

POPULAR INC
Form 10-Q
August 09, 2012
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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 June 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, 102,856,169 shares outstanding as of July 31, 2012.

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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 Popular, Inc.'s (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) | June 30, 2012 | December 31, 2011 |
|--|----------------------|----------------------|
| Assets: | | |
| Cash and due from banks | \$ 515,338 | \$ 535,282 |
| Money market investments: | | |
| Federal funds sold | 5,455 | 75,000 |
| Securities purchased under agreements to resell | 234,738 | 252,668 |
| Time deposits with other banks | 709,635 | 1,048,506 |
| Total money market investments | 949,828 | 1,376,174 |
| Trading account securities, at fair value: | | |
| Pledged securities with creditors right to repledge | 356,624 | 402,591 |
| Other trading securities | 60,845 | 33,740 |
| Investment securities available-for-sale, at fair value: | | |
| Pledged securities with creditors right to repledge | 939,286 | 1,737,868 |
| Other investment securities available-for-sale | 4,137,511 | 3,271,955 |
| Investment securities held-to-maturity, at amortized cost (fair value at June 30, 2012 \$126,523; December 31, 2011 \$125,254) | 124,646 | 125,383 |
| Other investment securities, at lower of cost or realizable value (realizable value at June 30, 2012 - \$175,948; December 31, 2011 \$181,583) | 174,287 | 179,880 |
| Loans held-for-sale, at lower of cost or fair value | 364,537 | 363,093 |
| Loans held-in-portfolio: | | |
| Loans not covered under loss sharing agreements with the FDIC | 20,763,610 | 20,703,192 |
| Loans covered under loss sharing agreements with the FDIC | 4,016,330 | 4,348,703 |
| Less Unearned income | 97,801 | 100,596 |
| Allowance for loan losses | 766,030 | 815,308 |
| Total loans held-in-portfolio, net | 23,916,109 | 24,135,991 |
| FDIC loss share asset | 1,631,594 | 1,915,128 |
| Premises and equipment, net | 527,027 | 538,486 |
| Other real estate not covered under loss sharing agreements with the FDIC | 226,629 | 172,497 |
| Other real estate covered under loss sharing agreements with the FDIC | 125,093 | 109,135 |
| Accrued income receivable | 122,320 | 125,209 |
| Mortgage servicing assets, at fair value | 155,711 | 151,323 |
| Other assets | 1,577,794 | 1,462,393 |
| Goodwill | 647,757 | 648,350 |
| Other intangible assets | 59,243 | 63,954 |
| Total assets | \$ 36,612,179 | \$ 37,348,432 |
| Liabilities and Stockholders Equity | | |
| Liabilities: | | |
| Deposits: | | |
| Non-interest bearing | \$ 5,578,487 | \$ 5,655,474 |

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| | | |
|--|---------------|---------------|
| Interest bearing | 21,836,293 | 22,286,653 |
| Total deposits | 27,414,780 | 27,942,127 |
| Assets sold under agreements to repurchase | 1,426,636 | 2,141,097 |
| Other short-term borrowings | 316,200 | 296,200 |
| Notes payable | 1,877,583 | 1,856,372 |
| Other liabilities | 1,555,743 | 1,193,883 |
| Total liabilities | 32,590,942 | 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; 102,832,457 shares issued at June 30, 2012 (December 31, 2011 102,634,640) and 102,824,323 shares outstanding (December 31, 2011 102,590,457) | 1,028 | 1,026 |
| Surplus | 4,127,216 | 4,123,898 |
| Accumulated deficit | (100,440) | (212,726) |
| Treasury stock at cost, 8,134 shares at June 30, 2012 (December 31, 2011 44,183) | (144) | (1,057) |
| Accumulated other comprehensive loss, net of tax | (56,583) | (42,548) |
| Total stockholders' equity | 4,021,237 | 3,918,753 |
| Total liabilities and stockholders' equity | \$ 36,612,179 | \$ 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 June 30, 2012 | Quarter ended June 30, 2011 | Six months ended June 30, 2012 | Six months ended June 30, 2011 |
|--|--------------------------------|--------------------------------|-----------------------------------|-----------------------------------|
| Interest income: | | | | |
| Loans | \$ 389,342 | \$ 442,460 | \$ 777,284 | \$ 865,835 |
| Money market investments | 964 | 926 | 1,912 | 1,873 |
| Investment securities | 43,813 | 53,723 | 88,883 | 106,098 |
| Trading account securities | 5,963 | 9,790 | 11,854 | 18,544 |
| Total interest income | 440,082 | 506,899 | 879,933 | 992,350 |
| Interest expense: | | | | |
| Deposits | 48,514 | 70,672 | 100,193 | 147,551 |
| Short-term borrowings | 13,044 | 13,719 | 26,627 | 27,734 |
| Long-term debt | 37,324 | 47,966 | 74,331 | 99,164 |
| Total interest expense | 98,882 | 132,357 | 201,151 | 274,449 |
| Net interest income | 341,200 | 374,542 | 678,782 | 717,901 |
| Provision for loan losses non-covered loans | 81,743 | 95,712 | 164,257 | 155,474 |
| Provision for loan losses covered loans | 37,456 | 48,605 | 55,665 | 64,162 |
| Net interest income after provision for loan losses | 222,001 | 230,225 | 458,860 | 498,265 |
| Service charges on deposit accounts | 46,130 | 46,802 | 92,719 | 92,432 |
| Other service fees | 62,027 | 58,307 | 128,066 | 116,959 |
| Net loss on sale and valuation adjustments of investment securities | (349) | (90) | (349) | (90) |
| Trading account (loss) profit | (7,283) | 874 | (9,426) | 375 |
| Net (loss) gain on sale of loans, including valuation adjustments on loans held-for-sale | (15,397) | (12,782) | 74 | (5,538) |
| Adjustments (expense) to indemnity reserves on loans sold | (5,398) | (9,454) | (9,273) | (19,302) |
| FDIC loss share income (expense) | 2,575 | 38,670 | (12,680) | 54,705 |
| Fair value change in equity appreciation instrument | | 578 | | 8,323 |
| Other operating income | 11,419 | 1,255 | 28,501 | 40,664 |
| Total non-interest income | 93,724 | 124,160 | 217,632 | 288,528 |
| Operating expenses: | | | | |
| Personnel costs | 116,336 | 110,959 | 237,827 | 217,099 |
| Net occupancy expenses | 24,963 | 25,957 | 49,125 | 50,543 |
| Equipment expenses | 10,900 | 10,761 | 22,241 | 22,797 |
| Other taxes | 12,074 | 14,623 | 25,512 | 26,595 |
| Professional fees | 52,127 | 49,479 | 100,232 | 96,167 |
| Communications | 6,645 | 7,188 | 13,776 | 14,398 |
| Business promotion | 16,980 | 11,332 | 29,830 | 21,192 |
| FDIC deposit insurance | 22,907 | 27,682 | 47,833 | 45,355 |
| Loss on early extinguishment of debt | 25,072 | 289 | 25,141 | 8,528 |
| Other real estate owned (OREO) expenses | 2,380 | 6,440 | 16,545 | 8,651 |
| Other operating expenses | 34,964 | 14,835 | 50,860 | 41,014 |
| Amortization of intangibles | 2,531 | 2,255 | 5,124 | 4,510 |

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| | | | | |
|--|------------------|-------------------|-------------------|-------------------|
| Total operating expenses | 327,879 | 281,800 | 624,046 | 556,849 |
| (Loss) income before income tax | (12,154) | 72,585 | 52,446 | 229,944 |
| Income tax (benefit) expense | (77,893) | (38,100) | (61,701) | 109,127 |
| Net Income | \$ 65,739 | \$ 110,685 | \$ 114,147 | \$ 120,817 |
| Net Income Applicable to Common Stock | \$ 64,809 | \$ 109,754 | \$ 112,286 | \$ 118,956 |
| Net Income per Common Share Basic | \$ 0.63 | \$ 1.07 | \$ 1.10 | \$ 1.16 |
| Net Income per Common Share Diluted | \$ 0.63 | \$ 1.07 | \$ 1.10 | \$ 1.16 |
| 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, | | Six months ended, | |
|--|----------------|------------|-------------------|------------|
| | June 30, | June 30, | June 30, | June 30, |
| | 2012 | 2011 | 2012 | 2011 |
| Net income | \$ 65,739 | \$ 110,685 | \$ 114,147 | \$ 120,817 |
| Other comprehensive (loss) income before tax: | | | | |
| Foreign currency translation adjustment | (860) | (1,137) | (946) | (1,728) |
| Reclassification adjustment for losses included in net income | | | | 10,084 |
| Adjustment of pension and postretirement benefit plans | | | | |
| Amortization of net losses | 6,290 | 3,245 | 12,579 | 6,487 |
| Amortization of prior service cost | (50) | (240) | (100) | (480) |
| Unrealized holding (losses) gains on securities available-for-sale arising during the period | (18,573) | 50,779 | (26,455) | 30,801 |
| Reclassification adjustment for losses included in net income | 349 | 90 | 349 | 90 |
| Unrealized net (losses) gains on cash flow hedges | (1,408) | 485 | (1,698) | 434 |
| Reclassification adjustment for net losses (gains) included in net income | 290 | 51 | 1,347 | (884) |
| Other comprehensive (loss) income before tax | (13,962) | 53,273 | (14,924) | 44,804 |
| Income tax benefit (expense) | 1,164 | (5,500) | 889 | (4,072) |
| Total other comprehensive (loss) income, net of tax | (12,798) | 47,773 | (14,035) | 40,732 |
| Comprehensive income, net of tax | \$ 52,941 | \$ 158,458 | \$ 100,112 | \$ 161,549 |

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

| (In thousands) | Quarter ended | | Six months ended, | |
|--|---------------|------------|-------------------|------------|
| | June 30, | June 30, | June 30, | June 30, |
| | 2012 | 2011 | 2012 | 2011 |
| Underfunding of pension and postretirement benefit plans | \$ | \$ | \$ | \$ |
| Amortization of net losses | (1,710) | (822) | (3,420) | (1,643) |
| Amortization of prior service cost | (15) | (72) | (30) | (144) |
| Unrealized holding (losses) gains on securities available-for-sale arising during the period | 2,554 | (4,431) | 4,235 | (2,490) |
| Reclassification adjustment for losses included in net income | | (14) | | (14) |
| Unrealized net (losses) gains on cash flow hedges | 422 | (146) | 509 | (131) |
| Reclassification adjustment for net losses (gains) included in net income | (87) | (15) | (405) | 350 |
| Income tax benefit (expense) | \$ 1,164 | \$ (5,500) | \$ 889 | \$ (4,072) |

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 | | | | 120,817 | | | 120,817 |
| Issuance of stock | 1 | | 3,916 | | | | 3,917 |
| Dividends declared: | | | | | | | |
| Preferred stock | | | | (1,861) | | | (1,861) |
| Common stock purchases | | | | | (68) | | (68) |
| Other comprehensive income, net of tax | | | | | | 40,732 | 40,732 |
| Balance at June 30, 2011 | \$ 1,024 | \$ 50,160 | \$ 4,107,127 | \$ (228,372) | \$ (642) | \$ 34,771 | \$ 3,964,068 |
| Balance at December 31, 2011 | \$ 1,026 | \$ 50,160 | \$ 4,123,898 | \$ (212,726) | \$ (1,057) | \$ (42,548) | \$ 3,918,753 |
| Net income | | | | 114,147 | | | 114,147 |
| Issuance of stock | 2 | | 3,318 | | | | 3,320 |
| Dividends declared: | | | | | | | |
| Preferred stock | | | | (1,861) | | | (1,861) |
| Common stock purchases | | | | | (150) | | (150) |
| Common stock reissuance | | | | | 1,063 | | 1,063 |
| Other comprehensive loss, net of tax | | | | | | (14,035) | (14,035) |
| Balance at June 30, 2012 | \$ 1,028 | \$ 50,160 | \$ 4,127,216 | \$ (100,440) | \$ (144) | \$ (56,583) | \$ 4,021,237 |

Disclosure of changes in number of shares:

| | June 30, 2012 | December 31, 2011 | June 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 | 197,817 | 341,724 | 127,227 |
| Balance at end of the period | 102,832,457 | 102,634,640 | 102,420,143 |
| Treasury stock | (8,134) | (44,183) | (22,353) |
| Common Stock Outstanding | 102,824,323 | 102,590,457 | 102,397,790 |

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) | | Six months ended June 30, | |
|---|--|---------------------------|------------|
| | | 2012 | 2011 |
| Cash flows from operating activities: | | | |
| Net income | | \$ 114,147 | \$ 120,817 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | | |
| Provision for loan losses | | 219,922 | 219,636 |
| Amortization of intangibles | | 5,124 | 4,510 |
| Depreciation and amortization of premises and equipment | | 23,282 | 23,450 |
| Net accretion of discounts and amortization of premiums and deferred fees | | (15,677) | (64,498) |
| Impairment losses on net assets to be disposed of | | | 8,743 |
| Fair value adjustments on mortgage servicing rights | | 4,791 | 16,249 |
| Fair value change in equity appreciation instrument | | | (8,323) |
| FDIC loss share expense (income) | | 12,680 | (54,705) |
| FDIC deposit insurance expense | | 47,833 | 45,355 |
| Adjustments (expense) to indemnity reserves on loans sold | | 9,273 | 19,302 |
| Losses from investments under the equity method | | 4,217 | 218 |
| Deferred income tax (benefit) expense | | (154,686) | 21,755 |
| (Gain) loss on: | | | |
| Disposition of premises and equipment | | (6,864) | (1,992) |
| Early extinguishment of debt | | 24,950 | |
| Sale and valuation adjustments of investment securities | | 349 | 90 |
| Sale of loans, including valuation adjustments on loans held-for-sale | | (74) | 5,538 |
| Sale of equity method investment | | | (16,907) |
| Sale of other assets | | (2,545) | |
| Acquisitions of loans held-for-sale | | (174,632) | (173,549) |
| Proceeds from sale of loans held-for-sale | | 145,588 | 65,667 |
| Net disbursements on loans held-for-sale | | (542,282) | (417,220) |
| Net (increase) decrease in: | | | |
| Trading securities | | 543,077 | 319,024 |
| Accrued income receivable | | 2,889 | 8,676 |
| Other assets | | 10,553 | (32,659) |
| Net increase (decrease) in: | | | |
| Interest payable | | (4,499) | (949) |
| Pension and other postretirement benefit obligation | | 16,165 | (123,084) |
| Other liabilities | | 11,364 | (65,383) |
| Total adjustments | | 180,798 | (201,056) |
| Net cash provided by (used in) operating activities | | 294,945 | (80,239) |
| Cash flows from investing activities: | | | |
| Net decrease (increase) in money market investments | | 426,346 | (404,598) |
| Purchases of investment securities: | | | |
| Available-for-sale | | (890,777) | (856,543) |
| Held-to-maturity | | (250) | (64,358) |
| Other | | (76,033) | (69,504) |
| Proceeds from calls, paydowns, maturities and redemptions of investment securities: | | | |

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| | | |
|--|------------|-------------|
| Available-for-sale | 780,832 | 707,567 |
| Held-to-maturity | 1,548 | 52,073 |
| Other | 81,626 | 56,162 |
| Proceeds from sale of investment securities: | | |
| Available-for-sale | | 19,143 |
| Other | | 2,294 |
| Net repayments on loans | 539,177 | 779,606 |
| Proceeds from sale of loans | 41,476 | 225,698 |
| Acquisition of loan portfolios | (705,819) | (744,390) |
| Payments received from FDIC under loss sharing agreements | 262,807 | 15,694 |
| Net proceeds from sale of equity method investment | | 31,503 |
| Mortgage servicing rights purchased | (1,018) | (860) |
| Acquisition of premises and equipment | (21,927) | (25,548) |
| Proceeds from sale of: | | |
| Premises and equipment | 15,610 | 9,847 |
| Other productive assets | 1,026 | |
| Foreclosed assets | 93,480 | 94,759 |
| Net cash provided by (used in) investing activities | 548,104 | (171,455) |
| Cash flows from financing activities: | | |
| Net increase (decrease) in: | | |
| Deposits | (528,508) | 1,198,252 |
| Federal funds purchased and assets sold under agreements to repurchase | (363,354) | 157,772 |
| Other short-term borrowings | 20,000 | (212,920) |
| Payments of notes payable | (22,552) | (1,177,306) |
| Proceeds from issuance of notes payable | 29,802 | 419,500 |
| Proceeds from issuance of common stock | 3,320 | 3,917 |
| Dividends paid | (1,551) | (1,861) |
| Treasury stock acquired | (150) | (68) |
| Net cash (used in) provided by financing activities | (862,993) | 387,286 |
| Net (decrease) increase in cash and due from banks | (19,944) | 135,592 |
| Cash and due from banks at beginning of period | 535,282 | 452,373 |
| Cash and due from banks at end of period | \$ 515,338 | \$ 587,965 |

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

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Notes to Consolidated Financial

Statements (Unaudited)

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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.

Note 2 New accounting pronouncements

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 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.

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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.

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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 goodwill 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.

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.

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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)

The FASB issued Accounting Standards Update (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 June 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.

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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 June 30, 2012. Refer to Notes 22 and 23 for additional fair value disclosures included for the quarter and six months ended June 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.

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 June 30, 2012.

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 \$888 million at June 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 June 30, 2012 and December 31, 2011, the Corporation held \$36 million in restricted assets in the form of cash and funds deposited in money market accounts.

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) | June 30, 2012 | December 31, 2011 |
|---|------------------|----------------------|
| Investment securities available-for-sale, at fair value | \$ 2,006,552 | \$ 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 | | 5,286 |
| Loans held-in-portfolio covered under loss sharing agreements with the FDIC | 501,640 | |
| Loans held-in-portfolio not covered under loss sharing agreements with the FDIC | 8,643,391 | 8,571,268 |
| Total pledged assets | \$ 11,176,583 | \$ 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 June 30, 2012, the Corporation had \$1.5 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 June 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 \$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 June 30, 2012, the credit facilities authorized with the FHLB were collateralized by \$4.1 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 June 30, 2012, the credit facilities with the Fed discount window were collateralized by \$4.8 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 June 30, 2012 trades receivables from brokers and counterparties amounting to \$73 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.

| | At June 30, 2012 | | | | |
|---|------------------|------------------------|-------------------------|------------|------------------------|
| (In thousands) | Amortized cost | Gross unrealized gains | Gross unrealized losses | Fair value | Weighted average yield |
| U.S. Treasury securities | | | | | |
| Within 1 year | \$ 7,014 | \$ 64 | \$ | \$ 7,078 | 1.50% |
| After 1 to 5 years | 27,609 | 3,241 | | 30,850 | 3.82 |
| Total U.S. Treasury securities | 34,623 | 3,305 | | 37,928 | 3.35 |
| Obligations of U.S. Government sponsored entities | | | | | |
| Within 1 year | 539,045 | 16,168 | | 555,213 | 3.84 |
| After 1 to 5 years | 190,538 | 2,646 | 7 | 193,177 | 1.81 |
| After 5 to 10 years | 280,596 | 3,206 | 166 | 283,636 | 1.98 |
| After 10 years | 7,083 | 289 | | 7,372 | 5.41 |
| Total obligations of U.S. Government sponsored entities | 1,017,262 | 22,309 | 173 | 1,039,398 | 2.96 |
| Obligations of Puerto Rico, States and political subdivisions | | | | | |
| Within 1 year | 5,000 | 54 | | 5,054 | 2.99 |
| After 1 to 5 years | 6,592 | 199 | 34 | 6,757 | 4.67 |
| After 10 years | 37,290 | 808 | | 38,098 | 5.38 |
| Total obligations of Puerto Rico, States and political subdivisions | 48,882 | 1,061 | 34 | 49,909 | 5.04 |
| Collateralized mortgage obligations federal agencies | | | | | |
| After 1 to 5 years | 6,130 | 62 | | 6,192 | 1.52 |
| After 5 to 10 years | 37,137 | 1,580 | | 38,717 | 2.85 |
| After 10 years | 1,909,363 | 47,628 | 318 | 1,956,673 | 2.53 |
| Total collateralized mortgage obligations federal agencies | 1,952,630 | 49,270 | 318 | 2,001,582 | 2.53 |
| Collateralized mortgage obligations private label | | | | | |
| After 5 to 10 years | 41 | 2 | | 43 | 4.95 |
| After 10 years | 42,722 | 43 | 2,474 | 40,291 | 2.70 |
| Total collateralized mortgage obligations private label | 42,763 | 45 | 2,474 | 40,334 | 2.70 |
| Mortgage-backed securities | | | | | |
| Within 1 year | 689 | 26 | | 715 | 3.79 |
| After 1 to 5 years | 4,880 | 228 | | 5,108 | 3.93 |
| After 5 to 10 years | 95,331 | 7,272 | | 102,603 | 4.68 |
| After 10 years | 1,645,570 | 121,764 | 34 | 1,767,300 | 4.24 |
| Total mortgage-backed securities | 1,746,470 | 129,290 | 34 | 1,875,726 | 4.26 |
| Equity securities (without contractual maturity) | 6,595 | 565 | 138 | 7,022 | 3.05 |

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| | | | | | |
|--|--------------|------------|----------|--------------|-------|
| Other | | | | | |
| After 5 to 10 years | 18,025 | 1,838 | | 19,863 | 10.99 |
| After 10 years | 4,907 | 128 | | 5,035 | 3.62 |
| Total other | 22,932 | 1,966 | | 24,898 | 9.41 |
| Total investment securities available-for-sale | \$ 4,872,157 | \$ 207,811 | \$ 3,171 | \$ 5,076,797 | 3.31% |

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| (In thousands) | At December 31, 2011 | | | | |
|--|----------------------|------------------------|-------------------------|---------------------|------------------------|
| | Amortized cost | Gross unrealized gains | Gross unrealized losses | Fair value | Weighted average yield |
| 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 |
| Collateralized mortgage obligations federal agencies | | | | | |
| After 1 to 5 years | 2,424 | 49 | | 2,473 | 3.28 |
| After 5 to 10 years | 55,096 | 1,446 | | 56,542 | 2.64 |
| After 10 years | 1,589,373 | 49,462 | 208 | 1,638,627 | 2.84 |
| Total collateralized mortgage obligations federal agencies | 1,646,893 | 50,957 | 208 | 1,697,642 | 2.83 |
| Collateralized mortgage obligations private label | | | | | |
| After 5 to 10 years | 5,653 | 1 | 181 | 5,473 | 0.81 |
| After 10 years | 59,460 | | 7,141 | 52,319 | 2.44 |
| Total collateralized mortgage obligations private label | 65,113 | 1 | 7,322 | 57,792 | 2.30 |
| Mortgage-backed securities | | | | | |
| Within 1 year | 57 | 1 | | 58 | 3.91 |
| After 1 to 5 years | 7,564 | 328 | | 7,892 | 3.86 |
| After 5 to 10 years | 111,639 | 8,020 | 1 | 119,658 | 4.66 |
| After 10 years | 1,870,736 | 141,274 | 49 | 2,011,961 | 4.25 |
| Total mortgage-backed securities | 1,989,996 | 149,623 | 50 | 2,139,569 | 4.27 |
| Equity securities (without contractual maturity) | 6,594 | 426 | 104 | 6,916 | 2.96 |
| Other | | | | | |
| After 5 to 10 years | 17,850 | 700 | | 18,550 | 10.99 |
| After 10 years | 6,311 | 101 | | 6,412 | 3.61 |
| Total other | 24,161 | 801 | | 24,962 | 9.06 |
| Total investment securities available-for-sale | \$ 4,779,077 | \$ 238,461 | \$ 7,715 | \$ 5,009,823 | 3.58% |

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The weighted average yield on investment securities available-for-sale is based on amortized cost; therefore, it does not give effect to changes in fair value.

Securities not due on a single contractual maturity date, such as mortgage-backed securities and collateralized mortgage obligations, are classified in the period of final contractual maturity. The expected maturities of collateralized mortgage obligations, mortgage-backed securities and certain other securities may differ from their contractual maturities because they may be subject to prepayments or may be called by the issuer.

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There were no proceeds from the sale of investment securities available-for-sale for the six months ended June 30, 2012 since the transactions traded in June 2012, but settled in July 2012 (June 30, 2011 \$19.1 million). Proceeds received in July 2012 related to these sale transactions amounted to \$8.0 million. Gross realized gains and losses on the sale of investment securities available-for-sale were as follows:

| (In thousands) | For the quarter ended June 30, | | Six months ended June 30, | |
|---|--------------------------------|---------|---------------------------|---------|
| | 2012 | 2011 | 2012 | 2011 |
| Gross realized gains | \$ | \$ 6 | \$ | \$ 6 |
| Gross realized losses | (349) | (96) | (349) | (96) |
| Net realized gains (losses) on sale of investment securities available-for-sale | \$ (349) | \$ (90) | \$ (349) | \$ (90) |

The following tables present the Corporation's fair value and gross unrealized losses 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.

| (In thousands) | Less than 12 months | | At June 30, 2012 12 months or more | | Total | |
|---|---------------------|-------------------------|---------------------------------------|-------------------------|------------|-------------------------|
| | Fair value | Gross unrealized losses | Fair value | Gross unrealized losses | Fair value | Gross unrealized losses |
| Obligations of U.S. Government sponsored entities | \$ 31,912 | \$ 173 | \$ | \$ | \$ 31,912 | \$ 173 |
| Obligations of Puerto Rico, States and political subdivisions | 2,798 | 34 | | | 2,798 | 34 |
| Collateralized mortgage obligations federal agencies | 88,198 | 314 | 2,762 | 4 | 90,960 | 318 |
| Collateralized mortgage obligations private label | | | 35,826 | 2,474 | 35,826 | 2,474 |
| Mortgage-backed securities | 205 | 4 | 801 | 30 | 1,006 | 34 |
| Equity securities | 5,164 | 130 | 3 | 8 | 5,167 | 138 |

| | | | | | | |
|---|------------|--------|-----------|----------|------------|----------|
| Total investment securities available-for-sale in an unrealized loss position | \$ 128,277 | \$ 655 | \$ 39,392 | \$ 2,516 | \$ 167,669 | \$ 3,171 |
|---|------------|--------|-----------|----------|------------|----------|

| (In thousands) | Less than 12 months | | At December 31, 2011 12 months or more | | Total | |
|---|---------------------|-------------------------|---|-------------------------|------------|-------------------------|
| | Fair value | Gross unrealized losses | Fair value | Gross unrealized losses | Fair value | Gross unrealized losses |
| Obligations of Puerto Rico, States and political subdivisions | \$ 7,817 | \$ 28 | \$ 191 | \$ 3 | \$ 8,008 | \$ 31 |
| Collateralized mortgage obligations federal agencies | 90,543 | 208 | | | 90,543 | 208 |
| Collateralized mortgage obligations private label | 13,595 | 539 | 44,148 | 6,783 | 57,743 | 7,322 |
| Mortgage-backed securities | 5,577 | 14 | 1,466 | 36 | 7,043 | 50 |
| Equity securities | 5,199 | 95 | 2 | 9 | 5,201 | 104 |

| | | | | | | |
|---|------------|--------|-----------|----------|------------|----------|
| Total investment securities available-for-sale in an unrealized loss position | \$ 122,731 | \$ 884 | \$ 45,807 | \$ 6,831 | \$ 168,538 | \$ 7,715 |
|---|------------|--------|-----------|----------|------------|----------|

Management evaluates investment securities for other-than-temporary (OTTI) declines in fair value on a quarterly basis. Once a decline in value is determined to be other-than-temporary, the value of a debt security is reduced and a corresponding charge to earnings is recognized for anticipated credit losses. Also, for equity securities that are considered other-than-temporarily impaired, the excess of the security's carrying value over its fair value at the evaluation date is accounted for as a loss in the results of operations. The OTTI analysis requires management to consider various factors, which include, but are not limited to: (1) the length of time and the extent to which fair value has been less than the amortized cost basis, (2) the financial condition of the issuer or

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issuers, (3) actual collateral attributes, (4) the payment structure of the debt security and the likelihood of the issuer being able to make payments, (5) any rating changes by a rating agency, (6) adverse conditions specifically related to the security, industry, or a geographic area, and (7) management's intent to sell the debt security or whether it is more likely than not that the Corporation would be required to sell the debt security before a forecasted recovery occurs.

At June 30, 2012, management performed its quarterly analysis of all debt securities in an unrealized loss position. Based on the analyses performed, management concluded that no individual debt security was other-than-temporarily impaired as of such date. At June 30, 2012, the Corporation did not have the intent to sell debt securities in an unrealized loss position and it is not more likely than not that the Corporation will have to sell the investment securities prior to recovery of their amortized cost basis. Also, management evaluated the Corporation's portfolio of equity securities at June 30, 2012. No other-than-temporary impairment losses on equity securities were recorded during the quarters and six months ended June 30, 2012 and 2011. Management has the intent and ability to hold the investments in equity securities that are at a loss position at June 30, 2012, for a reasonable period of time for a forecasted recovery of fair value up to (or beyond) the cost of these investments.

The unrealized losses associated with Collateralized mortgage obligations private label (private-label CMO) are primarily related to securities backed by residential mortgages. In addition to verifying the credit ratings for the private-label CMOs, management analyzed the underlying mortgage loan collateral for these bonds. Various statistics or metrics were reviewed for each private-label CMO, including among others, the weighted average loan-to-value, FICO score, and delinquency and foreclosure rates of the underlying assets in the securities. At June 30, 2012, there were no sub-prime securities in the Corporation's private-label CMOs portfolios. For private-label CMOs with unrealized losses at June 30, 2012, credit impairment was assessed using a cash flow model that estimates the cash flows on the underlying mortgages, using the security-specific collateral and transaction structure. The model estimates cash flows from the underlying mortgage loans and distributes those cash flows to various tranches of securities, considering the transaction structure and any subordination and credit enhancements that exist in that structure. The cash flow model incorporates actual cash flows through the current period and then projects the expected cash flows using a number of assumptions, including default rates, loss severity and prepayment rates. Management's assessment also considered tests using more stressful parameters. Based on the assessments, management concluded that the tranches of the private-label CMOs held by the Corporation were not other-than-temporarily impaired at June 30, 2012, thus management expects to recover the amortized cost basis of the securities.

The following table states the name of issuers, and the aggregate amortized cost and fair value of the securities of such issuer (includes available-for-sale and held-to-maturity securities), in which the aggregate amortized cost of such securities exceeds 10% of stockholders' equity. This information excludes securities backed by the full faith and credit of the U.S. Government. 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.

| (In thousands) | June 30, 2012 | | December 31, 2011 | |
|----------------|----------------|--------------|-------------------|--------------|
| | Amortized cost | Fair value | Amortized cost | Fair value |
| FNMA | \$ 1,234,776 | \$ 1,273,616 | \$ 1,049,315 | \$ 1,089,069 |
| FHLB | 538,854 | 555,078 | 553,940 | 578,617 |
| Freddie Mac | 1,123,166 | 1,147,089 | 984,270 | 1,010,669 |

Table of Contents**Note 6 Investment securities held-to-maturity**

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

| | | At June 30, 2012 | | | |
|---|----------------|------------------------|-------------------------|------------|------------------------|
| (In thousands) | Amortized cost | Gross unrealized gains | Gross unrealized losses | Fair value | Weighted average yield |
| Obligations of Puerto Rico, States and political subdivisions | | | | | |
| Within 1 year | \$ 7,375 | \$ 18 | \$ | \$ 7,393 | 2.31% |
| After 1 to 5 years | 11,649 | 579 | | 12,228 | 5.83 |
| After 5 to 10 years | 19,301 | 960 | 13 | 20,248 | 6.00 |
| After 10 years | 59,674 | 704 | 405 | 59,973 | 4.00 |
| | | | | | |
| Total obligations of Puerto Rico, States and political subdivisions | 97,999 | 2,261 | 418 | 99,842 | 4.48 |
| Collateralized mortgage obligations federal agencies | | | | | |
| After 10 years | 147 | 5 | | 152 | 5.45 |
| | | | | | |
| Total collateralized mortgage obligations federal agencies | 147 | 5 | | 152 | 5.45 |
| | | | | | |
| Other | | | | | |
| After 1 to 5 years | 26,500 | 29 | | 26,529 | 3.38 |
| | | | | | |
| Total other | 26,500 | 29 | | 26,529 | 3.38 |
| | | | | | |
| Total investment securities held-to-maturity | \$ 124,646 | \$ 2,295 | \$ 418 | \$ 126,523 | 4.25% |

| | At December 31, 2011 | | | | |
|---|----------------------|------------------------------|-------------------------------|------------|------------------------------|
| (In thousands) | Amortized cost | Gross unrealized gains | Gross unrealized losses | Fair value | Weighted average yield |
| Obligations of Puerto Rico, States and political subdivisions | | | | | |
| Within 1 year | \$ 7,275 | \$ 6 | \$ | \$ 7,281 | 2.24% |
| After 1 to 5 years | 11,174 | 430 | | 11,604 | 5.80 |
| After 5 to 10 years | 18,512 | 266 | 90 | 18,688 | 5.99 |
| After 10 years | 62,012 | 40 | 855 | 61,197 | 4.11 |
| Total obligations of Puerto Rico, States and political subdivisions | 98,973 | 742 | 945 | 98,770 | 4.51 |
| Collateralized mortgage obligations private label | | | | | |
| After 10 years | 160 | | 9 | 151 | 5.45 |
| Total collateralized mortgage obligations private label | 160 | | 9 | 151 | 5.45 |
| Other | | | | | |
| After 1 to 5 years | 26,250 | 83 | | 26,333 | 3.41 |
| Total other | 26,250 | 83 | | 26,333 | 3.41 |

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| | | | | | |
|--|------------|--------|--------|------------|-------|
| Total investment securities held-to-maturity | \$ 125,383 | \$ 825 | \$ 954 | \$ 125,254 | 4.28% |
|--|------------|--------|--------|------------|-------|

Securities not due on a single contractual maturity date, such as collateralized mortgage obligations, are classified in the period of final contractual maturity. The expected maturities of collateralized mortgage obligations and certain other securities may differ from their contractual maturities because they may be subject to prepayments or may be called by the issuer.

The following tables present the Corporation's fair value and gross unrealized losses 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 June 30, 2012 and December 31, 2011.

| (In thousands) | Less than 12 months | | At June 30, 2012 12 months or more | | Total | |
|---|---------------------|-------------------------|---------------------------------------|-------------------------|------------|-------------------------|
| | Fair value | Gross unrealized losses | Fair value | Gross unrealized losses | Fair value | Gross unrealized losses |
| Obligations of Puerto Rico, States and political subdivisions | \$ 91 | \$ 1 | \$ 22,147 | \$ 417 | \$ 22,238 | \$ 418 |
| Total investment securities held-to-maturity in an unrealized loss position | \$ 91 | \$ 1 | \$ 22,147 | \$ 417 | \$ 22,238 | \$ 418 |

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| (In thousands) | Less than 12 months | | At December 31, 2011 12 months or more | | Total | |
|---|---------------------|-------------------------|---|-------------------------|------------|-------------------------|
| | Fair value | Gross unrealized losses | Fair value | Gross unrealized losses | Fair value | Gross unrealized losses |
| Obligations of Puerto Rico, States and political subdivisions | \$ 10,323 | \$ 92 | \$ 31,062 | \$ 853 | \$ 41,385 | \$ 945 |
| Collateralized mortgage obligations private label | | | 151 | 9 | 151 | 9 |
| Total investment securities held-to-maturity in an unrealized loss position | \$ 10,323 | \$ 92 | \$ 31,213 | \$ 862 | \$ 41,536 | \$ 954 |

As indicated in Note 5 to these consolidated financial statements, management evaluates investment securities for OTTI declines in fair value on a quarterly basis.

The Obligations of Puerto Rico, States and political subdivisions classified as held-to-maturity at June 30, 2012 are primarily associated with securities issued by municipalities of Puerto Rico and are generally not rated by a credit rating agency. The Corporation performs periodic credit quality reviews on these issuers. The decline in fair value at June 30, 2012 was attributable to changes in interest rates and not credit quality, thus no other-than-temporary decline in value was necessary to be recorded in these held-to-maturity securities at June 30, 2012. At June 30, 2012, the Corporation does not have the intent to sell securities held-to-maturity and it is not more likely than not that the Corporation will have to sell these investment securities prior to recovery of their amortized cost basis.

Note 7 Loans

Covered loans acquired in the Westernbank FDIC-assisted transaction, except for lines of credit with revolving privileges, are accounted for by the Corporation in accordance with ASC Subtopic 310-30. Under ASC Subtopic 310-30, the acquired loans were aggregated into pools based on similar characteristics. Each loan pool is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows. The covered loans which are accounted for under ASC Subtopic 310-30 by the Corporation are not considered non-performing and will continue to have an accretable yield as long as there is a reasonable expectation about the timing and amount of cash flows expected to be collected. The Corporation measures additional losses for this portfolio when it is probable the Corporation will be unable to collect all cash flows expected at acquisition plus additional cash flows expected to be collected arising from changes in estimates after acquisition. Lines of credit with revolving privileges that were acquired as part of the Westernbank FDIC-assisted transaction are accounted for under the guidance of ASC Subtopic 310-20, which requires that any differences between the contractually required loan payment receivable in excess of the Corporation's initial investment in the loans be accreted into interest income. Loans accounted for under ASC Subtopic 310-20 are placed in non-accrual status when past due in accordance with the Corporation's non-accruing policy and any accretion of discount is discontinued.

The risks on loans acquired in the FDIC-assisted transaction are significantly different from the risks on loans not covered under the FDIC loss sharing agreements because of the loss protection provided by the FDIC. Accordingly, the Corporation presents loans subject to the loss sharing agreements as covered loans in the information below and loans that are not subject to the FDIC loss sharing agreements as non-covered loans.

For a summary of the accounting policy related to loans, interest recognition and allowance for loan losses refer to the summary of significant accounting policies included in Note 2 to the consolidated financial statements included in the 2011 Annual Report. Also, refer to Note 8 for a description of enhancements to the Corporation's methodology for determining the allowance for loan losses which were effective on March 31, 2012.

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The following table presents the composition of non-covered loans held-in-portfolio (HIP), net of unearned income, at June 30, 2012 and December 31, 2011.

| (In thousands) | Non-covered loans HIP at June 30, 2012 | Non-covered loans HIP at December 31, 2011 |
|--|---|---|
| Commercial multi-family | \$ 871,924 | \$ 808,933 |
| Commercial real estate non-owner occupied | 2,625,014 | 2,665,499 |
| Commercial real estate owner occupied | 2,636,039 | 2,817,266 |
| Commercial and industrial | 3,469,838 | 3,681,629 |
| Construction | 249,743 | 239,939 |
| Mortgage | 5,899,973 | 5,518,460 |
| Leasing | 537,917 | 548,706 |
| Legacy ^[2] | 509,829 | 648,409 |
| Consumer: | | |
| Credit cards | 1,209,868 | 1,230,029 |
| Home equity lines of credit | 525,093 | 557,894 |
| Personal | 1,352,993 | 1,130,593 |
| Auto | 539,899 | 518,476 |
| Other | 237,679 | 236,763 |
| Total loans held-in-portfolio^[1] | \$ 20,665,809 | \$ 20,602,596 |

- [1] Non-covered loans held-in-portfolio at June 30, 2012 are net of \$98 million in unearned income and exclude \$365 million in loans held-for-sale. (December 31, 2011 \$101 million in unearned income and \$363 million in loans held-for-sale.)
- [2] The legacy portfolio is comprised of commercial loans, construction loans and lease financings related to certain lending products exited by the Corporation as part of restructuring efforts carried out in prior years at the BPNA reportable segment.

The following table presents the composition of covered loans at June 30, 2012 and December 31, 2011.

| (In thousands) | Covered loans at June 30, 2012 | Covered loans at December 31, 2011 |
|--------------------------------------|-----------------------------------|---------------------------------------|
| Commercial real estate | \$ 2,145,055 | \$ 2,271,295 |
| Commercial and industrial | 186,121 | 241,447 |
| Construction | 469,765 | 546,826 |
| Mortgage | 1,116,476 | 1,172,954 |
| Consumer | 98,913 | 116,181 |
| Total loans held-in-portfolio | \$ 4,016,330 | \$ 4,348,703 |

The following table provides a breakdown of loans held-for-sale (LHFS) at June 30, 2012 and December 31, 2011 by main categories.

| (In thousands) | Non-covered loans June 30, 2012 | Non-covered loans December 31, 2011 |
|----------------|------------------------------------|--|
|----------------|------------------------------------|--|

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| | | |
|--------------|-------------------|-------------------|
| Commercial | \$ 18,072 | \$ 25,730 |
| Construction | 160,102 | 236,045 |
| Legacy | 425 | 468 |
| Mortgage | 185,938 | 100,850 |
| Total | \$ 364,537 | \$ 363,093 |

During the quarter and six months ended June 30, 2012, the Corporation recorded purchases of mortgage loans amounting to \$336 million and \$551 million, respectively (June 30, 2011 \$479 million and \$918 million, respectively). Also, the Corporation recorded purchases of \$230 in consumer loans during the quarter and six months ended June 30, 2012. In addition, during the six months ended June 30, 2012, the Corporation recorded purchases of construction loans amounting to \$1 million. There were no purchases of construction loans during the second quarter of 2012 and six months ended June 30, 2011. There were no purchases of commercial loans during the quarters and six months ended June 30, 2012 and 2011.

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The Corporation performed whole-loan sales involving approximately \$80 million and \$130 million of residential mortgage loans during the quarter and six months ended June 30, 2012, respectively (June 30, 2011- \$67 million and \$302 million, respectively). Also, the Corporation securitized approximately \$205 million and \$395 million of mortgage loans into Government National Mortgage Association (GNMA) mortgage-backed securities during the quarter and six months ended June 30, 2012, respectively (June 30, 2011- \$217 million and \$473 million, respectively). Furthermore, the Corporation securitized approximately \$71 million and \$131 million of mortgage loans into Federal National Mortgage Association (FNMA) mortgage-backed securities during the quarter and six months ended June 30, 2012, respectively (June 30, 2011- \$48 million and \$121 million, respectively). The Corporation sold commercial and construction loans with a book value of approximately \$19 million and \$39 million during the quarter and six months ended June 30, 2012, respectively (June 30, 2011- \$12 million and \$14 million, respectively).

