deferred fees	(22,118)	(97,668)
Impairment losses on net assets to be disposed of		6,085
Fair value adjustments on mortgage servicing rights	7,217	26,373
Fair value change in equity appreciation instrument		(8,323)
FDIC loss share expense (income)	19,387	(49,344)
Amortization of prepaid FDIC assessment	30,157	68,640
Adjustments (expense) to indemnity reserves on loans sold	17,990	29,587
Losses from investments under the equity method	9,788	11,250
Deferred income tax (benefit) expense	(150,201)	44,608
(Gain) loss on:		
Disposition of premises and equipment	(8,253)	(2,019)
Early extinguishment of debt	24,950	
Sale and valuation adjustments of investment securities	285	(8,044)
Sale of loans, including valuation adjustments on loans held-for-sale	(18,569)	(14,756)
Sale of equity method investment		(16,907)
Sale of other assets	(2,545)	
Acquisitions of loans held-for-sale	(288,844)	(253,401)
Proceeds from sale of loans held-for-sale	242,088	101,549
Net disbursements on loans held-for-sale	(860,804)	(617,591)
Net (increase) decrease in:		
Trading securities	849,304	492,882
Accrued income receivable	(8,735)	14,924
Other assets	65,944	(25,576)
Net increase (decrease) in:		
Interest payable	(7,553)	(7,344)
Pension and other postretirement benefit obligation	24,156	(128,802)
Other liabilities	(48,062)	(109,155)
Total adjustments	244,270	(105,283)
Net cash provided by operating activities	405,605	43,067
Cash flows from investing activities:		
Net decrease (increase) in money market investments	450,511	(289,844)
Purchases of investment securities:		
Available-for-sale	(1,284,834)	(1,198,613)
Held-to-maturity	(250)	(65,358)
Other	(152,607)	(116,582)
Proceeds from calls, paydowns, maturities and redemptions of investment securities:		

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Available-for-sale	1,166,618	979,868
Held-to-maturity	4,398	54,617
Other	119,098	104,231
Proceeds from sale of investment securities:		
Available-for-sale	8,031	35,099
Other		2,294
Net repayments on loans	687,582	1,013,103
Proceeds from sale of loans	51,677	290,119
Acquisition of loan portfolios	(1,051,588)	(985,675)
Payments received from FDIC under loss sharing agreements	327,739	561,111
Cash paid related to business acquisitions		(500)
Net proceeds from sale of equity method investment		31,503
Mortgage servicing rights purchased	(1,620)	(1,251)
Acquisition of premises and equipment	(34,336)	(37,868)
Proceeds from sale of:		
Premises and equipment	20,612	12,314
Other productive assets	1,026	
Foreclosed assets	142,019	133,017
Net cash provided by investing activities	454,076	521,585
Cash flows from financing activities:		
Net increase (decrease) in:		
Deposits	(1,624,634)	1,192,652
Federal funds purchased and assets sold under agreements to repurchase	(196,533)	189,056
Other short-term borrowings	910,000	(198,022)
Payments of notes payable	(72,815)	(2,055,254)
Proceeds from issuance of notes payable	61,331	419,500
Proceeds from issuance of common stock	7,788	5,394
Dividends paid	(2,482)	(2,792)
Treasury stock acquired	(276)	(418)
Net cash used in financing activities	(917,621)	(449,884)
Net (decrease) increase in cash and due from banks	(57,940)	114,768
Cash and due from banks at beginning of period	535,282	452,373
Cash and due from banks at end of period	\$ 477,342	\$ 567,141

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

Table of Contents

Notes to Consolidated Financial

Statements (Unaudited)

<u>Note 1 - Organization, consolidation and basis of presentation</u>	10
<u>Note 2 - New accounting pronouncements</u>	11
<u>Note 3 - Restrictions on cash and due from banks and certain securities</u>	15
<u>Note 4 - Pledged assets</u>	16
<u>Note 5 - Investment securities available-for-sale</u>	17
<u>Note 6 - Investment securities held-to-maturity</u>	21
<u>Note 7 - Loans</u>	23
<u>Note 8 - Allowance for loan losses</u>	32
<u>Note 9 - FDIC loss share asset and true-up payment obligation</u>	57
<u>Note 10 - Transfers of financial assets and mortgage servicing assets</u>	58
<u>Note 11 - Other assets</u>	62
<u>Note 12 - Goodwill and other intangible assets</u>	62
<u>Note 13 - Deposits</u>	67
<u>Note 14 - Borrowings</u>	68
<u>Note 15 - Trust preferred securities</u>	70
<u>Note 16 - Stockholders' equity</u>	72
<u>Note 17 - Accumulated other comprehensive income (loss)</u>	73
<u>Note 18 - Guarantees</u>	73
<u>Note 19 - Commitments and contingencies</u>	76
<u>Note 20 - Non-consolidated variable interest entities</u>	78
<u>Note 21 - Related party transactions with affiliated company / joint venture</u>	81
<u>Note 22 - Fair value measurement</u>	84
<u>Note 23 - Fair value of financial instruments</u>	92
<u>Note 24 - Net income per common share</u>	97
<u>Note 25 - Other service fees</u>	98
<u>Note 26 - FDIC loss share income (expense)</u>	98
<u>Note 27 - Pension and postretirement benefits</u>	99
<u>Note 28 - Stock-based compensation</u>	100
<u>Note 29 - Income taxes</u>	103
<u>Note 30 - Supplemental disclosure on the consolidated statements of cash flows</u>	107
<u>Note 31 - Segment reporting</u>	108
<u>Note 32 - Subsequent events</u>	114
<u>Note 33 - Condensed consolidating financial information of guarantor and issuers of registered guaranteed securities</u>	115

Table of Contents

Note 1 Organization, consolidation and basis of presentation

Nature of Operations

Popular, Inc. (the Corporation) is a diversified, publicly-owned financial holding company subject to the supervision and regulation of the Board of Governors of the Federal Reserve System. The Corporation has operations in Puerto Rico, the United States, the Caribbean and Latin America. In Puerto Rico, the Corporation provides retail and commercial banking services through its principal banking subsidiary, Banco Popular de Puerto Rico (BPPR), as well as mortgage banking, investment banking, broker-dealer, auto and equipment leasing and financing, and insurance services through specialized subsidiaries. In the U.S. mainland, the Corporation operates Banco Popular North America (BPNA), including its wholly-owned subsidiary E-LOAN. BPNA focuses efforts and resources on the core community banking business. BPNA operates branches in New York, California, Illinois, New Jersey and Florida. E-LOAN markets deposit accounts under its name for the benefit of BPNA. The BPNA branches operate under the name of Popular Community Bank. Note 31 to the consolidated financial statements presents information about the Corporation's business segments.

Principles of Consolidation and Basis of Presentation

The consolidated interim financial statements have been prepared without audit. The consolidated statement of financial condition data at December 31, 2011 was derived from audited financial statements. The unaudited interim financial statements are, in the opinion of management, a fair statement of the results for the periods reported and include all necessary adjustments, all of a normal recurring nature, for a fair statement of such results.

Certain reclassifications have been made to the 2011 consolidated financial statements and notes to the financial statements to conform with the 2012 presentation.

On May 29, 2012, the Corporation effected a 1-for-10 reverse split of its common stock. The reverse split is described further in Note 16 to these consolidated financial statements. All share and per share information in the consolidated financial statements and accompanying notes have been adjusted to retroactively reflect the 1-for-10 reverse stock split.

Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted from the unaudited financial statements pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, these financial statements should be read in conjunction with the audited consolidated financial statements of the Corporation for the year ended December 31, 2011, included in the Corporation's 2011 Annual Report (the 2011 Annual Report). Operating results for the interim periods disclosed herein are not necessarily indicative of the results that may be expected for a full year or any future period.