Non-covered loans

The following tables present non-covered loans held-in-portfolio by loan class that are in non-performing status or are accruing interest but are past due 90 days or more at June 30, 2012 and December 31, 2011. Accruing loans past due 90 days or more consist primarily of credit cards, FHA / VA and other insured mortgage loans, and delinquent mortgage loans which are included in the Corporation's financial statements pursuant to GNMA's buy-back option program. Servicers of loans underlying GNMA mortgage-backed securities must report as their own assets the defaulted loans that they have the option (but not the obligation) to repurchase, even when they elect not to exercise that option. Also, accruing loans past due 90 days or more include residential conventional loans purchased from another financial institution that, although delinquent, the Corporation has received timely payment from the seller / servicer, and, in some instances, have partial guarantees under recourse agreements. However, residential conventional loans purchased from another financial institution, which are in the process of foreclosure, are classified as non-performing mortgage loans.

| | At June 30, 2012 | | U.S. mainland | | Popular, Inc. | |
|---|-------------------|--|---------------|---|---------------|---|
| | Puerto Rico | | | | | |
| | Non-covered loans | | | | | |
| | Non-accrual | Accruing loans past-due 90 days or more | Non-accrual | Accruing loans past-due 90 days or more | Non-accrual | Accruing loans past-due 90 days or more |
| (In thousands) | loans | | loans | | loans | |
| Commercial multi-family | \$ 14,268 | \$ | \$ 22,488 | \$ | \$ 36,756 | \$ |
| Commercial real estate non-owner occupied | 62,163 | | 90,958 | | 153,121 | |
| Commercial real estate owner occupied | 358,498 | | 40,270 | | 398,768 | |
| Commercial and industrial | 156,863 | 585 | 22,431 | | 179,294 | 585 |
| Construction | 55,534 | | 12,004 | | 67,538 | |
| Mortgage | 600,082 | 296,264 | 32,818 | | 632,900 | 296,264 |
| Leasing | 5,045 | | | | 5,045 | |
| Legacy | | | 54,730 | | 54,730 | |
| Consumer: | | | | | | |
| Credit cards | | 22,889 | 401 | | 401 | 22,889 |
| Home equity lines of credit | | 230 | 8,693 | | 8,693 | 230 |
| Personal | 15,989 | | 1,671 | | 17,660 | |
| Auto | 6,055 | | 44 | | 6,099 | |
| Other | 1,796 | 520 | 15 | | 1,811 | 520 |
| Total ^[1] | \$ 1,276,293 | \$ 320,488 | \$ 286,523 | \$ | \$ 1,562,816 | \$ 320,488 |

[1] For purposes of this table non-performing loans exclude \$179 million in non-performing loans held-for-sale.

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| (In thousands) | At December 31, 2011 | | U.S. mainland | | Popular, Inc. | |
|---|----------------------|---|----------------------|---|----------------------|---|
| | Puerto Rico | | | | | |
| | Non-covered loans | | | | | |
| | Non-accrual loans | Accruing loans past-due 90 days or more | Non-accrual loans | Accruing loans past-due 90 days or more | Non-accrual loans | Accruing loans past-due 90 days or more |
| Commercial multi-family | \$ 15,396 | \$ | \$ 13,935 | \$ | \$ 29,331 | \$ |
| Commercial real estate non-owner occupied | 51,013 | | 80,820 | | 131,833 | |
| Commercial real estate owner occupied | 385,303 | | 59,726 | | 445,029 | |
| Commercial and industrial | 179,459 | 675 | 44,440 | | 223,899 | 675 |
| Construction | 53,859 | | 42,427 | | 96,286 | |
| Mortgage | 649,279 | 280,912 | 37,223 | | 686,502 | 280,912 |
| Leasing | 5,642 | | | | 5,642 | |
| Legacy | | | 75,660 | | 75,660 | |
| Consumer: | | | | | | |
| Credit cards | | 25,748 | 735 | | 735 | 25,748 |
| Home equity lines of credit | | 157 | 10,065 | | 10,065 | 157 |
| Personal | 19,317 | | 1,516 | | 20,833 | |
| Auto | 6,830 | | 34 | | 6,864 | |
| Other | 5,144 | 468 | 27 | | 5,171 | 468 |
| Total ^[1] | \$ 1,371,242 | \$ 307,960 | \$ 366,608 | \$ | \$ 1,737,850 | \$ 307,960 |

[1] For purposes of this table non-performing loans exclude \$262 million in non-performing loans held-for-sale.

The following tables present loans by past due status at June 30, 2012 and December 31, 2011 for non-covered loans held-in-portfolio (net of unearned income).

| (In thousands) | June 30, 2012 | | | | | |
|---|-------------------|---------------|--------------------|-------------------|---------------|--------------------------|
| | Puerto Rico | | | | | |
| | Non-covered loans | | | | | |
| | Past due | | | | Non covered | |
| | 30-59 days | 60-89 days | 90 days or more | Total past due | Current | loans HIP Puerto Rico |
| Commercial multi-family | \$ 5,850 | \$ | \$ 14,268 | \$ 20,118 | \$ 96,126 | \$ 116,244 |
| Commercial real estate non-owner occupied | 3,983 | 717 | 62,163 | 66,863 | 1,212,645 | 1,279,508 |
| Commercial real estate owner occupied | 24,007 | 16,654 | 358,498 | 399,159 | 1,677,317 | 2,076,476 |
| Commercial and industrial | 35,694 | 23,465 | 157,448 | 216,607 | 2,474,445 | 2,691,052 |
| Construction | 73 | 2,495 | 55,534 | 58,102 | 143,662 | 201,764 |
| Mortgage | 233,466 | 108,754 | 896,346 | 1,238,566 | 3,575,655 | 4,814,221 |
| Leasing | 6,864 | 1,520 | 5,045 | 13,429 | 524,488 | 537,917 |
| Consumer: | | | | | | |
| Credit cards | 13,961 | 10,354 | 22,889 | 47,204 | 1,148,930 | 1,196,134 |
| Home equity lines of credit | 54 | 169 | 230 | 453 | 18,128 | 18,581 |
| Personal | 13,624 | 9,303 | 15,989 | 38,916 | 1,170,516 | 1,209,432 |
| Auto | 21,896 | 6,422 | 6,055 | 34,373 | 504,282 | 538,655 |
| Other | 1,391 | 466 | 2,316 | 4,173 | 232,074 | 236,247 |
| Total | \$ 360,863 | \$ 180,319 | \$ 1,596,781 | \$ 2,137,963 | \$ 12,778,268 | \$ 14,916,231 |

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| June 30, 2012 U.S. mainland | | | | | | |
|---|---------------|---------------|--------------------|-------------------|--------------|----------------------------|
| (In thousands) | Past due | | | Total past due | Current | Loans HIP U.S. mainland |
| | 30-59 days | 60-89 days | 90 days or more | | | |
| Commercial multi-family | \$ 1,102 | \$ 1,092 | \$ 22,488 | \$ 24,682 | \$ 730,998 | \$ 755,680 |
| Commercial real estate non-owner occupied | 19,316 | 994 | 90,958 | 111,268 | 1,234,238 | 1,345,506 |
| Commercial real estate owner occupied | 3,520 | 540 | 40,270 | 44,330 | 515,233 | 559,563 |
| Commercial and industrial | 9,313 | 1,906 | 22,431 | 33,650 | 745,136 | 778,786 |
| Construction | | | 12,004 | 12,004 | 35,975 | 47,979 |
| Mortgage | 15,572 | 11,208 | 32,818 | 59,598 | 1,026,154 | 1,085,752 |
| Legacy | 6,679 | 5,040 | 54,730 | 66,449 | 443,380 | 509,829 |
| Consumer: | | | | | | |
| Credit cards | 295 | 143 | 401 | 839 | 12,895 | 13,734 |
| Home equity lines of credit | 4,780 | 2,659 | 8,693 | 16,132 | 490,380 | 506,512 |
| Personal | 461 | 1,470 | 1,671 | 3,602 | 139,959 | 143,561 |
| Auto | 50 | 8 | 44 | 102 | 1,142 | 1,244 |
| Other | | 9 | 15 | 24 | 1,408 | 1,432 |
| Total | \$ 61,088 | \$ 25,069 | \$ 286,523 | \$ 372,680 | \$ 5,376,898 | \$ 5,749,578 |

| June 30, 2012 Popular, Inc. Non-covered loans | | | | | | |
|---|---------------|---------------|--------------------|-------------------|---------------|---|
| (In thousands) | Past due | | | Total past due | Current | Non-covered loans HIP Popular, Inc. |
| | 30-59 days | 60-89 days | 90 days or more | | | |
| Commercial multi-family | \$ 6,952 | \$ 1,092 | \$ 36,756 | \$ 44,800 | \$ 827,124 | \$ 871,924 |
| Commercial real estate non-owner occupied | 23,299 | 1,711 | 153,121 | 178,131 | 2,446,883 | 2,625,014 |
| Commercial real estate owner occupied | 27,527 | 17,194 | 398,768 | 443,489 | 2,192,550 | 2,636,039 |
| Commercial and industrial | 45,007 | 25,371 | 179,879 | 250,257 | 3,219,581 | 3,469,838 |
| Construction | 73 | 2,495 | 67,538 | 70,106 | 179,637 | 249,743 |
| Mortgage | 249,038 | 119,962 | 929,164 | 1,298,164 | 4,601,809 | 5,899,973 |
| Leasing | 6,864 | 1,520 | 5,045 | 13,429 | 524,488 | 537,917 |
| Legacy | 6,679 | 5,040 | 54,730 | 66,449 | 443,380 | 509,829 |
| Consumer: | | | | | | |
| Credit cards | 14,256 | 10,497 | 23,290 | 48,043 | 1,161,825 | 1,209,868 |
| Home equity lines of credit | 4,834 | 2,828 | 8,923 | 16,585 | 508,508 | 525,093 |
| Personal | 14,085 | 10,773 | 17,660 | 42,518 | 1,310,475 | 1,352,993 |
| Auto | 21,946 | 6,430 | 6,099 | 34,475 | 505,424 | 539,899 |
| Other | 1,391 | 475 | 2,331 | 4,197 | 233,482 | 237,679 |
| Total | \$ 421,951 | \$ 205,388 | \$ 1,883,304 | \$ 2,510,643 | \$ 18,155,166 | \$ 20,665,809 |

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| December 31, 2011 Puerto Rico Non-covered loans | | | | | | |
|---|---------------|---------------|--------------------|-------------------|---------------|---|
| (In thousands) | Past due | | | Total past due | Current | Non-covered loans HIP Puerto Rico |
| | 30-59 days | 60-89 days | 90 days or more | | | |
| Commercial multi-family | \$ 435 | \$ 121 | \$ 15,396 | \$ 15,952 | \$ 107,164 | \$ 123,116 |
| Commercial real estate non-owner occupied | 16,584 | 462 | 51,013 | 68,059 | 1,193,447 | 1,261,506 |
| Commercial real estate owner occupied | 39,578 | 21,003 | 385,303 | 445,884 | 1,785,542 | 2,231,426 |
| Commercial and industrial | 46,013 | 17,233 | 180,134 | 243,380 | 2,611,154 | 2,854,534 |
| Construction | 608 | 21,055 | 53,859 | 75,522 | 85,419 | 160,941 |
| Mortgage | 202,072 | 98,565 | 930,191 | 1,230,828 | 3,458,655 | 4,689,483 |
| Leasing | 7,927 | 2,301 | 5,642 | 15,870 | 532,836 | 548,706 |
| Consumer: | | | | | | |
| Credit cards | 14,507 | 11,479 | 25,748 | 51,734 | 1,164,086 | 1,215,820 |
| Home equity lines of credit | 155 | 395 | 157 | 707 | 19,344 | 20,051 |
| Personal | 17,583 | 10,434 | 19,317 | 47,334 | 935,854 | 983,188 |
| Auto | 22,677 | 5,883 | 6,830 | 35,390 | 480,874 | 516,264 |
| Other | 1,740 | 1,442 | 5,612 | 8,794 | 226,310 | 235,104 |
| Total | \$ 369,879 | \$ 190,373 | \$ 1,679,202 | \$ 2,239,454 | \$ 12,600,685 | \$ 14,840,139 |

| December 31, 2011 U.S. mainland | | | | | | |
|---|---------------|---------------|--------------------|-------------------|--------------|-------------------------------|
| (In thousands) | Past due | | | Total past due | Current | Loans HIP U.S. mainland |
| | 30-59 days | 60-89 days | 90 days or more | | | |
| Commercial multi-family | \$ 14,582 | \$ 3,168 | \$ 13,935 | \$ 28,517 | \$ 657,300 | \$ 685,817 |
| Commercial real estate non-owner occupied | 15,794 | 449 | 80,820 | 99,782 | 1,304,211 | 1,403,993 |
| Commercial real estate owner occupied | 14,004 | 449 | 59,726 | 74,179 | 511,661 | 585,840 |
| Commercial and industrial | 22,545 | 3,791 | 44,440 | 70,776 | 756,319 | 827,095 |
| Construction | | | 42,427 | 42,427 | 36,571 | 78,998 |
| Mortgage | 30,594 | 13,190 | 37,223 | 81,007 | 747,970 | 828,977 |
| Legacy | 30,712 | 7,536 | 75,660 | 113,908 | 534,501 | 648,409 |
| Consumer: | | | | | | |
| Credit cards | 314 | 229 | 735 | 1,278 | 12,931 | 14,209 |
| Home equity lines of credit | 7,090 | 3,587 | 10,065 | 20,742 | 517,101 | 537,843 |
| Personal | 3,574 | 2,107 | 1,516 | 7,197 | 140,208 | 147,405 |
| Auto | 106 | 37 | 34 | 177 | 2,035 | 2,212 |
| Other | 29 | 10 | 27 | 66 | 1,593 | 1,659 |
| Total | \$ 139,344 | \$ 34,104 | \$ 366,608 | \$ 540,056 | \$ 5,222,401 | \$ 5,762,457 |

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December 31, 2011
Popular, Inc.
Non-covered loans

| (In thousands) | Past due | | | | Current | Non-covered loans HIP Popular, Inc. |
|---|-------------------|-------------------|---------------------|---------------------|----------------------|---|
| | 30-59 days | 60-89 days | 90 days or more | Total past due | | |
| Commercial multi-family | \$ 15,017 | \$ 121 | \$ 29,331 | \$ 44,469 | \$ 764,464 | \$ 808,933 |
| Commercial real estate non-owner occupied | 32,378 | 3,630 | 131,833 | 167,841 | 2,497,658 | 2,665,499 |
| Commercial real estate owner occupied | 53,582 | 21,452 | 445,029 | 520,063 | 2,297,203 | 2,817,266 |
| Commercial and industrial | 68,558 | 21,024 | 224,574 | 314,156 | 3,367,473 | 3,681,629 |
| Construction | 608 | 21,055 | 96,286 | 117,949 | 121,990 | 239,939 |
| Mortgage | 232,666 | 111,755 | 967,414 | 1,311,835 | 4,206,625 | 5,518,460 |
| Leasing | 7,927 | 2,301 | 5,642 | 15,870 | 532,836 | 548,706 |
| Legacy | 30,712 | 7,536 | 75,660 | 113,908 | 534,501 | 648,409 |
| Consumer: | | | | | | |
| Credit cards | 14,821 | 11,708 | 26,483 | 53,012 | 1,177,017 | 1,230,029 |
| Home equity lines of credit | 7,245 | 3,982 | 10,222 | 21,449 | 536,445 | 557,894 |
| Personal | 21,157 | 12,541 | 20,833 | 54,531 | 1,076,062 | 1,130,593 |
| Auto | 22,783 | 5,920 | 6,864 | 35,567 | 482,909 | 518,476 |
| Other | 1,769 | 1,452 | 5,639 | 8,860 | 227,903 | 236,763 |
| Total | \$ 509,223 | \$ 224,477 | \$ 2,045,810 | \$ 2,779,510 | \$ 17,823,086 | \$ 20,602,596 |

The following table provides a breakdown of loans held-for-sale (LHFS) in non-performing status at June 30, 2012 and December 31, 2011 by main categories.

| (In thousands) | Non-covered loans HFS | |
|----------------|-----------------------|-------------------|
| | June 30, 2012 | December 31, 2011 |
| Commercial | \$ 18,073 | \$ 25,730 |
| Construction | 160,102 | 236,045 |
| Legacy | 425 | 468 |
| Mortgage | 53 | 59 |
| Total | \$ 178,653 | \$ 262,302 |

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The following table presents covered loans in non-performing status and accruing loans past-due 90 days or more by loan class at June 30, 2012 and December 31, 2011.

| (In thousands) | June 30, 2012 | | December 31, 2011 | |
|---------------------------|-------------------|---|-------------------|---|
| | Covered loans | | | |
| | Non-accrual loans | Accruing loans past due 90 days or more | Non-accrual loans | Accruing loans past due 90 days or more |
| Commercial real estate | \$ 16,834 | \$ | \$ 14,241 | \$ 125 |
| Commercial and industrial | 57,013 | 1,045 | 63,858 | 1,392 |
| Construction | 8,573 | | 4,598 | 5,677 |
| Mortgage | 1,834 | | 423 | 113 |
| Consumer | 446 | 451 | 516 | 377 |
| Total ^[1] | \$ 84,700 | \$ 1,496 | \$ 83,636 | \$ 7,684 |

- [1] Covered loans accounted for under ASC Subtopic 310-30 are excluded from the above table as they are considered to be performing due to the application of the accretion method, in which these loans will accrete interest income over the remaining life of the loans using estimated cash flow analyses.

The following tables present loans by past due status at June 30, 2012 and December 31, 2011 for covered loans held-in-portfolio. The information considers covered loans accounted for under ASC Subtopic 310-20 and ASC Subtopic 310-30.

| (In thousands) | June 30, 2012 | | | | | |
|---------------------------|---------------|------------|-----------------|----------------|--------------|-------------------|
| | Covered loans | | | | | |
| | Past due | | | | | |
| | 30-59 days | 60-89 days | 90 days or more | Total past due | Current | Covered loans HIP |
| Commercial real estate | \$ 58,948 | \$ 27,865 | \$ 464,855 | \$ 551,668 | \$ 1,593,387 | \$ 2,145,055 |
| Commercial and industrial | 2,384 | 1,446 | 71,284 | 75,114 | 111,007 | 186,121 |
| Construction | 24,393 | 2,391 | 359,994 | 386,778 | 82,987 | 469,765 |
| Mortgage | 32,445 | 27,434 | 181,393 | 241,272 | 875,204 | 1,116,476 |
| Consumer | 5,690 | 2,954 | 14,274 | 22,918 | 75,995 | 98,913 |
| Total covered loans | \$ 123,860 | \$ 62,090 | \$ 1,091,800 | \$ 1,277,750 | \$ 2,738,580 | \$ 4,016,330 |

| (In thousands) | December 31, 2011 | | | | | |
|------------------------|-------------------|------------|-----------------|----------------|--------------|-------------------|
| | Covered loans | | | | | |
| | Past due | | | | | |
| | 30-59 days | 60-89 days | 90 days or more | Total past due | Current | Covered loans HIP |
| Commercial real estate | \$ 35,286 | \$ 25,273 | \$ 519,222 | \$ 579,781 | \$ 1,691,514 | \$ 2,271,295 |

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| | | | | | | |
|---------------------------|-----------|-----------|--------------|--------------|--------------|--------------|
| Commercial and industrial | 4,438 | 1,390 | 99,555 | 105,383 | 136,064 | 241,447 |
| Construction | 997 | 625 | 434,661 | 436,283 | 110,543 | 546,826 |
| Mortgage | 32,371 | 28,238 | 196,541 | 257,150 | 915,804 | 1,172,954 |
| Consumer | 2,913 | 3,289 | 15,551 | 21,753 | 94,428 | 116,181 |
| Total covered loans | \$ 76,005 | \$ 58,815 | \$ 1,265,530 | \$ 1,400,350 | \$ 2,948,353 | \$ 4,348,703 |

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The carrying amount of the covered loans consisted of loans determined to be impaired at the time of acquisition, which are accounted for in accordance with ASC Subtopic 310-30 (credit impaired loans), and loans that were considered to be performing at the acquisition date, accounted for by analogy to ASC Subtopic 310-30 (non-credit impaired loans), as detailed in the following table.

| (In thousands) | June 30, 2012 | | | December 31, 2011 | | |
|-----------------------------------|------------------------------|--------------------------|--------------|------------------------------|--------------------------|--------------|
| | Covered loans ASC 310-30 | | | Covered loans ASC 310-30 | | |
| | Non-credit impaired loans | Credit impaired loans | Total | Non-credit impaired loans | Credit impaired loans | Total |
| Commercial real estate | \$ 1,831,823 | \$ 189,851 | \$ 2,021,674 | \$ 1,920,141 | \$ 215,560 | \$ 2,135,701 |
| Commercial and industrial | 56,949 | 5,069 | 62,018 | 85,859 | 4,621 | 90,480 |
| Construction | 243,914 | 211,226 | 455,140 | 279,561 | 260,208 | 539,769 |
| Mortgage | 1,031,965 | 71,622 | 1,103,587 | 1,065,842 | 102,027 | 1,167,869 |
| Consumer | 80,306 | 6,764 | 87,070 | 95,048 | 7,604 | 102,652 |
| Carrying amount | 3,244,957 | 484,532 | 3,729,489 | 3,446,451 | 590,020 | 4,036,471 |
| Allowance for loan losses | (60,370) | (33,601) | (93,971) | (62,951) | (20,526) | (83,477) |
| Carrying amount, net of allowance | \$ 3,184,587 | \$ 450,931 | \$ 3,635,518 | \$ 3,383,500 | \$ 569,494 | \$ 3,952,994 |

The outstanding principal balance of covered loans accounted pursuant to ASC Subtopic 310-30, including amounts charged off by the Corporation, amounted to \$5.3 billion at June 30, 2012 (December 31, 2011 \$6.0 billion). At June 30, 2012, none of the acquired loans from the Westernbank FDIC-assisted transaction accounted for under ASC Subtopic 310-30 were considered non-performing loans. Therefore, interest income, through accretion of the difference between the carrying amount of the loans and the expected cash flows, was recognized on all acquired loans.

Changes in the carrying amount and the accretable yield for the covered loans accounted pursuant to the ASC Subtopic 310-30, for the quarters ended June 30, 2012 and 2011, were as follows:

| (In thousands) | June 30, 2012 | | | June 30, 2011 | | |
|---|-------------------------------------|-----------------------------|--------------|-------------------------------------|-----------------------------|--------------|
| | Activity in the accretable discount | | | Activity in the accretable discount | | |
| | Non-credit impaired loans | Credit impaired loans | Total | Non-credit impaired loans | Credit impaired loans | Total |
| Beginning balance | \$ 1,514,719 | \$ 27,800 | \$ 1,542,519 | \$ 1,244,509 | \$ 13,667 | \$ 1,258,176 |
| Accretion | (67,982) | (6,006) | (73,988) | (73,457) | (26,728) | (100,185) |
| Reclassification from nonaccretable balance | | | | 375,181 | 83,747 | 458,928 |
| Change in expected cash flows | 104,222 | 2,097 | 106,319 | | | |
| Ending balance | \$ 1,550,959 | \$ 23,891 | \$ 1,574,850 | \$ 1,546,233 | \$ 70,686 | \$ 1,616,919 |

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| (In thousands) | Accretable yield For the six months ended | | | | | |
|---|--|--|--------------|---------------------------------|--|--------------|
| | Non-credit impaired loans | June 30, 2012 Credit impaired loans | Total | Non-credit impaired loans | June 30, 2011 Credit impaired loans | Total |
| Beginning balance | \$ 1,428,764 | \$ 41,495 | \$ 1,470,259 | \$ 1,307,927 | \$ 23,181 | \$ 1,331,108 |
| Accretion | (130,449) | (12,876) | (143,325) | (136,875) | (36,242) | (173,117) |
| Reclassification from nonaccretable balance | | | | 375,181 | 83,747 | 458,928 |
| Change in expected cash flows | 252,644 | (4,728) | 247,916 | | | |
| Ending balance | \$ 1,550,959 | \$ 23,891 | \$ 1,574,850 | \$ 1,546,233 | \$ 70,686 | \$ 1,616,919 |

| (In thousands) | Carrying amount of covered loans accounted for pursuant to ASC 310-30 For the quarters ended | | | | | |
|---------------------------|---|--|--------------|---------------------------------|--|--------------|
| | Non-credit impaired loans | June 30, 2012 Credit impaired loans | Total | Non-credit impaired loans | June 30, 2011 Credit impaired loans | Total |
| Beginning balance | \$ 3,345,311 | \$ 549,594 | \$ 3,894,905 | \$ 3,788,650 | \$ 634,846 | \$ 4,423,496 |
| Accretion | 67,982 | 6,006 | 73,988 | 73,457 | 26,728 | 100,185 |
| Collections | (168,336) | (71,068) | (239,404) | (235,472) | (23,144) | (258,616) |
| Ending balance | \$ 3,244,957 | \$ 484,532 | \$ 3,729,489 | \$ 3,626,635 | \$ 638,430 | \$ 4,265,065 |
| Allowance for loan losses | | | | | | |
| ASC 310-30 covered loans | (60,370) | (33,601) | (93,971) | (38,633) | (9,624) | (48,257) |
| | \$ 3,184,587 | \$ 450,931 | \$ 3,635,518 | \$ 3,588,002 | \$ 628,806 | \$ 4,216,808 |

| (In thousands) | Carrying amount of loans accounted for pursuant to ASC 310-30 For the six months ended | | | | | |
|---------------------------|---|--|--------------|---------------------------------|--|--------------|
| | Non-credit impaired loans | June 30, 2012 Credit impaired loans | Total | Non-credit impaired loans | June 30, 2011 Credit impaired loans | Total |
| Beginning balance | \$ 3,446,451 | \$ 590,020 | \$ 4,036,471 | \$ 3,894,379 | \$ 645,549 | \$ 4,539,928 |
| Accretion | 130,449 | 12,876 | 143,325 | 136,875 | 36,242 | 173,117 |
| Collections | (331,943) | (118,364) | (450,307) | (404,619) | (43,361) | (447,980) |
| Ending balance | \$ 3,244,957 | \$ 484,532 | \$ 3,729,489 | \$ 3,626,635 | \$ 638,430 | \$ 4,265,065 |
| Allowance for loan losses | | | | | | |
| ASC 310-30 covered loans | (60,370) | (33,601) | (93,971) | (38,633) | (9,624) | (48,257) |
| | \$ 3,184,587 | \$ 450,931 | \$ 3,635,518 | \$ 3,588,002 | \$ 628,806 | \$ 4,216,808 |

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The following table provides the activity in the allowance for loan losses related to covered loans accounted for pursuant to ASC Subtopic 310-30.

| (In thousands) | ASC 310-30 Covered loans | | | |
|--------------------------------|--------------------------|---------------|--------------------------|---------------|
| | For the quarters ended | | For the six months ended | |
| | June 30, 2012 | June 30, 2011 | June 30, 2012 | June 30, 2011 |
| Balance at beginning of period | \$ 94,559 | \$ 5,297 | \$ 83,477 | \$ |
| Provision for loan losses | 28,221 | 43,555 | 39,591 | 52,682 |
| Net charge-offs | (28,809) | (595) | (29,097) | (4,425) |
| Balance at end of period | \$ 93,971 | \$ 48,257 | \$ 93,971 | \$ 48,257 |

The Corporation accounts for lines of credit with revolving privileges under the accounting guidance of ASC Subtopic 310-20. Covered loans accounted for under ASC Subtopic 310-20 amounted to \$0.3 billion at June 30, 2012 (June 30, 2011 \$0.4 billion).

Note 8 Allowance for loan losses

The Corporation's assessment of the allowance for loan losses is determined in accordance with the guidance of loss contingencies in ASC Subtopic 450-20 and loan impairment guidance in ASC Section 310-10-35.

The accounting guidance provides for the recognition of a loss allowance for groups of homogeneous loans. The determination for general reserves of the allowance for loan losses includes the following principal factors:

Historical net loss rates (including losses from impaired loans) by loan type and by legal entity adjusted for recent net charge-off trends and environmental factors. The base net loss rates are based on the moving average of annualized net charge-offs computed over a 36-month historical loss window for the commercial and construction loan portfolios, and an 18-month period for the consumer and mortgage loan portfolios.

Net charge-off trend factors are applied to adjust the base loss rates based on recent loss trends. The Corporation applies a trend factor when base losses are below recent loss trends. Currently, the trend factor is based on the last 12 months of losses for the commercial, construction and legacy loan portfolios and 6 months of losses for the consumer and mortgage loan portfolios. The trend factor accounts for inherent imprecision and the lagging perspective in base loss rates. The trend factor replaces the base-loss period when it is higher than base loss up to a determined cap.

Environmental factors, which include credit and macroeconomic indicators such as employment, price index and construction permits, were adopted to account for current market conditions that are likely to cause estimated credit losses to differ from historical losses. The Corporation reflects the effect of these environmental factors on each loan group as an adjustment that, as appropriate, increases or decreases the historical loss rate applied to each group. Environmental factors provide updated perspective on credit and economic conditions. Correlation and regression analyses are used to select and weight these indicators.

During the first quarter of 2012, in order to better reflect current market conditions, management revised the estimation process for evaluating the adequacy of the general reserve component of the allowance for loan losses for the Corporation's commercial and construction loan portfolios. The change in the methodology is described in the paragraphs below. The net effect of these changes amounted to a \$24.8 million reduction in the Corporation's allowance for loan losses, resulting from a reduction of \$40.5 million due to the enhancements to the allowance for loan losses methodology, offset in part by a \$15.7 million increase in environmental factor reserves due to the Corporation's decision to monitor recent trends in its commercial loan portfolio at the BPPR reportable segment that although improving, continue to warrant additional scrutiny.

Management made the following principal changes to the methodology during the first quarter of 2012:

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Established a more granular stratification of the commercial loan portfolios to enhance the homogeneity of the loan classes.

Previously, the Corporation used loan groupings for commercial loan portfolios based on business lines and collateral types (secured / unsecured loans). As part of the loan segregation, management evaluated the risk profiles of the loan portfolio, recent and historical credit and loss trends, current and expected portfolio behavior and economic indicators. The revised groupings consider product types (construction, commercial multifamily, commercial & industrial,

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non-owner occupied commercial real estate (CRE) and owner occupied CRE) and business lines for each of the Corporation's reportable segments, BPPR and BPNA. In addition, the Corporation established a legacy portfolio at the BPNA reportable segment, comprised of commercial loans, construction loans and commercial lease financings related to certain lending products exited by the Corporation as part of restructuring efforts carried out in prior years.

The refinement in the loan groupings resulted in a decrease to the allowance for loan losses of \$7.9 million at March 31, 2012, which consisted of a \$9.7 million reduction related to the BPNA reportable segment, partially offset by an increase of \$1.8 million related to the BPPR reportable segment.

Increased the historical look-back period for determining the loss trend factor. The Corporation increased the look-back period for assessing recent trends applicable to the determination of commercial, construction and legacy loan net charge-offs from 6 months to 12 months.

Previously, the Corporation used a trend factor based on 6 months of net charge-offs as it aligned the estimation of inherent losses for the Corporation's commercial and construction loan portfolios with deteriorating trends.

Given the current overall commercial and construction credit quality improvements noted on recent periods in terms of loss trends, non-performing loan balances and non-performing loan inflows, management concluded that a 12-month look-back period for the trend factor aligns the Corporation's allowance for loan losses methodology to current credit quality trends.

The increase in the historical look-back period for determining the loss trend factor resulted in a decrease to the allowance for loan losses of \$28.1 million at March 31, 2012, of which \$24.0 million related to the BPPR reportable segment and \$4.1 million to the BPNA reportable segment.

There were additional enhancements to the allowance for loan losses methodology which accounted for a reduction to the allowance for loan losses of \$4.5 million at March 31, 2012, of which \$3.9 million related to the BPNA reportable segment and \$0.6 million to the BPPR reportable segment. This reduction related to loan portfolios with minimal or zero loss history.

There were no changes in the methodology for environmental factor reserves. There were no changes to the allowance for loan losses methodology for the Corporation's consumer and mortgage loan portfolios during the first quarter of 2012.

The following tables present the activity in the allowance for loan losses by portfolio segment for the quarters and six months ended June 30, 2012 and 2011.

| (In thousands) | For the quarter ended June 30, 2012 | | | | | |
|-------------------------------------|-------------------------------------|--------------|------------|----------|------------|------------|
| | Puerto Rico Non-covered loans | | Mortgage | Leasing | Consumer | Total |
| | Commercial | Construction | | | | |
| Allowance for credit losses: | | | | | | |
| Beginning balance | \$ 221,329 | \$ 6,671 | \$ 96,507 | \$ 4,967 | \$ 118,062 | \$ 447,536 |
| Provision (reversal of provision) | 11,081 | 1,778 | 38,642 | (2,002) | 16,944 | 66,443 |
| Charge-offs | (39,123) | (1,033) | (15,479) | (909) | (30,475) | (87,019) |
| Recoveries | 10,559 | 48 | 669 | 901 | 7,420 | 19,597 |
| Ending balance | \$ 203,846 | \$ 7,464 | \$ 120,339 | \$ 2,957 | \$ 111,951 | \$ 446,557 |

| (In thousands) | For the quarter ended June 30, 2012 | | | | | |
|-------------------------------------|-------------------------------------|--------------|-----------|---------|----------|------------|
| | Puerto Rico Covered loans | | Mortgage | Leasing | Consumer | Total |
| | Commercial | Construction | | | | |
| Allowance for credit losses: | | | | | | |
| Beginning balance | \$ 90,070 | \$ 29,727 | \$ 10,517 | \$ | \$ 8,182 | \$ 138,496 |

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| | | | | | |
|-----------------------------------|-----------|-----------|-----------|----------|------------|
| Provision (reversal of provision) | 20,174 | 9,088 | 5,185 | 3,009 | 37,456 |
| Charge-offs | (34,652) | (15,187) | (4,085) | (4,533) | (58,457) |
| Recoveries | | | | | |
| Ending balance | \$ 75,592 | \$ 23,628 | \$ 11,617 | \$ 6,658 | \$ 117,495 |

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| (In thousands) | For the quarter ended June 30, 2012 | | | | | |
|-------------------------------------|-------------------------------------|--------------|-----------|-----------|-----------|------------|
| | U.S. Mainland | | Mortgage | Legacy | Consumer | Total |
| | Commercial | Construction | | | | |
| Allowance for credit losses: | | | | | | |
| Beginning balance | \$ 92,250 | \$ 2,462 | \$ 28,972 | \$ 54,725 | \$ 38,823 | \$ 217,232 |
| Provision (reversal of provision) | 11,800 | (788) | 3,882 | (5,255) | 5,661 | 15,300 |
| Charge-offs | (17,769) | | (3,674) | (11,193) | (11,883) | (44,519) |
| Recoveries | 6,637 | 4 | 303 | 5,734 | 1,287 | 13,965 |
| Ending balance | \$ 92,918 | \$ 1,678 | \$ 29,483 | \$ 44,011 | \$ 33,888 | \$ 201,978 |

| | For the quarter ended June 30, 2012 | | | | | | |
|-------------------------------------|-------------------------------------|--------------|------------|-----------|----------|------------|------------|
| | Popular, Inc. | | | | | | |
| (In thousands) | Commercial | Construction | Mortgage | Legacy | Leasing | Consumer | Total |
| Allowance for credit losses: | | | | | | | |
| Beginning balance | \$ 403,649 | \$ 38,860 | \$ 135,996 | \$ 54,725 | \$ 4,967 | \$ 165,067 | \$ 803,264 |
| Provision (reversal of provision) | 43,055 | 10,078 | 47,709 | (5,255) | (2,002) | 25,614 | 119,199 |
| Charge-offs | (91,544) | (16,220) | (23,238) | (11,193) | (909) | (46,891) | (189,995) |
| Recoveries | 17,196 | 52 | 972 | 5,734 | 901 | 8,707 | 33,562 |
| Ending balance | \$ 372,356 | \$ 32,770 | \$ 161,439 | \$ 44,011 | \$ 2,957 | \$ 152,497 | \$ 766,030 |

| (In thousands) | For the six months ended June 30, 2012 | | | | | |
|-------------------------------------|--|--------------|------------|----------|------------|------------|
| | Puerto Rico Non-covered loans | | Mortgage | Leasing | Consumer | Total |
| | Commercial | Construction | | | | |
| Allowance for credit losses: | | | | | | |
| Beginning balance | \$ 255,453 | \$ 5,850 | \$ 72,322 | \$ 4,651 | \$ 115,126 | \$ 453,402 |
| Provision (reversal of provision) | 14,475 | 2,228 | 75,053 | (1,532) | 44,011 | 134,235 |
| Charge-offs | (86,767) | (1,313) | (28,970) | (2,126) | (62,713) | (181,889) |
| Recoveries | 20,685 | 699 | 1,934 | 1,964 | 15,527 | 40,809 |
| Ending balance | \$ 203,846 | \$ 7,464 | \$ 120,339 | \$ 2,957 | \$ 111,951 | \$ 446,557 |

| (In thousands) | For the six months ended June 30, 2012 | | | | | |
|-------------------------------------|--|--------------|-----------|---------|----------|------------|
| | Puerto Rico Covered loans | | Mortgage | Leasing | Consumer | Total |
| | Commercial | Construction | | | | |
| Allowance for credit losses: | | | | | | |
| Beginning balance | \$ 94,472 | \$ 20,435 | \$ 5,310 | \$ | \$ 4,728 | \$ 124,945 |
| Provision (reversal of provision) | 19,874 | 18,644 | 10,595 | | 6,552 | 55,665 |
| Charge-offs | (38,754) | (15,451) | (4,288) | | (4,622) | (63,115) |
| Recoveries | | | | | | |
| Ending balance | \$ 75,592 | \$ 23,628 | \$ 11,617 | \$ | \$ 6,658 | \$ 117,495 |

| (In thousands) | For the six months ended June 30, 2012 | | | | | |
|-------------------------------------|--|--------------|----------|--------|----------|-------|
| | U.S. Mainland | | Mortgage | Legacy | Consumer | Total |
| | Commercial | Construction | | | | |
| Allowance for credit losses: | | | | | | |

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| | | | | | | |
|-----------------------------------|------------|----------|-----------|-----------|-----------|------------|
| Beginning balance | \$ 113,979 | \$ 2,631 | \$ 29,939 | \$ 46,228 | \$ 44,184 | \$ 236,961 |
| Provision (reversal of provision) | 6,936 | (791) | 8,143 | 6,800 | 8,934 | 30,022 |
| Charge-offs | (37,371) | (1,396) | (9,006) | (19,666) | (22,241) | (89,680) |
| Recoveries | 9,374 | 1,234 | 407 | 10,649 | 3,011 | 24,675 |
| Ending balance | \$ 92,918 | \$ 1,678 | \$ 29,483 | \$ 44,011 | \$ 33,888 | \$ 201,978 |

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| For the six months ended June 30, 2012 | | | | | | | |
|--|------------|--------------|------------|-----------|----------|------------|------------|
| Popular, Inc. | | | | | | | |
| (In thousands) | Commercial | Construction | Mortgage | Legacy | Leasing | Consumer | Total |
| Allowance for credit losses: | | | | | | | |
| Beginning balance | \$ 463,904 | \$ 28,916 | \$ 107,571 | \$ 46,228 | \$ 4,651 | \$ 164,038 | \$ 815,308 |
| Provision (reversal of provision) | 41,285 | 20,081 | 93,791 | 6,800 | (1,532) | 59,497 | 219,922 |
| Charge-offs | (162,892) | (18,160) | (42,264) | (19,666) | (2,126) | (89,576) | (334,684) |
| Recoveries | 30,059 | 1,933 | 2,341 | 10,649 | 1,964 | 18,538 | 65,484 |
| Ending balance | \$ 372,356 | \$ 32,770 | \$ 161,439 | \$ 44,011 | \$ 2,957 | \$ 152,497 | \$ 766,030 |

| For the quarter ended June 30, 2011 | | | | | | | |
|-------------------------------------|------------|--------------|-----------|----------|------------|--|------------|
| Puerto Rico Non-covered loans | | | | | | | |
| (In thousands) | Commercial | Construction | Mortgage | Leasing | Consumer | | Total |
| Allowance for credit losses: | | | | | | | |
| Beginning balance | \$ 219,214 | \$ 11,438 | \$ 55,867 | \$ 6,608 | \$ 130,184 | | \$ 423,311 |
| Provision (reversal of provision) | 57,842 | (10,309) | 6,424 | (931) | 17,691 | | 70,717 |
| Charge-offs | (57,027) | (283) | (7,166) | (1,510) | (34,143) | | (100,129) |
| Recoveries | 7,104 | 6,227 | 15 | 878 | 6,780 | | 21,004 |
| Ending balance | \$ 227,133 | \$ 7,073 | \$ 55,140 | \$ 5,045 | \$ 120,512 | | \$ 414,903 |

| For the quarter ended June 30, 2011 | | | | | | | |
|-------------------------------------|------------|--------------|----------|---------|----------|--|-----------|
| Puerto Rico Covered Loans | | | | | | | |
| (In thousands) | Commercial | Construction | Mortgage | Leasing | Consumer | | Total |
| Allowance for credit losses: | | | | | | | |
| Beginning balance | \$ 1,935 | \$ 6,934 | \$ 59 | \$ | \$ 231 | | \$ 9,159 |
| Provision (reversal of provision) | 46,157 | 2,357 | (24) | | 115 | | 48,605 |
| Charge-offs | (263) | | | | (332) | | (595) |
| Recoveries | | | | | | | |
| Ending balance | \$ 47,829 | \$ 9,291 | \$ 35 | \$ | \$ 14 | | \$ 57,169 |

| For the quarter ended June 30, 2011 | | | | | | | |
|---|------------|--------------|-----------|-----------|-----------|--|------------|
| U.S. Mainland | | | | | | | |
| (In thousands) | Commercial | Construction | Mortgage | Legacy | Consumer | | Total |
| Allowance for credit losses: | | | | | | | |
| Beginning balance | \$ 128,077 | \$ 22,138 | \$ 24,243 | \$ 69,912 | \$ 59,665 | | \$ 304,035 |
| Provision (reversal of provision) | 7,590 | (13,936) | 2,619 | 21,006 | 7,716 | | 24,995 |
| Charge-offs | (26,104) | (652) | (4,996) | (24,113) | (15,261) | | (71,126) |
| Recoveries | 7,249 | 162 | 966 | 6,740 | 1,754 | | 16,871 |
| Net recovery related to loans transferred to LHFS | | | | | | | |
| Ending balance | \$ 116,812 | \$ 7,712 | \$ 22,832 | \$ 73,545 | \$ 53,874 | | \$ 274,775 |

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| For the quarter ended June 30, 2011 | | | | | | | |
|---|------------|--------------|-----------|-----------|----------|------------|------------|
| Popular, Inc. | | | | | | | |
| (In thousands) | Commercial | Construction | Mortgage | Legacy | Leasing | Consumer | Total |
| Allowance for credit losses: | | | | | | | |
| Beginning balance | \$ 349,226 | \$ 40,510 | \$ 80,169 | \$ 69,912 | \$ 6,608 | \$ 190,080 | \$ 736,505 |
| Provision (reversal of provision) | 111,589 | (21,888) | 9,019 | 21,006 | (931) | 25,522 | 144,317 |
| Charge-offs | (83,394) | (935) | (12,162) | (24,113) | (1,510) | (49,736) | (171,850) |
| Recoveries | 14,353 | 6,389 | 981 | 6,740 | 878 | 8,534 | 37,875 |
| Net recovery related to loans transferred to LHFS | | | | | | | |
| Ending balance | \$ 391,774 | \$ 24,076 | \$ 78,007 | \$ 73,545 | \$ 5,045 | \$ 174,400 | \$ 746,847 |

| For the six months ended June 30, 2011 | | | | | | | |
|--|------------|--------------|-----------|----------|------------|--|------------|
| Puerto Rico Non-covered loans | | | | | | | |
| (In thousands) | Commercial | Construction | Mortgage | Leasing | Consumer | | Total |
| Allowance for credit losses: | | | | | | | |
| Beginning balance | \$ 256,643 | \$ 16,074 | \$ 42,029 | \$ 7,154 | \$ 133,531 | | \$ 455,431 |
| Provision (reversal of provision) | 58,941 | (6,924) | 27,939 | (298) | 42,758 | | 122,416 |
| Charge-offs | (103,059) | (10,037) | (15,370) | (3,456) | (69,620) | | (201,542) |
| Recoveries | 14,608 | 7,960 | 542 | 1,645 | 13,843 | | 38,598 |
| Ending balance | \$ 227,133 | \$ 7,073 | \$ 55,140 | \$ 5,045 | \$ 120,512 | | \$ 414,903 |

| For the six months ended June 30, 2011 | | | | | | | |
|--|------------|--------------|----------|---------|----------|--|-----------|
| Puerto Rico Covered Loans | | | | | | | |
| (In thousands) | Commercial | Construction | Mortgage | Leasing | Consumer | | Total |
| Allowance for credit losses: | | | | | | | |
| Beginning balance | \$ | \$ | \$ | \$ | \$ | | \$ |
| Provision (reversal of provision) | 49,799 | 13,636 | 35 | | 692 | | 64,162 |
| Charge-offs | (1,970) | (4,345) | | | (678) | | (6,993) |
| Recoveries | | | | | | | |
| Ending balance | \$ 47,829 | \$ 9,291 | \$ 35 | \$ | \$ 14 | | \$ 57,169 |

| For the six months ended June 30, 2011 | | | | | | | |
|---|------------|--------------|-----------|-----------|-----------|--|------------|
| U.S. Mainland | | | | | | | |
| (In thousands) | Commercial | Construction | Mortgage | Legacy | Consumer | | Total |
| Allowance for credit losses: | | | | | | | |
| Beginning balance | \$ 143,281 | \$ 23,711 | \$ 28,839 | \$ 76,405 | \$ 65,558 | | \$ 337,794 |
| Provision (reversal of provision) | 9,870 | (14,744) | (15,214) | 34,761 | 18,385 | | 33,058 |
| Charge-offs | (45,636) | (1,635) | (6,354) | (47,616) | (33,175) | | (134,416) |
| Recoveries | 9,297 | 380 | 1,754 | 9,995 | 3,106 | | 24,532 |
| Net recovery related to loans transferred to LHFS | | | 13,807 | | | | 13,807 |
| Ending balance | \$ 116,812 | \$ 7,712 | \$ 22,832 | \$ 73,545 | \$ 53,874 | | \$ 274,775 |

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| For the six months ended June 30, 2011 | | | | | | | |
|---|------------|--------------|-----------|-----------|----------|------------|------------|
| Popular, Inc. | | | | | | | |
| (In thousands) | Commercial | Construction | Mortgage | Legacy | Leasing | Consumer | Total |
| Allowance for credit losses: | | | | | | | |
| Beginning balance | \$ 399,924 | \$ 39,785 | \$ 70,868 | \$ 76,405 | \$ 7,154 | \$ 199,089 | \$ 793,225 |
| Provision (reversal of provision) | 118,610 | (8,032) | 12,760 | 34,761 | (298) | 61,835 | 219,636 |
| Charge-offs | (150,665) | (16,017) | (21,724) | (47,616) | (3,456) | (103,473) | (342,951) |
| Recoveries | 23,905 | 8,340 | 2,296 | 9,995 | 1,645 | 16,949 | 63,130 |
| Net recovery related to loans transferred to LHFS | | | 13,807 | | | | 13,807 |

| | | | | | | | |
|----------------|------------|-----------|-----------|-----------|----------|------------|------------|
| Ending balance | \$ 391,774 | \$ 24,076 | \$ 78,007 | \$ 73,545 | \$ 5,045 | \$ 174,400 | \$ 746,847 |
|----------------|------------|-----------|-----------|-----------|----------|------------|------------|

The following tables present information at June 30, 2012 and December 31, 2011 regarding loan ending balances and the allowance for loan losses by portfolio segment and whether such loans and the allowance pertains to loans individually or collectively evaluated for impairment.

| At June 30, 2012 | | | | | | | |
|--|--------------|--------------|--------------|------------|--------------|-------|------------|
| Puerto Rico | | | | | | | |
| (In thousands) | Commercial | Construction | Mortgage | Leasing | Consumer | Total | |
| Allowance for credit losses: | | | | | | | |
| Specific ALLL non-covered loans | \$ 5,497 | \$ 434 | \$ 44,708 | \$ 766 | \$ 19,564 | \$ | 70,969 |
| General ALLL non-covered loans | 198,349 | 7,030 | 75,631 | 2,191 | 92,387 | | 375,588 |
| ALLL non-covered loans | 203,846 | 7,464 | 120,339 | 2,957 | 111,951 | | 446,557 |
| Specific ALLL covered loans | 14,278 | | | | | | 14,278 |
| General ALLL covered loans | 61,314 | 23,628 | 11,617 | | 6,658 | | 103,217 |
| ALLL covered loans | 75,592 | 23,628 | 11,617 | | 6,658 | | 117,495 |
| Total ALLL | \$ 279,438 | \$ 31,092 | \$ 131,956 | \$ 2,957 | \$ 118,609 | \$ | 564,052 |
| Loans held-in-portfolio: | | | | | | | |
| Impaired non-covered loans | \$ 378,660 | \$ 49,003 | \$ 457,359 | \$ 5,528 | \$ 131,495 | \$ | 1,022,045 |
| Non-covered loans held-in-portfolio excluding impaired loans | 5,784,620 | 152,761 | 4,356,862 | 532,389 | 3,067,554 | | 13,894,186 |
| Non-covered loans held-in-portfolio | 6,163,280 | 201,764 | 4,814,221 | 537,917 | 3,199,049 | | 14,916,231 |
| Impaired covered loans | 76,695 | | | | | | 76,695 |
| Covered loans held-in-portfolio excluding impaired loans | 2,254,481 | 469,765 | 1,116,476 | | 98,913 | | 3,939,635 |
| Covered loans held-in-portfolio | 2,331,176 | 469,765 | 1,116,476 | | 98,913 | | 4,016,330 |
| Total loans held-in-portfolio | \$ 8,494,456 | \$ 671,529 | \$ 5,930,697 | \$ 537,917 | \$ 3,297,962 | \$ | 18,932,561 |

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| (In thousands) | At June 30, 2012 | | | | | |
|---|------------------|--------------|--------------|------------|------------|--------------|
| | U.S. Mainland | | | | | |
| | Commercial | Construction | Mortgage | Legacy | Consumer | Total |
| Allowance for credit losses: | | | | | | |
| Specific ALLL | \$ 1,333 | \$ | \$ 15,015 | \$ 99 | \$ 92 | \$ 16,539 |
| General ALLL | 91,585 | 1,678 | 14,468 | 43,912 | 33,796 | 185,439 |
| Total ALLL | \$ 92,918 | \$ 1,678 | \$ 29,483 | \$ 44,011 | \$ 33,888 | \$ 201,978 |
| Loans held-in-portfolio: | | | | | | |
| Impaired loans | \$ 116,372 | \$ 12,004 | \$ 53,300 | \$ 29,289 | \$ 2,362 | \$ 213,327 |
| Loans held-in-portfolio, excluding impaired loans | 3,323,163 | 35,975 | 1,032,452 | 480,540 | 664,121 | 5,536,251 |
| Total loans held-in-portfolio | \$ 3,439,535 | \$ 47,979 | \$ 1,085,752 | \$ 509,829 | \$ 666,483 | \$ 5,749,578 |

| | At June 30, 2012 Popular, Inc. | | | | | | |
|---|-----------------------------------|--------------|--------------|------------|------------|--------------|---------------|
| (In thousands) | Commercial | Construction | Mortgage | Legacy | Leasing | Consumer | Total |
| Allowance for credit losses: | | | | | | | |
| Specific ALLL non-covered loans | \$ 6,830 | \$ 434 | \$ 59,723 | \$ 99 | \$ 766 | \$ 19,656 | \$ 87,508 |
| General ALLL non-covered loans | 289,934 | 8,708 | 90,099 | 43,912 | 2,191 | 126,183 | 561,027 |
| ALLL non-covered loans | 296,764 | 9,142 | 149,822 | 44,011 | 2,957 | 145,839 | 648,535 |
| Specific ALLL covered loans | 14,278 | | | | | | 14,278 |
| General ALLL covered loans | 61,314 | 23,628 | 11,617 | | | 6,658 | 103,217 |
| ALLL covered loans | 75,592 | 23,628 | 11,617 | | | 6,658 | 117,495 |
| Total ALLL | \$ 372,356 | \$ 32,770 | \$ 161,439 | \$ 44,011 | \$ 2,957 | \$ 152,497 | \$ 766,030 |
| Loans held-in-portfolio: | | | | | | | |
| Impaired non-covered loans | \$ 495,032 | \$ 61,007 | \$ 510,659 | \$ 29,289 | \$ 5,528 | \$ 133,857 | \$ 1,235,372 |
| Non-covered loans held-in-portfolio excluding impaired loans | 9,107,783 | 188,736 | 5,389,314 | 480,540 | 532,389 | 3,731,675 | 19,430,437 |
| Non-covered loans held-in-portfolio | 9,602,815 | 249,743 | 5,899,973 | 509,829 | 537,917 | 3,865,532 | 20,665,809 |
| Impaired covered loans | 76,695 | | | | | | 76,695 |
| Covered loans held-in-portfolio excluding impaired loans | 2,254,481 | 469,765 | 1,116,476 | | | 98,913 | 3,939,635 |
| Covered loans held-in-portfolio | 2,331,176 | 469,765 | 1,116,476 | | | 98,913 | 4,016,330 |
| Total loans held-in-portfolio | \$ 11,933,991 | \$ 719,508 | \$ 7,016,449 | \$ 509,829 | \$ 537,917 | \$ 3,964,445 | \$ 24,682,139 |

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| | At December 31, 2011 | | | | | |
|--|----------------------|--------------|--------------|------------|--------------|---------------|
| | Puerto Rico | | | | | |
| (In thousands) | Commercial | Construction | Mortgage | Leasing | Consumer | Total |
| Allowance for credit losses: | | | | | | |
| Specific ALLL non-covered loans | \$ 10,407 | \$ 289 | \$ 14,944 | \$ 793 | \$ 16,915 | \$ 43,348 |
| General ALLL non-covered loans | 245,046 | 5,561 | 57,378 | 3,858 | 98,211 | 410,054 |
| ALLL non-covered loans | 255,453 | 5,850 | 72,322 | 4,651 | 115,126 | 453,402 |
| Specific ALLL covered loans | 27,086 | | | | | 27,086 |
| General ALLL covered loans | 67,386 | 20,435 | 5,310 | | 4,728 | 97,859 |
| ALLL covered loans | 94,472 | 20,435 | 5,310 | | 4,728 | 124,945 |
| Total ALLL | \$ 349,925 | \$ 26,285 | \$ 77,632 | \$ 4,651 | \$ 119,854 | \$ 578,347 |
| Loans held-in-portfolio: | | | | | | |
| Impaired non-covered loans | \$ 403,089 | \$ 49,747 | \$ 333,346 | \$ 6,104 | \$ 137,582 | \$ 929,868 |
| Non-covered loans held-in-portfolio excluding impaired loans | 6,067,493 | 111,194 | 4,356,137 | 542,602 | 2,832,845 | 13,910,271 |
| Non-covered loans held-in-portfolio | 6,470,582 | 160,941 | 4,689,483 | 548,706 | 2,970,427 | 14,840,139 |
| Impaired covered loans | 76,798 | | | | | 76,798 |
| Covered loans held-in-portfolio excluding impaired loans | 2,435,944 | 546,826 | 1,172,954 | | 116,181 | 4,271,905 |
| Covered loans held-in-portfolio | 2,512,742 | 546,826 | 1,172,954 | | 116,181 | 4,348,703 |
| Total loans held-in-portfolio | \$ 8,983,324 | \$ 707,767 | \$ 5,862,437 | \$ 548,706 | \$ 3,086,608 | \$ 19,188,842 |

| | At December 31, 2011 | | | | | |
|---|----------------------|--------------|------------|------------|------------|--------------|
| | U.S. Mainland | | | | | |
| (In thousands) | Commercial | Construction | Mortgage | Legacy | Consumer | Total |
| Allowance for credit losses: | | | | | | |
| Specific ALLL | \$ 1,331 | \$ | \$ 14,119 | \$ 57 | \$ 131 | \$ 15,638 |
| General ALLL | 112,648 | 2,631 | 15,820 | 46,171 | 44,053 | 221,323 |
| Total ALLL | \$ 113,979 | \$ 2,631 | \$ 29,939 | \$ 46,228 | \$ 44,184 | \$ 236,961 |
| Loans held-in-portfolio: | | | | | | |
| Impaired loans | \$ 153,240 | \$ 41,963 | \$ 49,534 | \$ 48,890 | \$ 2,526 | \$ 296,153 |
| Loans held-in-portfolio, excluding impaired loans | 3,349,505 | 37,035 | 779,443 | 599,519 | 700,802 | 5,466,304 |
| Total loans held-in-portfolio | \$ 3,502,745 | \$ 78,998 | \$ 828,977 | \$ 648,409 | \$ 703,328 | \$ 5,762,457 |

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| At December 31, 2011 Popular, Inc. | | | | | | | |
|--|---------------|--------------|--------------|------------|------------|--------------|---------------|
| (In thousands) | Commercial | Construction | Mortgage | Legacy | Leasing | Consumer | Total |
| Allowance for credit losses: | | | | | | | |
| Specific ALLL non-covered loans | \$ 11,738 | \$ 289 | \$ 29,063 | \$ 57 | \$ 793 | \$ 17,046 | \$ 58,986 |
| General ALLL non-covered loans | 357,694 | 8,192 | 73,198 | 46,171 | 3,858 | 142,264 | 631,377 |
| ALLL non-covered loans | 369,432 | 8,481 | 102,261 | 46,228 | 4,651 | 159,310 | 690,363 |
| Specific ALLL covered loans | 27,086 | | | | | | 27,086 |
| General ALLL covered loans | 67,386 | 20,435 | 5,310 | | | 4,728 | 97,859 |
| ALLL covered loans | 94,472 | 20,435 | 5,310 | | | 4,728 | 124,945 |
| Total ALLL | \$ 463,904 | \$ 28,916 | \$ 107,571 | \$ 46,228 | \$ 4,651 | \$ 164,038 | \$ 815,308 |
| Loans held-in-portfolio: | | | | | | | |
| Impaired non-covered loans | \$ 556,329 | \$ 91,710 | \$ 382,880 | \$ 48,890 | \$ 6,104 | \$ 140,108 | \$ 1,226,021 |
| Non-covered loans held-in-portfolio excluding impaired loans | 9,416,998 | 148,229 | 5,135,580 | 599,519 | 542,602 | 3,533,647 | 19,376,575 |
| Non-covered loans held-in-portfolio | 9,973,327 | 239,939 | 5,518,460 | 648,409 | 548,706 | 3,673,755 | 20,602,596 |
| Impaired covered loans | 76,798 | | | | | | 76,798 |
| Covered loans held-in-portfolio excluding impaired loans | 2,435,944 | 546,826 | 1,172,954 | | | 116,181 | 4,271,905 |
| Covered loans held-in-portfolio | 2,512,742 | 546,826 | 1,172,954 | | | 116,181 | 4,348,703 |
| Total loans held-in-portfolio | \$ 12,486,069 | \$ 786,765 | \$ 6,691,414 | \$ 648,409 | \$ 548,706 | \$ 3,789,936 | \$ 24,951,299 |

Impaired loans

The following tables present loans individually evaluated for impairment at June 30, 2012 and December 31, 2011.

| June 30, 2012 Puerto Rico | | | | | | | | |
|---|----------------------------------|--------------------------|-------------------|----------------------------------|--------------------------|----------------------|--------------------------|-------------------|
| (In thousands) | Impaired Loans With an Allowance | | | Impaired Loans With No Allowance | | Impaired Loans Total | | |
| | Recorded investment | Unpaid principal balance | Related allowance | Recorded investment | Unpaid principal balance | Recorded investment | Unpaid principal balance | Related allowance |
| Commercial multi-family | \$ | \$ | \$ | \$ 8,166 | \$ 12,969 | \$ 8,166 | \$ 12,969 | \$ |
| Commercial real estate non-owner occupied | 4,285 | 5,382 | 42 | 56,124 | 59,964 | 60,409 | 65,346 | 42 |
| Commercial real estate owner occupied | 42,746 | 57,372 | 3,576 | 148,707 | 188,878 | 191,453 | 246,250 | 3,576 |
| Commercial and industrial | 24,222 | 28,314 | 1,879 | 94,410 | 138,691 | 118,632 | 167,005 | 1,879 |
| Construction | 4,688 | 6,379 | 434 | 44,315 | 98,454 | 49,003 | 104,833 | 434 |
| Mortgage | 421,337 | 436,514 | 44,708 | 36,022 | 38,620 | 457,359 | 475,134 | 44,708 |
| Leasing | 5,528 | 5,528 | 766 | | | 5,528 | 5,528 | 766 |
| Consumer | | | | | | | | |
| Credit cards | 38,089 | 38,089 | 1,756 | | | 38,089 | 38,089 | 1,756 |
| Personal | 89,681 | 89,681 | 17,178 | | | 89,681 | 89,681 | 17,178 |
| Auto | 170 | 170 | 10 | | | 170 | 170 | 10 |

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| | | | | | | | | |
|-------------------|------------|------------|-----------|------------|------------|--------------|--------------|-----------|
| Other | 3,555 | 3,555 | 620 | | | 3,555 | 3,555 | 620 |
| Covered loans | 25,212 | 25,212 | 14,278 | 51,483 | 51,483 | 76,695 | 76,695 | 14,278 |
| Total Puerto Rico | \$ 659,513 | \$ 696,196 | \$ 85,247 | \$ 439,227 | \$ 589,059 | \$ 1,098,740 | \$ 1,285,255 | \$ 85,247 |

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| (In thousands) | June 30, 2012 U.S. mainland | | | | | | | |
|--|--------------------------------|--------------------------------|---------------------------------|-------------------------------------|--------------------------------|------------------------|--------------------------------|-----------|
| | Impaired Loans Allowance | | With an Related allowance | Impaired Loans With No Allowance | | Impaired Loans | | Total |
| | Recorded investment | Unpaid principal balance | | Recorded investment | Unpaid principal balance | Recorded investment | Unpaid principal balance | |
| Commercial multi-family | \$ | \$ | \$ | \$ 11,076 | \$ 16,111 | \$ 11,076 | \$ 16,111 | \$ |
| Commercial real estate non-owner occupied | 3,991 | 6,207 | 1,333 | 59,692 | 87,729 | 63,683 | 93,936 | 1,333 |
| Commercial real estate owner occupied | | | | 27,925 | 35,499 | 27,925 | 35,499 | |
| Commercial and industrial | | | | 13,688 | 17,206 | 13,688 | 17,206 | |
| Construction | | | | 12,004 | 13,944 | 12,004 | 13,944 | |
| Mortgage | 48,281 | 48,980 | 15,015 | 5,019 | 5,019 | 53,300 | 53,999 | 15,015 |
| Legacy | 1,112 | 1,112 | 99 | 28,177 | 42,324 | 29,289 | 43,436 | 99 |
| Consumer | | | | | | | | |
| Auto | 92 | 92 | 4 | | | 92 | 92 | 4 |
| Other | 2,270 | 2,270 | 88 | | | 2,270 | 2,270 | 88 |
| Total U.S. mainland | \$ 55,746 | \$ 58,661 | \$ 16,539 | \$ 157,581 | \$ 217,832 | \$ 213,327 | \$ 276,493 | \$ 16,539 |

| (In thousands) | June 30, 2012 Popular, Inc. | | | | | | | |
|--|--------------------------------|--------------------------------|---------------------------------|-------------------------------------|--------------------------------|------------------------|--------------------------------|------------|
| | Impaired Loans Allowance | | With an Related allowance | Impaired Loans With No Allowance | | Impaired Loans | | Total |
| | Recorded investment | Unpaid principal balance | | Recorded investment | Unpaid principal balance | Recorded investment | Unpaid principal balance | |
| Commercial multi-family | \$ | \$ | \$ | \$ 19,242 | \$ 29,080 | \$ 19,242 | \$ 29,080 | \$ |
| Commercial real estate non-owner occupied | 8,276 | 11,589 | 1,375 | 115,816 | 147,693 | 124,092 | 159,282 | 1,375 |
| Commercial real estate owner occupied | 42,746 | 57,372 | 3,576 | 176,632 | 224,377 | 219,378 | 281,749 | 3,576 |
| Commercial and industrial | 24,222 | 28,314 | 1,879 | 108,098 | 155,897 | 132,320 | 184,211 | 1,879 |
| Construction | 4,688 | 6,379 | 434 | 56,319 | 112,398 | 61,007 | 118,777 | 434 |
| Mortgage | 469,618 | 485,494 | 59,723 | 41,041 | 43,639 | 510,659 | 529,133 | 59,723 |
| Legacy | 1,112 | 1,112 | 99 | 28,177 | 42,324 | 29,289 | 43,436 | 99 |
| Leasing | 5,528 | 5,528 | 766 | | | 5,528 | 5,528 | 766 |
| Consumer | | | | | | | | |
| Credit cards | 38,089 | 38,089 | 1,756 | | | 38,089 | 38,089 | 1,756 |
| Personal | 89,681 | 89,681 | 17,178 | | | 89,681 | 89,681 | 17,178 |
| Auto | 262 | 262 | 14 | | | 262 | 262 | 14 |
| Other | 5,825 | 5,825 | 708 | | | 5,825 | 5,825 | 708 |
| Covered loans | 25,212 | 25,212 | 14,278 | 51,483 | 51,483 | 76,695 | 76,695 | 14,278 |
| Total Popular, Inc. | \$ 715,259 | \$ 754,857 | \$ 101,786 | \$ 596,808 | \$ 806,891 | \$ 1,312,067 | \$ 1,561,748 | \$ 101,786 |

| (In thousands) | December 31, 2011 Puerto Rico | | | | | | | |
|----------------|----------------------------------|---------------------|---------------------------------|-------------------------------------|---------------------|------------------------|---------------------|-------|
| | Impaired Loans Allowance | | With an Related allowance | Impaired Loans With No Allowance | | Impaired Loans | | Total |
| | Recorded investment | Unpaid principal | | Recorded investment | Unpaid principal | Recorded investment | Unpaid principal | |

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| | balance | | | | balance | | balance | |
|---|------------|------------|-----------|------------|------------|--------------|--------------|-----------|
| Commercial multi-family | \$ 10,463 | \$ 10,463 | \$ 575 | \$ 12,206 | \$ 21,312 | \$ 22,669 | \$ 31,775 | \$ 575 |
| Commercial real estate non-owner occupied | 5,909 | 7,006 | 836 | 45,517 | 47,439 | 51,426 | 54,445 | 836 |
| Commercial real estate owner occupied | 37,534 | 46,806 | 2,757 | 165,745 | 215,288 | 203,279 | 262,094 | 2,757 |
| Commercial and industrial | 42,294 | 55,180 | 6,239 | 83,421 | 108,224 | 125,715 | 163,404 | 6,239 |
| Construction | 1,672 | 2,369 | 289 | 48,075 | 101,042 | 49,747 | 103,411 | 289 |
| Mortgage | 333,346 | 336,682 | 14,944 | | | 333,346 | 336,682 | 14,944 |
| Leasing | 6,104 | 6,104 | 793 | | | 6,104 | 6,104 | 793 |
| Consumer | | | | | | | | |
| Credit cards | 38,874 | 38,874 | 2,151 | | | 38,874 | 38,874 | 2,151 |
| Personal | 93,760 | 93,760 | 14,115 | | | 93,760 | 93,760 | 14,115 |
| Other | 4,948 | 4,948 | 649 | | | 4,948 | 4,948 | 649 |
| Covered loans | 75,798 | 75,798 | 27,086 | 1,000 | 1,000 | 76,798 | 76,798 | 27,086 |
| Total Puerto Rico | \$ 650,702 | \$ 677,990 | \$ 70,434 | \$ 355,964 | \$ 494,305 | \$ 1,006,666 | \$ 1,172,295 | \$ 70,434 |

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| (In thousands) | December 31, 2011 U.S. mainland | | | | | | | |
|---|------------------------------------|--------------------------|-------------------|----------------------------------|--------------------------|---------------------|--------------------------|-------------------|
| | Impaired Loans With an Allowance | | | Impaired Loans With No Allowance | | Impaired Loans | | Total |
| | Recorded investment | Unpaid principal balance | Related allowance | Recorded investment | Unpaid principal balance | Recorded investment | Unpaid principal balance | Related allowance |
| Commercial multi-family | \$ | \$ | \$ | \$ 8,655 | \$ 12,403 | \$ 8,655 | \$ 12,403 | \$ |
| Commercial real estate non-owner occupied | 1,306 | 1,306 | 214 | 61,111 | 83,938 | 62,417 | 85,244 | 214 |
| Commercial real estate owner occupied | 1,239 | 1,239 | 455 | 46,403 | 56,229 | 47,642 | 57,468 | 455 |
| Commercial and industrial | 7,390 | 7,390 | 662 | 27,136 | 29,870 | 34,526 | 37,260 | 662 |
| Construction | | | | 41,963 | 44,751 | 41,963 | 44,751 | |
| Mortgage | 39,570 | 39,899 | 14,119 | 9,964 | 9,964 | 49,534 | 49,863 | 14,119 |
| Legacy | 6,013 | 6,013 | 57 | 42,877 | 69,221 | 48,890 | 75,234 | 57 |
| Consumer | | | | | | | | |
| Auto | 93 | 93 | 6 | | | 93 | 93 | 6 |
| Other | 2,433 | 2,433 | 125 | | | 2,433 | 2,433 | 125 |
| Total U.S. mainland | \$ 58,044 | \$ 58,373 | \$ 15,638 | \$ 238,109 | \$ 306,376 | \$ 296,153 | \$ 364,749 | \$ 15,638 |

| (In thousands) | December 31, 2011 Popular, Inc. | | | | | | | |
|---|------------------------------------|--------------------------|-------------------|----------------------------------|--------------------------|---------------------|--------------------------|-------------------|
| | Impaired Loans With an Allowance | | | Impaired Loans With No Allowance | | Impaired Loans | | Total |
| | Recorded investment | Unpaid principal balance | Related allowance | Recorded investment | Unpaid principal balance | Recorded investment | Unpaid principal balance | Related allowance |
| Commercial multi-family | \$ 10,463 | \$ 10,463 | \$ 575 | \$ 20,861 | \$ 33,715 | \$ 31,324 | \$ 44,178 | \$ 575 |
| Commercial real estate non-owner occupied | 7,215 | 8,312 | 1,050 | 106,628 | 131,377 | 113,843 | 139,689 | 1,050 |
| Commercial real estate owner occupied | 38,773 | 48,045 | 3,212 | 212,148 | 271,517 | 250,921 | 319,562 | 3,212 |
| Commercial and industrial | 49,684 | 62,570 | 6,901 | 110,557 | 138,094 | 160,241 | 200,664 | 6,901 |
| Construction | 1,672 | 2,369 | 289 | 90,038 | 145,793 | 91,710 | 148,162 | 289 |
| Mortgage | 372,916 | 376,581 | 29,063 | 9,964 | 9,964 | 382,880 | 386,545 | 29,063 |
| Legacy | 6,013 | 6,013 | 57 | 42,877 | 69,221 | 48,890 | 75,234 | 57 |
| Leasing | 6,104 | 6,104 | 793 | | | 6,104 | 6,104 | 793 |
| Consumer | | | | | | | | |
| Credit cards | 38,874 | 38,874 | 2,151 | | | 38,874 | 38,874 | 2,151 |
| Personal | 93,760 | 93,760 | 14,115 | | | 93,760 | 93,760 | 14,115 |
| Auto | 93 | 93 | 6 | | | 93 | 93 | 6 |
| Other | 7,381 | 7,381 | 774 | | | 7,381 | 7,381 | 774 |
| Covered loans | 75,798 | 75,798 | 27,086 | 1,000 | 1,000 | 76,798 | 76,798 | 27,086 |
| Total Popular, Inc. | \$ 708,746 | \$ 736,363 | \$ 86,072 | \$ 594,073 | \$ 800,681 | \$ 1,302,819 | \$ 1,537,044 | \$ 86,072 |

The following table presents the average recorded investment and interest income recognized on impaired loans for the quarter and six months ended June 30, 2012 and 2011.

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For the quarter ended June 30, 2012

| | Puerto Rico | | U.S. Mainland | | Popular, Inc. | |
|---|-----------------------------------|----------------------------------|-----------------------------------|----------------------------------|-----------------------------------|----------------------------------|
| | Average recorded investment | Interest income recognized | Average recorded investment | Interest income recognized | Average recorded investment | Interest income recognized |
| (In thousands) | | | | | | |
| Commercial multi-family | \$ 8,469 | \$ | \$ 11,397 | \$ 11 | \$ 19,866 | \$ 11 |
| Commercial real estate non-owner occupied | 61,468 | 176 | 64,514 | 327 | 125,982 | 503 |
| Commercial real estate owner occupied | 195,838 | 197 | 34,745 | | 230,583 | 197 |
| Commercial and industrial | 124,604 | 137 | 22,557 | | 147,161 | 137 |
| Construction | 50,013 | 91 | 12,565 | | 62,578 | 91 |
| Mortgage | 427,107 | 6,267 | 53,600 | 495 | 480,707 | 6,762 |
| Legacy | | | 38,510 | 19 | 38,510 | 19 |
| Leasing | 5,470 | | | | 5,470 | |
| Consumer | | | | | | |
| Credit cards | 38,567 | | | | 38,567 | |
| Personal | 90,862 | | | | 90,862 | |
| Auto | 85 | | 46 | | 131 | |
| Other | 4,107 | | 2,362 | | 6,469 | |
| Covered loans | 81,275 | | | | 81,275 | |
| Total Popular, Inc. | \$ 1,087,865 | \$ 6,868 | \$ 240,296 | \$ 852 | \$ 1,328,161 | \$ 7,720 |

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| | For the quarter ended June 30, 2011 | | | | | |
|---|-------------------------------------|----------------------------|-----------------------------|----------------------------|-----------------------------|----------------------------|
| | Puerto Rico | | U.S. Mainland | | Popular, Inc. | |
| (In thousands) | Average recorded investment | Interest income recognized | Average recorded investment | Interest income recognized | Average recorded investment | Interest income recognized |
| Commercial multi-family | \$ 12,409 | \$ (106) | \$ 6,280 | \$ | \$ 18,689 | \$ (106) |
| Commercial real estate non-owner occupied | 43,652 | 272 | 86,596 | | 130,248 | 272 |
| Commercial real estate owner occupied | 188,690 | 459 | 17,315 | 354 | 206,005 | 813 |
| Commercial and industrial | 91,234 | 326 | 15,889 | 180 | 107,123 | 506 |
| Construction | 61,246 | | 63,605 | | 124,851 | |
| Mortgage | 168,735 | 2,092 | 7,655 | 131 | 176,390 | 2,223 |
| Legacy | | | 95,008 | | 95,008 | |
| Covered loans | 1,813 | | | | 1,813 | |
| Total Popular, Inc. | \$ 567,779 | \$ 3,043 | \$ 292,348 | \$ 665 | \$ 860,127 | \$ 3,708 |

| | For the six months ended June 30, 2012 | | | | | |
|---|--|----------------------------|-----------------------------|----------------------------|-----------------------------|----------------------------|
| | Puerto Rico | | U.S. Mainland | | Popular, Inc. | |
| (In thousands) | Average recorded investment | Interest income recognized | Average recorded investment | Interest income recognized | Average recorded investment | Interest income recognized |
| Commercial multi-family | \$ 13,202 | \$ | \$ 10,483 | \$ 101 | \$ 23,685 | \$ 101 |
| Commercial real estate non-owner occupied | 58,121 | 357 | 63,815 | 814 | 121,936 | 1,171 |
| Commercial real estate owner occupied | 198,318 | 773 | 39,044 | | 237,362 | 773 |
| Commercial and industrial | 124,974 | 620 | 26,547 | 37 | 151,521 | 657 |
| Construction | 49,924 | 107 | 22,364 | | 72,288 | 107 |
| Mortgage | 395,853 | 11,840 | 52,245 | 977 | 448,098 | 12,817 |
| Legacy | | | 41,970 | 65 | 41,970 | 65 |
| Leasing | 5,681 | | | | 5,681 | |
| Consumer | | | | | | |
| Credit cards | 38,669 | | | | 38,669 | |
| Personal | 91,828 | | | | 91,828 | |
| Auto | 57 | | 62 | | 119 | |
| Other | 4,387 | | 2,386 | | 6,773 | |
| Covered loans | 79,783 | | | | 79,783 | |
| Total Popular, Inc. | \$ 1,060,797 | \$ 13,697 | \$ 258,916 | \$ 1,994 | \$ 1,319,713 | \$ 15,691 |

| | For the six months ended June 30, 2011 | | | | | |
|---|--|----------------------------|-----------------------------|----------------------------|-----------------------------|----------------------------|
| | Puerto Rico | | U.S. Mainland | | Popular, Inc. | |
| (In thousands) | Average recorded investment | Interest income recognized | Average recorded investment | Interest income recognized | Average recorded investment | Interest income recognized |
| Commercial multi-family | \$ 13,023 | \$ | \$ 6,013 | \$ | \$ 19,036 | \$ |
| Commercial real estate non-owner occupied | 36,187 | 389 | 89,107 | 114 | 125,294 | 503 |
| Commercial real estate owner occupied | 187,388 | 905 | 15,895 | 423 | 203,283 | 1,328 |
| Commercial and industrial | 90,918 | 578 | 14,038 | 211 | 104,956 | 789 |
| Construction | 62,730 | 49 | 97,611 | 124 | 160,341 | 173 |
| Mortgage | 152,893 | 4,006 | 5,103 | 229 | 157,996 | 4,235 |
| Legacy | | | 67,468 | 28 | 67,468 | 28 |
| Covered loans | 1,209 | | | | 1,209 | |
| Total Popular, Inc. | \$ 544,348 | \$ 5,927 | \$ 295,235 | \$ 1,129 | \$ 839,583 | \$ 7,056 |

Modifications

Troubled debt restructurings related to non-covered loan portfolios amounted to \$931 million at June 30, 2012 (December 31, 2011 \$881 million). The amount of outstanding commitments to lend additional funds to debtors owing receivables whose terms have been modified in troubled debt restructurings amounted to \$13 thousand related to the construction loan portfolio and \$3 million related to the commercial loan portfolio at June 30, 2012 (December 31, 2011 \$152 thousand and \$3 million, respectively).

A modification of a loan constitutes a troubled debt restructuring (TDR) when a borrower is experiencing financial difficulty and the modification constitutes a concession.

Commercial and industrial loans modified in a TDR often involve temporary interest-only payments, term extensions, and converting evergreen revolving credit lines to long-term loans. Commercial real estate (CRE), which includes multifamily, owner-occupied and non-owner occupied CRE, and construction loans modified in a TDR often involve reducing the interest rate for a limited period of

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time or the remaining term of the loan, extending the maturity date at an interest rate lower than the current market rate for new debt with similar risk, or reductions in the payment plan. Construction loans modified in a TDR may also involve extending the interest-only payment period.

Residential mortgage loans modified in a TDR are primarily comprised of loans where monthly payments are lowered to accommodate the borrowers' financial needs for a period of time, normally five years to ten years. After the lowered monthly payment period ends, the borrower reverts back to paying principal and interest per the original terms with the maturity date adjusted accordingly.

Home equity modifications are made infrequently and are not offered if the Corporation also holds the first mortgage. Home equity modifications are uniquely designed to meet the specific needs of each borrower. Automobile loans modified in a TDR are primarily comprised of loans where the Corporation has lowered monthly payments by extending the term. Credit cards modified in a TDR are primarily comprised of loans where monthly payments are lowered to accommodate the borrowers' financial needs for a period of time, normally up to 24 months.

Loans modified in a TDR that are not accounted pursuant to ASC 310-30 are typically already in non-accrual status at the time of the modification and partial charge-offs have in some cases already been taken against the outstanding loan balance. The TDR loan continues in non-accrual status until the borrower has demonstrated a willingness and ability to make the restructured loan payments (generally at least six months of sustained performance after the modification (or one year for loans providing for quarterly or semi-annual payments)) and management has concluded that it is probable that the borrower would not be in payment default in the foreseeable future.

Loans modified in a TDR may have the financial effect to the Corporation of increasing the specific allowance for loan losses associated with the loan. Consumer and residential mortgage loans modified under the Corporation's loss mitigation programs that are determined to be TDRs are individually evaluated for impairment based on an analysis of discounted cash flows.

For consumer and mortgage loans that are modified with regard to payment terms and which constitute TDRs, the discounted cash flow value method is used as the impairment valuation is more appropriately calculated based on the ongoing cash flow from the individuals rather than the liquidation of the asset. The computations give consideration to probability of defaults and loss-given-foreclosure on the related estimated cash flows.

Commercial and construction loans that have been modified as part of loss mitigation efforts are evaluated individually for impairment. The vast majority of the Corporation's modified commercial loans are measured for impairment using the estimated fair value of the collateral, as these are normally considered as collateral dependent loans. In very few instances, the Corporation measures modified commercial loans at their estimated realizable values determined by discounting the expected future cash flows. Construction loans that have been modified are also accounted for as collateral dependent loans. The Corporation determines the fair value measurement dependent upon its exit strategy for the particular asset(s) acquired in foreclosure. The discounted cash flows analyses for the commercial and construction TDRs, currently, do not consider a default component. As indicated above, the vast majority of the Corporation's modified commercial and construction loans are measured for impairment using the estimated fair value of the collateral, thus the consideration of the default rates in the evaluation of TDRs in these portfolios is not deemed material.