Use of Estimates in the Preparation of Financial Statements

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 contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Table of Contents

Note 2 New accounting pronouncements

FASB Accounting Standards Update 2012-06, Business Combinations (Topic 805): Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution (ASU 2012-06)

The FASB issued ASU 2012-06 in October 2012. ASU 2012-06 addresses the diversity in practice about how to interpret the terms on the same basis and contractual limitations when subsequently measuring an indemnification asset recognized in a government-assisted (Federal Deposit Insurance Corporation) acquisition of a financial institution that includes a loss-sharing agreement (indemnification agreement). When a reporting entity recognizes an indemnification asset as a result of a government-assisted acquisition of a financial institution and subsequently the cash flows expected to be collected on the indemnification asset changes, as a result of a change in cash flows expected to be collected on the assets subject to indemnification, the reporting entity should subsequently account for the change in the measurement of the indemnification asset on the same basis as the change in the assets subject to indemnification. Any amortization of changes in value should be limited to the contractual term of the indemnification agreement, that is, the lesser of the term of the indemnification agreement and the remaining life of the indemnified assets.

ASU 2012-06 is effective for fiscal years and interim periods within those years, beginning on or after December 15, 2012. Early adoption is permitted.

The adoption of this guidance is not expected to have a material effect on the Corporation's consolidated financial statements.

FASB Accounting Standards Update 2012-02, Intangibles-Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment (ASU 2012-02)

The FASB issued ASU 2012-02 in July 2012. ASU 2012-02 is intended to simplify how entities test indefinite-lived intangible assets, other than goodwill, for impairment. ASU 2012-02 permits an entity the option to first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test in accordance with ASC Subtopic 350-30, *Intangibles-Goodwill and Other-General Intangibles Other than Goodwill*. The more-likely-than-not threshold is defined as having a likelihood of more than 50%. This guidance results in guidance that is similar to the goodwill impairment testing guidance in ASU 2011-08. The previous guidance under ASC Subtopic 350-30 required an entity to test indefinite-lived intangible assets for impairment on at least an annual basis by comparing an asset's fair value with its carrying amount and recording an impairment loss for an amount equal to the excess of the asset's carrying amount over its fair value. Under the amendments in this ASU, an entity is not required to calculate the fair value of an indefinite-lived intangible asset if the entity determines that it is not more likely than not that the asset is impaired. In addition the new qualitative indicators replace those currently used to determine whether indefinite-lived intangible assets should be tested for impairment on an interim basis.

ASU 2012-12 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted, including for annual or interim impairment tests performed as of a date before July 27, 2012, as long as the financial statements have not yet been issued. The Corporation did not elect to adopt early the provisions of this ASU.

The provisions of this guidance simplify how entities test for indefinite-lived assets impairment and will not have an impact on the Corporation's consolidated financial statements.

FASB Accounting Standards Update 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income (ASU 2011-05) and FASB Accounting Standards Update 2011-12, Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05 (ASU 2011-12)

The FASB issued ASU 2011-05 in June 2011. The amendment of this ASU allows an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. The amendments to the Codification in this ASU do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. This ASU also does not change the option for an entity to present components of other comprehensive income either net of related tax effects or before related tax effects, with one amount shown for the aggregate income tax expense or benefit related to the total of other comprehensive income items.

Table of Contents

In December 2011, the FASB issued ASU 2011-12, which defers indefinitely the new requirement in ASU 2011-05 to present components of reclassification adjustments out of accumulated other comprehensive income on the face of the income statement by income statement line item.

The Corporation adopted the provisions of these two guidance in the first quarter of 2012. The guidance impacts presentation disclosure only and did not have an impact on the Corporation's financial condition or results of operations.

FASB Accounting Standards Update 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities (ASU 2011-11)

The FASB issued ASU 2011-11 in December 2011. The amendments in this ASU require an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. To meet this objective, entities with financial instruments and derivatives that are either offset on the balance sheet or subject to a master netting arrangement or similar arrangement shall disclose the following quantitative information separately for assets and liabilities in tabular format: a) gross amounts of recognized assets and liabilities; b) amounts offset to determine the net amount presented in the balance sheet; c) net amounts presented in the balance sheet; d) amounts subject to an enforceable master netting agreement or similar arrangement not otherwise included in (b), including: amounts related to recognized financial instruments and other derivatives instruments if either management makes an accounting election not to offset or the amounts do not meet the guidance in ASC Section 210-20-45 or ASC Section 815-10-45, and also amounts related to financial collateral (including cash collateral); and e) the net amount after deducting the amounts in (d) from the amounts in (c).