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The following tables present the loan count by type of modification for those loans modified in a TDR during the quarter ended June 30, 2012.

| | Puerto Rico | | | | Puerto Rico | | | |
|---|-------------------------------------|----------------------------|--|----------------------------|--|----------------------------|--|----------------------------|
| | For the quarter ended June 30, 2012 | | Combination of reduction in interest rate and extension of maturity date | | For the six months ended June 30, 2012 | | Combination of reduction in interest rate and extension of maturity date | |
| | Reduction in interest rate | Extension of maturity date | Reduction in interest rate | Extension of maturity date | Reduction in interest rate | Extension of maturity date | Reduction in interest rate | Extension of maturity date |
| Commercial real estate non-owner occupied | | 1 | | | 2 | 4 | | |
| Commercial real estate owner occupied | 4 | 7 | | | 6 | 15 | | |
| Commercial and industrial | 8 | 22 | | | 25 | 53 | | |
| Construction | | | | | 1 | 1 | | |
| Mortgage | 125 | 42 | 459 | 65 | 161 | 83 | 794 | 110 |
| Leasing | | 34 | | | | 62 | | |
| Consumer | | | | | | | | |
| Credit cards | 410 | | | 334 | 957 | | | 674 |
| Personal | 281 | 12 | | | 670 | 21 | | |
| Auto | | 1 | | | | 1 | 2 | |
| Other | 14 | | | | 25 | | | |
| Total | 842 | 119 | 459 | 399 | 1,847 | 240 | 796 | 784 |

| | U.S. Mainland | | | | U.S. Mainland | | | |
|---|-------------------------------------|----------------------------|--|----------------------------|--|----------------------------|--|----------------------------|
| | For the quarter ended June 30, 2012 | | Combination of reduction in interest rate and extension of maturity date | | For the six months ended June 30, 2012 | | Combination of reduction in interest rate and extension of maturity date | |
| | Reduction in interest rate | Extension of maturity date | Reduction in interest rate | Extension of maturity date | Reduction in interest rate | Extension of maturity date | Reduction in interest rate | Extension of maturity date |
| Commercial real estate non-owner occupied | 1 | | | | 1 | | | 1 |
| Construction | | | | | | | | 1 |
| Mortgage | 1 | | 23 | | 3 | | 48 | |
| Legacy | 1 | | | | 1 | | | 2 |
| Consumer | | | | | | | | |
| HELOCs | | | 1 | | | | 1 | |
| Total | 3 | | 24 | | 5 | | 49 | 4 |

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| | Popular, Inc. | | | | Popular, Inc. | | | |
|---|-------------------------------------|----------------------------|--|----------------------------|--|----------------------------|--|----------------------------|
| | For the quarter ended June 30, 2012 | | Combination of reduction in interest rate and extension of maturity date | | For the six months ended June 30, 2012 | | Combination of reduction in interest rate and extension of maturity date | |
| | Reduction in interest rate | Extension of maturity date | Reduction in interest rate | Extension of maturity date | Reduction in interest rate | Extension of maturity date | Reduction in interest rate | Extension of maturity date |
| Commercial real estate non-owner occupied | 1 | 1 | 3 | 4 | 1 | 1 | 3 | 4 |
| Commercial real estate owner occupied | 4 | 7 | 6 | 15 | 4 | 7 | 6 | 15 |
| Commercial and industrial | 8 | 22 | 25 | 53 | 8 | 22 | 25 | 53 |
| Construction | | | | | | | | |
| Mortgage | 126 | 42 | 482 | 65 | 164 | 83 | 842 | 110 |
| Legacy | 1 | | | | 1 | | | |
| Leasing | | 34 | | | | 62 | | |
| Consumer: | | | | | | | | |
| Credit cards | 410 | | 334 | | 957 | | 674 | |
| HELOCs | | | 1 | | | | 1 | |
| Personal | 281 | 12 | | | 670 | 21 | | |
| Auto | | 1 | | | | 1 | | 2 |
| Other | 14 | | | | 25 | | | |
| Total | 845 | 119 | 483 | 399 | 1,852 | 240 | 845 | 788 |

The following tables present by class, quantitative information related to loans modified as TDRs during the quarter and six months ended June 30, 2012.

| Puerto Rico | | | | |
|---|------------|--|---|--|
| For the quarter ended June 30, 2012 | | | | |
| (Dollars in thousands) | Loan count | Pre-modification outstanding recorded investment | Post-modification outstanding recorded investment | Increase (decrease) in the allowance for loan losses as a result of modification |
| Commercial real estate non-owner occupied | 1 | \$ 138 | \$ 534 | \$ 4 |
| Commercial real estate owner occupied | 11 | 4,481 | 4,070 | 1 |
| Commercial and industrial | 30 | 18,392 | 18,061 | 229 |
| Mortgage | 691 | 91,292 | 94,681 | 2,335 |
| Leasing | 34 | 499 | 481 | 53 |
| Consumer | | | | |
| Credit cards | 744 | 6,296 | 6,981 | 4 |
| Personal | 293 | 4,290 | 4,285 | 782 |
| Auto | 1 | 3 | 3 | |
| Other | 14 | 34 | 33 | |
| Total | 1,819 | \$ 125,425 | \$ 129,129 | \$ 3,408 |

| U.S. Mainland | | | | |
|-------------------------------------|------------|--|---|--|
| For the quarter ended June 30, 2012 | | | | |
| (Dollars in thousands) | Loan count | Pre-modification outstanding recorded investment | Post-modification outstanding recorded investment | Increase (decrease) in the allowance for loan losses |

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| | | | | | as a result of modification |
|----------------------------------|----|----|-------|----|-----------------------------|
| Commercial real estate non-owner | | | | | |
| occupied | 1 | \$ | 2,252 | \$ | 1,991 |
| Mortgage | 24 | | 2,382 | | 2,314 |
| Legacy | 1 | | 321 | | 316 |
| Consumer | | | | | |
| HELOCs | 1 | | 150 | | 134 |
| Total | 27 | \$ | 5,105 | \$ | 4,755 |
| | | | | \$ | 537 |

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| Popular, Inc. For the quarter ended June 30, 2012 | | | | |
|--|------------|---|---|---|
| (Dollars in thousands) | Loan count | Pre-modification outstanding recorded investment | Post-modification outstanding recorded investment | Increase (decrease) in the allowance for loan losses as a result of modification |
| Commercial real estate non-owner occupied | 2 | \$ 2,390 | \$ 2,525 | \$ 188 |
| Commercial real estate owner occupied | 11 | 4,481 | 4,070 | 1 |
| Commercial and industrial | 30 | 18,392 | 18,061 | 229 |
| Mortgage | 715 | 93,674 | 96,995 | 2,692 |
| Legacy | 1 | 321 | 316 | (3) |
| Leasing | 34 | 499 | 481 | 53 |
| Consumer | | | | |
| Credit cards | 744 | 6,296 | 6,981 | 4 |
| HELOCs | 1 | 150 | 134 | (1) |
| Personal | 293 | 4,290 | 4,285 | 782 |
| Auto | 1 | 3 | 3 | |
| Other | 14 | 34 | 33 | |
| Total | 1,846 | \$ 130,530 | \$ 133,884 | \$ 3,945 |

| Puerto Rico For the six months ended June 30, 2012 | | | | |
|---|------------|--|---|---|
| (Dollars in thousands) | Loan count | Pre-modification outstanding recorded investment | Post-modification outstanding recorded investment | Increase (decrease) in the allowance for loan losses as a result of modification |
| Commercial real estate non-owner occupied | 6 | \$ 2,690 | \$ 3,090 | \$ (969) |
| Commercial real estate owner occupied | 21 | 7,693 | 7,282 | (38) |
| Commercial and industrial | 78 | 24,764 | 24,434 | 250 |
| Construction | 2 | 1,097 | 1,097 | 52 |
| Mortgage | 1,148 | 153,208 | 157,191 | 6,978 |
| Leasing | 62 | 1,009 | 966 | 103 |
| Consumer | | | | |
| Credit cards | 1,631 | 13,521 | 15,347 | 44 |
| Personal | 691 | 9,079 | 9,080 | 1,501 |
| Auto | 3 | 47 | 27 | (1) |
| Other | 25 | 75 | 74 | |
| Total | 3,667 | \$ 213,183 | \$ 218,588 | \$ 7,920 |

| U.S. mainland For the six months ended June 30, 2012 | | | | |
|---|------------|---|---|---|
| (Dollars in thousands) | Loan count | Pre-modification outstanding recorded investment | Post-modification outstanding recorded investment | Increase (decrease) in the allowance for loan losses as a result of modification |
| Commercial real estate non-owner occupied | 2 | \$ 5,796 | \$ 5,536 | \$ 184 |
| Construction | 1 | 1,573 | 1,573 | |
| Mortgage | 51 | 5,403 | 5,425 | 834 |

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| | | | | |
|----------|----|-----------|-----------|----------|
| Legacy | 3 | 1,272 | 1,267 | (3) |
| Consumer | | | | |
| HELOCs | 1 | 150 | 134 | (1) |
| Total | 58 | \$ 14,194 | \$ 13,935 | \$ 1,014 |

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Popular, Inc.
For the six months ended June 30, 2012

| (Dollars in thousands) | Loan count | Pre-modification outstanding recorded investment | Post-modification outstanding recorded investment | Increase (decrease) in the allowance for loan losses as a result of modification |
|---|------------|--|---|---|
| Commercial real estate non-owner occupied | 8 | \$ 8,486 | \$ 8,626 | \$ (785) |
| Commercial real estate owner occupied | 21 | 7,693 | 7,282 | (38) |
| Commercial and industrial | 78 | 24,764 | 24,434 | 250 |
| Construction | 3 | 2,670 | 2,670 | 52 |
| Mortgage | 1,199 | 158,611 | 162,616 | 7,812 |
| Legacy | 3 | 1,272 | 1,267 | (3) |
| Leasing | 62 | 1,009 | 966 | 103 |
| Consumer | | | | |
| Credit cards | 1,631 | 13,521 | 15,347 | 44 |
| HELOCs | 1 | 150 | 134 | (1) |
| Personal | 691 | 9,079 | 9,080 | 1,501 |
| Auto | 3 | 47 | 27 | (1) |
| Other | 25 | 75 | 74 | |
| Total | 3,725 | \$ 227,377 | \$ 232,523 | \$ 8,934 |

Four loans comprising a recorded investment of approximately \$7 million were restructured into multiple notes (Note A / B split) during the quarter ended June 30, 2012. The Corporation recorded approximately \$1.4 million in loan charge-offs as part of the loan restructurings. The renegotiations of these loans were made after analyzing the borrowers capacity to repay the debt, collateral and ability to perform under the modified terms. The recorded investment on these commercial TDRs amounted to approximately \$6 million at June 30, 2012 with a related allowance for loan losses amounting to approximately \$94 thousand.

The following tables present by class, TDRs that were subject to payment default from January 1, 2012 through June 30, 2012 and that had been modified as a TDR during the twelve months preceding the default date. Payment default is defined as a restructured loan becoming 90 days past due after being modified, foreclosed or charged-off, whichever occurs first. The recorded investment at June 30, 2012 is inclusive of all partial pay-downs and charge-offs since modification date. Loans modified as a TDR that were fully paid down, charged-off or foreclosed upon by period end are not reported.

| (Dollars In thousands) | Puerto Rico | | | |
|---|---|---|--|---|
| | Defaulted during the quarter ended June 30, 2012 | | Defaulted during the six months ended June 30, 2012 | |
| | Loan count | Recorded investment as of period end | Loan count | Recorded investment as of period end |
| Commercial real estate non-owner occupied | 2 | \$ 1,791 | 3 | \$ 3,561 |
| Commercial real estate owner occupied | 6 | 3,186 | 15 | 15,619 |
| Commercial and industrial | 4 | 3,843 | 12 | 4,918 |
| Mortgage | 165 | 25,332 | 324 | 48,420 |
| Leasing | 4 | 43 | 13 | 412 |
| Consumer | | | | |
| Credit cards | 241 | 1,795 | 481 | 3,842 |
| Personal | 92 | 650 | 189 | 1,392 |
| Auto | 1 | 16 | 1 | 16 |
| Other | | | 1 | 1 |
| Total | 515 | \$ 36,656 | 1,039 | \$ 78,181 |

U.S. Mainland

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| (Dollars In thousands) | Defaulted during the quarter ended June 30, 2012 | | Defaulted during the six months ended June 30, 2012 | |
|---|---|--|--|---|
| | Loan count | Recorded investment as of period end | Loan count | Recorded investment as of period end |
| Commercial real estate non-owner occupied | | | 1 | \$ 1,935 |
| Mortgage | 3 | \$ 319 | 6 | 732 |
| Total | 3 | \$ 319 | 7 | \$ 2,667 |

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| Popular, Inc. | | | | |
|--|------------|--------------------------------------|---|--------------------------------------|
| Defaulted during the quarter ended June 30, 2012 | | | Defaulted during the six months ended June 30, 2012 | |
| | Loan count | Recorded investment as of period end | Loan count | Recorded investment as of period end |
| (Dollars in thousands) | | | | |
| Commercial real estate non-owner occupied | 2 | \$ 1,791 | 4 | \$ 5,496 |
| Commercial real estate owner occupied | 6 | 3,186 | 15 | 15,619 |
| Commercial and industrial | 4 | 3,843 | 12 | 4,918 |
| Mortgage | 168 | 25,651 | 330 | 49,152 |
| Legacy | 4 | 43 | 13 | 412 |
| Consumer | | | | |
| Credit cards | 241 | 1,795 | 481 | 3,842 |
| Personal | 92 | 650 | 189 | 1,392 |
| Auto | 1 | 16 | 1 | 16 |
| Other | | | 1 | 1 |
| Total | 518 | \$ 36,975 | 1,046 | \$ 80,848 |

Commercial, consumer and mortgage loans modified in a TDR are closely monitored for delinquency as an early indicator of possible future default. If loans modified in a TDR subsequently default, the Corporation evaluates the loan for possible further impairment. The allowance for loan losses may be increased or partial charge-offs may be taken to further write-down the carrying value of the loan.

Credit Quality

The Corporation has defined a dual risk rating system to assign a rating to all credit exposures, particularly for the commercial and construction loan portfolios. Risk ratings in the aggregate provide the Corporation's management the asset quality profile for the loan portfolio. The dual risk rating system provides for the assignment of ratings at the obligor level based on the financial condition of the borrower, and at the credit facility level based on the collateral supporting the transaction. The Corporation's consumer and mortgage loans are not subject to the dual risk rating system. Consumer and mortgage loans are classified substandard or loss based on their delinquency status. All other consumer and mortgage loans that are not classified as substandard or loss would be considered unrated.

The Corporation's obligor risk rating scales range from rating 1 (Excellent) to rating 14 (Loss). The obligor risk rating reflects the risk of payment default of a borrower in the ordinary course of business.

Pass Credit Classifications:

Pass (Scales 1 through 8) Loans classified as pass have a well defined primary source of repayment very likely to be sufficient, with no apparent risk, strong financial position, minimal operating risk, profitability, liquidity and capitalization better than industry standards.

Watch (Scale 9) Loans classified as watch have acceptable business credit, but borrower's operations, cash flow or financial condition evidence more than average risk, requires above average levels of supervision and attention from Loan Officers.

Special Mention (Scale 10) Loans classified as special mention have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the Corporation's credit position at some future date.

Adversely Classified Classifications:

Substandard (Scales 11 and 12) Loans classified as substandard are deemed to be inadequately protected by the current net worth and payment capacity of the obligor or of the collateral pledged, if any. Loans classified as such have well-defined weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

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Doubtful (Scale 13) Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the additional characteristic that the weaknesses make the collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loss (Scale 14) Uncollectible and of such little value that continuance as a bankable asset is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this asset even though partial recovery may be effected in the future.

Risk ratings scales 10 through 14 conform to regulatory ratings. The assignment of the obligor risk rating is based on relevant information about the ability of borrowers to service their debts such as current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors.

The Corporation periodically reviews loans classified as watch list or worse, to evaluate if they are properly classified, and to determine impairment, if any. The frequency of these reviews will depend on the amount of the aggregate outstanding debt, and the risk rating classification of the obligor. In addition, during the renewal process of applicable credit facilities, the Corporation evaluates the corresponding loan grades.

Loans classified as pass credits are excluded from the scope of the review process described above until: (a) they become past due; (b) management becomes aware of deterioration in the creditworthiness of the borrower; or (c) the customer contacts the Corporation for a modification. In these circumstances, the credit facilities are specifically evaluated to assign the appropriate risk rating classification.

The Corporation has a Credit Process Review Group within the Corporate Credit Risk Management Division (CCRMD), which performs annual comprehensive credit process reviews of several middle markets, construction, asset-based and corporate banking lending groups in BPPR. This group evaluates the credit risk profile of each originating unit along with each unit's credit administration effectiveness, including the assessment of the risk rating representative of the current credit quality of the loans, and the evaluation of collateral documentation. The monitoring performed by this group contributes to assess compliance with credit policies and underwriting standards, determine the current level of credit risk, evaluate the effectiveness of the credit management process and identify control deficiencies that may arise in the credit-granting process. Based on its findings, the Credit Process Review Group recommends corrective actions, if necessary, that help in maintaining a sound credit process. CCRMD has contracted an outside loan review firm to perform the credit process reviews for the portfolios of commercial and construction loans in the U.S. mainland operations. The CCRMD participates in defining the review plan with the outside loan review firm and actively participates in the discussions of the results of the loan reviews with the business units. The CCRMD may periodically review the work performed by the outside loan review firm. CCRMD reports the results of the credit process reviews to the Risk Management Committee of the Corporation's Board of Directors.

The following table presents the outstanding balance, net of unearned income, of non-covered loans held-in-portfolio based on the Corporation's assignment of obligor risk ratings as defined at June 30, 2012 and December 31, 2011.

| (In thousands) | June 30, 2012 | | | | | Sub-total | Pass/ Unrated | Total |
|---|----------------|--------------------|------------------|--------------|--------------|------------------|------------------|------------------|
| | Watch | Special Mention | Substandard | Doubtful | Loss | | | |
| Puerto Rico^[1] | | | | | | | | |
| Commercial multi-family | \$ 287 | \$ 680 | \$ 15,313 | \$ | \$ | \$ 16,280 | \$ 99,964 | \$ 116,244 |
| Commercial real estate non-owner occupied | 137,245 | 146,922 | 239,331 | 2,741 | | 526,239 | 753,269 | 1,279,508 |
| Commercial real estate owner occupied | 186,916 | 171,420 | 660,891 | 2,043 | | 1,021,270 | 1,055,206 | 2,076,476 |
| Commercial and industrial | 330,095 | 245,339 | 455,750 | 3,201 | 1,025 | 1,035,410 | 1,655,642 | 2,691,052 |
| Total Commercial | 654,543 | 564,361 | 1,371,285 | 7,985 | 1,025 | 2,599,199 | 3,564,081 | 6,163,280 |
| Construction | 1,021 | 31,922 | 63,702 | 1,298 | | 97,943 | 103,821 | 201,764 |
| Mortgage | | | 572,893 | | | 572,893 | 4,241,328 | 4,814,221 |
| Leasing | | | 3,492 | | 1,552 | 5,044 | 532,873 | 537,917 |
| Consumer: | | | | | | | | |
| Credit cards | | | 23,639 | | | 23,639 | 1,172,495 | 1,196,134 |

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| | | | | | |
|-----------------------------|------------|------------|--------------|--------------|---------------|
| Home equity lines of credit | 1,236 | 3,512 | 4,748 | 13,833 | 18,581 |
| Personal | 9,427 | 173 | 9,600 | 1,199,832 | 1,209,432 |
| Auto | 6,055 | | 6,055 | 532,600 | 538,655 |
| Other | 1,796 | | 1,796 | 234,451 | 236,247 |
| Total Consumer | 42,153 | 3,685 | 45,838 | 3,153,211 | 3,199,049 |
| Total Puerto Rico | \$ 655,564 | \$ 596,283 | \$ 2,053,525 | \$ 9,283 | \$ 6,262 |
| | | | | \$ 3,320,917 | \$ 11,595,314 |
| | | | | | \$ 14,916,231 |

Table of Contents**U.S. mainland**

| | | | | | | | |
|---|------------|------------|------------|----------|--------------|--------------|--------------|
| Commercial multi-family | \$ 61,306 | \$ 9,355 | \$ 79,293 | \$ | \$ 149,954 | \$ 605,726 | \$ 755,680 |
| Commercial real estate non-owner occupied | 128,954 | 58,219 | 240,482 | | 427,655 | 917,851 | 1,345,506 |
| Commercial real estate owner occupied | 22,876 | 13,576 | 129,783 | | 166,235 | 393,328 | 559,563 |
| Commercial and industrial | 31,160 | 14,068 | 72,921 | | 118,149 | 660,637 | 778,786 |
| Total Commercial | 244,296 | 95,218 | 522,479 | | 861,993 | 2,577,542 | 3,439,535 |
| Construction | 1,515 | | 33,184 | | 34,699 | 13,280 | 47,979 |
| Mortgage | | | 32,871 | | 32,871 | 1,052,881 | 1,085,752 |
| Legacy | 28,577 | 36,970 | 115,010 | | 180,557 | 329,272 | 509,829 |
| Consumer | | | | | | | |
| Credit cards | | | 398 | 3 | 401 | 13,333 | 13,734 |
| Home equity lines of credit | | | 3,476 | 5,217 | 8,693 | 497,819 | 506,512 |
| Personal | | | 1,039 | 627 | 1,666 | 141,895 | 143,561 |
| Auto | | | 35 | 9 | 44 | 1,200 | 1,244 |
| Other | | | 15 | | 15 | 1,417 | 1,432 |
| Total Consumer | | | 4,963 | 5,856 | 10,819 | 655,664 | 666,483 |
| Total U.S. mainland | \$ 274,388 | \$ 132,188 | \$ 708,507 | \$ 5,856 | \$ 1,120,939 | \$ 4,628,639 | \$ 5,749,578 |

Popular, Inc.

| | | | | | | | |
|---|------------|------------|--------------|----------|------------|--------------|---------------|
| Commercial multi-family | \$ 61,593 | \$ 10,035 | \$ 94,606 | \$ | \$ 166,234 | \$ 705,690 | \$ 871,924 |
| Commercial real estate non-owner occupied | 266,199 | 205,141 | 479,813 | 2,741 | 953,894 | 1,671,120 | 2,625,014 |
| Commercial real estate owner occupied | 209,792 | 184,996 | 790,674 | 2,043 | 1,187,505 | 1,448,534 | 2,636,039 |
| Commercial and industrial | 361,255 | 259,407 | 528,671 | 3,201 | 1,025 | 1,153,559 | 2,316,279 |
| Total Commercial | 898,839 | 659,579 | 1,893,764 | 7,985 | 1,025 | 3,461,192 | 6,141,623 |
| Construction | 2,536 | 31,922 | 96,886 | 1,298 | | 132,642 | 117,101 |
| Mortgage | | | 605,764 | | | 605,764 | 5,294,209 |
| Legacy | 28,577 | 36,970 | 115,010 | | | 180,557 | 329,272 |
| Leasing | | | 3,492 | | 1,552 | 5,044 | 532,873 |
| Consumer | | | | | | | |
| Credit cards | | | 24,037 | 3 | 24,040 | 1,185,828 | 1,209,868 |
| Home equity lines of credit | | | 4,712 | 8,729 | 13,441 | 511,652 | 525,093 |
| Personal | | | 10,466 | 800 | 11,266 | 1,341,727 | 1,352,993 |
| Auto | | | 6,090 | 9 | 6,099 | 533,800 | 539,899 |
| Other | | | 1,811 | | | 1,811 | 235,868 |
| Total Consumer | | | 47,116 | 9,541 | 56,657 | 3,808,875 | 3,865,532 |
| Total Popular, Inc. | \$ 929,952 | \$ 728,471 | \$ 2,762,032 | \$ 9,283 | \$ 12,118 | \$ 4,441,856 | \$ 16,223,953 |

The following table presents the weighted average obligor risk rating at June 30, 2012 for those classifications that consider a range of rating scales.

| Weighted average obligor risk rating | (Scales 11 and 12) | (Scales 1 through 8) |
|--------------------------------------|--------------------|----------------------|
| Puerto Rico: ^[1] | Substandard | Pass |
| Commercial multi-family | 11.93 | 5.31 |

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| | | |
|---|--------------------|-------------|
| Commercial real estate non-owner occupied | 11.26 | 7.10 |
| Commercial real estate owner occupied | 11.55 | 6.91 |
| Commercial and industrial | 11.36 | 6.69 |
| Total Commercial | 11.44 | 6.83 |
| Construction | 11.77 | 7.92 |
| U.S. mainland: | Substandard | Pass |
| Commercial multi-family | 11.28 | 7.14 |
| Commercial real estate non-owner occupied | 11.38 | 7.02 |
| Commercial real estate owner occupied | 11.31 | 6.94 |
| Commercial and industrial | 11.28 | 6.87 |
| Total Commercial | 11.33 | 6.83 |
| Construction | 11.36 | 7.24 |
| Legacy | 11.39 | 7.45 |

[1] Excludes covered loans acquired in the Westernbank FDIC-assisted transaction.

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| December 31, 2011 | | | | | | | | |
|--|------------|--------------------|--------------|-----------|----------|--------------|---------------|---------------|
| (In thousands) | Watch | Special Mention | Substandard | Doubtful | Loss | Sub-total | Pass/ Unrated | Total |
| Puerto Rico^[1] | | | | | | | | |
| Commercial multi-family | \$ 420 | \$ 698 | \$ 11,848 | \$ | \$ | \$ 12,966 | \$ 110,150 | \$ 123,116 |
| Commercial real estate non-owner occupied | 177,523 | 134,266 | 210,596 | 2,886 | | 525,271 | 736,235 | 1,261,506 |
| Commercial real estate owner occupied | 201,375 | 192,591 | 680,912 | 4,631 | | 1,079,509 | 1,151,917 | 2,231,426 |
| Commercial and industrial | 248,188 | 282,935 | 439,853 | 3,326 | 1,458 | 975,760 | 1,878,774 | 2,854,534 |
| Total Commercial | 627,506 | 610,490 | 1,343,209 | 10,843 | 1,458 | 2,593,506 | 3,877,076 | 6,470,582 |
| Construction | 2,245 | 27,820 | 69,562 | 1,586 | | 101,213 | 59,728 | 160,941 |
| Mortgage | | | 626,771 | | | 626,771 | 4,062,712 | 4,689,483 |
| Leasing | | | 1,365 | | 4,277 | 5,642 | 543,064 | 548,706 |
| Consumer | | | | | | | | |
| Credit cards | | | 26,373 | | | 26,373 | 1,189,447 | 1,215,820 |
| Home equity lines of credit | | | 1,757 | | 3,456 | 5,213 | 14,838 | 20,051 |
| Personal | | | 8,523 | | 559 | 9,082 | 974,106 | 983,188 |
| Auto | | | 6,830 | | | 6,830 | 509,434 | 516,264 |
| Other | | | 10,165 | | | 10,165 | 224,939 | 235,104 |
| Total Consumer | | | 53,648 | | 4,015 | 57,663 | 2,912,764 | 2,970,427 |
| Total Puerto Rico | \$ 629,751 | \$ 638,310 | \$ 2,094,555 | \$ 12,429 | \$ 9,750 | \$ 3,384,795 | \$ 11,455,344 | \$ 14,840,139 |
| U.S. mainland | | | | | | | | |
| Commercial multi-family | \$ 71,335 | \$ 8,230 | \$ 69,400 | \$ | \$ | \$ 148,965 | \$ 536,852 | \$ 685,817 |
| Commercial real estate non-owner occupied | 192,080 | 48,085 | 231,266 | | | 471,431 | 932,562 | 1,403,993 |
| Commercial real estate owner occupied | 21,109 | 20,859 | 146,367 | | | 188,335 | 397,505 | 585,840 |
| Commercial and industrial | 30,020 | 26,131 | 102,607 | | | 158,758 | 668,337 | 827,095 |
| Total Commercial | 314,544 | 103,305 | 549,640 | | | 967,489 | 2,535,256 | 3,502,745 |
| Construction | 3,202 | 10,609 | 54,096 | | | 67,907 | 11,091 | 78,998 |
| Mortgage | | | 37,236 | | | 37,236 | 791,741 | 828,977 |
| Legacy | 34,233 | 38,724 | 148,629 | | | 221,586 | 426,823 | 648,409 |
| Consumer | | | | | | | | |
| Credit cards | | | 735 | | | 735 | 13,474 | 14,209 |
| Home equity lines of credit | | | 4,774 | | 6,590 | 11,364 | 526,479 | 537,843 |
| Personal | | | 128 | | 93 | 221 | 147,184 | 147,405 |
| Auto | | | 6 | | 28 | 34 | 2,178 | 2,212 |
| Other | | | 24 | | | 24 | 1,635 | 1,659 |
| Total Consumer | | | 5,667 | | 6,711 | 12,378 | 690,950 | 703,328 |
| Total U.S. mainland | \$ 351,979 | \$ 152,638 | \$ 795,268 | \$ | \$ 6,711 | \$ 1,306,596 | \$ 4,455,861 | \$ 5,762,457 |
| Popular, Inc. | | | | | | | | |
| Commercial multi-family | \$ 71,755 | \$ 8,928 | \$ 81,248 | \$ | \$ | \$ 161,931 | \$ 647,002 | \$ 808,933 |
| Commercial real estate non-owner occupied | 369,603 | 182,351 | 441,862 | 2,886 | | 996,702 | 1,668,797 | 2,665,499 |
| Commercial real estate owner occupied | 222,484 | 213,450 | 827,279 | 4,631 | | 1,267,844 | 1,549,422 | 2,817,266 |
| Commercial and industrial | 278,208 | 309,066 | 542,460 | 3,326 | 1,458 | 1,134,518 | 2,547,111 | 3,681,629 |

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| | | | | | | | | |
|-----------------------------|------------|------------|--------------|-----------|-----------|--------------|---------------|---------------|
| Total Commercial | 942,050 | 713,795 | 1,892,849 | 10,843 | 1,458 | 3,560,995 | 6,412,332 | 9,973,327 |
| Construction | 5,447 | 38,429 | 123,658 | 1,586 | | 169,120 | 70,819 | 239,939 |
| Mortgage | | | 664,007 | | | 664,007 | 4,854,453 | 5,518,460 |
| Legacy | 34,233 | 38,724 | 148,629 | | | 221,586 | 426,823 | 648,409 |
| Leasing | | | 1,365 | | 4,277 | 5,642 | 543,064 | 548,706 |
| Consumer | | | | | | | | |
| Credit cards | | | 27,108 | | | 27,108 | 1,202,921 | 1,230,029 |
| Home equity lines of credit | | | 6,531 | 10,046 | 16,577 | 541,317 | 557,894 | |
| Personal | | | 8,651 | 652 | 9,303 | 1,121,290 | 1,130,593 | |
| Auto | | | 6,836 | 28 | 6,864 | 511,612 | 518,476 | |
| Other | | | 10,189 | | 10,189 | 226,574 | 236,763 | |
| Total Consumer | | | 59,315 | 10,726 | 70,041 | 3,603,714 | 3,673,755 | |
| Total Popular, Inc. | \$ 981,730 | \$ 790,948 | \$ 2,889,823 | \$ 12,429 | \$ 16,461 | \$ 4,691,391 | \$ 15,911,205 | \$ 20,602,596 |

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The following table presents the weighted average obligor risk rating at December 31, 2011 for those classifications that consider a range of rating scales.

| Weighted average obligor risk rating | (Scales 11 and 12) | (Scales 1 through 8) |
|---|--------------------|-----------------------|
| Puerto Rico:[1] | Substandard | Pass |
| Commercial multi-family | 11.91 | 5.92 |
| Commercial real estate non-owner occupied | 11.23 | 7.16 |
| Commercial real estate owner occupied | 11.56 | 6.85 |
| Commercial and industrial | 11.40 | 6.62 |
| Total Commercial | 11.46 | 6.79 |
| Construction | 11.76 | 7.84 |
| U.S. mainland: | Substandard | Pass |
| Commercial multi-family | 11.20 | 7.09 |
| Commercial real estate non-owner occupied | 11.35 | 7.00 |
| Commercial real estate owner occupied | 11.41 | 7.04 |
| Commercial and industrial | 11.38 | 6.85 |
| Total Commercial | 11.35 | 6.99 |
| Construction | 11.78 | 7.52 |
| Legacy | 11.45 | 7.47 |

[1] Excludes covered loans acquired in the Westernbank FDIC-assisted transaction.

Note 9 FDIC loss share asset and true-up payment obligation

In connection with the Westernbank FDIC-assisted transaction, BPPR entered into loss share agreements with the FDIC with respect to the covered loans and other real estate owned. Pursuant to the terms of the loss share agreements, the FDIC's obligation to reimburse BPPR for losses with respect to covered assets begins with the first dollar of loss incurred. The FDIC reimburses BPPR for 80% of losses with respect to covered assets, and BPPR reimburses the FDIC for 80% of recoveries with respect to losses for which the FDIC paid BPPR 80% reimbursement under the loss share agreements. The loss share agreement applicable to single-family residential mortgage loans provides for FDIC loss and recoveries sharing for ten years expiring in April 2020. The loss share agreement applicable to commercial (including construction) and consumer loans provides for FDIC loss sharing for five years expiring in April 2015 and BPPR reimbursement to the FDIC for eight years expiring in April 2018, in each case, on the same terms and conditions as described above.

The following table sets forth the activity in the FDIC loss share asset for the periods presented.

| (In thousands) | Six months ended June 30, 2012 | 2011 |
|--|-----------------------------------|--------------|
| Balance at beginning of year | \$ 1,915,128 | \$ 2,410,219 |
| (Amortization) accretion of loss share indemnification asset, net | (66,788) | 34,433 |
| Credit impairment losses to be covered under loss sharing agreements | 42,848 | 51,329 |
| Decrease due to reciprocal accounting on the discount accretion for loans and unfunded commitments accounted for under ASC Subtopic 310-20 | (496) | (30,003) |

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| | | |
|--|--------------|--------------|
| Payments received from FDIC under loss sharing agreements | (262,807) | (15,694) |
| Other adjustments attributable to FDIC loss sharing agreements | 3,709 | (5,028) |
| Balance at end of period | \$ 1,631,594 | \$ 2,445,256 |

As part of the loss share agreements, BPPR has to make a true-up payment to the FDIC on the date that is 45 days following the last day (such day, the true-up measurement date) of the final shared-loss month, or upon the final disposition of all covered assets under the loss share agreements, in the event losses on the loss share agreements fail to reach expected levels. The estimated fair value of such true-up payment obligation is recorded as contingent consideration, which is included in the caption of other liabilities in the consolidated statements of financial condition. Under the loss sharing agreements, BPPR will pay to the FDIC 50% of the excess, if any, of: (i) 20% of the intrinsic loss estimate of \$4.6 billion (or \$925 million) (as determined by the FDIC) less (ii) the sum of: (A) 25% of the asset discount (per bid) (or (\$1.1 billion)); plus (B) 25% of the cumulative shared-loss payments (defined as the aggregate of all of the payments made or payable to BPPR minus the aggregate of all of the payments made or payable to the FDIC); plus (C) the sum of the period servicing amounts for every consecutive twelve-month period prior to and ending on the true-up measurement date in respect of each of the loss sharing agreements during which the loss sharing provisions of the applicable loss sharing agreement is in effect (defined as the product of the simple average of the principal amount of shared loss loans and shared loss assets at the beginning and end of such period times 1%).

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The following table provides the fair value and the undiscounted amount of the true-up payment obligation at June 30, 2012 and December 31, 2011.

| (In thousands) | June 30, 2012 | December 31, 2011 |
|------------------------------------|---------------|-------------------|
| Carrying amount (fair value) | \$ 100,198 | \$ 98,340 |
| Undiscounted amount ^[1] | \$ 172,365 | \$ 170,973 |

[1] Increase from December 31, 2011 was due to changes in expected cash flows on the covered assets.

The loss share agreements contain specific terms and conditions regarding the management of the covered assets that BPPR must follow in order to receive reimbursement on losses from the FDIC. Under the loss share agreements, BPPR must:

manage and administer the covered assets and collect and effect charge-offs and recoveries with respect to such covered assets in a manner consistent with its usual and prudent business and banking practices and, with respect to single family shared-loss loans, the procedures (including collection procedures) customarily employed by BPPR in servicing and administering mortgage loans for its own account and the servicing procedures established by FNMA or the Federal Home Loan Mortgage Corporation (FHLMC), as in effect from time to time, and in accordance with accepted mortgage servicing practices of prudent lending institutions;

exercise its best judgment in managing, administering and collecting amounts on covered assets and effecting charge-offs with respect to the covered assets;

use commercially reasonable efforts to maximize recoveries with respect to losses on single family shared-loss assets and best efforts to maximize collections with respect to commercial shared-loss assets;

retain sufficient staff to perform the duties under the loss share agreements;

adopt and implement accounting, reporting, record-keeping and similar systems with respect to the commercial shared-loss assets;

comply with the terms of the modification guidelines approved by the FDIC or another federal agency for any single-family shared-loss loan;

provide notice with respect to proposed transactions pursuant to which a third party or affiliate will manage, administer or collect any commercial shared-loss assets;

file monthly and quarterly certificates with the FDIC specifying the amount of losses, charge-offs and recoveries; and

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maintain books and records sufficient to ensure and document compliance with the terms of the loss share agreements.

Table of Contents**Note 10 Transfers of financial assets and mortgage servicing assets**

The Corporation typically transfers conforming residential mortgage loans in conjunction with GNMA and FNMA securitization transactions whereby the loans are exchanged for cash or securities and servicing rights. The securities issued through these transactions are guaranteed by the corresponding agency and, as such, under seller/service agreements the Corporation is required to service the loans in accordance with the agencies' servicing guidelines and standards. Substantially, all mortgage loans securitized by the Corporation in GNMA and FNMA securities have fixed rates and represent conforming loans. As seller, the Corporation has made certain representations and warranties with respect to the originally transferred loans and, in some instances, has sold loans with credit recourse to a government-sponsored entity, namely FNMA. Refer to Note 18 to the consolidated financial statements for a description of such arrangements.

No liabilities were incurred as a result of these securitizations during the quarters and six months ended June 30, 2012 and 2011 because they did not contain any credit recourse arrangements. During the quarter ended June 30, 2012, the Corporation recorded a net gain \$13.9 million (June 30, 2011 \$4.1 million) related to the residential mortgage loans securitized. During the six months ended June 30, 2012, the Corporation recorded a net gain \$27.6 million (June 30, 2011 \$10.4 million) related to the residential mortgage loans securitized.

The following tables present the initial fair value of the assets obtained as proceeds from residential mortgage loans securitized during the quarters and six months ended June 30, 2012 and 2011:

| (In thousands) | Proceeds Obtained During the Quarter Ended June 30, 2012 | | | |
|----------------------------------|--|------------|----------|--------------------|
| | Level 1 | Level 2 | Level 3 | Initial Fair Value |
| Assets | | | | |
| Trading account securities: | | | | |
| Mortgage-backed securities GNMA | | \$ 204,636 | | \$ 204,636 |
| Mortgage-backed securities FNMA | | 71,450 | | 71,450 |
| Total trading account securities | | \$ 276,086 | | \$ 276,086 |
| Mortgage servicing rights | | | \$ 3,788 | \$ 3,788 |
| Total | | \$ 276,086 | \$ 3,788 | \$ 279,874 |

| (In thousands) | Proceeds Obtained During the Six Months Ended June 30, 2012 | | | |
|----------------------------------|---|------------|----------|--------------------|
| | Level 1 | Level 2 | Level 3 | Initial Fair Value |
| Assets | | | | |
| Trading account securities: | | | | |
| Mortgage-backed securities GNMA | | \$ 394,815 | | \$ 394,815 |
| Mortgage-backed securities FNMA | | 130,985 | | 130,985 |
| Total trading account securities | | \$ 525,800 | | \$ 525,800 |
| Mortgage servicing rights | | | \$ 7,021 | \$ 7,021 |
| Total | | \$ 525,800 | \$ 7,021 | \$ 532,821 |

| (In thousands) | Proceeds Obtained During the Quarter Ended June 30, 2011 | | | |
|---------------------------------|--|------------|---------|--------------------|
| | Level 1 | Level 2 | Level 3 | Initial Fair Value |
| Assets | | | | |
| Trading account securities: | | | | |
| Mortgage-backed securities GNMA | | \$ 217,296 | | \$ 217,296 |
| Mortgage-backed securities FNMA | | 48,229 | | 48,229 |

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| | | | |
|----------------------------------|------------|----------|------------|
| Total trading account securities | \$ 265,525 | | \$ 265,525 |
| Mortgage servicing rights | | \$ 4,890 | \$ 4,890 |
| Total | \$ 265,525 | \$ 4,890 | \$ 270,415 |

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| (In thousands) | Proceeds Obtained During the Six Months Ended June 30, 2011 | | | |
|---|---|-------------------|------------------|--------------------|
| | Level 1 | Level 2 | Level 3 | Initial Fair Value |
| Assets | | | | |
| Trading account securities: | | | | |
| Mortgage-backed securities GNMA | | \$ 472,870 | \$ | \$ 472,870 |
| Mortgage-backed securities FNMA | | 121,247 | | 121,247 |
| Total trading account securities | | \$ 594,117 | \$ | \$ 594,117 |
| Mortgage servicing rights | | | \$ 10,839 | \$ 10,839 |
| Total | | \$ 594,117 | \$ 10,839 | \$ 604,956 |

During the six months ended June 30, 2012, the Corporation retained servicing rights on whole loan sales involving approximately \$118 million in principal balance outstanding (June 30, 2011 \$53 million), with realized gains of approximately \$4.6 million (June 30, 2011 gains of \$1.1 million). All loan sales performed during the six months ended June 30, 2012 and 2011 were without credit recourse agreements.

The Corporation recognizes as assets the rights to service loans for others, whether these rights are purchased or result from asset transfers such as sales and securitizations.

Classes of mortgage servicing rights were determined based on the different markets or types of assets being serviced. The Corporation recognizes the servicing rights of its banking subsidiaries that are related to residential mortgage loans as a class of servicing rights. These mortgage servicing rights (MSRs) are measured at fair value. Fair value determination is performed on a subsidiary basis, with assumptions varying in accordance with the types of assets or markets served.

The Corporation uses a discounted cash flow model to estimate the fair value of MSRs. The discounted cash flow model incorporates assumptions that market participants would 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. Prepayment speeds are adjusted for the Corporation's loan characteristics and portfolio behavior.

The following table presents the changes in MSRs measured using the fair value method for the six months ended June 30, 2012 and 2011.

| (In thousands) | Residential MSRs | |
|---|------------------|----------------|
| | June 30, 2012 | June 30, 2011 |
| Fair value at beginning of period | \$ 151,323 | \$ 166,907 |
| Purchases | 1,018 | 860 |
| Servicing from securitizations or asset transfers | 8,206 | 11,292 |
| Changes due to payments on loans ^[1] | (8,950) | (6,577) |
| Reduction due to loan repurchases | (1,360) | (1,820) |
| Changes in fair value due to changes in valuation model inputs or assumptions | 5,519 | (7,852) |
| Other disposals | (45) | (191) |
| Fair value at end of period | \$ 155,711 | \$ 162,619 |

[1] Represents the change due to collection / realization of expected cash flow over time.

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Residential mortgage loans serviced for others were \$17.0 billion at June 30, 2012 (December 31, 2011 \$17.3 billion; June 30, 2011 \$17.4 billion).

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Net mortgage servicing fees, a component of other service fees in the consolidated statements of operations, include the changes from period to period in the fair value of the MSRs, including changes due to collection / realization of expected cash flows. Mortgage servicing fees, excluding fair value adjustments, for the quarter and six months ended June 30, 2012 amounted to \$11.9 million and \$24.1 million, respectively (June 30, 2011 \$12.4 million and \$24.8 million, respectively). The banking subsidiaries receive servicing fees based on a percentage of the outstanding loan balance. At June 30, 2012, those weighted average mortgage servicing fees were 0.28% (June 30, 2011 0.26%). Under these servicing agreements, the banking subsidiaries do not generally earn significant prepayment penalty fees on the underlying loans serviced.

The section below includes information on assumptions used in the valuation model of the MSRs, originated and purchased.

Key economic assumptions used in measuring the servicing rights derived from loans securitized or sold by the Corporation during the quarters and six months ended June 30, 2012 and 2011 were as follows:

| | Quarter ended | | Six months ended | |
|-----------------------------|---------------|---------------|------------------|---------------|
| | June 30, 2012 | June 30, 2011 | June 30, 2012 | June 30, 2011 |
| Prepayment speed | 6.5% | 4.9% | 6.1% | 4.9% |
| Weighted average life | 15.4 years | 20.3 years | 16.4 years | 20.4 years |
| Discount rate (annual rate) | 11.5% | 11.5% | 11.5% | 11.5% |

Key economic assumptions used to estimate the fair value of MSRs derived from sales and securitizations of mortgage loans performed by the banking subsidiaries and the sensitivity to immediate changes in those assumptions were as follows as of the end of the periods reported:

| (In thousands) | Originated MSRs | | |
|---|-----------------|-------------------|---------------|
| | June 30, 2012 | December 31, 2011 | June 30, 2011 |
| Fair value of servicing rights | \$ 104,627 | \$ 99,280 | \$ 102,427 |
| Weighted average life | 11.9 years | 13.0 years | 11.7 years |
| Weighted average prepayment speed (annual rate) | 8.4% | 7.7% | 8.6% |
| Impact on fair value of 10% adverse change | \$ (3,309) | \$ (2,744) | \$ (3,671) |
| Impact on fair value of 20% adverse change | \$ (6,570) | \$ (5,800) | \$ (7,113) |
| Weighted average discount rate (annual rate) | 12.5% | 12.6% | 12.6% |
| Impact on fair value of 10% adverse change | \$ (4,513) | \$ (3,913) | \$ (4,541) |
| Impact on fair value of 20% adverse change | \$ (8,780) | \$ (7,948) | \$ (8,690) |

The banking subsidiaries also own servicing rights purchased from other financial institutions. The fair value of purchased MSRs, their related valuation assumptions and the sensitivity to immediate changes in those assumptions were as follows as of the end of the periods reported:

| (In thousands) | Purchased MSRs | | |
|---|----------------|-------------------|---------------|
| | June 30, 2012 | December 31, 2011 | June 30, 2011 |
| Fair value of servicing rights | \$ 51,084 | \$ 52,043 | \$ 60,192 |
| Weighted average life | 12.7 years | 14.6 years | 11.7 years |
| Weighted average prepayment speed (annual rate) | 7.9% | 6.9% | 8.6% |
| Impact on fair value of 10% adverse change | \$ (1,956) | \$ (1,887) | \$ (2,502) |
| Impact on fair value of 20% adverse change | \$ (3,435) | \$ (3,303) | \$ (4,417) |
| Weighted average discount rate (annual rate) | 11.4% | 11.4% | 11.5% |
| Impact on fair value of 10% adverse change | \$ (2,312) | \$ (2,376) | \$ (2,789) |
| Impact on fair value of 20% adverse change | \$ (4,090) | \$ (4,214) | \$ (4,935) |

The sensitivity analyses presented in the tables above for servicing rights 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

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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.

At June 30, 2012, the Corporation serviced \$3.2 billion (December 31, 2011 \$3.5 billion; June 30, 2011 \$3.7 billion) in residential mortgage loans with credit recourse to the Corporation.

Under the GNMA securitizations, the Corporation, as servicer, has the right to repurchase (but not the obligation), at its option and without GNMA's prior authorization, any loan that is collateral for a GNMA guaranteed mortgage-backed security when certain delinquency criteria are met. At the time that individual loans meet GNMA's specified delinquency criteria and are eligible for repurchase, the Corporation is deemed to have regained effective control over these loans if the Corporation was the pool issuer. At June 30, 2012, the Corporation had recorded \$180 million in mortgage loans on its consolidated statements of financial condition related to this buy-back option program (December 31, 2011 \$180 million; June 30, 2011 \$156 million). As long as the Corporation continues to service the loans that continue to be collateral in a GNMA guaranteed mortgage-backed security, the MSR is recognized by the Corporation.

Note 11 Other assets

The caption of other assets in the consolidated statements of financial condition consists of the following major categories:

| (In thousands) | June 30, 2012 | December 31, 2011 |
|--|---------------|-------------------|
| Net deferred tax assets (net of valuation allowance) | \$ 572,744 | \$ 429,691 |
| Investments under the equity method | 223,960 | 313,152 |
| Bank-owned life insurance program | 231,428 | 238,077 |
| Prepaid FDIC insurance assessment | 32,617 | 58,082 |
| Prepaid taxes | 107,827 | 17,441 |
| Other prepaid expenses | 56,063 | 59,894 |
| Derivative assets | 53,244 | 61,886 |
| Trades receivables from brokers and counterparties | 87,774 | 69,535 |
| Others | 212,137 | 214,635 |
| Total other assets | \$ 1,577,794 | \$ 1,462,393 |

Table of Contents**Note 12 Goodwill and other intangible assets**

The changes in the carrying amount of goodwill for the six months ended June 30, 2012 and 2011, allocated by reportable segments, were as follows (refer to Note 31 for the definition of the Corporation's reportable segments):

| (In thousands) | 2012 | | | | |
|------------------------------|-------------------------------|----------------------------|---------------------------------------|-----------------|-----------------------------|
| | Balance at January 1, 2012 | Goodwill on acquisition | Purchase accounting adjustments | Other | Balance at June 30, 2012 |
| Banco Popular de Puerto Rico | \$ 246,272 | \$ | \$ (439) | \$ (154) | \$ 245,679 |
| Banco Popular North America | 402,078 | | | | 402,078 |
| Total Popular, Inc. | \$ 648,350 | \$ | \$ (439) | \$ (154) | \$ 647,757 |

| (In thousands) | 2011 | | | | |
|------------------------------|-------------------------------|----------------------------|---------------------------------------|-----------|-----------------------------|
| | Balance at January 1, 2011 | Goodwill on acquisition | Purchase accounting adjustments | Other | Balance at June 30, 2011 |
| Banco Popular de Puerto Rico | \$ 245,309 | \$ | \$ (69) | \$ | \$ 245,240 |
| Banco Popular North America | 402,078 | | | | 402,078 |
| Total Popular, Inc. | \$ 647,387 | \$ | \$ (69) | \$ | \$ 647,318 |

Purchase accounting adjustments consists 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 following table presents the gross amount of goodwill and accumulated impairment losses by reportable segments.

| (In thousands) | June 30, 2012 | | | | | |
|------------------------------|---|-------------------------------------|---|---|-------------------------------------|---|
| | Balance at January 1, 2012 (gross amounts) | Accumulated impairment losses | Balance at January 1, 2012 (net amounts) | Balance at June 30, 2012 (gross amounts) | Accumulated impairment losses | Balance at June 30, 2012 (net amounts) |
| Banco Popular de Puerto Rico | \$ 246,272 | \$ | \$ 246,272 | \$ 245,679 | \$ | \$ 245,679 |
| Banco Popular North America | 566,489 | 164,411 | 402,078 | 566,489 | 164,411 | 402,078 |
| Total Popular, Inc. | \$ 812,761 | \$ 164,411 | \$ 648,350 | \$ 812,168 | \$ 164,411 | \$ 647,757 |

| (In thousands) | December 31, 2011 | | | | | |
|------------------------------|---|-------------------------------------|---|---|-------------------------------------|---|
| | Balance at January 1, 2011 (gross amounts) | Accumulated impairment losses | Balance at January 1, 2011 (net amounts) | Balance at December 31, 2011 (gross amounts) | Accumulated impairment losses | Balance at December 31, 2011 (net amounts) |
| Banco Popular de Puerto Rico | \$ 245,309 | \$ | \$ 245,309 | \$ 246,272 | \$ | \$ 246,272 |
| Banco Popular North America | 566,489 | 164,411 | 402,078 | 566,489 | 164,411 | 402,078 |
| Total Popular, Inc. | \$ 811,798 | \$ 164,411 | \$ 647,387 | \$ 812,761 | \$ 164,411 | \$ 648,350 |

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At June 30, 2012 and December 31, 2011, the Corporation had \$6 million of identifiable intangible assets, with indefinite useful lives, mostly associated with E-LOAN's trademark.

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

| (In thousands) | Gross Carrying Amount | Accumulated Amortization | Net Carrying Value |
|--------------------------------------|-----------------------------|-----------------------------|--------------------------|
| June 30, 2012 | | | |
| Core deposits | \$ 77,885 | \$ 39,571 | \$ 38,314 |
| Other customer relationships | 16,835 | 2,111 | 14,724 |
| Other intangibles | 188 | 96 | 92 |
| Total other intangible assets | \$ 94,908 | \$ 41,778 | \$ 53,130 |
| December 31, 2011 | | | |
| Core deposits | \$ 80,591 | \$ 38,199 | \$ 42,392 |
| Other customer relationships | 19,953 | 4,643 | 15,310 |
| Other intangibles | 242 | 103 | 139 |
| Total other intangible assets | \$ 100,786 | \$ 42,945 | \$ 57,841 |

Certain core deposits and other customer relationships intangibles with a gross amount of \$3 million and \$4 million, respectively, became fully amortized during the six months ended June 30, 2012, and, as such, their gross amount and accumulated amortization were eliminated from the tabular disclosure presented above.

During the quarter ended June 30, 2012, the Corporation recognized \$2.5 million in amortization expense related to other intangible assets with definite useful lives (June 30, 2011 \$2.2 million). During the six months ended June 30, 2012, the Corporation recognized \$5.1 million in amortization related to other intangible assets with definite useful lives (June 30, 2011 \$4.5 million).

The following table presents the estimated amortization of the intangible assets with definite useful lives for each of the following periods:

| | |
|----------------|----------|
| (In thousands) | |
| Remaining 2012 | \$ 4,949 |
| Year 2013 | 9,871 |
| Year 2014 | 9,227 |
| Year 2015 | 7,084 |
| Year 2016 | 6,799 |
| Year 2017 | 4,050 |

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Note 13 Deposits

Total interest bearing deposits as of the end of the periods presented consisted of:

| (In thousands) | June 30, 2012 | December 31, 2011 |
|--|----------------------|----------------------|
| Savings accounts | \$ 6,568,223 | \$ 6,473,215 |
| NOW, money market and other interest bearing demand deposits | 5,697,749 | 5,103,398 |
| Total savings, NOW, money market and other interest bearing demand deposits | 12,265,972 | 11,576,613 |
| Certificates of deposit: | | |
| Under \$100,000 | 6,095,656 | 6,473,095 |
| \$100,000 and over | 3,474,665 | 4,236,945 |
| Total certificates of deposit | 9,570,321 | 10,710,040 |
| Total interest bearing deposits | \$ 21,836,293 | \$ 22,286,653 |

A summary of certificates of deposit by maturity at June 30, 2012, follows:

| | |
|--------------------------------------|---------------------|
| (In thousands) | |
| 2012 | \$ 4,281,050 |
| 2013 | 2,464,619 |
| 2014 | 1,036,359 |
| 2015 | 939,484 |
| 2016 | 494,620 |
| 2017 and thereafter | 354,189 |
| Total certificates of deposit | \$ 9,570,321 |

At June 30, 2012, the Corporation had brokered deposits amounting to \$3.1 billion (December 31, 2011 \$3.4 billion).

The aggregate amount of overdrafts in demand deposit accounts that were reclassified to loans was \$22 million at June 30, 2012 (December 31, 2011 \$13 million).

Table of Contents**Note 14 Borrowings**

Assets sold under agreements to repurchase as of the end of the periods presented were as follows:

| (In thousands) | June 30, 2012 | December 31, 2011 |
|--|------------------|----------------------|
| Assets sold under agreements to repurchase | \$ 1,426,636 | \$ 2,141,097 |

The repurchase agreements outstanding at June 30, 2012 were collateralized by \$1.0 billion (December 31, 2011 \$1.8 billion) in investment securities available-for-sale, \$357 million (December 31, 2011 \$403 million) in trading securities and \$73 million (December 31, 2011 \$68 million) in securities sold not yet delivered that are classified in other assets. It is the Corporation's policy to maintain effective control over assets sold under agreements to repurchase; accordingly, such securities continue to be carried on the consolidated statements of financial condition.

In addition, there were repurchase agreements outstanding collateralized by \$249 million in securities purchased under agreements to resell to which the Corporation has the right to repledge the securities (December 31, 2011 \$274 million). It is the Corporation's policy to take possession of securities purchased under agreements to resell. However, the counterparties to such agreements maintain effective control over such securities; accordingly, are not reflected in the Corporation's consolidated statements of financial condition.

Other short-term borrowings as of the end of the periods presented consisted of:

| (In thousands) | June 30, 2012 | December 31, 2011 |
|--|------------------|----------------------|
| Advances with the FHLB paying interest at maturity, at fixed rates ranging from 0.36% to 0.38% | \$ 315,000 | \$ 295,000 |
| Others | 1,200 | 1,200 |
| Total other short-term borrowings | \$ 316,200 | \$ 296,200 |

Note: Refer to the Corporation's 2011 Annual Report for rates information corresponding to the short-term borrowings outstanding at December 31, 2011.

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Notes payable as of the end of the periods reported consisted of:

| (In thousands) | June 30, 2012 | December 31, 2011 |
|---|---------------------|----------------------|
| Advances with the FHLB with maturities ranging from 2012 through 2021 paying interest at monthly fixed rates ranging from 0.63% to 4.95% (December 31, 2011- ranging from 0.66% to 4.95%) | \$ 650,370 | \$ 642,568 |
| Term notes with maturities ranging from 2012 to 2016 paying interest semiannually at fixed rates ranging from 5.25% to 7.86% | 278,365 | 278,309 |
| Term notes with maturities ranging from 2012 to 2013 paying interest monthly at a floating rate of 3.00% over the 10-year U.S. Treasury note rate | 366 | 588 |
| Junior subordinated deferrable interest debentures (related to trust preferred securities) with maturities ranging from 2027 to 2034 with fixed interest rates ranging from 6.125% to 8.327% (Refer to Note 15) | 439,800 | 439,800 |
| Junior subordinated deferrable interest debentures (related to trust preferred securities) (\$936,000 less discount of \$451,838 at June 30, 2012 and \$465,963 at December 31, 2011, with no stated maturity and a fixed interest rate of 5.00% until, but excluding December 5, 2013 and 9.00% thereafter (Refer to Note 15) ^[1] | 484,162 | 470,037 |
| Others | 24,520 | 25,070 |
| Total notes payable | \$ 1,877,583 | \$ 1,856,372 |

Note: The 10-year U.S. Treasury note key index rate at June 30, 2012 and December 31, 2011 was 2.21% and 1.88%, respectively.

- [1] The debentures are perpetual and may be redeemed by the Corporation at any time, subject to the consent of the Board of Governors of the Federal Reserve System. The discount on the debentures is being amortized over an estimated 30-year term that started in August 2009. The effective interest rate, including the discount accretion, was approximately 16% at June 30, 2012 and December 31, 2011.

A breakdown of borrowings by contractual maturities at June 30, 2012 is included in the table below.

| (In thousands) | Assets sold under agreements to repurchase | Short-term borrowings | Notes payable | Total |
|-------------------------|--|--------------------------|---------------------|---------------------|
| Year | | | | |
| 2012 | \$ 684,438 | \$ 316,200 | \$ 192,323 | \$ 1,192,961 |
| 2013 | | | 98,848 | 98,848 |
| 2014 | | | 189,410 | 189,410 |
| 2015 | 174,135 | | 41,101 | 215,236 |
| 2016 | 453,063 | | 311,487 | 764,550 |
| Later years | 115,000 | | 560,252 | 675,252 |
| No stated maturity | | | 936,000 | 936,000 |
| Subtotal | 1,426,636 | 316,200 | 2,329,421 | 4,072,257 |
| Less: Discount | | | 451,838 | 451,838 |
| Total borrowings | \$ 1,426,636 | \$ 316,200 | \$ 1,877,583 | \$ 3,620,419 |

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Note 15 Trust preferred securities

At June 30, 2012 and December 31, 2011, four statutory trusts established by the Corporation (BanPonce Trust I, Popular Capital Trust I, Popular North America Capital Trust I and Popular Capital Trust II) had issued trust preferred securities (also referred to as capital securities) to the public. The proceeds from such issuances, together with the proceeds of the related issuances of common securities of the trusts (the common securities), were used by the trusts to purchase junior subordinated deferrable interest debentures (the junior subordinated debentures) issued by the Corporation. In August 2009, the Corporation established the Popular Capital Trust III for the purpose of exchanging the shares of Series C preferred stock held by the U.S. Treasury at the time for trust preferred securities issued by this trust. In connection with this exchange, the trust used the Series C preferred stock, together with the proceeds of issuance and sale of common securities of the trust, to purchase junior subordinated debentures issued by the Corporation.

The sole assets of the five trusts consisted of the junior subordinated debentures of the Corporation and the related accrued interest receivable. These trusts are not consolidated by the Corporation pursuant to accounting principles generally accepted in the United States of America.

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

The following table presents financial data pertaining to the different trusts at June 30, 2012 and December 31, 2011.

(Dollars in thousands)

| Issuer | BanPonce Trust I | Popular Capital Trust I | Popular North America Capital Trust I | Popular Capital Trust II | Popular Capital Trust III |
|---|------------------|-------------------------|---------------------------------------|--------------------------|--|
| Capital securities | \$ 52,865 | \$ 181,063 | \$ 91,651 | \$ 101,023 | \$ 935,000 |
| Distribution rate | 8.327% | 6.700% | 6.564% | 6.125% | 5.000% until, but excluding December 5, 2013 and 9.000% thereafter |
| Common securities | \$ 1,637 | \$ 5,601 | \$ 2,835 | \$ 3,125 | \$ 1,000 |
| Junior subordinated debentures aggregate liquidation amount | \$ 54,502 | \$ 186,664 | \$ 94,486 | \$ 104,148 | \$ 936,000 |
| Stated maturity date | February 2027 | November 2033 | September 2034 | December 2034 | Perpetual |
| Reference notes | [1],[3],[6] | [2],[4],[5] | [1],[3],[5] | [2],[4],[5] | [2],[4],[7],[8] |

[1] Statutory business trust that is wholly-owned by Popular North America and indirectly wholly-owned by the Corporation.

[2] Statutory business trust that is wholly-owned by the Corporation.

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

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

[5] The Corporation has the right, subject to any required prior approval from the Federal Reserve, to redeem after certain dates or upon the occurrence of certain events mentioned below, the junior subordinated debentures at a redemption price equal to 100% of the principal amount, plus accrued and unpaid interest to the date of redemption. The maturity of the junior subordinated debentures may be shortened at the option of the Corporation prior to their stated maturity dates (i) on or after the stated optional redemption dates stipulated in the agreements, in whole at any time or in part from time to time, or (ii) in whole, but not in part, at any time within 90 days following the occurrence and during the continuation of a tax event, an investment company event or a capital treatment event as set forth in the indentures relating to the capital securities, in each case subject to regulatory approval.

[6] Same as [5] above, except that the investment company event does not apply for early redemption.

[7] The debentures are perpetual and may be redeemed by Popular at any time, subject to the consent of the Board of Governors of the Federal Reserve System.

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- [8] Carrying value of junior subordinated debentures of \$484 million at June 30, 2012 (\$936 million aggregate liquidation amount, net of \$452 million discount) and \$470 million at December 31, 2011 (\$936 million aggregate liquidation amount, net of \$466 million discount).

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In accordance with the Federal Reserve Board guidance, the trust preferred securities represent restricted core capital elements and qualify as Tier 1 capital, subject to certain quantitative limits. The aggregate amount of restricted core capital elements that may be included in the Tier 1 capital of a banking organization must not exceed 25% of the sum of all core capital elements (including cumulative perpetual preferred stock and trust preferred securities). At June 30, 2012 and December 31, 2011, the Corporation's restricted core capital elements did not exceed the 25% limitation. Thus, all trust preferred securities were allowed as Tier 1 capital. Amounts of restricted core capital elements in excess of this limit generally may be included in Tier 2 capital, subject to further limitations. Effective March 31, 2011, the Federal Reserve Board revised the quantitative limit which would limit restricted core capital elements included in the Tier 1 capital of a bank holding company to 25% of the sum of core capital elements (including restricted core capital elements), net of goodwill less any associated deferred tax liability. Furthermore, the Dodd-Frank Act, enacted in July 2010, has a provision to effectively phase out the use of trust preferred securities issued before May 19, 2010 as Tier 1 capital over a 3-year period commencing on January 1, 2013. Trust preferred securities issued on or after May 19, 2010 no longer qualify as Tier 1 capital. At June 30, 2012, the Corporation had \$427 million in trust preferred securities (capital securities) that are subject to the phase-out. The Corporation has not issued any trust preferred securities since May 19, 2010. At June 30, 2012, the remaining \$935 million of trust preferred securities corresponded to capital securities issued to the U.S. Treasury pursuant to the Emergency Economic Stabilization Act of 2008, which are exempt from the phase-out provision.

Note 16 Stockholders' equity

Reverse stock split

On May 29, 2012, the Corporation effected a 1-for-10 reverse split of its common stock previously approved by the Corporation's stockholders on April 27, 2012. Upon the effectiveness of the reverse split, each 10 shares of authorized and outstanding common stock were reclassified and combined into one new share of common stock. Popular, Inc.'s common stock began trading on a split-adjusted basis on May 30, 2012. All share and per share information in the consolidated financial statements and accompanying notes have been retroactively adjusted to reflect the 1-for-10 reverse stock split.

In connection with the reverse stock split, the Corporation amended its Restated Certificate of Incorporation to reduce the number of shares of its authorized common stock from 1,700,000,000 to 170,000,000.

The reverse stock split did not affect the par value of a share of the Corporation's common stock.

At the effective date of the reverse stock split, the stated capital attributable to common stock on the Corporation's consolidated statement of financial condition was reduced by dividing the amount of the stated capital prior to the reverse stock split by 10, and the additional paid-in capital (surplus) was credited with the amount by which the stated capital was reduced. This was also reflected retroactively for prior periods presented in the financial statements.

BPPR statutory reserve

The Banking Act of the Commonwealth of Puerto Rico requires that a minimum of 10% of BPPR's net income for the year be transferred to a statutory reserve account until such statutory reserve equals the total of paid-in capital on common and preferred stock. Any losses incurred by a bank must first be charged to retained earnings and then to the reserve fund. Amounts credited to the reserve fund may not be used to pay dividends without the prior consent of the Puerto Rico Commissioner of Financial Institutions. The failure to maintain sufficient statutory reserves would preclude BPPR from paying dividends. BPPR's statutory reserve fund amounted to \$415 million at June 30, 2012 (December 31, 2011 \$415 million). There were no transfers between the statutory reserve account and the retained earnings account during the six months ended June 30, 2012 and June 30, 2011.

Table of Contents**Note 17 Accumulated other comprehensive income (loss)**

The following table presents accumulated other comprehensive income (loss) by component at June 30, 2012 and December 31, 2011.

| (In thousands) | June 30, 2012 | December 31, 2011 |
|---|---------------|-------------------|
| Foreign currency translation adjustment | \$ (29,775) | \$ (28,829) |
| Underfunding of pension and postretirement benefit plans | (320,808) | (333,287) |
| Tax effect | 113,779 | 117,229 |
| Net of tax amount | (207,029) | (216,058) |
| Unrealized holding gains on securities available-for-sale | 204,640 | 230,746 |
| Tax effect | (23,433) | (27,668) |
| Net of tax amount | 181,207 | 203,078 |
| Unrealized losses on cash flow hedges | (1,408) | (1,057) |
| Tax effect | 422 | 318 |
| Net of tax amount | (986) | (739) |
| Accumulated other comprehensive loss | \$ (56,583) | \$ (42,548) |

Note 18 Guarantees

At June 30, 2012 the Corporation recorded a liability of \$0.8 million (December 31, 2011 \$0.5 million), which represents the unamortized balance of the obligations undertaken in issuing the guarantees under the standby letters of credit. Management does not anticipate any material losses related to these instruments.

From time to time, the Corporation securitized mortgage loans into guaranteed mortgage-backed securities subject to limited, and in certain instances, lifetime credit recourse on the loans that serve as collateral for the mortgage-backed securities. The Corporation has not sold any mortgage loans subject to credit recourse since 2009. Also, from time to time, the Corporation may sell, in bulk sale transactions, residential mortgage loans and Small Business Administration (SBA) commercial loans subject to certain representations and warranties from the Corporation to the purchaser. These representations and warranties may relate, for example, to borrower creditworthiness, loan documentation, collateral, prepayment and early payment defaults. The Corporation may be required to repurchase the loans under the credit recourse agreements or representation and warranties.

At June 30, 2012 the Corporation serviced \$3.2 billion (December 31, 2011 \$3.5 billion) in residential mortgage loans subject to credit recourse provisions, principally loans associated with FNMA and FHLMC residential mortgage loan securitization programs. In the event of any customer default, pursuant to the credit recourse provided, the Corporation is required to repurchase the loan or reimburse the third party investor for the incurred loss. The maximum potential amount of future payments that the Corporation would be required to make under the recourse arrangements in the event of nonperformance by the borrowers is equivalent to the total outstanding balance of the residential mortgage loans serviced with recourse and interest, if applicable. During the quarter and six months ended June 30, 2012 the Corporation repurchased approximately \$32 million and \$82 million, respectively, of unpaid principal balance in mortgage loans subject to the credit recourse provisions (June 30, 2011 \$53 million for the quarter and \$115 million for six-months period). In the event of nonperformance by the borrower, the Corporation has rights to the underlying collateral securing the mortgage loan. The Corporation suffers ultimate losses on these loans when the proceeds from a foreclosure sale of the property underlying a defaulted mortgage loan are less than the outstanding principal balance of the loan plus any uncollected interest advanced and the costs of holding and disposing the related property. At June 30, 2012 the Corporation's liability established to cover the estimated credit loss exposure related to loans sold or serviced with credit recourse amounted to \$56 million (December 31, 2011 \$59 million).

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The following table shows the changes in the Corporation's liability of estimated losses related to loans serviced with credit recourse provisions during the quarter and six-month periods ended June 30, 2012 and 2011.

| (In thousands) | Quarters ended June 30, | | Six months ended June 30, | |
|-----------------------------------|-------------------------|-----------|---------------------------|-----------|
| | 2012 | 2011 | 2012 | 2011 |
| Balance as of beginning of period | \$ 56,115 | \$ 55,318 | \$ 58,659 | \$ 53,729 |
| Additions for new sales | | | | |
| Provision for recourse liability | 5,330 | 10,059 | 9,562 | 19,824 |
| Net charge-offs / terminations | (5,662) | (10,050) | (12,438) | (18,226) |
| Balance as of end of period | \$ 55,783 | \$ 55,327 | \$ 55,783 | \$ 55,327 |

The estimated losses to be absorbed under the credit recourse arrangements are recorded as a liability when the loans are sold or credit recourse is assumed as part of acquired servicing rights, and are updated by accruing or reversing expense (categorized in the line item adjustments (expense) to indemnity reserves on loans sold in the consolidated statements of operations) throughout the life of the loan, as necessary, when additional relevant information becomes available. The methodology used to estimate the recourse liability is a function of the recourse arrangements given and considers a variety of factors, which include actual defaults and historical loss experience, foreclosure rate, estimated future defaults and the probability that a loan would be delinquent. Statistical methods are used to estimate the recourse liability. Expected loss rates are applied to different loan segmentations. The expected loss, which represents the amount expected to be lost on a given loan, considers the probability of default and loss severity. The probability of default represents the probability that a loan in good standing would become 90 days delinquent within the following twelve-month period. Regression analysis quantifies the relationship between the default event and loan-specific characteristics, including credit scores, loan-to-value ratios, and loan aging, among others.

When the Corporation sells or securitizes mortgage loans, it generally makes customary representations and warranties regarding the characteristics of the loans sold. The Corporation's mortgage operations in Puerto Rico group conforming mortgage loans into pools which are exchanged for FNMA and GNMA mortgage-backed securities, which are generally sold to private investors, or are sold directly to FNMA or other private investors for cash. As required under the government agency programs, quality review procedures are performed by the Corporation to ensure that asset guideline qualifications are met. To the extent the loans do not meet specified characteristics, the Corporation may be required to repurchase such loans or indemnify for losses and bear any subsequent loss related to the loans. Repurchases under representation and warranty arrangements in which the Corporation's Puerto Rico banking subsidiaries were required to repurchase the loans approximated \$2.5 million in unpaid principal balance with losses amounting to \$0.5 million during the six-month period ended June 30, 2012 (June 30, 2011 \$10.0 million and \$0.7 million, respectively). A substantial amount of these loans reinstate to performing status or have mortgage insurance, and thus the ultimate losses on the loans are not deemed significant.

During the quarter ended June 30, 2011, the Corporation's banking subsidiary, BPPR, reached an agreement (the June 2011 agreement) with the FDIC, as receiver for a local Puerto Rico institution, and the financial institution with respect to a loan servicing portfolio that BPPR services since 2008, related to FHLMC and GNMA pools. The loans were originated and sold by the financial institution and the servicing rights were transferred to BPPR in 2008. As part of the 2008 servicing agreement, the financial institution was required to repurchase from BPPR any loans that BPPR, as servicer, was required to repurchase from the investors under representation and warranty obligations. As part of the June 2011 agreement, the Corporation received cash to discharge the financial institution from any repurchase obligation and other claims over the serviced portfolio. At June 30, 2012, the related representation and warranty reserve amounted to \$8.2 million, and the related serviced portfolio approximated \$3.2 billion (December 31, 2011 \$8.5 million and \$3.5 billion, respectively).

Servicing agreements relating to the mortgage-backed securities programs of FNMA and GNMA, and to mortgage loans sold or serviced to certain other investors, including FHLMC, require the Corporation to advance funds to make scheduled payments of principal, interest, taxes and insurance, if such payments have not been received from the borrowers. At June 30, 2012, the Corporation serviced \$17.0 billion in mortgage loans for third-parties, including the loans serviced with credit recourse (December 31, 2011 \$17.3 billion). The Corporation generally recovers funds advanced pursuant to these arrangements from the mortgage owner, from liquidation proceeds when the mortgage loan is foreclosed or, in the case of FHA/VA loans, under the applicable FHA and VA insurance and guarantees programs. However, in the meantime, the Corporation must absorb the cost of the funds it advances during the time the advance is outstanding. The Corporation must also bear the costs of attempting to collect on delinquent and defaulted mortgage loans. In addition, if a defaulted loan is not cured, the mortgage loan would be canceled as part

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of the foreclosure proceedings and the Corporation would not receive any future servicing income with respect to that loan. At June 30, 2012, the outstanding balance of funds advanced by the Corporation under such mortgage loan servicing agreements was approximately \$30 million (December 31, 2011 \$32 million). To the extent the mortgage loans underlying the Corporation's servicing portfolio experience increased delinquencies, the Corporation would be required to dedicate additional cash resources to comply with its obligation to advance funds as well as incur additional administrative costs related to increases in collection efforts.

At June 30, 2012, the Corporation has reserves for customary representation and warranties related to loans sold by its U.S. subsidiary E-LOAN prior to 2009. These loans were sold to investors on a servicing released basis subject to certain representation and warranties. Although the risk of loss or default was generally assumed by the investors, the Corporation made certain representations relating to borrower creditworthiness, loan documentation and collateral, which if not correct, may result in requiring the Corporation to repurchase the loans or indemnify investors for any related losses associated with these loans. At June 30, 2012, the Corporation's reserve for estimated losses from such representation and warranty arrangements amounted to \$10 million, which was included as part of other liabilities in the consolidated statement of financial condition (December 31, 2011 \$11 million). E-LOAN is no longer originating and selling loans since the subsidiary ceased these activities in 2008 and most of the outstanding agreements with major counterparties were settled during 2010 and 2011. On a quarterly basis, the Corporation reassesses its estimate for expected losses associated with E-LOAN's customary representation and warranty arrangements. The analysis incorporates expectations on future disbursements based on quarterly repurchases and make-whole events. The analysis also considers factors such as the average length-time between the loan's funding date and the loan repurchase date, as observed in the historical loan data. Make-whole events are typically defaulted cases in which the investor attempts to recover by collateral or guarantees, and the seller is obligated to cover any impaired or unrecovered portion of the loan. Claims have been predominantly for first mortgage agency loans and principally consist of underwriting errors related to undisclosed debt or missing documentation. The following table presents the changes in the Corporation's liability for estimated losses associated with customary representations and warranties related to loans sold by E-LOAN for the quarters and six-month period ended June 30, 2012 and 2011.

| (In thousands) | Quarters ended June 30, | | Six months ended June 30, | |
|--|-------------------------|-----------|---------------------------|-----------|
| | 2012 | 2011 | 2012 | 2011 |
| Balance as of beginning of period | \$ 10,625 | \$ 30,688 | \$ 10,625 | \$ 30,659 |
| Additions for new sales | | | | |
| (Reversal) provision for representation and warranties | | (605) | | (522) |
| Net charge-offs / terminations | (494) | (1,067) | (494) | (1,121) |
| Balance as of end of period | \$ 10,131 | \$ 29,016 | \$ 10,131 | \$ 29,016 |

Popular, Inc. Holding Company (PIHC) fully and unconditionally guarantees certain borrowing obligations issued by certain of its wholly-owned consolidated subsidiaries amounting to \$0.6 billion at June 30, 2012 (December 31, 2011 \$0.7 billion). In addition, at June 30, 2012 and December 31, 2011, PIHC fully and unconditionally guaranteed on a subordinated basis \$1.4 billion of capital securities (trust preferred securities) issued by wholly-owned issuing trust entities to the extent set forth in the applicable guarantee agreement. Refer to Note 15 to the consolidated financial statements for further information on the trust preferred securities.

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The Corporation is a party to financial instruments with off-balance sheet credit risk in the normal course of business to meet the financial needs of its customers. These financial instruments include loan commitments, letters of credit, and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated statements of financial condition.

The Corporation's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit, standby letters of credit and financial guarantees written is represented by the contractual notional amounts of those instruments. The Corporation uses the same credit policies in making these commitments and conditional obligations as it does for those reflected on the consolidated statements of financial condition.

Financial instruments with off-balance sheet credit risk, whose contract amounts represent potential credit risk as of the end of the periods presented were as follows:

| (In thousands) | June 30, 2012 | December 31, 2011 |
|---|---------------|-------------------|
| Commitments to extend credit: | | |
| Credit card lines | \$ 4,356,439 | \$ 4,297,755 |
| Commercial lines of credit | 2,281,549 | 2,039,629 |
| Other unused credit commitments | 358,304 | 358,572 |
| Commercial letters of credit | 10,432 | 11,632 |
| Standby letters of credit | 130,113 | 124,709 |
| Commitments to originate mortgage loans | 56,809 | 53,323 |

At June 30, 2012, the Corporation maintained a reserve of approximately \$7 million for potential losses associated with unfunded loan commitments related to commercial and consumer lines of credit (December 31, 2011 \$15 million).

Other commitments

At June 30, 2012, the Corporation also maintained other non-credit commitments for \$10 million, primarily for the acquisition of other investments (December 31, 2011 \$10 million).

Business concentration

Since the Corporation's business activities are currently concentrated primarily in Puerto Rico, its results of operations and financial condition are dependent upon the general trends of the Puerto Rico economy and, in particular, the residential and commercial real estate markets. The concentration of the Corporation's operations in Puerto Rico exposes it to greater risk than other banking companies with a wider geographic base. Its asset and revenue composition by geographical area is presented in Note 31 to the consolidated financial statements.

The Corporation's loan portfolio is diversified by loan category. However, approximately \$12.7 billion, or 61% of the Corporation's loan portfolio not covered under the FDIC loss sharing agreements, excluding loans held-for-sale, at June 30, 2012, consisted of real estate related loans, including residential mortgage loans, construction loans and commercial loans secured by commercial real estate (December 31, 2011 \$12.5 billion, or 61%).

Except for the Corporation's exposure to the Puerto Rico Government sector, no individual or single group of related accounts is considered material in relation to the Corporation's total assets or deposits, or in relation to the Corporation's overall business. At June 30, 2012, the Corporation had approximately \$0.9 billion of credit facilities granted to or guaranteed by the Puerto Rico Government, its municipalities and public corporations, of which \$140 million were uncommitted lines of credit (December 31, 2011 \$1.3 billion and \$140 million, respectively). Of the total credit facilities granted, \$745 million was outstanding at June 30, 2012 (December 31, 2011 \$1.2 billion). Furthermore, at June 30, 2012, the Corporation had \$144 million in obligations issued or guaranteed by the Puerto Rico Government, its municipalities and public corporations as part of its investment securities portfolio (December 31, 2011 \$154 million).

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Other contingencies

As indicated in Note 9 to the consolidated financial statements, as part of the loss sharing agreements related to the Westernbank FDIC-assisted transaction, the Corporation agreed to make a true-up payment to the FDIC on the date that is 45 days following the last day of the final shared loss month, or upon the final disposition of all covered assets under the loss sharing agreements in the event losses on the loss sharing agreements fail to reach expected levels. The fair value of the true-up payment obligation was estimated at \$100 million at June 30, 2012 (December 31, 2011 - \$98 million).

Legal Proceedings

The nature of Popular's business ordinarily results in a certain number of claims, litigation, investigations, and legal and administrative cases and proceedings. When the Corporation determines it has meritorious defenses to the claims asserted, it vigorously defends itself. The Corporation will consider the settlement of cases (including cases where it has meritorious defenses) when, in management's judgment, it is in the best interest of both the Corporation and its shareholders to do so.

On at least a quarterly basis, Popular assesses its liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. For matters where it is probable that the Corporation will incur a material loss and the amount can be reasonably estimated, the Corporation establishes an accrual for the loss. Once established, the accrual is adjusted on at least a quarterly basis as appropriate to reflect any relevant developments. For matters where a material loss is not probable or the amount of the loss cannot be estimated, no accrual is established.

In certain cases, exposure to loss exists in excess of the accrual to the extent such loss is reasonably possible, but not probable. Management believes and estimates that the aggregate range of reasonably possible losses (with respect to those matters where such limits may be determined, in excess of amounts accrued), for current legal proceedings ranges from \$0 to approximately \$16.9 million as of June 30, 2012. For certain other cases, management cannot reasonably estimate the possible loss at this time. Any estimate involves significant judgment, given the varying stages of the proceedings (including the fact that many of them are currently in preliminary stages), the existence of multiple defendants in several of the current proceedings whose share of liability has yet to be determined, the numerous unresolved issues in many of the proceedings, and the inherent uncertainty of the various potential outcomes of such proceedings. Accordingly, management's estimate will change from time-to-time, and actual losses may be more or less than the current estimate.

While the final outcome of legal proceedings is inherently uncertain, based on information currently available, advice of counsel, and available insurance coverage, management believes that the amount it has already accrued is adequate and any incremental liability arising from the Corporation's legal proceedings will not have a material adverse effect on the Corporation's consolidated financial position as a whole. However, in the event of unexpected future developments, it is possible that the ultimate resolution of these matters, if unfavorable, may be material to the Corporation's consolidated financial position in a particular period.

The Popular Stock-Drop Litigation

Between May 14, 2009 and September 9, 2009, five putative class actions and two derivative claims were filed in the United States District Court for the District of Puerto Rico and the Puerto Rico Court of First Instance, San Juan Part, against Popular, Inc., and certain of its directors and officers, among others. The five class actions were consolidated into two separate actions: a securities class action captioned *Hoff v. Popular, Inc., et al.* (consolidated with *Otero v. Popular, Inc., et al.*) and an Employee Retirement Income Security Act (ERISA) class action entitled *In re Popular, Inc. ERISA Litigation* (comprised of the consolidated cases of *Walsh v. Popular, Inc., et al.*; *Montañez v. Popular, Inc., et al.*; and *Dougan v. Popular, Inc., et al.*).

The Hoff Action

On October 19, 2009, plaintiffs in the *Hoff* case filed a consolidated class action complaint which included as defendants the underwriters in the May 2008 offering of Series B Preferred Stock, among others. The consolidated action purported to be on behalf of purchasers of Popular's securities between January 24, 2008 and February 19, 2009 and alleged that the defendants violated Section 10(b) of the Exchange Act, and Rule 10b-5 promulgated thereunder, and Section 20(a) of the Exchange Act by issuing a series of allegedly false and/or misleading statements and/or omitting to disclose material facts necessary to make statements made by the Corporation not false and misleading. The consolidated action also alleged that the defendants violated Section 11, Section 12(a)(2) and Section 15 of the Securities Act by making allegedly untrue statements and/or omitting to disclose material facts necessary to make statements made by the Corporation not false and misleading in connection with the May 2008 offering of Series B Preferred Stock. The consolidated securities class action complaint sought class certification, an award of

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compensatory damages and reasonable costs and expenses, including counsel fees. On January 11, 2010, the defendants moved to dismiss the consolidated securities class action complaint. On August 2, 2010, the U.S. District Court for the District of Puerto Rico granted the

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motion to dismiss filed by the underwriter defendants on statute of limitations grounds. The Court also dismissed the Section 11 claim brought against Popular's directors on statute of limitations grounds and the Section 12(a)(2) claim brought against Popular because plaintiffs lacked standing. The Court declined to dismiss the claims brought against Popular and certain of its officers under Section 10(b) of the Exchange Act (and Rule 10b-5 promulgated thereunder), Section 20(a) of the Exchange Act, and Sections 11 and 15 of the Securities Act, holding that plaintiffs had adequately alleged that defendants made materially false and misleading statements with the requisite state of mind.

The ERISA Action

On November 30, 2009, plaintiffs in the ERISA case filed a consolidated class action complaint. The consolidated complaint purported to be on behalf of employees participating in the Popular, Inc. U.S.A. 401(k) Savings and Investment Plan and the Popular, Inc. Puerto Rico Savings and Investment Plan from January 24, 2008 to the date of the Complaint to recover losses pursuant to Sections 409 and 502(a)(2) of ERISA against Popular, certain directors, officers and members of plan committees, each of whom was alleged to be a plan fiduciary. The consolidated complaint alleged that defendants breached their alleged fiduciary obligations by, among other things, failing to eliminate Popular stock as an investment alternative in the plans. The complaint sought to recover alleged losses to the plans and equitable relief, including injunctive relief and a constructive trust, along with costs and attorneys' fees. On December 21, 2009, and in compliance with a scheduling order issued by the Court, Popular and the individual defendants submitted an answer to the amended complaint. Shortly thereafter, on December 31, 2009, Popular and the individual defendants filed a motion to dismiss the consolidated class action complaint or, in the alternative, for judgment on the pleadings. On May 5, 2010, a magistrate judge issued a report and recommendation in which he recommended that the motion to dismiss be denied except with respect to Banco Popular de Puerto Rico, as to which he recommended that the motion be granted. On May 19, 2010, Popular filed objections to the magistrate judge's report and recommendation. On September 30, 2010, the Court issued an order without opinion granting in part and denying in part the motion to dismiss and providing that the Court would issue an opinion and order explaining its decision. No opinion was, however, issued prior to the settlement discussed below.