In addition to these tabular disclosures, entities are required to provide a description of the setoff rights associated with assets and liabilities subject to an enforceable master netting arrangement.

An entity is required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented.

The provisions of this guidance impact presentation disclosure only and will not have an impact on the Corporation's financial condition or results of operations.

FASB Accounting Standards Update 2011-10, Property, Plant, and Equipment (Topic 360): Derecognition of in Substance Real Estate—a Scope Clarification (ASU 2011-10)

The FASB issued ASU 2011-10 in December 2011. The objective of this ASU is to resolve the diversity in practice about whether the guidance in ASC Subtopic 360-20, Property, Plant, and Equipment Real Estate Sales applies to a parent that ceases to have a controlling financial interest in a subsidiary that is in substance real estate as a result of default on the subsidiary's nonrecourse debt. ASU 2011-10 provides that when a parent (reporting entity) ceases to have a controlling financial interest in a subsidiary that is in substance real estate as a result of default on the subsidiary's nonrecourse debt, the reporting entity should apply the guidance in ASC Subtopic 360-20 to determine whether it should derecognize the in substance real estate. Generally, a reporting entity would not satisfy the requirements to derecognize the in substance real estate before the legal transfer of the real estate to the lender and the extinguishment of the related nonrecourse indebtedness. That is, even if the reporting entity ceases to have a controlling financial interest under ASC Subtopic 810-10, the reporting entity would continue to include the real estate, debt, and the results of the subsidiary's operations in its consolidated financial statements until legal title to the real estate is transferred to legally satisfy the debt.

ASU 2011-10 should be applied on a prospective basis to deconsolidation events occurring after the effective date; with prior periods not adjusted even if the reporting entity has continuing involvement with previously derecognized in substance real estate entities. For public entities, ASU 2011-10 is effective for fiscal years, and interim periods within those years, beginning on or after June 15, 2012. Early adoption is permitted; however, the Corporation is not early adopting this ASU.

The adoption of this guidance is not expected to have a material effect on the Corporation's consolidated financial statements.

FASB Accounting Standards Update 2011-08, Intangibles-Goodwill and Other (Topic 350): Testing Goodwill for Impairment (ASU 2011-08)

Table of Contents

The FASB issued ASU No. 2011-08 in September 2011. ASU 2011-08 is intended to simplify how entities test goodwill for impairment. ASU 2011-08 permits an entity the option to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in ASC Topic 350, *Intangibles-Goodwill and Other*. The more-likely-than-not threshold is defined as having a likelihood of more than 50%. The previous guidance under ASC Topic 350 required an entity to test goodwill for impairment, on at least an annual basis, by comparing the fair value of a reporting unit with its carrying amount, including goodwill (step one). If the fair value of a reporting unit is less than its carrying amount, then the second step of the test must be performed to measure the amount of the impairment loss, if any. Under the amendments in this ASU, an entity is not required to calculate the fair value of a reporting unit unless the entity determines that it is more likely than not that its fair value is less than its carrying amount.

This ASU also removes the guidance that permitted the entities to carry forward the calculation of the fair value of the reporting unit from one year to the next if certain conditions are met. In addition, the new qualitative indicators replace those currently used to determine whether an interim goodwill impairment test is required. These indicators are also applicable for assessing whether to perform step two for reporting units with zero or negative carrying amounts.

ASU 2011-08 was effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption was permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity's financial statements for the most recent annual or interim period had not yet been issued. The Corporation did not elect to adopt early the provisions of this ASU.

The Corporation adopted this guidance on January 1, 2012. The provisions of this guidance simplify how entities test for goodwill impairment and it has not impacted the Corporation's consolidated financial statements as of September 30, 2012.

FASB Accounting Standards Update 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS (ASU 2011-04)

The FASB issued ASU 2011-04 in May 2011. The amendment of this ASU provides a consistent definition of fair value between U.S. GAAP and International Financial Reporting Standards (IFRS). The ASU modifies some fair value measurement principles and disclosure requirements including the application of the highest and best use and valuation premise concepts, measuring the fair value of an instrument classified in a reporting entity's shareholders' equity, measuring the fair value of financial instruments that are managed within a portfolio, application of premiums and discounts in a fair value measurement, disclosing quantitative information about unobservable inputs used in Level 3 fair value measurements, and other additional disclosures about fair value measurements.