The Derivative Suits

The derivative actions (*García v. Carrión, et al.* and *Díaz v. Carrión, et al.*) were brought purportedly for the benefit of nominal defendant Popular, Inc. against certain executive officers and directors and alleged breaches of fiduciary duty, waste of assets and abuse of control in connection with Popular's issuance of allegedly false and misleading financial statements and financial reports and the offering of the Series B Preferred Stock. The derivative complaints sought a judgment that the action was a proper derivative action, an award of damages, restitution, costs and disbursements, including reasonable attorneys' fees, costs and expenses. On October 9, 2009, the Court coordinated for purposes of discovery the *García* action and the consolidated securities class action. On October 15, 2009, Popular and the individual defendants moved to dismiss the *García* complaint for failure to make a demand on the Board of Directors prior to initiating litigation. On November 20, 2009, plaintiffs filed an amended complaint, and on December 21, 2009, Popular and the individual defendants moved to dismiss the *García* amended complaint. At a scheduling conference held on January 14, 2010, the Court stayed discovery in both the *Hoff* and *García* matters pending resolution of their respective motions to dismiss. On August 11, 2010, the Court granted in part and denied in part the motion to dismiss the *García* action. The Court dismissed the gross mismanagement and corporate waste claims, but declined to dismiss the breach of fiduciary duty claim. The *Díaz* case, filed in the Puerto Rico Court of First Instance, San Juan, was removed to the U.S. District Court for the District of Puerto Rico. On October 13, 2009, Popular and the individual defendants moved to consolidate the *García* and *Díaz* actions. On October 26, 2009, plaintiff moved to remand the *Díaz* case to the Puerto Rico Court of First Instance and to stay defendants' consolidation motion pending the outcome of the remand proceedings. On September 30, 2010, the Court issued an order without opinion remanding the *Díaz* case to the Puerto Rico Court of First Instance. On October 13, 2010, the Court issued a Statement of Reasons In Support of Remand Order. On October 28, 2010, Popular and the individual defendants moved for reconsideration of the remand order. The court denied Popular's request for reconsideration shortly thereafter.

On April 13, 2010, the Puerto Rico Court of First Instance in San Juan granted summary judgment dismissing a separate complaint brought by plaintiff in the *García* action that sought to enforce an alleged right to inspect the books and records of the Corporation in support of the pending derivative action. The Court held that plaintiff had not propounded a proper purpose under Puerto Rico law for such inspection. On April 28, 2010, plaintiff in that action moved for reconsideration of the Court's dismissal. On May 4, 2010, the Court denied plaintiff's request for reconsideration. On June 7, 2010, plaintiff filed an appeal before the Puerto Rico Court of Appeals. On June 11, 2010, Popular and the individual defendants moved to dismiss the appeal. On June 22, 2010, the Court of Appeals dismissed the appeal. On July 6, 2010, plaintiff moved for reconsideration of the Court's dismissal. On July 16, 2010, the Court of Appeals denied plaintiff's request for reconsideration.

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The Class Action Settlements

At the Court's request, the parties to the *Hoff* and *García* cases discussed the prospect of mediation and agreed to nonbinding mediation in an attempt to determine whether the cases could be settled. On January 18 and 19, 2011, the parties to the *Hoff* and *García* cases engaged in nonbinding mediation before the Honorable Nicholas Politan. As a result of the mediation, the Corporation and the other named defendants to the *Hoff* matter entered into a memorandum of understanding to settle this matter. Under the terms of the memorandum of understanding, subject to certain customary conditions including court approval of a final settlement agreement in consideration for the full settlement and release of all defendants, the parties agreed that the amount of \$37.5 million would be paid by or on behalf of defendants. On June 17, 2011, the parties filed a stipulation of settlement and a joint motion for preliminary approval of such settlement, which the Court granted on June 20, 2011. On or about July 5, 2011, the amount of \$37.5 million was paid to the settlement fund by or on behalf of defendants. Specifically, the amount of \$26 million was paid by insurers and the amount of \$11.5 million was paid by Popular (after which approximately \$4.7 million was reimbursed by insurers per the terms of the relevant insurance agreement).

On November 2, 2011, the Court in the *Hoff* securities class action announced at a hearing on the proposed settlement that it would deny certain individual shareholders' requests to opt out (see the *Montilla-Rojo* subsection below), overrule the objection to the settlement and grant final approval in a written order to follow, which order and final judgment were issued on the same date. On November 29, 2011, the individual shareholders whose requests to opt-out were rejected and the objectors to the settlement appealed from the final judgment to the United States Court of Appeals for the First Circuit. On December 21, 2011, the lead plaintiffs in the *Hoff* action filed a motion for an order requiring the objectors to post a bond to cover the costs associated with the objectors' appeal, which the Court granted on January 9, 2012. On January 17, 2012, the objectors moved for reconsideration of the order requiring them to post a bond. On January 24, 2012, the Court denied the objectors' motion for reconsideration. On January 27, 2012, the objectors filed a motion informing the Court that they would voluntarily dismiss the appeal with prejudice, which the Court noted on January 30, 2012.

In April 2011, the parties to the *García* and *Díaz* actions entered into a separate memorandum of understanding. Under the terms of this memorandum of understanding, subject to certain customary conditions, including court approval of a final settlement agreement, and in consideration for the full and final settlement and release of all defendants, Popular agreed, for a period of three years, to maintain or implement certain corporate governance practices, measures and policies, as set forth in the memorandum of understanding. Aside from the payment by or on behalf of Popular of approximately \$2.1 million of attorneys' fees and expenses of counsel for the plaintiffs, all of which were covered by insurance), the settlement did not require any cash payments by or on behalf of Popular or the defendants. On June 14, 2011, a motion for preliminary approval of settlement was filed. On July 8, 2011, the Court granted preliminary approval of such settlement and set the final approval hearing date for September 12, 2011. On that same date, the Court granted final approval of the settlement. On September 23, 2011, the court in *Díaz* entered a separate judgment approving the final settlement as well.

Prior to the *Hoff* and derivative action mediation, the parties to the ERISA class action entered into a separate memorandum of understanding to settle that action. Under the terms of the ERISA memorandum of understanding, subject to certain customary conditions including court approval of a final settlement agreement and in consideration for the full settlement and release of all defendants, the parties agreed that the amount of \$8.2 million would be paid by or on behalf of the defendants. The parties filed a joint request to approve the settlement on April 13, 2011. On June 8, 2011, the Court held a preliminary approval hearing, and on June 23, 2011, the Court preliminarily approved such settlement. On June 30, 2011, the amount of \$8.2 million was transferred to the settlement fund by insurers on behalf of the defendants. A final fairness hearing was set for August 26, 2011. On that date, the Court stated that it would approve the settlement but requested that plaintiffs' counsel submit certain supporting documentation prior to issuing its final approval. On March 12, 2012, the Court granted final approval of the settlement.

The *Montilla-Rojo* Claim Filed by the *Hoff* Opt-Outs

On January 18, 2011, certain individual shareholders filed a suit captioned *Montilla-Rojo et al. v. Popular, Inc., et al.*, against the Corporation and certain officers asserting claims under the federal securities laws similar or identical to those in the *Hoff* action. On February 25, 2011, those shareholders filed an amended complaint asserting additional legal theories. On June 19, 2011, certain of those shareholders sought leave to intervene in the securities class action. On June 28, 2011, the Court denied their motion to intervene as untimely. On or about October 11, 2011, certain individual shareholders, including shareholders represented by counsel in the *Montilla-Rojo* action, filed requests to opt-out of the proposed settlement in the *Hoff* securities class action. Other purported shareholders represented by the same counsel, filed an objection to the settlement. On November 22, 2011, the plaintiffs in the *Montilla-Rojo* action filed a second amended complaint asserting additional legal theories. On December 2, 2011, the parties to the *Montilla-Rojo* action filed a joint motion to stay the proceedings in light of the pending appeal in the related *Hoff* securities class action. The Court granted the motion to stay on December 13, 2011. With the January 27, 2012 voluntary dismissal of the

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appeal, the stay was lifted. On March 13, 2012, defendants filed a motion to dismiss the *Montilla-Rojo* second amended complaint. On July 10, 2012, the parties to the *Montilla-Rojo* action reached an agreement to settle all outstanding claims. Under the terms of the agreement, in consideration for the full settlement and release of all defendants, the parties agreed that the amount of \$0.75 million would be paid by or on behalf of defendants. On July 18, 2012, and in accordance with the settlement, the Court dismissed the *Montilla-Rojo* action with prejudice. On July 31, 2012, the amount of \$0.6 million was paid by insurers on behalf of defendants and the amount of \$0.15 million was paid by defendants directly.

Other Class Actions

The Overdraft Fee Litigation

In addition to the foregoing, Banco Popular is a defendant in two class action lawsuits arising from its consumer banking and trust-related activities. On October 7, 2010, a putative class action for breach of contract and damages captioned *Almeyda-Santiago v. Banco Popular de Puerto Rico*, was filed in the Puerto Rico Court of First Instance against Banco Popular. The complaint essentially asserts that plaintiff and others similarly situated who plaintiff purports to represent have suffered damages because of Banco Popular's allegedly fraudulent overdraft fee practices in connection with debit card transactions. Such practices allegedly consist of: (a) the reorganization of electronic debit transactions in high-to-low order so as to multiply the number of overdraft fees assessed on its customers; (b) the assessment of overdraft fees even when clients have not overdrawn their accounts; (c) the failure to disclose, or to adequately disclose, its overdraft policy to its customers; and (d) the provision of false and fraudulent information regarding its clients' account balances at point of sale transactions and on its website. Plaintiff seeks damages, restitution and provisional remedies against Banco Popular for breach of contract, abuse of trust, illegal conversion and unjust enrichment. On January 13, 2011, Banco Popular submitted a motion to dismiss the complaint.

In January 2012, the parties to the *Almeyda* action entered into a memorandum of understanding. Under the terms of this memorandum of understanding, subject to certain customary conditions, including court approval of a final settlement agreement, and in consideration for the full and final settlement and release of all defendants, the parties agreed that the amount of \$0.4 million will be paid by defendants, which amount, net of attorneys' fees, shall be donated to one or more non-profit consumer financial counseling services organizations based in Puerto Rico. A settlement stipulation and a joint motion for preliminary approval of such settlement were filed with the Court on July 3, 2012 and are pending Court approval.

The Bank-as-Trustee Litigation

On December 13, 2010, Popular was served with a class action complaint captioned *García Lamadrid, et al. v. Banco Popular de Puerto Rico, et al.*, filed in the Puerto Rico Court of First Instance. The complaint generally seeks damages against Banco Popular de Puerto Rico, other defendants and their respective insurance companies for their alleged breach of certain fiduciary duties, breach of contract, and alleged violations of local tort law. Plaintiffs seek in excess of \$600 million in damages, plus costs and attorneys fees.

More specifically, plaintiffs Guillermo García Lamadrid and Benito del Cueto Figueras are suing Defendant BPPR for the losses they (and others) experienced through their investment in the RG Financial Corporation-backed Conservation Trust Fund securities. Plaintiffs essentially claim that Banco Popular allegedly breached its purported fiduciary duty to keep all relevant parties informed of any developments that could affect the Conservation Trust notes or that could become an event of default under the relevant trust agreements; and that in so doing, it acted imprudently, unreasonably and with gross negligence. Popular and the other defendants submitted separate motions to dismiss on or about February 28, 2011. Plaintiffs submitted a consolidated opposition thereto on April 15, 2011. The parties were allowed to submit replies and surreplies to such motions and the motions have now been deemed submitted by the Court and are pending resolution. An argumentative hearing on this motion was held on July 3, 2012. At the hearing, the Court requested supplemental briefs on the matters at issue.

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Note 20 Non-consolidated variable interest entities

The Corporation is involved with four statutory trusts which it established to issue trust preferred securities to the public. Also, it established Popular Capital Trust III for the purpose of exchanging Series C preferred stock shares held by the U.S. Treasury for trust preferred securities issued by this trust. These trusts are deemed to be variable interest entities (VIEs) since the equity investors at risk have no substantial decision-making rights. The Corporation does not hold any variable interest in the trusts, and therefore, cannot be the trusts' primary beneficiary. Furthermore, the Corporation concluded that it did not hold a controlling financial interest in these trusts since the decisions of the trusts are predetermined through the trust documents and the guarantee of the trust preferred securities is irrelevant since in substance the sponsor is guaranteeing its own debt.

Also, the Corporation is involved with various special purpose entities mainly in guaranteed mortgage securitization transactions, including GNMA and FNMA. These special purpose entities are deemed to be VIEs since they lack equity investments at risk. The Corporation's continuing involvement in these guaranteed loan securitizations includes owning certain beneficial interests in the form of securities as well as the servicing rights retained. The Corporation is not required to provide additional financial support to any of the variable interest entities to which it has transferred the financial assets. The mortgage-backed securities, to the extent retained, are classified in the Corporation's consolidated statements of financial condition as available-for-sale or trading securities. The Corporation concluded that, essentially, these entities (FNMA and GNMA) control the design of their respective VIEs, dictate the quality and nature of the collateral, require the underlying insurance, set the servicing standards via the servicing guides and can change them at will, and can remove a primary servicer with cause, and without cause in the case of FNMA. Moreover, through their guarantee obligations, agencies (FNMA and GNMA) have the obligation to absorb losses that could be potentially significant to the VIE.

ASU 2009-17 requires that an ongoing primary beneficiary assessment should be made to determine whether the Corporation is the primary beneficiary of any of the VIEs it is involved with. The conclusion on the assessment of these trusts and guaranteed mortgage securitization transactions has not changed since their initial evaluation. The Corporation concluded that it is still not the primary beneficiary of these VIEs, and therefore, these VIEs are not required to be consolidated in the Corporation's financial statements at June 30, 2012.

The Corporation holds variable interests in these VIEs in the form of agency mortgage-backed securities and collateralized mortgage obligations, including those securities originated by the Corporation and those acquired from third parties. Additionally, the Corporation holds agency mortgage-backed securities, agency collateralized mortgage obligations and private label collateralized mortgage obligations issued by third party VIEs in which it has no other form of continuing involvement. Refer to Note 22 to the consolidated financial statements for additional information on the debt securities outstanding at June 30, 2012 and December 31, 2011, which are classified as available-for-sale and trading securities in the Corporation's consolidated statements of financial condition. In addition, the Corporation may retain the right to service the transferred loans in those government-sponsored special purpose entities (SPEs) and may also purchase the right to service loans in other government-sponsored SPEs that were transferred to those SPEs by a third-party. Pursuant to ASC Subtopic 810-10, the servicing fees that the Corporation receives for its servicing role are considered variable interests in the VIEs since the servicing fees are subordinated to the principal and interest that first needs to be paid to the mortgage-backed securities' investors and to the guaranty fees that need to be paid to the federal agencies.

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The following table presents the carrying amount and classification of the assets related to the Corporation's variable interests in non-consolidated VIEs and the maximum exposure to loss as a result of the Corporation's involvement as servicer with non-consolidated VIEs at June 30, 2012 and December 31, 2011.

| (In thousands) | June 30, 2012 | December 31, 2011 |
|---------------------------|---------------|-------------------|
| Assets | | |
| Servicing assets: | | |
| Mortgage servicing rights | \$ 127,315 | \$ 101,511 |
| Total servicing assets | \$ 127,315 | \$ 101,511 |
| Other assets: | | |
| Servicing advances | \$ 2,161 | \$ 3,027 |
| Total other assets | \$ 2,161 | \$ 3,027 |
| Total | \$ 129,476 | \$ 104,538 |
| Maximum exposure to loss | \$ 129,476 | \$ 104,538 |

The size of the non-consolidated VIEs, in which the Corporation has a variable interest in the form of servicing fees, measured as the total unpaid principal balance of the loans, amounted to \$11.1 billion at June 30, 2012 (December 31, 2011 \$9.4 billion).

Maximum exposure to loss represents the maximum loss, under a worst case scenario, that would be incurred by the Corporation, as servicer for the VIEs, assuming all loans serviced are delinquent and that the value of the Corporation's interests and any associated collateral declines to zero, without any consideration of recovery. The Corporation determined that the maximum exposure to loss includes the fair value of the MSRs and the assumption that the servicing advances at June 30, 2012 and December 31, 2011, will not be recovered. The agency debt securities are not included as part of the maximum exposure to loss since they are guaranteed by the related agencies.

In September of 2011, BPPR sold construction and commercial real estate loans with a fair value of \$148 million, and most of which were non-performing, to a newly created joint venture, PRLP 2011 Holdings, LLC. The joint venture is majority owned by Caribbean Property Group (CPG), Goldman Sachs & Co. and East Rock Capital LLC. The joint venture was created for the limited purpose of acquiring the loans from BPPR; servicing the loans through a third-party servicer; ultimately working out, resolving and/or foreclosing the loans; and indirectly owning, operating, constructing, developing, leasing and selling any real properties acquired by the joint venture through deed in lieu of foreclosure, foreclosure, or by resolution of any loan.

BPPR provided financing to the joint venture for the acquisition of the loans in an amount equal to the sum of 57% of the purchase price of the loans, or \$84 million, and \$2 million of closing costs, for a total acquisition loan of \$86 million (the acquisition loan). The acquisition loan has a 5-year maturity and bears a variable interest at 30-day LIBOR plus 300 basis points and is secured by a pledge of all of the acquiring entity's assets. In addition, BPPR provided the joint venture with a non-revolving advance facility (the advance facility) of \$68.5 million to cover unfunded commitments and costs-to-complete related to certain construction projects, and a revolving working capital line (the working capital line) of \$20 million to fund certain operating expenses of the joint venture. Cash proceeds received by the joint venture are first used to cover debt service payments for the acquisition loan, advance facility, and the working capital line described above which must be paid in full before proceeds can be used for other purposes. The distributable cash proceeds are determined based on a pro-rata basis in accordance with the respective equity ownership percentages. BPPR's equity interest in the joint venture ranks pari-passu with those of other parties involved. As part of the transaction executed in September 2011, BPPR received \$48 million in cash and a 24.9% equity interest in the joint venture. The Corporation is not required to provide any other financial support to the joint venture.

BPPR accounted for this transaction as a true sale pursuant to ASC Subtopic 860-10 and thus recognized the cash received, its equity investment in the joint venture, and the acquisition loan provided to the joint venture and derecognized the loans sold.

The Corporation has determined that PRLP 2011 Holdings, LLC is a VIE but the Corporation is not the primary beneficiary. All decisions are made by CPG (or an affiliate thereof) (the Manager), except for certain limited material decisions which would require the unanimous consent of

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all members. The Manager is authorized to execute and deliver on behalf of the joint venture any and all documents, contracts, certificates, agreements and instruments, and to take any action deemed necessary in the benefit of the joint venture. Also, the Manager delegates the day-to-day management and servicing of the loans to CPG Island Servicing, LLC, an affiliate of CPG, which contracted Archon, an affiliate of Goldman Sachs, to act as sub-servicer, but it has the responsibility to oversee such servicing responsibilities.

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The Corporation holds variable interests in this VIE in the form of the 24.9% equity interest (the Investment in PRLP 2011 Holdings, LLC) and the financing provided to the joint venture. The equity interest is accounted for under the equity method of accounting pursuant to ASC Subtopic 323-10.

The following table presents the carrying amount and classification of the assets and liabilities, net of eliminations, related to the Corporation's variable interests in the non-consolidated VIE, PRLP 2011 Holdings, LLC and its maximum exposure to loss at June 30, 2012 and December 31, 2011.

| (In thousands) | June 30, 2012 | December 31, 2011 |
|---|---------------|-------------------|
| Assets | | |
| Loans held-in-portfolio: | | |
| Acquisition loan | \$ 50,926 | \$ 64,711 |
| Advances under the working capital line | 865 | |
| Advances under the advance facility | 3,653 | |
| Total loans held-in-portfolio | \$ 55,444 | \$ 64,711 |
| Accrued interest receivable | \$ 154 | \$ |
| Other assets: | | |
| Investment in PRLP 2011 Holdings LLC | \$ 38,635 | \$ 37,561 |
| Total other assets | \$ 38,635 | \$ 37,561 |
| Total assets | \$ 94,233 | \$ 102,272 |
| Deposits | \$ (3,367) | \$ (48) |
| Total liabilities | \$ (3,367) | \$ (48) |
| Total net assets | \$ 90,866 | \$ 102,224 |
| Maximum exposure to loss | \$ 90,866 | \$ 102,224 |

The Corporation determined that the maximum exposure to loss under a worst case scenario at June 30, 2012 would be not recovering the carrying amount of the acquisition loan, the advances on the advance facility and working capital line, and the equity interest held by the Corporation, net of the deposits.

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Note 21 Related party transactions with affiliated company / joint venture

On September 30, 2010, the Corporation completed the sale of a 51% majority interest in EVERTEC, Inc. (EVERTEC) to an unrelated third-party, including the Corporation's merchant acquiring and processing and technology businesses (the EVERTEC transaction), and retained a 49% ownership interest in Carib Holdings, the holding company of EVERTEC. EVERTEC continues to provide various processing and information technology services to the Corporation and its subsidiaries and gives BPPR access to the ATH network owned and operated by EVERTEC. The investment in EVERTEC is accounted for under the equity method and is evaluated for impairment if events or circumstances indicate that a decrease in value of the investment has occurred that is other than temporary. Refer to Note 25 Related party transactions to the consolidated financial statements included in the Corporation's 2011 Annual Report for details on this sale to an unrelated third-party. As of June 30, 2012, the Corporation holds a 48.5% interest in the holding company of EVERTEC.

The Corporation's equity in EVERTEC, including the impact of intra-entity eliminations, is presented in the table which follows and is included as part of other assets in the consolidated statements of financial condition. During the quarter ended June 30, 2012, the Corporation received a \$131 million cash dividend from its investments in EVERTEC's holding company. The Corporation did not receive any capital distributions from EVERTEC during the year ended December 31, 2011.

| (In thousands) | June 30, 2012 | December 31, 2011 |
|--|---------------|-------------------|
| Equity investment in EVERTEC | \$ 61,924 | \$ 191,072 |
| Intra-company eliminations (detailed in next table) | 26,183 | 11,944 |
| Equity investment in EVERTEC, considering intra-company eliminations | \$ 88,107 | \$ 203,016 |

The Corporation had the following financial condition accounts outstanding with EVERTEC at June 30, 2012 and December 31, 2011. The 51.5% majority interest represents the share of transactions with the affiliate that is not eliminated in the consolidation of the Corporation's statements of financial condition at June 30, 2012 (December 31, 2011 51%).

| (In thousands) | At June 30, 2012 | | | At December 31, 2011 | | |
|--------------------------------------|------------------|---|-------------------------|----------------------|---------------------------------------|-----------------------|
| | 100% | Popular's 48.5% interest (eliminations) | 51.5% majority interest | 100% | Popular's 49% interest (eliminations) | 51% majority interest |
| Loans | \$ 53,398 | \$ 25,898 | \$ 27,500 | \$ 53,215 | \$ 26,075 | \$ 27,140 |
| Investment securities | 35,000 | 16,975 | 18,025 | 35,000 | 17,150 | 17,850 |
| Deposits | 22,095 | 10,716 | 11,379 | 54,288 | 26,601 | 27,687 |
| Accounts receivables (Other assets) | 3,191 | 1,547 | 1,644 | 5,132 | 2,515 | 2,617 |
| Accounts payable (Other liabilities) | 15,508 | 7,521 | 7,987 | 14,684 | 7,195 | 7,489 |
| Total | \$ 53,986 | \$ 26,183 | \$ 27,803 | \$ 24,375 | \$ 11,944 | \$ 12,431 |

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The Corporation's proportionate share of income or loss from EVERTEC is included in other operating income in the consolidated statements of operations since October 1, 2010. The following table presents the Corporation's proportionate share of income (loss) from EVERTEC for the quarter and six months ended June 30, 2012 and 2011. The unfavorable impact of the elimination in non-interest income presented in the table is principally offset by the elimination of 48.5% of the professional fees (operating expenses) paid by the Corporation to EVERTEC during the quarter and six months ended June 30, 2012 (June 30, 2011 49%).

| (In thousands) | Quarter ended June 30, 2012 | Six months ended June 30, 2012 |
|--|-----------------------------------|--------------------------------------|
| Share of (loss) income from the equity investment in EVERTEC | \$ (45) | \$ 1,685 |
| Intra-company eliminations considered in other operating income (detailed in next table) | (12,929) | (26,274) |
| Share of loss from equity investment in EVERTEC, net of eliminations | \$ (12,974) | \$ (24,589) |

| (In thousands) | Quarter ended June 30, 2011 | Six months ended June 30, 2011 |
|--|-----------------------------------|--------------------------------------|
| Share of income from the equity investment in EVERTEC | \$ 705 | \$ 12,496 |
| Intra-company eliminations considered in other operating income (detailed in next table) | (12,748) | (26,460) |
| Share of loss from equity investment in EVERTEC, net of eliminations | \$ (12,043) | \$ (13,964) |

The following tables present the impact of transactions and service payments between the Corporation and EVERTEC (as an affiliate) and their impact on the results of operations for the quarters and six months ended June 30, 2012 and 2011. Items that represent expenses to the Corporation are presented with parenthesis. For consolidation purposes, for the quarters and six months ended June 30, 2012, the Corporation eliminates 48.5% of the income (expense) between EVERTEC and the Corporation from the corresponding categories in the consolidated statements of operations and the net effect of all items at 48.5% is eliminated against other operating income, which is the category used to record the Corporation's share of income (loss) as part of its equity method investment in EVERTEC (June 30, 2011 49%). The 51.5% majority interest in the table that follows represents the share of transactions with the affiliate that is not eliminated in the consolidation of the Corporation's results of operations for the quarters and six months ended June 30, 2012 (June 30, 2011 51%).

| (In thousands) | 100% | Quarter ended June 30, 2012 Popular's 48.5% interest (eliminations) | 51.5% majority interest | 100% | Six months ended June 30, 2012 Popular's 48.5% interest (eliminations) | 51.5% majority interest | Category |
|--|--------|---|----------------------------|----------|--|----------------------------|--------------------|
| Interest income on loan to EVERTEC | \$ 825 | \$ 381 | \$ 444 | \$ 1,648 | \$ 784 | \$ 864 | Interest income |
| Interest income on investment securities issued by EVERTEC | 962 | 445 | 517 | 1,925 | 917 | 1,008 | Interest income |
| Interest expense on deposits | (64) | (28) | (36) | (174) | (82) | (92) | Interest expense |
| ATH and credit cards interchange income from | 6,420 | 2,960 | 3,460 | 12,273 | 5,828 | 6,445 | Other service fees |

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| | | | | | | | |
|---|-------------|-------------|-------------|-------------|-------------|-------------|--------------------------|
| services to EVERTEC | | | | | | | |
| Processing fees on services provided by EVERTEC | (37,855) | (17,545) | (20,310) | (74,514) | (35,508) | (39,006) | Professional fees |
| Rental income charged to EVERTEC | 1,673 | 773 | 900 | 3,355 | 1,597 | 1,758 | Net occupancy |
| Transition services provided to EVERTEC | 190 | 85 | 105 | 403 | 190 | 213 | Other operating expenses |
| Total | \$ (27,849) | \$ (12,929) | \$ (14,920) | \$ (55,084) | \$ (26,274) | \$ (28,810) | |

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| (In thousands) | Quarter ended June 30, 2011 Popular's 49% interest | | | Six months ended June 30, 2011 Popular's 49% interest | | | Category |
|---|---|----------------|--------------------------|--|----------------|--------------------------|-----------------------------|
| | 100% | (eliminations) | 51% majority interest | 100% | (eliminations) | 51% majority interest | |
| Interest income on loan to EVERTEC | \$ 881 | \$ 431 | \$ 450 | \$ 1,937 | \$ 949 | \$ 988 | Interest income |
| Interest income on investment securities issued by EVERTEC | 962 | 471 | 491 | 1,925 | 943 | 982 | Interest income |
| Interest expense on deposits | (107) | (52) | (55) | (402) | (197) | (205) | Interest expense |
| ATH and credit cards interchange income from services to EVERTEC | 7,279 | 3,567 | 3,712 | 14,072 | 6,895 | 7,177 | Other service fees |
| Processing fees on services provided by EVERTEC | (37,122) | (18,190) | (18,932) | (75,800) | (37,142) | (38,658) | Professional fees |
| Rental income charged to EVERTEC | 1,797 | 880 | 917 | 3,604 | 1,766 | 1,838 | Net occupancy |
| Transition services provided to EVERTEC | 297 | 145 | 152 | 666 | 326 | 340 | Other operating expenses |
| Total | \$ (26,013) | \$ (12,748) | \$ (13,265) | \$ (53,998) | \$ (26,460) | \$ (27,538) | |

EVERTEC has certain performance bonds outstanding, which are guaranteed by the Corporation under a general indemnity agreement between the Corporation and the insurance companies issuing the bonds. EVERTEC's performance bonds guaranteed by the Corporation amounted to approximately \$8.0 million at June 30, 2012 (December 31, 2011: \$15.0 million). Also, EVERTEC has a letter of credit issued by BPPR, for an amount of \$2.9 million at June 30, 2012 and December 31, 2011. As part of the merger agreement, the Corporation also agreed to maintain outstanding this letter of credit for a 5-year period. EVERTEC and the Corporation entered into a Reimbursement Agreement, in which EVERTEC will reimburse the Corporation for any losses incurred by the Corporation in connection with the performance bonds and the letter of credit. Possible losses resulting from these agreements are considered insignificant.

As indicated in Note 20 to the consolidated financial statements, the Corporation holds a 24.9% equity interest in PRLP 2011 Holdings LLC and currently provides certain financing to the joint venture as well as holds certain deposits from the entity.

The following table presents transactions between the Corporation and PRLP 2011 Holdings, LLC and their impact on the Corporation's results of operations for the quarter and six months ended June 30, 2012.

| (In thousands) | Quarter ended June 30, 2012 Popular's 24.9% interest | | | Six months ended June 30, 2012 Popular's 24.9% interest | | | Category |
|---|--|----------------|----------------------------|---|----------------|----------------------------|-----------------|
| | 100% | (eliminations) | 75.1% majority interest | 100% | (eliminations) | 75.1% majority interest | |
| Interest income on loan to PRLP 2011 Holdings, LLC | \$ 726 | \$ 181 | \$ 545 | \$ 1,511 | \$ 376 | \$ 1,135 | Interest income |

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The Corporation had the following financial condition accounts outstanding with PRLP 2011 Holdings, LLC at June 30, 2012 and December 31, 2011. The 75.1% majority interest represents the share of transactions with the affiliate that is not eliminated in the consolidation of the Corporation's statement of financial condition.

| (In thousands) | 100% | At June 30, 2012 | | 100% | At December 31, 2011 | |
|---------------------------------|-----------|---|-------------------------|-----------|---|-------------------------|
| | | Popular's 24.9% interest (eliminations) | 75.1% majority interest | | Popular's 24.9% interest (eliminations) | 75.1% majority interest |
| Loans | \$ 73,827 | \$ 18,383 | \$ 55,444 | \$ 86,167 | \$ 21,456 | \$ 64,711 |
| Deposits (non-interest bearing) | 4,484 | 1,117 | 3,367 | 64 | 16 | 48 |
| Accrued interest receivable | 204 | 50 | 154 | | | |
| Total | \$ 69,547 | \$ 17,316 | \$ 52,231 | \$ 86,103 | \$ 21,440 | \$ 64,663 |

Note 22 Fair value measurement

ASC Subtopic 820-10 Fair Value Measurements and Disclosures establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels in order to increase consistency and comparability in fair value measurements and disclosures. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities that the Corporation has the ability to access at the measurement date. Valuation on these instruments does not necessitate a significant degree of judgment since valuations are based on quoted prices that are readily available in an active market.

Level 2 Quoted prices other than those included in Level 1 that are observable either directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or that can be corroborated by observable market data for substantially the full term of the financial instrument.

Level 3 Inputs are unobservable and significant to the fair value measurement. Unobservable inputs reflect the Corporation's own assumptions about assumptions that market participants would use in pricing the asset or liability.

The Corporation maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. Fair value is based upon quoted market prices when available. If listed prices or quotes are not available, the Corporation employs internally-developed models that primarily use market-based inputs including yield curves, interest rates, volatilities, and credit curves, among others. Valuation adjustments are limited to those necessary to ensure that the financial instrument's fair value is adequately representative of the price that would be received or paid in the marketplace. These adjustments include amounts that reflect counterparty credit quality, the Corporation's credit standing, constraints on liquidity and unobservable parameters that are applied consistently.

The estimated fair value may be subjective in nature and may involve uncertainties and matters of significant judgment for certain financial instruments. Changes in the underlying assumptions used in calculating fair value could significantly affect the results.

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The following fair value hierarchy tables present information about the Corporation's assets and liabilities measured at fair value on a recurring basis at June 30, 2012 and December 31, 2011 and on a nonrecurring basis in periods subsequent to initial recognition for the six months ended June 30, 2012 and 2011:

| (In thousands) | At June 30, 2012 | | | |
|---|------------------|--------------|--------------|--------------|
| | Level 1 | Level 2 | Level 3 | Total |
| RECURRING FAIR VALUE MEASUREMENTS | | | | |
| Assets | | | | |
| Investment securities available-for-sale: | | | | |
| U.S. Treasury securities | \$ | \$ 37,928 | \$ | \$ 37,928 |
| Obligations of U.S. Government sponsored entities | | 1,039,398 | | 1,039,398 |
| Obligations of Puerto Rico, States and political subdivisions | | 49,909 | | 49,909 |
| Collateralized mortgage obligations federal agencies | | 2,001,582 | | 2,001,582 |
| Collateralized mortgage obligations private label | | 40,334 | | 40,334 |
| Mortgage-backed securities | | 1,868,344 | 7,382 | 1,875,726 |
| Equity securities | 3,523 | 3,499 | | 7,022 |
| Other | | 24,898 | | 24,898 |
| Total investment securities available-for-sale | \$ 3,523 | \$ 5,065,892 | \$ 7,382 | \$ 5,076,797 |
| Trading account securities, excluding derivatives: | | | | |
| Obligations of Puerto Rico, States and political subdivisions | \$ | \$ 32,049 | \$ | \$ 32,049 |
| Collateralized mortgage obligations | | 729 | 2,855 | 3,584 |
| Mortgage-backed securities federal agencies | | 343,575 | 17,705 | 361,280 |
| Other | | 18,194 | 2,356 | 20,550 |
| Total trading account securities | \$ | \$ 394,547 | \$ 22,916 | \$ 417,463 |
| Mortgage servicing rights | \$ | \$ | \$ 155,711 | \$ 155,711 |
| Derivatives | | 53,250 | | 53,250 |
| Total assets measured at fair value on a recurring basis | \$ 3,523 | \$ 5,513,689 | \$ 186,009 | \$ 5,703,221 |
| Liabilities | | | | |
| Derivatives | \$ | \$ (58,410) | \$ | \$ (58,410) |
| Contingent consideration | | | (101,013) | (101,013) |
| Total liabilities measured at fair value on a recurring basis | \$ | \$ (58,410) | \$ (101,013) | \$ (159,423) |

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| (In thousands) | At December 31, 2011 | | | |
|---|----------------------|------------------|-----------------|------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| RECURRING FAIR VALUE MEASUREMENTS | | | | |
| Assets | | | | |
| Investment securities available-for-sale: | | | | |
| U.S. Treasury securities | \$ | \$ 38,668 | \$ | \$ 38,668 |
| Obligations of U.S. Government sponsored entities | | 985,546 | | 985,546 |
| Obligations of Puerto Rico, States and political subdivisions | | 58,728 | | 58,728 |
| Collateralized mortgage obligations federal agencies | | 1,697,642 | | 1,697,642 |
| Collateralized mortgage obligations private label | | 57,792 | | 57,792 |
| Mortgage-backed securities | | 2,132,134 | 7,435 | 2,139,569 |
| Equity securities | 3,465 | 3,451 | | 6,916 |
| Other | | 24,962 | | 24,962 |
| Total investment securities available-for-sale | \$ 3,465 | \$ 4,998,923 | \$ 7,435 | \$ 5,009,823 |
| Trading account securities, excluding derivatives: | | | | |
| Obligations of Puerto Rico, States and political subdivisions | \$ | \$ 90,332 | \$ | \$ 90,332 |
| Collateralized mortgage obligations | | 737 | 2,808 | 3,545 |
| Mortgage-backed securities federal agencies | | 303,428 | 21,777 | 325,205 |
| Other | | 13,212 | 4,036 | 17,248 |
| Total trading account securities | \$ | \$ 407,709 | \$ 28,621 | \$ 436,330 |
| Mortgage servicing rights | \$ | \$ | \$ 151,323 | \$ 151,323 |
| Derivatives | | 61,887 | | 61,887 |
| Total assets measured at fair value on a recurring basis | \$ 3,465 | \$ 5,468,519 | \$ 187,379 | \$ 5,659,363 |
| Liabilities | | | | |
| Derivatives | \$ | \$ (66,700) | \$ | \$ (66,700) |
| Contingent consideration | | | (99,762) | (99,762) |
| Total liabilities measured at fair value on a recurring basis | \$ | \$ (66,700) | \$ (99,762) | \$ (166,462) |

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| | Six months ended June 30, 2012 | | | | |
|---|--------------------------------|----------|------------|------------|-------------|
| (In thousands) | Level 1 | Level 2 | Level 3 | Total | |
| NONRECURRING FAIR VALUE MEASUREMENTS | | | | | |
| Assets | | | | | Write-downs |
| Loans ^[1] | \$ | \$ | \$ 24,151 | \$ 24,151 | \$ (2,769) |
| Loans held-for-sale ^[2] | | | 177,460 | 177,460 | (38,244) |
| Other real estate owned ^[3] | | 5,944 | 81,241 | 87,185 | (22,748) |
| Other foreclosed assets ^[3] | | | 144 | 144 | (208) |
| Long-lived assets held-for-sale ^[4] | | | 1,100 | 1,100 | (123) |
| Total assets measured at fair value on a nonrecurring basis | \$ | \$ 5,944 | \$ 284,096 | \$ 290,040 | \$ (64,092) |

- [1] Relates mostly to certain impaired collateral dependent loans. The impairment was measured based on the fair value of the collateral, which is derived from appraisals that take into consideration prices in observed transactions involving similar assets in similar locations, in accordance with the provisions of ASC Section 310-10-35.
- [2] Relates to lower of cost or fair value adjustments on loans held-for-sale and loans transferred from loans held-in-portfolio to loans held-for-sale.
- [3] Represents the fair value of foreclosed real estate and other collateral owned that were written down to their fair value. Costs to sell excluded from the reported fair value amount were \$5 million at June 30, 2012.
- [4] Represents the fair value of long-lived assets held-for-sale that were written down to their fair value.

| | Six months ended June 30, 2011 | | | | |
|---|--------------------------------|---------|------------|------------|-------------|
| (In thousands) | Level 1 | Level 2 | Level 3 | Total | |
| NONRECURRING FAIR VALUE MEASUREMENTS | | | | | |
| Assets | | | | | Write-downs |
| Loans ^[1] | \$ | \$ | \$ 24,873 | \$ 24,873 | \$ (3,917) |
| Loans held-for-sale ^[2] | | | 139,226 | 139,226 | (13,905) |
| Other real estate owned ^[3] | | | 25,009 | 25,009 | (8,696) |
| Other foreclosed assets ^[3] | | | 97 | 97 | (506) |
| Total assets measured at fair value on a nonrecurring basis | \$ | \$ | \$ 189,205 | \$ 189,205 | \$ (27,024) |

- [1] Relates mostly to certain impaired collateral dependent loans. The impairment was measured based on the fair value of the collateral, which is derived from appraisals that take into consideration prices in observed transactions involving similar assets in similar locations, in accordance with the provisions of ASC Section 310-10-35.
- [2] Relates to lower of cost or fair value adjustments on loans held-for-sale and loans transferred from loans held-in-portfolio to loans held-for-sale.
- [3] Represents the fair value of foreclosed real estate and other collateral owned that were written down to their fair value. Costs to sell excluded from the reported fair value amount were \$2 million at June 30, 2011.

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The following tables present the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the quarters and six months ended June 30, 2012 and 2011.

| (In thousands) | Quarter ended June 30, 2012 | | | | | | | |
|-------------------------------------|--|---|---|--|---------------------------------|-----------------|-----------------------------|----------------------|
| | MBS classified as investment securities available- for-sale | CMOs classified as trading account securities | MBS classified as trading account securities | Other securities classified as trading account securities | Mortgage servicing rights | Total assets | Contingent consideration | Total liabilities |
| Balance at March 31, 2012 | \$ 7,226 | \$ 2,750 | \$ 16,363 | \$ 3,988 | \$ 156,331 | \$ 186,658 | \$ (100,834) | \$ (100,834) |
| Gains (losses) included in earnings | (1) | (4) | 39 | 12 | (5,575) | (5,529) | (179) | (179) |
| Gains (losses) included in OCI | 207 | | | | | 207 | | |
| Purchases | | 546 | 2,955 | 2,054 | 4,993 | 10,548 | | |
| Sales | | (251) | (1,377) | (1,743) | | (3,371) | | |
| Settlements | (50) | (186) | (275) | (1,955) | (38) | (2,504) | | |
| Balance at June 30, 2012 | \$ 7,382 | \$ 2,855 | \$ 17,705 | \$ 2,356 | \$ 155,711 | \$ 186,009 | \$ (101,013) | \$ (101,013) |

Changes in unrealized gains
(losses) included in earnings
relating to assets still held at June
30, 2012

| | | | | | | | |
|----|-------|-------|--------|----------|----------|----------|----------|
| \$ | \$ 51 | \$ 60 | \$ (4) | \$ (236) | \$ (129) | \$ (179) | \$ (179) |
|----|-------|-------|--------|----------|----------|----------|----------|

| (In thousands) | Six months ended June 30, 2012 | | | | | | | |
|-------------------------------------|--|---|---|--|---------------------------------|-----------------|-----------------------------|----------------------|
| | MBS classified as investment securities available- for-sale | CMOs classified as trading account securities | MBS classified as trading account securities | Other securities classified as trading account securities | Mortgage servicing rights | Total assets | Contingent consideration | Total liabilities |
| Balance at January 1, 2012 | \$ 7,435 | \$ 2,808 | \$ 21,777 | \$ 4,036 | \$ 151,323 | \$ 187,379 | \$ (99,762) | \$ (99,762) |
| Gains (losses) included in earnings | (3) | 57 | 977 | 49 | (4,791) | (3,711) | (1,251) | (1,251) |
| Gains (losses) included in OCI | 200 | | | | | 200 | | |
| Purchases | | 607 | 6,313 | 2,060 | 9,224 | 18,204 | | |
| Sales | | (251) | (5,455) | (1,834) | | (7,540) | | |
| Settlements | (250) | (366) | (696) | (1,955) | (45) | (3,312) | | |
| Transfers into Level 3 | | | 2,405 | | | 2,405 | | |
| Transfers out of Level 3 | | | (7,616) | | | (7,616) | | |
| Balance at June 30, 2012 | \$ 7,382 | \$ 2,855 | \$ 17,705 | \$ 2,356 | \$ 155,711 | \$ 186,009 | \$ (101,013) | \$ (101,013) |

Changes in unrealized gains
(losses) included in earnings
relating to assets still held at June
30, 2012

| | | | | | | | |
|----|-------|-------|-------|----------|----------|------------|------------|
| \$ | \$ 51 | \$ 31 | \$ 70 | \$ 5,519 | \$ 5,671 | \$ (1,251) | \$ (1,251) |
|----|-------|-------|-------|----------|----------|------------|------------|

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| (In thousands) | Quarter ended June 30, 2011 | | | | | | | |
|---|--|---|---|--|---------------------------------|-----------------|-----------------------------|----------------------|
| | MBS classified as investment securities available- for-sale | CMOs classified as trading account securities | MBS classified as trading account securities | Other securities classified as trading account securities | Mortgage servicing rights | Total assets | Contingent consideration | Total liabilities |
| Balance at March 31, 2011 | \$ 7,715 | \$ 2,678 | \$ 20,862 | \$ 2,883 | \$ 167,416 | \$ 201,554 | \$ (94,483) | \$ (94,483) |
| Gains (losses) included in earnings | (1) | 1 | 87 | 439 | (10,078) | (9,552) | (1,595) | (1,595) |
| Gains (losses) included in OCI | (5) | | | | | (5) | | |
| Initial fair value on acquisition | | | | | | | 138 | 138 |
| Purchases | | 371 | 8,273 | 536 | 5,472 | 14,652 | | |
| Sales | | (251) | (1,667) | (287) | | (2,205) | | |
| Settlements | (75) | (161) | (476) | | (191) | (903) | | |
| Balance at June 30, 2011 | \$ 7,634 | \$ 2,638 | \$ 27,079 | \$ 3,571 | \$ 162,619 | \$ 203,541 | \$ (95,940) | \$ (95,940) |
| Changes in unrealized gains (losses) included in earnings relating to assets still held at June 30, 2011 | \$ | \$ | \$ 152 | \$ 712 | \$ (5,935) | \$ (5,071) | \$ (1,595) | \$ (1,595) |

| (In thousands) | Six months ended June 30, 2011 | | | | | | | |
|---|--|---|---|--|---------------------------------|-----------------|-----------------------------|----------------------|
| | MBS classified as investment securities available- for-sale | CMOs classified as trading account securities | MBS classified as trading account securities | Other securities classified as trading account securities | Mortgage servicing rights | Total assets | Contingent consideration | Total liabilities |
| Balance at January 1, 2011 | \$ 7,759 | \$ 2,746 | \$ 20,238 | \$ 2,810 | \$ 166,907 | \$ 200,460 | \$ (92,994) | \$ (92,994) |
| Gains (losses) included in earnings | (3) | 1 | 159 | 560 | (16,249) | (15,532) | (3,084) | (3,084) |
| Gains (losses) included in OCI | 2 | | | | | 2 | | |
| Initial fair value on acquisition | | | | | | | 138 | 138 |
| Purchases | | 396 | 10,220 | 924 | 12,152 | 23,692 | | |
| Sales | | (316) | (2,787) | (676) | | (3,779) | | |
| Settlements | (124) | (189) | (751) | (47) | (191) | (1,302) | | |
| Balance at June 30, 2011 | \$ 7,634 | \$ 2,638 | \$ 27,079 | \$ 3,571 | \$ 162,619 | \$ 203,541 | \$ (95,940) | \$ (95,940) |
| Changes in unrealized gains (losses) included in earnings relating to assets still held at June 30, 2011 | \$ | \$ (1) | \$ 207 | \$ 824 | \$ (7,852) | \$ (6,822) | \$ (3,084) | \$ (3,084) |

There were no transfers in and/or out of Level 3 for financial instruments measured at fair value on a recurring basis during the quarters ended June 30, 2012 and 2011. There were \$2 million in transfers from Level 2 to Level 3 and \$7 million in transfers from Level 3 to Level 2 for financial instruments measured at fair value on a recurring basis during the six months ended June 30, 2012. The transfers from Level 2 to Level 3 of trading mortgage-backed securities were the result of a change in valuation technique to a matrix pricing model, based on indicative prices provided by brokers. The transfers from Level 3 to Level 2 of trading mortgage-backed securities resulted from observable market data becoming available for these securities. Pursuant to the Corporation's policy, these transfers were recognized as of the end of the reporting period. There were no transfers in and/or out of Level 3 for financial instruments measured at fair value on a recurring basis during the six months ended June 30, 2011. There were no transfers in and/or out of Level 1 during the quarters and six months ended June 30, 2012 and 2011.

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Gains and losses (realized and unrealized) included in earnings for the quarter and six months ended June 30, 2012 and 2011 for Level 3 assets and liabilities included in the previous tables are reported in the consolidated statement of operations as follows:

| (In thousands) | Quarter ended June 30, 2012 | | Six months ended June 30, 2012 | |
|----------------------------------|--|---|--|---|
| | Total gains (losses) included in earnings | Changes in unrealized gains (losses) relating to assets still held at reporting date | Total gains (losses) included in earnings | Changes in unrealized gains (losses) relating to assets still held at reporting date |
| Interest income | \$ (1) | \$ | \$ (3) | \$ |
| FDIC loss share income (expense) | (236) | (236) | (1,857) | (1,857) |
| Other service fees | (5,575) | (236) | (4,791) | 5,519 |
| Trading account (loss) profit | 47 | 107 | 1,083 | 152 |
| Other operating income | 57 | 57 | 606 | 606 |
| Total | \$ (5,708) | \$ (308) | \$ (4,962) | \$ 4,420 |

| (In thousands) | Quarter ended June 30, 2011 | | Six months ended June 30, 2011 | |
|----------------------------------|--|---|--|---|
| | Total gains (losses) included in earnings | Changes in unrealized gains (losses) relating to assets still held at reporting date | Total gains (losses) included in earnings | Changes in unrealized gains (losses) relating to assets still held at reporting date |
| Interest income | \$ (1) | \$ | \$ (3) | \$ |
| FDIC loss share income (expense) | (1,555) | (1,555) | (3,044) | (3,044) |
| Other service fees | (10,078) | (5,935) | (16,249) | (7,852) |
| Trading account (loss) profit | 527 | 864 | 720 | 1,030 |
| Other operating income | (40) | (40) | (40) | (40) |
| Total | \$ (11,147) | \$ (6,666) | \$ (18,616) | \$ (9,906) |

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The following table includes quantitative information about significant unobservable inputs used to derive the fair value of Level 3 instruments, excluding those instruments for which the unobservable inputs were not developed by the Corporation such as prices of prior transactions and/or unadjusted third-party pricing sources.

| (In thousands) | Fair Value at June 30, 2012 | Valuation Technique | Unobservable Inputs | Weighted Average (Range) |
|---|-----------------------------------|----------------------------------|-----------------------------------|--------------------------------|
| Collateralized mortgage obligations trading | | Discounted cash flow model | Weighted average life | 2.7 years (0.4 - 6.8 years) |
| | | | Yield | 3.8% (1.1% - 4.7%) |
| | \$ 2,855 | | Constant prepayment rate | 23.5% (18.0% - 28.8%) |
| Other trading | | Discounted cash flow model | Weighted average life | 5.8 years |
| | | | Yield | 12.9% |
| | \$ 1,284 | | Constant prepayment rate | 9.0% |
| Mortgage servicing rights | | Discounted cash flow model | Prepayment speed | 8.2% (2.6% - 25.7%) |
| | | | Weighted average life | 12.2 years (3.9 - 37.9 years) |
| | | | | 12.0% (10.0 - 15.5%) |
| | \$ 155,711 | | Discount rate | |
| Contingent consideration | | Discounted cash flow model | Credit loss rate on covered loans | 25.5% (0.0% - 100.0%) |
| | | | Risk premium component | |
| | \$ (101,013) | | of discount rate | 5.5% |
| Loans held-in-portfolio | | External Appraisal | Haircut applied on | 21.2% (6.7% - 35.0%) |
| | \$ 24,151 | | external appraisals | |
| Loans held-for-sale | | Discounted cash flow model | Weighted average life | 2.0 years |
| | \$ 120,754 | | Net loss rate | 58.1% |
| Other real estate owned | | External Appraisal | Haircut applied on | 22.5% (5.9% - 51.1%) |
| | \$ 50,788 | | external appraisals | |

The significant unobservable inputs used in the fair value measurement of the Corporation's collateralized mortgage obligations and interest-only collateralized mortgage obligation (reported as other), which are classified in the trading category, are yield, constant prepayment rate, and weighted average life. Significant increases (decreases) in any of those inputs in isolation would result in significantly lower (higher) fair value measurement. Generally, a change in the assumption used for the constant prepayment rate will generate a directionally opposite change in the weighted average life. For example, as the average life is reduced by a higher constant prepayment rate, a lower yield will be realized, and when there is a reduction in the constant prepayment rate, the average life of these collateralized mortgage obligations will extend, thus resulting in a higher yield. These particular financial instruments are valued internally by the Corporation's investment banking and broker-dealer unit utilizing internal valuation techniques. The unobservable inputs incorporated into the internal discounted cash flow models used to derive the fair value of collateralized mortgage obligations and interest-only collateralized mortgage obligation (reported as other), which are classified in the trading category, are reviewed by the Corporation's Corporate Treasury unit on a quarterly basis. In the case of Level 3 financial instruments which fair value is based on broker quotes, the Corporation's Corporate Treasury unit reviews the inputs used by the broker-dealers for reasonableness utilizing information available from other published sources and validates that the fair value measurements were developed in accordance with ASC Topic 820. The Corporate Treasury unit also substantiates the inputs used by validating the prices with other broker-dealers, whenever possible.

The significant unobservable inputs used in the fair value measurement of the Corporation's mortgage servicing rights are constant prepayment rates and discount rates. Increases in interest rates may result in lower prepayments. Discount rates vary according to products and / or portfolios

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depending on the perceived risk. Increases in discount rates result in a lower fair value measurement. The Corporation's Corporate Comptroller's unit is responsible for determining the fair value of MSRs, which is based on discounted cash flow methods based on assumptions developed by an external service provider, except for prepayment speeds, which are adjusted internally for the local market based on historical experience. The Corporation's Corporate Treasury unit validates the economic assumptions developed by the external service provider on a quarterly basis. In addition, an analytical review of prepayment speeds is performed quarterly by the Corporate Comptroller's unit. Significant variances in prepayment speeds are investigated by the Corporate Treasury unit. The Corporation's MSR Committee analyzes changes in fair value measurements of MSRs and approves the valuation assumptions at each reporting period. Changes in valuation assumptions must also be approved by the MSR Committee. The fair value of MSRs are compared with those of the external service provider on a quarterly basis in order to validate if the fair values are within the materiality thresholds established by management to monitor and investigate material deviations. Back-testing is performed to compare projected cash flows with actual historical data to ascertain the reasonability of the projected net cash flow results.

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Following is a description of the Corporation's valuation methodologies used for assets and liabilities measured at fair value. The disclosure requirements exclude certain financial instruments and all non-financial instruments. Accordingly, the aggregate fair value amounts of the financial instruments disclosed do not represent management's estimate of the underlying value of the Corporation.

Trading Account Securities and Investment Securities Available-for-Sale

U.S. Treasury securities: The fair value of U.S. Treasury securities is based on yields that are interpolated from the constant maturity treasury curve. These securities are classified as Level 2.

Obligations of U.S. Government sponsored entities: The Obligations of U.S. Government sponsored entities include U.S. agency securities, which fair value is based on an active exchange market and on quoted market prices for similar securities. The U.S. agency securities are classified as Level 2.

Obligations of Puerto Rico, States and political subdivisions: Obligations of Puerto Rico, States and political subdivisions include municipal bonds. The bonds are segregated and the like characteristics divided into specific sectors. Market inputs used in the evaluation process include all or some of the following: trades, bid price or spread, two sided markets, quotes, benchmark curves including but not limited to Treasury benchmarks, LIBOR and swap curves, market data feeds such as those obtained from municipal market sources, discount and capital rates, and trustee reports. The municipal bonds are classified as Level 2.

Mortgage-backed securities: Certain agency mortgage-backed securities (MBS) are priced based on a bond's theoretical value derived from similar bonds defined by credit quality and market sector. Their fair value incorporates an option adjusted spread. The agency MBS are classified as Level 2. Other agency MBS such as GNMA Puerto Rico Serials are priced using an internally-prepared pricing matrix with quoted prices from local brokers dealers. These particular MBS are classified as Level 3.

Collateralized mortgage obligations: Agency and private-label collateralized mortgage obligations (CMOs) are priced based on a bond's theoretical value derived from similar bonds defined by credit quality and market sector and for which fair value incorporates an option adjusted spread. The option adjusted spread model includes prepayment and volatility assumptions, ratings (whole loans collateral) and spread adjustments. These CMOs are classified as Level 2. Other CMOs, due to their limited liquidity, are classified as Level 3 due to the insufficiency of inputs such as broker quotes, executed trades, credit information and cash flows.

Equity securities: Equity securities with quoted market prices obtained from an active exchange market are classified as Level 1. Other equity securities that do not trade in highly liquid markets are classified as Level 2.

Corporate securities, commercial paper and mutual funds (included as other in the trading account securities category): Quoted prices for these security types are obtained from broker dealers. Given that the quoted prices are for similar instruments or do not trade in highly liquid markets, these securities are classified as Level 2. The important variables in determining the prices of Puerto Rico tax-exempt mutual fund shares are net asset value, dividend yield and type of assets in the fund. All funds trade based on a relevant dividend yield taking into consideration the aforementioned variables. In addition, demand and supply also affect the price. Corporate securities that trade less frequently or are in distress are classified as Level 3.

Mortgage servicing rights

Mortgage servicing rights (MSRs) do not trade in an active market with readily observable prices. MSRs are priced internally using a discounted cash flow model. The discounted cash flow model incorporates assumptions that market participants would use in estimating future net servicing income, including portfolio characteristics, prepayments assumptions, discount rates, delinquency and foreclosure rates, late charges, other ancillary revenues, cost to service and other economic factors. Prepayment speeds are adjusted for the Corporation's loan characteristics and portfolio behavior. Due to the unobservable nature of certain valuation inputs, the MSRs are classified as Level 3.

Derivatives

Interest rate swaps, interest rate caps and indexed options are traded in over-the-counter active markets. These derivatives are indexed to an observable interest rate benchmark, such as LIBOR or equity indexes, and are priced using an income approach based on present value and option pricing models using observable inputs. Other derivatives are liquid and have quoted prices,

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such as forward contracts or to be announced securities (TBAs). All of these derivatives are classified as Level 2. The non-performance risk is determined using internally-developed models that consider the collateral held, the remaining term, and the creditworthiness of the entity that bears the risk, and uses available public data or internally-developed data related to current spreads that denote their probability of default.

Contingent consideration liability

The fair value of the true-up payment obligation (contingent consideration) to the FDIC as it relates to the Westernbank FDIC-assisted transaction was estimated using projected cash flows related to the loss sharing agreements at the true-up measurement date. It took into consideration the intrinsic loss estimate, asset premium/discount, cumulative shared loss payments, and the cumulative servicing amount related to the loan portfolio. Refer to Note 9 to the consolidated financial statements for a description of the formula established in the loss share agreements for determining the true-up payment.

On a quarterly basis, management evaluates and revises the estimated credit loss rates that are used to determine expected cash flows on the covered loan pools. The expected credit losses on the loan pools are used to determine the loss share cash flows expected to be paid to the FDIC when the true-up payment is due.

The true-up payment obligation was discounted using a term rate consistent with the time remaining until the payment is due. The discount rate was an estimate of the sum of the risk-free benchmark rate for the term remaining before the true-up payment is due and a risk premium to account for the credit risk profile of BPPR. The risk premium was calculated based on a 12-month trailing average spread of the yields on corporate bonds with credit ratings similar to BPPR.

Loans held-in-portfolio considered impaired under ASC Section 310-10-35 that are collateral dependent

The impairment is measured based on the fair value of the collateral, which is derived from appraisals that take into consideration prices in observed transactions involving similar assets in similar locations, in accordance with the provisions of ASC Section 310-10-35, and which could be subject to internal adjustments based on the age of the appraisal. Currently, the associated loans considered impaired are classified as Level 3.

Loans measured at fair value pursuant to lower of cost or fair value adjustments

Loans measured at fair value on a nonrecurring basis pursuant to lower of cost or fair value were priced based on secondary market prices and discounted cash flow models which incorporate internally-developed assumptions for prepayments and credit loss estimates. These loans are classified as Level 3.

Other real estate owned and other foreclosed assets

Other real estate owned includes real estate properties securing mortgage, consumer, and commercial loans. Other foreclosed assets include automobiles securing auto loans. The fair value of foreclosed assets may be determined using an external appraisal, broker price opinion, internal valuation or binding offer. The majority of these foreclosed assets are classified as Level 3 since they are subject to internal adjustments. Certain foreclosed assets which are measured based on binding offers are classified as Level 2.

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Note 23 Fair value of financial instruments

The fair value of financial instruments is the amount at which an asset or obligation could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Fair value estimates are made at a specific point in time based on the type of financial instrument and relevant market information. Many of these estimates involve various assumptions and may vary significantly from amounts that could be realized in actual transactions.

The information about the estimated fair values of financial instruments presented hereunder excludes all nonfinancial instruments and certain other specific items.

For those financial instruments with no quoted market prices available, fair values have been estimated using present value calculations or other valuation techniques, as well as management's best judgment with respect to current economic conditions, including discount rates, estimates of future cash flows, and prepayment assumptions.

The fair values reflected herein have been determined based on the prevailing interest rate environment at June 30, 2012 and December 31, 2011, as applicable. In different interest rate environments, fair value estimates can differ significantly, especially for certain fixed rate financial instruments. In addition, the fair values presented do not attempt to estimate the value of the Corporation's fee generating businesses and anticipated future business activities, that is, they do not represent the Corporation's value as a going concern. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Corporation.

Following is a description of the Corporation's valuation methodologies and inputs used to estimate the fair values for each class of financial assets and liabilities not measured at fair value, but for which the fair value is disclosed. The disclosure requirements exclude certain financial instruments and all non-financial instruments. Accordingly, the aggregate fair value amounts of the financial instruments disclosed do not represent management's estimate of the underlying value of the Corporation. For a description of the valuation methodologies and inputs used to estimate the fair value for each class of financial assets and liabilities measured at fair value, refer to Note 22.

Cash and due from banks

Cash and due from banks include cash on hand, cash items in process of collection, and non-interest bearing deposits due from other financial institutions. The carrying amount of cash and due from banks is a reasonable estimate of its fair value. Cash and due from banks are classified as Level 1.

Money market investments

Investments in money market instruments are highly liquid instruments with an average maturity of three months or less. For this reason, they carry a low risk of changes in value as a result of changes in interest rates, and the carrying amount approximates their fair value. Money market investments include federal funds sold, securities purchased under agreements to resell, time deposits with other banks, and restricted cash. These money market investments are classified as Level 2.

Investment securities held-to-maturity

Obligations of Puerto Rico, States and political subdivisions: Obligations of Puerto Rico, States and political subdivisions include municipal bonds priced based on a bond's theoretical value derived from similar bonds defined by credit quality and market sector and for which fair value incorporates an option adjusted spread. The option adjusted spread model includes prepayment and volatility assumptions, ratings (whole loans collateral) and spread adjustments and are classified as Level 2. Other municipal bonds include Puerto Rico public municipalities debt and bonds collateralized by second mortgages under the Home Purchase Stimulus Program. Puerto Rico public municipalities debt was valued internally based on benchmark treasury notes and a credit spread derived from comparable Puerto Rico government trades and recent issuances. Puerto Rico public municipalities debt is classified as Level 3. Given that the fair value of municipal bonds collateralized by second mortgages was based on internal yield and prepayment speed assumptions, these municipal bonds are classified as Level 3.

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Agency collateralized mortgage obligation: The fair value of the agency collateralized mortgage obligation (CMO), which is guaranteed by GNMA, was based on internal yield and prepayment speed assumptions. This agency CMO is classified as Level 3.

Other: Other securities include foreign and corporate debt. Given that the fair value was based on quoted prices for similar instruments, foreign debt is classified as Level 2. The fair value of corporate debt, which is collateralized by municipal bonds of Puerto Rico, was internally derived from benchmark treasury notes and a credit spread based on comparable Puerto Rico government trades, similar securities, and/or recent issuances. Corporate debt is classified as Level 3.

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Other investment securities

Federal Home Loan Bank capital stock: Federal Home Loan Bank (FHLB) capital stock represents an equity interest in the FHLB of New York. It does not have a readily determinable fair value because its ownership is restricted and it lacks a market. Since the excess stock is repurchased by the FHLB at its par value, the carrying amount of FHLB capital stock approximates fair value. Thus, these stocks are classified as Level 2.

Federal Reserve Bank capital stock: Federal Reserve Bank (FRB) capital stock represents an equity interest in the FRB of New York. It does not have a readily determinable fair value because its ownership is restricted and it lacks a market. Since the canceled stock is repurchased by the FRB for the amount of the cash subscription paid, the carrying amount of FRB capital stock approximates fair value. Thus, these stocks are classified as Level 2.

Trust preferred securities: These securities represent the equity-method investment in the common stock of these trusts. Book value is the same as fair value for these securities since the fair value of the junior subordinated debentures is the same amount as the fair value of the trust preferred securities issued to the public. The equity-method investment in the common stock of these trusts is classified as Level 2, except for that of Popular Capital Trust III (Troubled Asset Relief Program) which is classified as Level 3. Refer to Note 15 for additional information on these trust preferred securities.

Other investments: Other investments include private equity method investments and Visa Class B common stock held by the Corporation. Since there are no observable market values, private equity method investments are classified as Level 3. The Visa Class B common stock was priced by applying the quoted price of Visa Class A common stock, net of a liquidity adjustment, to the as converted number of Class A common shares since these Class B common shares are restricted and not convertible to Class A common shares until pending litigation is resolved. Thus, these stocks are classified as Level 3.

Loans held-for-sale

The fair value of certain impaired loans held-for-sale was based on a discounted cash flow model that assumes that no principal payments are received prior to the effective average maturity date, that the outstanding unpaid principal balance is reduced by a monthly net loss rate, and that the remaining unpaid principal balance is received as a lump sum principal payment at the effective average maturity date. The remaining unpaid principal balance expected to be received, which is based on the prior 12-month cash payment experience of these loans and their expected collateral recovery, was discounted using the interest rate currently offered to clients for the origination of comparable loans. These loans are classified as Level 3. For loans held-for-sale originated with the intent to sell in the secondary market, its fair value was determined using similar characteristics of loans and secondary market prices assuming the conversion to mortgage-backed securities. Given that the valuation methodology uses internal assumptions based on loan level data, these loans are classified as Level 3. The fair value of certain other loans held-for-sale is based on bids received from potential buyers; binding offers; or external appraisals, net of internal adjustments and estimated costs to sell. Loans held-for-sale based on binding offers are classified as Level 2. Loans held-for-sale based on indicative offers and/or external appraisals are classified as Level 3.

Loans held-in-portfolio

The fair values of the loans held-in-portfolio have been determined for groups of loans with similar characteristics. Loans were segregated by type such as commercial, construction, residential mortgage, consumer, and credit cards. Each loan category was further segmented based on loan characteristics, including interest rate terms, credit quality and vintage. Generally, fair values were estimated based on an exit price by discounting expected cash flows for the segmented groups of loans using a discount rate that considers interest, credit and expected return by market participant under current market conditions. Additionally, prepayment, default and recovery assumptions have been applied in the mortgage loan portfolio valuations. Generally accepted accounting principles do not require a fair valuation of the lease financing portfolio, therefore it is included in the loans total at its carrying amount. Loans held-in-portfolio are classified as Level 3.

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FDIC loss share asset

Fair value of the FDIC loss share asset was estimated using projected net losses related to the loss sharing agreements, which are expected to be reimbursed by the FDIC. The projected net losses were discounted using the U.S. Government agency curve. The loss share asset is classified as Level 3.

Deposits

Demand deposits: The fair value of demand deposits, which have no stated maturity, was calculated based on the amount payable on demand as of the respective dates. These demand deposits include non-interest bearing demand deposits, savings, NOW, and money market accounts. Thus, these deposits are classified as Level 2.

Time deposits: The fair value of time deposits was calculated based on the discounted value of contractual cash flows using interest rates being offered on time deposits with similar maturities. The non-performance risk was determined using internally-developed models that consider, where applicable, the collateral held, amounts insured, the remaining term, and the credit premium of the institution. For certain 5-year certificates of deposit in which customers may withdraw their money anytime with no penalties or charges, the fair value of these certificates of deposit incorporate an early cancellation estimate based on historical experience. Time deposits are classified as Level 2.

Assets sold under agreements to repurchase

Securities sold under agreements to repurchase (structured and non-structured): Securities sold under agreements to repurchase with short-term maturities approximate fair value because of the short-term nature of those instruments. Resell and repurchase agreements with long-term maturities were valued using discounted cash flows based on the three-month LIBOR. In determining the non-performance credit risk valuation adjustment, the collateralization levels of these long-term securities sold under agreements to repurchase were considered. In the case of callable structured repurchase agreements, the callable feature is not considered when determining the fair value of those repurchase agreements, since there is a remote possibility, based on forward rates, that the investor will call back these agreements before maturity since it is not expected that the interest rates would rise more than the specified interest rate of these agreements. Securities sold under agreements to repurchase (structured and non-structured) are classified as Level 2.

Other short-term borrowings

The carrying amount of other short-term borrowings approximate fair value because of the short-term maturity of those instruments or because they carry interest rates which approximate market. Thus, these other short-term borrowings are classified as Level 2.

Notes payable

FHLB advances: The fair value of FHLB advances was based on the discounted value of contractual cash flows over their contractual term. In determining the non-performance credit risk valuation adjustment, the collateralization levels of these advances were considered. These advances are classified as Level 2.

Medium-term notes: The fair value of publicly-traded medium-term notes was determined using recent trades of similar transactions. Publicly-traded medium-term notes are classified as Level 2. The fair value of non-publicly traded debt was based on remaining contractual cash outflows, discounted at a rate commensurate with the non-performance credit risk of the Corporation, which is subjective in nature. Non-publicly traded debt is classified as Level 3.

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Junior subordinated deferrable interest debentures (related to trust preferred securities): The fair value of junior subordinated interest debentures was determined using recent trades of similar transactions. Thus, these junior subordinated deferrable interest debentures are classified as Level 2.

Junior subordinated deferrable interest debentures (Troubled Asset Relief Program): The fair value of junior subordinated deferrable interest debentures was based on the discounted value of contractual cash flows over their contractual term. The discount rate was based on the rate at which a similar security was priced in the open market. Thus, these junior subordinated deferrable interest debentures are classified as Level 3.

Others: The other category includes capital lease obligations. Generally accepted accounting principles do not require a fair valuation of capital lease obligations, therefore; it is included at its carrying amount. Capital lease obligations are classified as Level 3.

Table of Contents*Commitments to extend credit and letters of credit*

Commitments to extend credit were valued using the fees currently charged to enter into similar agreements. For those commitments where a future stream of fees is charged, the fair value was estimated by discounting the projected cash flows of fees on commitments. Since the fair value of commitments to extend credit varies depending on the undrawn amount of the credit facility, fees are subject to constant change, and cash flows are dependent on the creditworthiness of borrowers, commitments to extend credit are classified as Level 3. The fair value of letters of credit was based on fees currently charged on similar agreements. Given that the fair value of letters of credit constantly vary due to fees being subject to constant change and whether the fees are received depends on the creditworthiness of the account parties, letters of credit are classified as Level 3.

The following table presents the carrying or notional amounts, as applicable, and estimated fair values for financial instruments with their corresponding level in the fair value hierarchy.

| | June 30, 2012 | | | | | December 31, 2011 | |
|--|-----------------|------------|------------|------------|------------|-------------------|------------|
| (In thousands) | Carrying amount | Level 1 | Level 2 | Level 3 | Fair value | Carrying amount | Fair value |
| Financial Assets: | | | | | | | |
| Cash and due from banks | \$ 515,338 | \$ 515,338 | \$ | \$ | \$ 515,338 | \$ 535,282 | \$ 535,282 |
| Money market investments | 949,828 | | 949,828 | | 949,828 | 1,376,174 | 1,376,174 |
| Trading account securities, excluding derivatives ^[1] | 417,463 | | 394,547 | 22,916 | 417,463 | 436,330 | 436,330 |
| Investment securities available-for-sale ^[1] | 5,076,797 | 3,523 | 5,065,892 | 7,382 | 5,076,797 | 5,009,823 | 5,009,823 |
| Investment securities held-to-maturity: | | | | | | | |
| Obligations of Puerto Rico, States and political subdivisions | \$ 97,999 | \$ | \$ 1,385 | \$ 98,457 | \$ 99,842 | \$ 98,973 | \$ 98,770 |
| Collateralized mortgage obligation-federal agency | 147 | | | 152 | 152 | 160 | 151 |
| Other | 26,500 | | 1,500 | 25,029 | 26,529 | 26,250 | 26,333 |
| Total investment securities held-to-maturity | \$ 124,646 | \$ | \$ 2,885 | \$ 123,638 | \$ 126,523 | \$ 125,383 | \$ 125,254 |
| Other investment securities: | | | | | | | |
| FHLB stock | \$ 78,650 | \$ | \$ 78,650 | \$ | \$ 78,650 | \$ 84,133 | \$ 84,133 |
| FRB stock | 79,563 | | 79,563 | | 79,563 | 79,648 | 79,648 |
| Trust preferred securities | 14,197 | | 13,197 | 1,000 | 14,197 | 14,197 | 14,197 |
| Other investments | 1,877 | | | 3,538 | 3,538 | 1,902 | 3,605 |
| Total other investment securities | \$ 174,287 | \$ | \$ 171,410 | \$ 4,538 | \$ 175,948 | \$ 179,880 | \$ 181,583 |
| Loans held-for-sale | \$ 364,537 | \$ | \$ 4,689 | \$ 369,503 | \$ 374,193 | \$ 363,093 | \$ 390,783 |
| Loans not covered under loss sharing agreement with the FDIC | 20,017,274 | | | 17,193,518 | 17,193,518 | 19,912,233 | 16,753,889 |
| Loans covered under loss sharing agreements with the FDIC | 3,898,835 | | | 4,490,006 | 4,490,006 | 4,223,758 | 4,663,327 |
| FDIC loss share asset | 1,631,594 | | | 1,509,000 | 1,509,000 | 1,915,128 | 1,755,295 |
| Mortgage servicing rights | 155,711 | | | 155,711 | 155,711 | 151,323 | 151,323 |
| Derivatives | 53,250 | | 53,250 | | 53,250 | 61,887 | 61,887 |

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| | June 30, 2012 | | | | | December 31, 2011 | |
|--|----------------------|-----------|----------------------|-------------------|----------------------|----------------------|----------------------|
| (In thousands) | Carrying amount | Level 1 | Level 2 | Level 3 | Fair value | Carrying amount | Fair value |
| Financial Liabilities: | | | | | | | |
| Deposits: | | | | | | | |
| Demand deposits | \$ 17,844,459 | \$ | \$ 17,844,459 | \$ | \$ 17,844,459 | \$ 17,232,087 | \$ 17,232,087 |
| Time deposits | 9,570,321 | | 9,661,260 | | 9,661,260 | 10,710,040 | 10,825,256 |
| Total deposits | \$ 27,414,780 | \$ | \$ 27,505,719 | \$ | \$ 27,505,719 | \$ 27,942,127 | \$ 28,057,343 |
| Assets sold under agreements to repurchase: | | | | | | | |
| Securities sold under agreements to repurchase | \$ 788,446 | \$ | \$ 795,140 | \$ | \$ 795,140 | \$ 1,102,907 | \$ 1,107,314 |
| Structured repurchase agreements | 638,190 | | 729,662 | | 729,662 | 1,038,190 | 1,166,488 |
| Total assets sold under agreements to repurchase | \$ 1,426,636 | \$ | \$ 1,524,802 | \$ | \$ 1,524,802 | \$ 2,141,097 | \$ 2,273,802 |
| Other short-term borrowings ^[2] | \$ 316,200 | \$ | \$ 316,200 | \$ | \$ 316,200 | \$ 296,200 | \$ 296,200 |
| Notes payable: | | | | | | | |
| FHLB advances | \$ 650,370 | \$ | \$ 683,701 | \$ | \$ 683,701 | \$ 642,568 | \$ 673,505 |
| Medium-term notes | 278,731 | | 290,459 | 3,964 | 294,423 | 278,897 | 282,898 |
| Junior subordinated deferrable interest debentures (related to trust preferred securities) | 439,800 | | 328,913 | | 328,913 | 439,800 | 284,238 |
| Junior subordinated deferrable interest debentures (Troubled Asset Relief Program) | 484,162 | | | 737,422 | 737,422 | 470,037 | 457,120 |
| Others | 24,520 | | | 24,520 | 24,520 | 25,070 | 25,070 |
| Total notes payable | \$ 1,877,583 | \$ | \$ 1,303,073 | \$ 765,906 | \$ 2,068,979 | \$ 1,856,372 | \$ 1,722,831 |
| Derivatives | \$ 58,410 | \$ | \$ 58,410 | \$ | \$ 58,410 | \$ 66,700 | \$ 66,700 |
| Contingent consideration | \$ 101,013 | \$ | \$ | \$ 101,013 | \$ 101,013 | \$ 99,762 | \$ 99,762 |

| (In thousands) | Notional amount | Level 1 | Level 2 | Level 3 | Fair value | Notional amount | Fair value |
|------------------------------|-----------------|---------|---------|----------|------------|-----------------|------------|
| | | | | | | | |
| Commitments to extend credit | \$ 6,996,292 | \$ | \$ | \$ 1,776 | \$ 1,776 | \$ 6,695,956 | \$ 2,062 |
| Letters of credit | 140,545 | | | 2,982 | 2,982 | 136,341 | 2,339 |

Table of Contents**Note 24 Net income per common share**

The following table sets forth the computation of net income per common share (EPS), basic and diluted, for the quarters and six months ended June 30, 2012 and 2011:

| (In thousands, except per share information) | Quarter ended June 30, | | Six months ended June 30, | |
|---|------------------------|-------------|---------------------------|-------------|
| | 2012 | 2011 | 2012 | 2011 |
| Net income | \$ 65,739 | \$ 110,685 | \$ 114,147 | \$ 120,817 |
| Preferred stock dividends | (930) | (931) | (1,861) | (1,861) |
| Net income applicable to common stock | \$ 64,809 | \$ 109,754 | \$ 112,286 | \$ 118,956 |
| Average common shares outstanding | 102,295,113 | 102,122,591 | 102,318,459 | 102,138,020 |
| Average potential dilutive common shares | 115,505 | 67,023 | 161,071 | 116,300 |
| Average common shares outstanding assuming dilution | 102,410,618 | 102,189,614 | 102,479,530 | 102,254,320 |
| Basic and dilutive EPS | \$ 0.63 | \$ 1.07 | \$ 1.10 | \$ 1.16 |

Potential common shares consist of common stock issuable under the assumed exercise of stock options and restricted stock awards using the treasury stock method. This method assumes that the potential common shares are issued and the proceeds from exercise, in addition to the amount of compensation cost attributed to future services, are used to purchase common stock at the exercise date. The difference between the number of potential shares issued and the shares purchased is added as incremental shares to the actual number of shares outstanding to compute diluted earnings per share. Warrants, stock options, and restricted stock awards that result in lower potential shares issued than shares purchased under the treasury stock method are not included in the computation of dilutive earnings per share since their inclusion would have an antidilutive effect in earnings per common share.

For the quarter and six months ended June 30, 2012, there were 166,215 and 167,215 weighted average antidilutive stock options outstanding, respectively (June 30, 2011 210,303 and 211,228). Additionally, the Corporation has outstanding a warrant issued to the U.S. Treasury to purchase 2,093,284 shares of common stock, which had an antidilutive effect at June 30, 2012.

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Note 25 Other service fees

The caption of other services fees in the consolidated statements of operations consist of the following major categories:

| (In thousands) | Quarter ended June 30, | | Six months ended June 30, | |
|--|------------------------|------------------|---------------------------|-------------------|
| | 2012 | 2011 | 2012 | 2011 |
| Debit card fees | \$ 9,411 | \$ 13,795 | \$ 18,576 | \$ 26,720 |
| Insurance fees | 12,063 | 12,208 | 24,453 | 24,134 |
| Credit card fees | 14,268 | 11,792 | 26,827 | 22,368 |
| Sale and administration of investment products | 9,645 | 7,657 | 18,534 | 14,787 |
| Mortgage servicing fees, net of fair value adjustments | 6,335 | 2,269 | 19,266 | 8,529 |
| Trust fees | 4,069 | 4,110 | 8,150 | 7,605 |
| Processing fees | 1,639 | 1,740 | 3,413 | 3,437 |
| Other fees | 4,597 | 4,736 | 8,847 | 9,379 |
| Total other services fees | \$ 62,027 | \$ 58,307 | \$ 128,066 | \$ 116,959 |

Note 26 FDIC loss share income (expense)

The caption of FDIC loss share income (expense) in the consolidated statements of operations consists of the following major categories:

| (In thousands) | Quarters ended June 30, | | Six months ended June 30, | |
|--|-------------------------|------------------|---------------------------|------------------|
| | 2012 | 2011 | 2012 | 2011 |
| (Amortization) accretion of loss share indemnification asset | \$ (37,413) | \$ 8,637 | \$ (66,788) | \$ 34,433 |
| 80% mirror accounting on credit impairment losses ^[1] | 29,426 | 38,884 | 42,848 | 51,329 |
| 80% mirror accounting on reimbursable expenses | 10,663 | 1,017 | 12,468 | 1,017 |
| 80% mirror accounting on discount accretion on loans unfunded commitments accounted for under ASC 310-20 | (248) | (8,538) | (496) | (30,003) |
| Change in true-up payment obligation | (236) | (1,555) | (1,858) | (3,044) |
| Other | 383 | 225 | 1,146 | 973 |
| Total FDIC loss share income (expense) | \$ 2,575 | \$ 38,670 | \$ (12,680) | \$ 54,705 |

- [1] Reductions in expected cash flows for ASC 310-30 loans, which may impact the provision for loan losses, may consider reductions in both principal and interest cash flow expectations. The amount covered under the FDIC loss sharing agreements for interest not collected from borrowers is limited under the agreements (approximately 90 days); accordingly, these amounts are not subject fully to the 80% mirror accounting.

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Note 27 Pension and postretirement benefits

The Corporation has a non-contributory defined benefit pension plan and supplementary pension benefit restoration plans for regular employees of certain of its subsidiaries. The accrual of benefits under the plans is frozen to all participants.

The components of net periodic pension cost for the periods presented were as follows:

| (In thousands) | Pension Plan | | Benefit Restoration Plans | |
|---|------------------------------|------------------------------|------------------------------|------------------------------|
| | Quarters ended June 30, 2012 | Quarters ended June 30, 2011 | Quarters ended June 30, 2012 | Quarters ended June 30, 2011 |
| Interest cost | \$ 7,495 | \$ 7,784 | \$ 393 | \$ 395 |
| Expected return on plan assets | (9,810) | (10,840) | (526) | (450) |
| Amortization of net loss | 5,426 | 2,829 | 323 | 148 |
| Total net periodic pension cost (benefit) | \$ 3,111 | \$ (227) | \$ 190 | \$ 93 |

| (In thousands) | Pension Plans | | Benefit Restoration Plans | |
|---|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| | Six months ended June 30, 2012 | Six months ended June 30, 2011 | Six months ended June 30, 2012 | Six months ended June 30, 2011 |
| Interest cost | \$ 14,990 | \$ 15,569 | \$ 786 | \$ 790 |
| Expected return on plan assets | (19,620) | (21,680) | (1,052) | (901) |
| Amortization of net loss | 10,852 | 5,657 | 646 | 296 |
| Total net periodic pension cost (benefit) | \$ 6,222 | \$ (454) | \$ 380 | \$ 185 |

The Corporation did not make any contributions to the pension and benefit restoration plans during the quarter and six months ended June 30, 2012. The total contributions expected to be paid during the year 2012 for the pension and benefit restoration plans amount to approximately \$50 thousand.

The Corporation also provides certain postretirement health care benefits for retired employees of certain subsidiaries. The table that follows presents the components of net periodic postretirement benefit cost.

| (In thousands) | Postretirement Benefit Plan | | | |
|--|------------------------------|------------------------------|--------------------------------|--------------------------------|
| | Quarters ended June 30, 2012 | Quarters ended June 30, 2011 | Six months ended June 30, 2012 | Six months ended June 30, 2011 |
| Service cost | \$ 548 | \$ 504 | \$ 1,096 | \$ 1,008 |
| Interest cost | 1,950 | 2,135 | 3,900 | 4,271 |
| Amortization of prior service cost | (50) | (240) | (100) | (480) |
| Amortization of net loss | 540 | 267 | 1,080 | 534 |
| Total net periodic postretirement benefit cost | \$ 2,988 | \$ 2,666 | \$ 5,976 | \$ 5,333 |

Contributions made to the postretirement benefit plan for the quarter and six months ended June 30, 2012 amounted to approximately \$2.0 million and \$3.8 million, respectively. The total contributions expected to be paid during the year 2012 for the postretirement benefit plan amount to approximately \$7.4 million.

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Note 28 Stock-based compensation

The Corporation maintained a Stock Option Plan (the "Stock Option Plan"), which permitted the granting of incentive awards in the form of qualified stock options, incentive stock options, or non-statutory stock options of the Corporation. In April 2004, the Corporation's shareholders adopted the Popular, Inc. 2004 Omnibus Incentive Plan (the "Incentive Plan"), which replaced and superseded the Stock Option Plan. The adoption of the Incentive Plan did not alter the original terms of the grants made under the Stock Option Plan prior to the adoption of the Incentive Plan.

Stock Option Plan

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

(Not in thousands)

| Exercise price range per share | Options outstanding | Weighted-average exercise price of options outstanding | Weighted-average remaining life of options outstanding in years | Options exercisable (fully vested) | Weighted-average exercise price of options exercisable |
|--------------------------------|---------------------|--|---|------------------------------------|--|
| \$ 158.35 \$185.00 | 58,978 | \$ 167.85 | 0.69 | 58,978 | \$ 167.85 |
| \$ 192.50 \$272.00 | 107,237 | \$ 252.51 | 2.01 | 107,237 | \$ 252.51 |
| \$ 158.35 \$272.00 | 166,215 | \$ 222.47 | 1.54 | 166,215 | \$ 222.47 |

There was no intrinsic value of options outstanding at June 30, 2012 and 2011. There was no intrinsic value of options exercisable at June 30, 2012 and 2011.