The new guidance was effective for interim or annual periods beginning on or after December 15, 2011. The guidance should be applied prospectively and early application was not permitted.

The Corporation adopted this guidance on the first quarter of 2012. It has not had a material impact on the Corporation's consolidated financial statements as of September 30, 2012. Refer to Notes 22 and 23 for additional fair value disclosures included for the quarter and nine months ended September 30, 2012.

FASB Accounting Standards Update 2011-03, Transfers and Servicing (Topic 860): Reconsideration of Effective Control for Repurchase Agreements (ASU 2011-03)

The FASB issued ASU 2011-03 in April 2011. The amendment of this ASU affects all entities that enter into agreements to transfer financial assets that both entitle and obligate the transferor to repurchase or redeem the financial assets before their maturity. The ASU modifies the criteria for determining when these transactions would be accounted for as financings (secured borrowings / lending agreements) as opposed to sales (purchases) with commitments to repurchase (resell). This ASU does not affect other transfers of financial assets. ASC Topic 860 prescribes when an entity may or may not recognize a sale upon the transfer of financial assets subject to repurchase agreements. That determination is based, in part, on whether the entity has maintained effective control over transferred financial assets.

Specifically, the amendments in this ASU remove from the assessment of effective control (1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (2) the requirement to demonstrate that the transferor possesses adequate collateral to fund substantially all the cost of purchasing replacement financial assets.

Table of Contents

The new guidance was effective for interim or annual periods beginning on or after December 15, 2011. The guidance should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. Early application was not permitted.

The Corporation adopted this guidance on January 1, 2012. It has not had an impact on the Corporation's consolidated financial statements as of September 30, 2012.

Table of Contents

Note 3 Restrictions on cash and due from banks and certain securities

The Corporation's banking subsidiaries, BPPR and BPNA, are required by federal and state regulatory agencies to maintain average reserve balances with the Federal Reserve Bank of New York (the Fed) or other banks. Those required average reserve balances amounted to \$900 million at September 30, 2012 (December 31, 2011 \$838 million). Cash and due from banks, as well as other short-term, highly liquid securities, are used to cover the required average reserve balances.

At September 30, 2012, the Corporation held \$38 million in restricted assets in the form of cash and funds deposited in money market accounts (December 31, 2011 \$36 million).

Table of Contents**Note 4 Pledged assets**

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

(In thousands)	September 30, 2012	December 31, 2011
Investment securities available-for-sale, at fair value	\$ 1,757,309	\$ 1,894,651
Investment securities held-to-maturity, at amortized cost	25,000	25,000
Loans held-for-sale measured at lower of cost or fair value	132	5,286
Loans held-in-portfolio covered under loss sharing agreements with the FDIC	476,061	
Loans held-in-portfolio not covered under loss sharing agreements with the FDIC	8,544,687	8,571,268
Total pledged assets	\$ 10,803,189	\$ 10,496,205

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

At September 30, 2012, the Corporation had \$ 1.3 billion in investment securities available-for-sale and \$ 0.3 billion in loans that served as collateral to secure public funds (December 31, 2011 \$ 1.4 billion and \$ 0.4 billion, respectively).

At September 30, 2012, the Corporation's banking subsidiaries had short-term and long-term credit facilities authorized with the Federal Home Loan Bank system (the FHLB) aggregating to \$2.8 billion (December 31, 2011 \$2.0 billion). Refer to Note 14 to the consolidated financial statements for borrowings outstanding under these credit facilities. At September 30, 2012, the credit facilities authorized with the FHLB were collateralized by \$ 4.0 billion in loans held-in-portfolio (December 31, 2011 \$ 3.2 billion). Also, the Corporation's banking subsidiaries had a borrowing capacity at the Federal Reserve (Fed) discount window of \$4.4 billion (December 31, 2011 \$2.6 billion), which remained unused as of such date. The amount available under these credit facilities with the Fed is dependent upon the balance of loans and securities pledged as collateral. At September 30, 2012, the credit facilities with the Fed discount window were collateralized by \$ 4.7 billion in loans held-in-portfolio (December 31, 2011 \$ 4.0 billion). These pledged assets are included in the above table and were not reclassified and separately reported in the consolidated statements of financial condition.

In addition, at September 30, 2012 trades receivables from brokers and counterparties amounting to \$267 million were pledged to secure repurchase agreements (December 31, 2011 \$68 million).

Table of Contents**Note 5 Investment securities available-for-sale**

The following tables present the amortized cost, gross unrealized gains and losses, approximate fair value, weighted average yield and contractual maturities of investment securities available-for-sale.

(In thousands)	Amortized cost	At September 30, 2012		Fair value	Weighted average yield
		Gross unrealized gains	Gross unrealized losses		
U.S. Treasury securities					
Within 1 year	\$ 7,016	\$ 43	\$	\$ 7,059	1.50%
After 1 to 5 years	27,423	3,225		30,648	3.82
Total U.S. Treasury securities	34,439	3,268		37,707	3.35
Obligations of U.S. Government sponsored entities					
Within 1 year	539,000	11,603		550,603	3.93
After 1 to 5 years	190,521	2,661		193,182	1.57
After 5 to 10 years	317,543	3,811	172	321,182	1.93
Total obligations of U.S. Government sponsored entities	1,047,064	18,075	172	1,064,967	2.89
Obligations of Puerto Rico, States and political subdivisions					
Within 1 year	5,220	43		5,263	5.26
After 1 to 5 years	6,262	169	42	6,389	4.65
After 10 years	37,290	1,062		38,352	5.38
Total obligations of Puerto Rico, States and political subdivisions	48,772	1,274	42	50,004	5.27
Collateralized mortgage obligations federal agencies					
After 1 to 5 years	5,506	51		5,557	1.49
After 5 to 10 years	45,831	2,067		47,898	2.96
After 10 years	2,116,579	48,324	1,316	2,163,587	2.35
Total collateralized mortgage obligations federal agencies	2,167,916	50,442	1,316	2,217,042	2.36
Collateralized mortgage obligations private label					
After 5 to 10 years	35	1		36	4.88
After 10 years	39,754	229	1,106	38,877	2.66
Total collateralized mortgage obligations private label	39,789	230	1,106	38,913	2.66
Mortgage-backed securities					
Within 1 year	600	24		624	3.80
After 1 to 5 years	3,705	196		3,901	3.94
After 5 to 10 years	89,364	7,258		96,622	4.71
After 10 years	1,461,674	116,479	40	1,578,113	4.21
Total mortgage-backed securities	1,555,343	123,957	40	1,679,260	4.24
Equity securities (without contractual maturity)	6,595	1,011	76	7,530	3.41
Other					

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After 5 to 10 years	18,032	2,363		20,395	11.00
After 10 years	4,342	141		4,483	3.61
Total other	22,374	2,504		24,878	9.57
Total investment securities available-for-sale	\$ 4,922,292	\$ 200,761	\$ 2,752	\$ 5,120,301	3.14%

Table of Contents

(In thousands)	At December 31, 2011				Weighted average yield
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	
U.S. Treasury securities					
After 1 to 5 years	\$ 34,980	\$ 3,688	\$	\$ 38,668	3.35%
Total U.S. Treasury securities	34,980	3,688		38,668	3.35
Obligations of U.S. Government sponsored entities					
Within 1 year	94,492	2,382		96,874	3.45
After 1 to 5 years	655,625	25,860		681,485	3.38
After 5 to 10 years	171,633	2,969		174,602	2.94
After 10 years	32,086	499		32,585	3.20
Total obligations of U.S. Government sponsored entities	953,836	31,710		985,546	3.30
Obligations of Puerto Rico, States and political subdivisions					
Within 1 year	765	9		774	4.97
After 1 to 5 years	14,824	283	31	15,076	4.07
After 5 to 10 years	4,595	54		4,649	5.33
After 10 years	37,320	909		38,229	5.38
Total obligations of Puerto Rico, States and political subdivisions	57,504	1,255	31	58,728	5.03