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

| (Not in thousands) | Options Outstanding | Weighted-Average Exercise Price |
|----------------------------------|---------------------|---------------------------------|
| Outstanding at December 31, 2010 | 227,518 | \$ 206.71 |
| Granted | | |
| Exercised | | |
| Forfeited | | |
| Expired | (20,572) | 195.48 |
| Outstanding at December 31, 2011 | 206,946 | \$ 207.83 |
| Granted | | |
| Exercised | | |
| Forfeited | | |
| Expired | (40,731) | 148.06 |
| Outstanding at June 30, 2012 | 166,215 | \$ 222.47 |

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The stock options exercisable at June 30, 2012 totaled 166,215 (June 30, 2011 210,303). There were no stock options exercised during the quarters and six months ended June 30, 2012 and 2011. Thus, there was no intrinsic value of options exercised during the quarters and six months ended June 30, 2012 and 2011.

There were no new stock option grants issued by the Corporation under the Stock Option Plan during 2011 and 2012.

There was no stock option expense recognized for the quarters and six months ended June 30, 2012 and 2011.

Table of Contents*Incentive Plan*

The Incentive Plan permits the granting of incentive awards in the form of Annual Incentive Awards, Long-term Performance Unit Awards, Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Units or Performance Shares. Participants in the Incentive Plan are designated by the Compensation Committee of the Board of Directors (or its delegate as determined by the Board). Employees and directors of the Corporation and/or any of its subsidiaries are eligible to participate in the Incentive Plan.

Under the Incentive Plan, the Corporation has issued restricted shares, which become vested based on the employees' continued service with Popular. Unless otherwise stated in an agreement, the compensation cost associated with the shares of restricted stock is determined based on a two-prong vesting schedule. The first part is vested ratably over five years commencing at the date of grant and the second part is vested at termination of employment after attainment of 55 years of age and 10 years of service. The five-year vesting part is accelerated at termination of employment after attaining 55 years of age and 10 years of service. The restricted shares granted consistent with the requirements of the Troubled Asset Relief Program (TARP) Interim Final Rule vest in two years from grant date.

The following table summarizes the restricted stock activity under the Incentive Plan for members of management.

| (Not in thousands) | Restricted Stock | Weighted-Average Grant Date Fair Value |
|---------------------------------|------------------|--|
| Non-vested at December 31, 2010 | 113,174 | \$ 36.06 |
| Granted | 155,945 | 32.35 |
| Vested | (5,156) | 89.97 |
| Forfeited | (22,029) | 42.03 |
| Non-vested at December 31, 2011 | 241,934 | \$ 31.98 |
| Granted | 359,427 | 17.72 |
| Vested | (93,768) | 38.14 |
| Forfeited | (2,007) | 36.39 |
| Non-vested at June 30, 2012 | 505,586 | \$ 20.68 |

During the quarter ended June 30, 2012, 207,237 shares of restricted stock (June 30, 2011 63,689) were awarded to management under the Incentive Plan, of which 100,980 shares (June 30, 2011 18,788) were awarded to management consistent with the requirements of the TARP Interim Final Rule. For the six-month period ended June 30, 2012, 359,427 shares of restricted stock (June 30, 2011 155,945) were awarded to management under the Incentive Plan, of which 253,170 shares (June 30, 2011 111,045) were awarded to management consistent with the requirements of the TARP Interim Final Rule.

Beginning in 2007, the Corporation authorized the issuance of performance shares, in addition to restricted shares, under the Incentive Plan. The performance share awards consist of the opportunity to receive shares of Popular Inc.'s common stock provided that the Corporation achieves certain performance goals during a three-year performance cycle. The compensation cost associated with the performance shares is recorded ratably over a three-year performance period. The performance shares are granted at the end of the three-year period and vest at grant date, except when the participant's employment is terminated by the Corporation without cause. In such case, the participant would receive a pro-rata amount of shares calculated as if the Corporation would have met the performance goal for the performance period. During the six months ended June 30, 2012 and 2011, no performance shares were granted under this plan.

During the quarter ended June 30, 2012, the Corporation recognized \$1.2 million of restricted stock expense related to management incentive awards, with a tax benefit of \$0.3 million (June 30, 2011 \$0.8 million, with a tax benefit of \$0.2 million). For the six-month period ended June 30, 2012, the Corporation recognized \$2.1 million of restricted stock expense related to management incentive awards, with a tax benefit of \$0.5 million (June 30, 2011 \$1.3 million, with a tax benefit of \$0.3 million). During the quarter ended June 30, 2012, there was vesting of restricted stock. For the six-month period ended June 30, 2012, the fair market value of the restricted stock vested was \$2.7 million at grant date and \$1.6 million at vesting date. This triggers a shortfall of \$0.3 million that was recorded as an additional income tax expense at the applicable income tax rate. No additional income tax expense was recorded for the U.S. employees due to the valuation allowance of the deferred tax asset. There was no performance share expense recognized for the quarters and six months ended June 30, 2012 and 2011. The total unrecognized compensation cost related to non-vested restricted stock awards and performance shares to members of management at June 30, 2012 was \$12.0

million and is expected to be recognized over a weighted-average period of 1.5 years.

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The following table summarizes the restricted stock activity under the Incentive Plan for members of the Board of Directors:

| (Not in thousands) | Restricted Stock | Weighted-Average Grant Date Fair Value |
|---------------------------------|------------------|--|
| Non-vested at December 31, 2010 | | |
| Granted | 30,163 | \$ 26.72 |
| Vested | (30,163) | 26.72 |
| Forfeited | | |
| Non-vested at December 31, 2011 | | |
| Granted | 34,478 | \$ 16.27 |
| Vested | (34,478) | 16.27 |
| Forfeited | | |
| Non-vested at June 30, 2012 | | |

During the quarter ended June 30, 2012, the Corporation granted 29,103 shares of restricted stock to members of the Board of Directors of Popular, Inc. and BPPR, which became vested at grant date (June 30, 2011 19,542). During this period, the Corporation recognized \$0.1 million of restricted stock expense related to these restricted stock grants, with a tax benefit of \$33 thousand (June 30, 2011 \$0.1 million, with a tax benefit of \$35 thousand). For the six-month period ended June 30, 2012, the Corporation granted 34,478 shares of restricted stock to members of the Board of Directors of Popular, Inc. and BPPR, which became vested at grant date (June 30, 2011 21,871). During this period, the Corporation recognized \$0.2 million of restricted stock expense related to these restricted stock grants, with a tax benefit of \$70 thousand (June 30, 2011 \$0.2 million, with a tax benefit of \$70 thousand). The fair value at vesting date of the restricted stock vested during the six months ended June 30, 2012 for directors was \$0.6 million.

Note 29 Income taxes

Income tax expense (benefit) differed from the amounts computed by applying the Puerto Rico income tax rate of 30 percent to pre-tax income as a result of the following:

| (In thousands) | Quarters ended | | Quarters ended | |
|--|----------------|---------------------|----------------|---------------------|
| | June 30, 2012 | June 30, 2011 | June 30, 2012 | June 30, 2011 |
| | Amount | % of pre-tax income | Amount | % of pre-tax income |
| Computed income tax at statutory rates | \$ (3,646) | 30 % | \$ 21,776 | 30 % |
| Net benefit of net tax exempt interest income | (3,739) | 31 | (15,206) | (21) |
| Deferred tax asset valuation allowance | (48) | | 3,945 | 5 |
| Non-deductible expenses | 5,726 | (47) | 5,400 | 7 |
| Difference in tax rates due to multiple jurisdictions | (1,149) | 9 | (1,866) | (2) |
| Recognition of tax benefits from previous years ^[1] | | | (53,615) | (74) |
| Effect of income subject to preferential tax rate ^[2] | (73,298) | 603 | (100) | |
| State taxes and others | (1,739) | 14 | 1,566 | 2 |
| Income tax (benefit) expense | \$ (77,893) | 640 % | \$ (38,100) | (53)% |

[1] Represents the impact of the Ruling and Closing Agreement with the P.R. Treasury signed in June 2011.

[2] Includes the impact of the Closing Agreement with the P.R. Treasury signed in June 2012.

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| (In thousands) | Six months ended | | | |
|--|------------------|---------------------|---------------|---------------------|
| | June 30, 2012 | | June 30, 2011 | |
| | Amount | % of pre-tax income | Amount | % of pre-tax income |
| Computed income tax at statutory rates | \$ 15,734 | 30 % | \$ 68,984 | 30 % |
| Net benefit of net tax exempt interest income | (10,753) | (21) | (17,613) | (8) |
| Deferred tax asset valuation allowance | 1,119 | 2 | (1,360) | (1) |
| Non-deductible expenses | 11,365 | 22 | 10,726 | 5 |
| Difference in tax rates due to multiple jurisdictions | (4,356) | (8) | (4,344) | (2) |
| Initial adjustment in deferred tax due to change in tax rate | | | 103,287 | 45 |
| Recognition of tax benefits from previous years ^[1] | | | (53,615) | (23) |
| Effect of income subject to preferential tax rate ^[2] | (74,269) | (142) | (332) | |
| State taxes and others | (541) | (1) | 3,394 | 1 |
| Income tax (benefit) expense | \$ (61,701) | (118)% | \$ 109,127 | 47 % |

[1] Represents the impact of the Ruling and Closing Agreement with the P.R. Treasury signed in June 2011.

[2] Includes the impact of the Closing Agreement with the P.R. Treasury signed in June 2012.

The results for the second quarter of 2012 reflect a tax benefit of \$72.9 million related to the reduction of the deferred tax liability on the estimated gains for tax purposes related to the loans acquired from Westernbank (the Acquired Loans). In June 2012, the Puerto Rico Department of the Treasury (the P.R. Treasury) and the Corporation entered into a Closing Agreement (the Closing Agreement) to clarify that the Acquired Loans are a capital asset and any gain resulting from such loans will be taxed at the capital gain tax rate of 15% instead of the ordinary income tax rate of 30%, thus reducing the deferred tax liability on the estimated gain and recognizing an income tax benefit for accounting purposes. As part of the Closing Agreement, the Corporation prepaid to the P.R. Treasury the estimated tax of \$72.9 million related to these estimated capital gains.

As part of the Closing Agreement, the P.R. Treasury and the Corporation agreed that for tax purposes the deductions related to previously recognized charge-offs originated from the Westernbank FDIC-assisted transaction for the years 2010 through May 2012 will be deferred until years 2017 to 2020. As a result of this aspect of the Closing Agreement, the Corporation made a payment of \$45.5 million to the P.R. Treasury and recorded an increase in the deferred tax asset. In June 2012, the Corporation made a total payment to the P.R. Treasury of \$132.5 million related to the Closing Agreement.

Additionally, as a result of a private ruling, in June 2011 the P.R. Treasury and the Corporation signed a closing agreement in which both parties agreed that for tax purposes the deductions related to certain charge-offs recorded on the financial statements of the Corporation for the years 2009 and 2010 will be deferred until 2013 through 2016. As a result of the agreement, the Corporation made a payment of \$89.4 million to the P.R. Treasury and recorded a tax benefit on its financial statements of \$143 million, or \$53.6 million net of the payment made to the P.R. Treasury, resulting from the recovery of certain tax benefits not previously recorded during years 2009 (the benefit of reduced tax rates for capital gains) and 2010 (the benefit of exempt income) that were previously unavailable to the Corporation as a result of being in a loss position in such years.

On January 31, 2011, the Governor of Puerto Rico signed into law a new Internal Revenue Code for Puerto Rico (the 2011 Tax Code) which resulted in a reduction in the Corporation's net deferred tax asset with a corresponding charge to income tax expense of \$103.3 million due to a reduction in the marginal corporate income tax rate. Under the provisions of the 2011 Tax Code, the maximum marginal corporate income tax rate is 30% for years commenced after December 31, 2010. Prior to the 2011 Tax Code, the maximum marginal corporate income tax rate in Puerto Rico was 39%, which had increased to 40.95% due to a temporary 5% surtax approved in March 2009 for years beginning on January 1, 2009 through December 31, 2011. The 2011 Tax Code, however, eliminated the special 5% surtax on corporations for tax year 2011. The effective tax rate for the Corporation's Puerto Rico banking operations for 2012 is estimated at 20%.

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The following table presents the components of the Corporation's deferred tax assets and liabilities.

| (In thousands) | June 30, 2012 | December 31, 2011 |
|--|-------------------|-------------------|
| Deferred tax assets: | | |
| Tax credits available for carryforward | \$ 2,447 | \$ 3,459 |
| Net operating loss and other carryforward available | 1,194,341 | 1,174,488 |
| Postretirement and pension benefits | 103,059 | 104,663 |
| Deferred loan origination fees | 6,931 | 6,788 |
| Allowance for loan losses | 600,478 | 605,105 |
| Deferred gains | 11,145 | 11,763 |
| Accelerated depreciation | 5,711 | 5,527 |
| Intercompany deferred gains | 4,099 | 4,344 |
| Other temporary differences | 34,019 | 27,341 |
| Total gross deferred tax assets | 1,962,230 | 1,943,478 |
| Deferred tax liabilities: | | |
| Differences between the assigned values and the tax bases of assets and liabilities recognized in purchase business combinations | 34,709 | 32,293 |
| Difference in outside basis between financial and tax reporting on sale of a business | 8,155 | 20,721 |
| FDIC-assisted transaction | 28,153 | 142,000 |
| Unrealized net gain on trading and available-for-sale securities | 56,592 | 73,991 |
| Deferred loan origination costs | 4,303 | 4,277 |
| Other temporary differences | 7,345 | 6,187 |
| Total gross deferred tax liabilities | 139,257 | 279,469 |
| Valuation allowance | 1,260,597 | 1,259,358 |
| Net deferred tax asset | \$ 562,376 | \$ 404,651 |

The net deferred tax asset shown in the table above at June 30, 2012 is reflected in the consolidated statements of financial condition as \$573 million in net deferred tax assets (in the "Other assets" caption) (December 31, 2011: \$430 million) and \$10 million in deferred tax liabilities in the "Other liabilities" caption (December 31, 2011: \$25 million), reflecting the aggregate deferred tax assets or liabilities of individual tax-paying subsidiaries of the Corporation.

A deferred tax asset should be reduced by a valuation allowance if based on the weight of all available evidence, it is more likely than not (a likelihood of more than 50%) that some portion or the entire deferred tax asset will not be realized. The valuation allowance should be sufficient to reduce the deferred tax asset to the amount that is more likely than not to be realized. The determination of whether a deferred tax asset is realizable is based on weighting all available evidence, including both positive and negative evidence. The realization of deferred tax assets, including carryforwards and deductible temporary differences, depends upon the existence of sufficient taxable income of the same character during the carryback or carryforward period. The analysis considers all sources of taxable income available to realize the deferred tax asset, including the future reversal of existing taxable temporary differences, future taxable income exclusive of reversing temporary differences and carryforwards, taxable income in prior carryback years and tax-planning strategies.

The Corporation's U.S. mainland operations are in a cumulative loss position for the three-year period ended June 30, 2012. For purposes of assessing the realization of the deferred tax assets in the U.S. mainland, this cumulative taxable loss position is considered significant negative evidence and has caused management to conclude that it is more likely than not that the Corporation will not be able to realize the associated deferred tax assets in the future. At June 30, 2012, the Corporation recorded a valuation allowance of approximately \$1.3 billion on the deferred tax assets of its U.S. operations (December 31, 2011: \$1.3 billion).

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At June 30, 2012, the Corporation's net deferred tax assets related to its Puerto Rico operations amounted to \$588 million. The Corporation's Puerto Rico banking operation is in a cumulative loss position for the three-year period ended June 30, 2012 taking into account taxable income exclusive of temporary differences. This cumulative loss position was mainly due to the performance of the construction and commercial real estate loan portfolios in prior years, including the losses related to the reclassification and sale of certain loans pertaining to those portfolios. The Corporation weighs all available positive and negative evidence to assess the

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realization of the deferred tax asset. Positive evidence assessed included (i) the Corporation's Puerto Rico banking operations very strong earnings history; (ii) consideration that the event causing the cumulative loss position is not a continuing condition of the operations; (iii) new legislation extending the period of carryover of net operating losses to ten years; (iii) unrealized gain on appreciated assets that could be realized to increase taxable income; and (iv) the financial results of the operations showed an improvement in the profitability of the business during 2011 and first two quarters of 2012. Accordingly, there is enough positive evidence to outweigh the negative evidence of the cumulative loss. Based on this evidence, the Corporation has concluded that it is more-likely-than-not that such net deferred tax asset will be realized.

The reconciliation of unrecognized tax benefits was as follows:

| (In millions) | 2012 | 2011 |
|---|---------|---------|
| Balance at January 1 | \$ 19.5 | \$ 26.3 |
| Additions for tax positions January through March | 0.7 | 2.2 |
| Reduction as a result of settlements January through March | | (4.4) |
| Balance at March 31 | \$ 20.2 | \$ 24.1 |
| Additions for tax positions April through June | | 0.8 |
| Additions for tax positions taken in prior years April through June | | 2.1 |
| Reduction for tax positions April through June | (0.2) | |
| Reduction for tax positions taken in prior years April through June | (0.7) | |
| Balance at June 30 | \$ 19.3 | \$ 27.0 |

The accrued interest related to uncertain tax positions approximated \$6.4 million at June 30, 2012 (December 31, 2011 \$5.5 million). Management determined that at June 30, 2012 and December 31, 2011, there was no need to accrue for the payment of penalties.

After consideration of the effect on U.S. federal tax of unrecognized U.S. state tax benefits, the total amount of unrecognized tax benefits, including U.S. and Puerto Rico, that if recognized, would affect the Corporation's effective tax rate, was approximately \$24.9 million at June 30, 2012 (June 30, 2011 \$33.4 million).

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

The Corporation and its subsidiaries file income tax returns in Puerto Rico, the U.S. federal jurisdiction, various U.S. states and political subdivisions, and foreign jurisdictions. At June 30, 2012, the following years remain subject to examination in the U.S. Federal jurisdiction: 2008 and thereafter; and in the Puerto Rico jurisdiction, 2007 and thereafter. The Corporation anticipates a reduction in the total amount of unrecognized tax benefits within the next 12 months, which could amount to approximately \$11 million.

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Note 30 Supplemental disclosure on the consolidated statements of cash flows

Additional disclosures on cash flow information and non-cash activities for the six months ended June 30, 2012 and June 30, 2011 are listed in the following table:

| (In thousands) | June 30, 2012 | June 30, 2011 |
|--|---------------|---------------|
| Non-cash activities: | | |
| Loans transferred to other real estate | \$ 151,891 | \$ 96,481 |
| Loans transferred to other property | 11,636 | 14,299 |
| Total loans transferred to foreclosed assets | 163,527 | 110,780 |
| Transfers from loans held-in-portfolio to loans held-for-sale | 48,564 | 18,061 |
| Transfers from loans held-for-sale to loans held-in-portfolio | 6,633 | 26,873 |
| Loans securitized into investment securities ^[1] | 525,800 | 594,117 |
| Recoveries related to loans transferred to loans held-for-sale | | 13,807 |
| Trades receivables from brokers and counterparties | 87,774 | 37,196 |
| Recognition of mortgage servicing rights on securitizations or asset transfers | 8,206 | 11,292 |
| Payables due to counterparties related to early extinguishment of debt | 376,058 | |

[1] Includes loans securitized into trading securities and subsequently sold before quarter end.

Note 31 Segment reporting

The Corporation's corporate structure consists of two reportable segments — Banco Popular de Puerto Rico and Banco Popular North America.

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

Banco Popular de Puerto Rico:

Given that Banco Popular de Puerto Rico constitutes a significant portion of the Corporation's results of operations and total assets at June 30, 2012, additional disclosures are provided for the business areas included in this reportable segment, as described below:

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

Consumer and retail banking represents the branch banking operations of BPPR which focus on retail clients. It includes the consumer lending business operations of BPPR, as well as the lending operations of Popular Auto and Popular Mortgage. Popular Auto focuses on auto and lease financing, while Popular Mortgage focuses principally on residential mortgage loan originations. The consumer and retail banking area also incorporates income related with the investment of excess funds from the branch network, as well as a proportionate share of the investment function of BPPR.

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Other financial services include the trust and asset management service units of BPPR, the brokerage and investment banking operations of Popular Securities, and the insurance agency and reinsurance businesses of Popular Insurance, Popular Insurance V.I., Popular Risk Services, and Popular Life Re. Most of the services that are provided by these subsidiaries generate profits based on fee income.

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Banco Popular North America:

Banco Popular North America's reportable segment consists of the banking operations of BPNA, E-LOAN, Popular Equipment Finance, Inc. and Popular Insurance Agency, U.S.A. BPNA operates through a retail branch network in the U.S. mainland, while E-LOAN supports BPNA's deposit gathering through its online platform. All direct lending activities at E-LOAN were ceased during the fourth quarter of 2008. Popular Equipment Finance, Inc. also holds a running-off loan portfolio as this subsidiary ceased originating loans during 2009. Popular Insurance Agency, U.S.A. offers investment and insurance services across the BPNA branch network.

The Corporate group consists primarily of the holding companies: Popular, Inc., Popular North America, Popular International Bank and certain of the Corporation's investments accounted for under the equity method, including EVERTEC and Centro Financiero BHD, S.A. The Corporate group also includes the expenses of certain corporate areas that are identified as critical to the organization: Finance, Risk Management and Legal.

The accounting policies of the individual operating segments are the same as those of the Corporation. Transactions between reportable segments are primarily conducted at market rates, resulting in profits that are eliminated for reporting consolidated results of operations.

The tables that follow present the results of operations and total assets by reportable segments:

2012

| For the quarter ended June 30, 2012 | | | |
|--------------------------------------|---------------------------------|--------------------------------|------------------------------|
| (In thousands) | Banco Popular de Puerto Rico | Banco Popular North America | Intersegment Eliminations |
| Net interest income | \$ 298,455 | \$ 69,555 | \$ |
| Provision for loan losses | 103,690 | 15,300 | |
| Non-interest income | 84,597 | 15,250 | |
| Amortization of intangibles | 1,851 | 680 | |
| Depreciation expense | 9,237 | 1,988 | |
| Loss on early extinguishment of debt | 25,072 | | |
| Other operating expenses | 230,960 | 55,303 | |
| Income tax (benefit) expense | (73,724) | 936 | |
| Net income | \$ 85,966 | \$ 10,598 | \$ |
| Segment assets | \$ 27,720,852 | \$ 8,643,799 | \$ (15,440) |

| For the quarter ended June 30, 2012 | | | | |
|--------------------------------------|------------------------|-------------|--------------|---------------------|
| (In thousands) | Reportable Segments | Corporate | Eliminations | Total Popular, Inc. |
| Net interest income (expense) | \$ 368,010 | \$ (27,001) | \$ 191 | \$ 341,200 |
| Provision for loan losses | 118,990 | 209 | | 119,199 |
| Non-interest income | 99,847 | 11,333 | (17,456) | 93,724 |
| Amortization of intangibles | 2,531 | | | 2,531 |
| Depreciation expense | 11,225 | 301 | | 11,526 |
| Loss on early extinguishment of debt | 25,072 | | | 25,072 |
| Other operating expenses | 286,263 | 19,353 | (16,866) | 288,750 |
| Income tax benefit | (72,788) | (4,961) | (144) | (77,893) |
| Net income (loss) | \$ 96,564 | \$ (30,570) | \$ (255) | \$ 65,739 |

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| | | | | |
|----------------|---------------|--------------|----------------|---------------|
| Segment assets | \$ 36,349,211 | \$ 5,319,296 | \$ (5,056,328) | \$ 36,612,179 |
|----------------|---------------|--------------|----------------|---------------|

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| | For the six months ended June 30, 2012 | | |
|--------------------------------------|--|--------------------------------|------------------------------|
| (In thousands) | Banco Popular de Puerto Rico | Banco Popular North America | Intersegment Eliminations |
| Net interest income | \$ 588,562 | \$ 143,630 | \$ |
| Provision for loan losses | 189,547 | 30,026 | |
| Non-interest income | 198,331 | 30,706 | |
| Amortization of intangibles | 3,764 | 1,360 | |
| Depreciation expense | 18,624 | 4,017 | |
| Loss on early extinguishment of debt | 25,141 | | |
| Other operating expenses | 453,317 | 117,185 | |
| Income tax (benefit) expense | (56,371) | 1,872 | |
| Net income | \$ 152,871 | \$ 19,876 | \$ |

| | For the six months ended June 30, 2012 | | | |
|--------------------------------------|--|-------------|--------------|---------------------|
| (In thousands) | Reportable Segments | Corporate | Eliminations | Total Popular, Inc. |
| Net interest income (expense) | \$ 732,192 | \$ (53,817) | \$ 407 | \$ 678,782 |
| Provision for loan losses | 219,573 | 349 | | 219,922 |
| Non-interest income | 229,037 | 22,839 | (34,244) | 217,632 |
| Amortization of intangibles | 5,124 | | | 5,124 |
| Depreciation expense | 22,641 | 641 | | 23,282 |
| Loss on early extinguishment of debt | 25,141 | | | 25,141 |
| Other operating expenses | 570,502 | 34,179 | (34,182) | 570,499 |
| Income tax benefit | (54,499) | (7,257) | 55 | (61,701) |
| Net income (loss) | \$ 172,747 | \$ (58,890) | \$ 290 | \$ 114,147 |

2011

| | For the quarter ended June 30, 2011 | | |
|--------------------------------------|-------------------------------------|--------------------------------|------------------------------|
| (In thousands) | Banco Popular de Puerto Rico | Banco Popular North America | Intersegment Eliminations |
| Net interest income | \$ 325,167 | \$ 74,601 | \$ |
| Provision for loan losses | 119,324 | 24,993 | |
| Non-interest income | 113,144 | 19,127 | |
| Amortization of intangibles | 1,575 | 680 | |
| Depreciation expense | 9,101 | 1,853 | |
| Loss on early extinguishment of debt | 289 | | |
| Other operating expenses | 205,666 | 62,708 | |
| Income tax (benefit) expense | (37,476) | 934 | |
| Net income | \$ 139,832 | \$ 2,560 | \$ |

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| For the quarter ended June 30, 2011 | | | | |
|--------------------------------------|---------------------|-------------|--------------|---------------------|
| (In thousands) | Reportable Segments | Corporate | Eliminations | Total Popular, Inc. |
| Net interest income (expense) | \$ 399,768 | \$ (25,441) | \$ 215 | \$ 374,542 |
| Provision for loan losses | 144,317 | | | 144,317 |
| Non-interest income | 132,271 | 9,781 | (17,892) | 124,160 |
| Amortization of intangibles | 2,255 | | | 2,255 |
| Depreciation expense | 10,954 | 436 | | 11,390 |
| Loss on early extinguishment of debt | 289 | | | 289 |
| Other operating expenses | 268,374 | 17,028 | (17,536) | 267,866 |
| Income tax benefit | (36,542) | (1,556) | (2) | (38,100) |
| Net income (loss) | \$ 142,392 | \$ (31,568) | \$ (139) | \$ 110,685 |

| For the six months ended June 30, 2011 | | | |
|--|------------------------------|-----------------------------|---------------------------|
| (In thousands) | Banco Popular de Puerto Rico | Banco Popular North America | Intersegment Eliminations |
| Net interest income | \$ 620,612 | \$ 149,415 | \$ |
| Provision for loan losses | 186,580 | 33,056 | |
| Non-interest income | 234,871 | 36,544 | |
| Amortization of intangibles | 3,150 | 1,360 | |
| Depreciation expense | 18,733 | 3,844 | |
| Loss on early extinguishment of debt | 528 | | |
| Other operating expenses | 394,396 | 120,935 | |
| Income tax expense | 108,668 | 1,872 | |
| Net income | \$ 143,428 | \$ 24,892 | \$ |

| For the six months ended June 30, 2011 | | | | |
|--|---------------------|-------------|--------------|---------------------|
| (In thousands) | Reportable Segments | Corporate | Eliminations | Total Popular, Inc. |
| Net interest income (expense) | \$ 770,027 | \$ (52,648) | \$ 522 | \$ 717,901 |
| Provision for loan losses | 219,636 | | | 219,636 |
| Non-interest income | 271,415 | 52,023 | (34,910) | 288,528 |
| Amortization of intangibles | 4,510 | | | 4,510 |
| Depreciation expense | 22,577 | 873 | | 23,450 |
| Loss on early extinguishment of debt | 528 | 8,000 | | 8,528 |
| Other operating expenses | 515,331 | 40,121 | (35,091) | 520,361 |
| Income tax expense (benefit) | 110,540 | (1,714) | 301 | 109,127 |
| Net income (loss) | \$ 168,320 | \$ (47,905) | \$ 402 | \$ 120,817 |

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

2012

For the quarter ended June 30, 2012
Banco Popular de Puerto Rico

(In thousands)

Eliminations

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| | Commercial Banking | Consumer and Retail Banking | Other Financial Services | | Total Banco Popular de Puerto Rico |
|--------------------------------------|-----------------------|-----------------------------------|--------------------------------|----------------|--|
| Net interest income | \$ 109,081 | \$ 185,944 | \$ 3,430 | \$ | \$ 298,455 |
| Provision for loan losses | 42,725 | 60,965 | | | 103,690 |
| Non-interest (expense) income | (2,082) | 56,113 | 30,606 | (40) | 84,597 |
| Amortization of intangibles | 1 | 1,710 | 140 | | 1,851 |
| Depreciation expense | 4,204 | 4,797 | 236 | | 9,237 |
| Loss on early extinguishment of debt | 7,793 | 17,279 | | | 25,072 |
| Other operating expenses | 74,068 | 139,297 | 17,635 | (40) | 230,960 |
| Income tax (benefit) expense | (30,152) | (47,660) | 4,088 | | (73,724) |
| Net income | \$ 8,360 | \$ 65,669 | \$ 11,937 | \$ | \$ 85,966 |
| Segment assets | \$ 13,102,525 | \$ 19,792,243 | \$ 610,310 | \$ (5,784,226) | \$ 27,720,852 |

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For the six months ended June 30, 2012
Banco Popular de Puerto Rico

| (In thousands) | Commercial Banking | Consumer and Retail Banking | Other Financial Services | Eliminations | Total Banco Popular de Puerto Rico |
|--------------------------------------|-----------------------|-----------------------------------|--------------------------------|--------------|--|
| Net interest income | \$ 209,277 | \$ 372,202 | \$ 7,079 | \$ 4 | \$ 588,562 |
| Provision for loan losses | 56,423 | 133,124 | | | 189,547 |
| Non-interest income | 19,010 | 122,117 | 57,270 | (66) | 198,331 |
| Amortization of intangibles | 10 | 3,418 | 336 | | 3,764 |
| Depreciation expense | 8,372 | 9,776 | 476 | | 18,624 |
| Loss on early extinguishment of debt | 7,862 | 17,279 | | | 25,141 |
| Other operating expenses | 135,249 | 283,144 | 34,990 | (66) | 453,317 |
| Income tax (benefit) expense | (20,390) | (43,359) | 7,376 | 2 | (56,371) |
| Net income | \$ 40,761 | \$ 90,937 | \$ 21,171 | \$ 2 | \$ 152,871 |

2011

For the quarter ended June 30, 2011
Banco Popular de Puerto Rico

| (In thousands) | Commercial Banking | Consumer and Retail Banking | Other Financial Services | Eliminations | Total Banco Popular de Puerto Rico |
|--------------------------------------|-----------------------|-----------------------------------|--------------------------------|--------------|--|
| Net interest income | \$ 138,859 | \$ 183,694 | \$ 2,574 | \$ 40 | \$ 325,167 |
| Provision for loan losses | 104,291 | 15,033 | | | 119,324 |
| Non-interest income | 41,981 | 46,507 | 24,542 | 114 | 113,144 |
| Amortization of intangibles | 26 | 1,396 | 153 | | 1,575 |
| Depreciation expense | 4,165 | 4,698 | 238 | | 9,101 |
| Loss on early extinguishment of debt | 289 | | | | 289 |
| Other operating expenses | 60,357 | 130,356 | 14,996 | (43) | 205,666 |
| Income tax (benefit) expense | (18,850) | (21,481) | 2,778 | 77 | (37,476) |
| Net income | \$ 30,562 | \$ 100,199 | \$ 8,951 | \$ 120 | \$ 139,832 |

For the six months ended June 30, 2011
Banco Popular de Puerto Rico

| (In thousands) | Commercial Banking | Consumer and Retail Banking | Other Financial Services | Eliminations | Total Banco Popular de Puerto Rico |
|--------------------------------------|-----------------------|-----------------------------------|--------------------------------|--------------|--|
| Net interest income | \$ 258,419 | \$ 357,164 | \$ 4,948 | \$ 81 | \$ 620,612 |
| Provision for loan losses | 132,186 | 54,394 | | | 186,580 |
| Non-interest income | 87,339 | 101,408 | 46,065 | 59 | 234,871 |
| Amortization of intangibles | 52 | 2,790 | 308 | | 3,150 |
| Depreciation expense | 8,544 | 9,714 | 475 | | 18,733 |
| Loss on early extinguishment of debt | 528 | | | | 528 |
| Other operating expenses | 115,265 | 248,583 | 30,646 | (98) | 394,396 |
| Income tax expense | 57,990 | 45,363 | 5,222 | 93 | 108,668 |
| Net income | \$ 31,193 | \$ 97,728 | \$ 14,362 | \$ 145 | \$ 143,428 |

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

2012

For the quarter ended June 30, 2012
Banco Popular North America

| (In thousands) | Banco Popular North America | E-LOAN | Eliminations | Total Banco Popular North America |
|-----------------------------|--------------------------------|------------|----------------|---|
| Net interest income | \$ 68,459 | \$ 1,096 | \$ | \$ 69,555 |
| Provision for loan losses | 13,490 | 1,810 | | 15,300 |
| Non-interest income | 14,445 | 805 | | 15,250 |
| Amortization of intangibles | 680 | | | 680 |
| Depreciation expense | 1,988 | | | 1,988 |
| Other operating expenses | 54,523 | 780 | | 55,303 |
| Income tax expense | 936 | | | 936 |
| Net income (loss) | \$ 11,287 | \$ (689) | \$ | \$ 10,598 |
| Segment assets | \$ 9,366,898 | \$ 399,543 | \$ (1,122,642) | \$ 8,643,799 |

For the six months ended June 30, 2012
Banco Popular North America

| (In thousands) | Banco Popular North America | E-LOAN | Eliminations | Total Banco Popular North America |
|-----------------------------|--------------------------------|------------|--------------|---|
| Net interest income | \$ 142,066 | \$ 1,564 | \$ | \$ 143,630 |
| Provision for loan losses | 22,886 | 7,140 | | 30,026 |
| Non-interest income | 29,737 | 969 | | 30,706 |
| Amortization of intangibles | 1,360 | | | 1,360 |
| Depreciation expense | 4,017 | | | 4,017 |
| Other operating expenses | 115,546 | 1,639 | | 117,185 |
| Income tax expense | 1,872 | | | 1,872 |
| Net income (loss) | \$ 26,122 | \$ (6,246) | \$ | \$ 19,876 |

2011

For the quarter ended June 30, 2011
Banco Popular North America

| (In thousands) | Banco Popular North America | E-LOAN | Eliminations | Total Banco Popular North America |
|-----------------------------|--------------------------------|--------|--------------|---|
| Net interest income | \$ 74,201 | \$ 400 | \$ | \$ 74,601 |
| Provision for loan losses | 18,306 | 6,687 | | 24,993 |
| Non-interest income | 18,354 | 773 | | 19,127 |
| Amortization of intangibles | 680 | | | 680 |
| Depreciation expense | 1,853 | | | 1,853 |

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| | | | |
|--------------------------|-----------|-------------|----------|
| Other operating expenses | 58,085 | 4,623 | 62,708 |
| Income tax expense | 934 | | 934 |
| Net income (loss) | \$ 12,697 | \$ (10,137) | \$ 2,560 |

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For the six months ended June 30, 2011
Banco Popular North America

| (In thousands) | Banco Popular North America | E-LOAN | Eliminations | Total Banco Popular North America |
|-----------------------------|--------------------------------|-------------|--------------|---|
| Net interest income | \$ 148,501 | \$ 914 | \$ | \$ 149,415 |
| Provision for loan losses | 18,911 | 14,145 | | 33,056 |
| Non-interest income | 35,728 | 816 | | 36,544 |
| Amortization of intangibles | 1,360 | | | 1,360 |
| Depreciation expense | 3,844 | | | 3,844 |
| Other operating expenses | 114,040 | 6,895 | | 120,935 |
| Income tax expense | 1,872 | | | 1,872 |
| Net income (loss) | \$ 44,202 | \$ (19,310) | \$ | \$ 24,892 |

Geographic Information

| (In thousands) | Quarter ended | | Six months ended | |
|-----------------------------|---------------|---------------|------------------|---------------|
| | June 30, 2012 | June 30, 2011 | June 30, 2012 | June 30, 2011 |
| Revenues: ^[1] | | | | |
| Puerto Rico | \$ 329,813 | \$ 387,091 | \$ 683,323 | \$ 783,340 |
| United States | 80,518 | 87,809 | 164,242 | 176,213 |
| Other | 24,593 | 23,802 | 48,849 | 46,876 |
| Total consolidated revenues | \$ 434,924 | \$ 498,702 | \$ 896,414 | \$ 1,006,429 |

- [1] Total revenues include net interest income, service charges on deposit accounts, other service fees, net gain on sale and valuation adjustments of investment securities, trading account profit, net gain on sale of loans and valuation adjustments on loans held-for-sale, adjustments to indemnity reserves on loans sold, FDIC loss share (expense) income, fair value change in equity appreciation instrument and other operating income.

Selected Balance Sheet Information:

| (In thousands) | June 30, 2012 | December 31, 2011 |
|-------------------------|---------------|-------------------|
| Puerto Rico | | |
| Total assets | \$ 26,619,381 | \$ 27,410,644 |
| Loans | 18,354,498 | 18,594,751 |
| Deposits | 20,172,885 | 20,696,606 |
| United States | | |
| Total assets | \$ 8,773,131 | \$ 8,708,709 |
| Loans | 5,825,192 | 5,845,359 |
| Deposits | 6,165,313 | 6,151,959 |
| Other | | |
| Total assets | \$ 1,219,667 | \$ 1,229,079 |
| Loans | 866,986 | 874,282 |
| Deposits ^[1] | 1,076,582 | 1,093,562 |

- [1] Represents deposits from BPPR operations located in the U.S. and British Virgin Islands.

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Note 32 Subsequent events

Subsequent events are events and transactions that occur after the balance sheet date but before the financial statements are issued. The effects of subsequent events and transactions are recognized in the financial statements when they provide additional evidence about conditions that existed at the balance sheet date. The Corporation has evaluated events and transactions occurring subsequent to June 30, 2012. Such evaluation resulted in no adjustments or additional disclosures in the consolidated financial statements for the quarter and six months ended June 30, 2012, other than information updated in the legal proceedings in Note 19.

Note 33 Condensed consolidating financial information of guarantor and issuers of registered guaranteed securities

The following condensed consolidating financial information presents the financial position of Popular, Inc. Holding Company (PIHC) (parent only), Popular North America, Inc. (PNA) and all other subsidiaries of the Corporation at June 30, 2012 and December 31, 2011, and the results of their operations and cash flows for periods ended June 30, 2012 and 2011.

PNA is an operating, wholly-owned subsidiary of PIHC and is the holding company of its wholly-owned subsidiaries: Equity One, Inc. and Banco Popular North America (BPNA), including BPNA's wholly-owned subsidiaries Popular Equipment Finance, Inc., Popular Insurance Agency, U.S.A., and E-LOAN, Inc.

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

Popular International Bank, Inc. (PIBI) is a wholly-owned subsidiary of PIHC and is the holding company of its wholly-owned subsidiaries Popular Insurance V.I., Inc. and Tarjetas y Transacciones en Red Tranred, C.A. Effective January 1, 2012, PNA, which was a wholly-owned subsidiary of PIBI prior to that date, became a direct wholly-owned subsidiary of PIHC after an internal reorganization. Since the internal reorganization, PIBI is no longer a bank holding company and is no longer a potential issuer of the Corporation's debt securities. PIBI has no outstanding registered debt securities that would also be guaranteed by PIHC.

A potential source of income for PIHC consists of dividends from BPPR and BPNA. Under existing federal banking regulations any dividend from BPPR or BPNA to the PIHC could be made if the total of all dividends declared by each entity during the calendar year would not exceed the total of its net income for that year, as defined by the Federal Reserve Board, combined with its retained net income for the preceding two years, less any required transfers to surplus or to a fund for the retirement of any preferred stock. Under this test, at June 30, 2012, BPPR could have declared a dividend of approximately \$310 million (December 31, 2011 \$243 million). Currently, the prior approval of the Federal Reserve Bank of New York and the Office of the Commissioner of Financial Institutions in Puerto Rico is necessary for the payments of any dividends by BPPR to PIHC. Prior approval of the Federal Reserve Bank of New York is also necessary for the payments of any dividends by BPNA to PIHC.

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Condensed Consolidating Statement of Financial Condition

| (In thousands) | Popular Inc. Holding Co. | PNA Holding Co. | At June 30, 2012 All other subsidiaries and eliminations | Elimination entries | Popular, Inc. Consolidated |
|---|-----------------------------|---------------------|---|------------------------|-------------------------------|
| Assets | | | | | |
| Cash and due from banks | \$ 9,269 | \$ 628 | \$ 515,541 | \$ (10,100) | \$ 515,338 |
| Money market investments | 18,321 | 4,892 | 931,507 | (4,892) | 949,828 |
| Trading account securities, at fair value | | | 417,469 | | 417,469 |
| Investment securities available-for-sale, at fair value | 40,251 | | 5,053,684 | (17,138) | 5,076,797 |
| Investment securities held-to-maturity, at amortized cost | 185,000 | | 124,646 | (185,000) | 124,646 |
| Other investment securities, at lower of cost or realizable value | 10,850 | 4,492 | 158,945 | | 174,287 |
| Investment in subsidiaries | 4,146,742 | 1,638,655 | | (5,785,397) | |
| Loans held-for-sale, at lower of cost or fair value | | | 364,537 | | 364,537 |
| Loans held-in-portfolio: | | | | | |
| Loans not covered under loss sharing agreements with the FDIC | 324,468 | | 20,733,740 | (294,598) | 20,763,610 |
| Loans covered under loss sharing agreements with the FDIC | | | 4,016,330 | | 4,016,330 |
| Less - Unearned income | | | 97,801 | | 97,801 |
| Allowance for loan losses | 357 | | 765,673 | | 766,030 |
| Total loans held-in-portfolio, net | 324,111 | | 23,886,596 | (294,598) | 23,916,109 |
| FDIC loss share asset | | | 1,631,594 | | 1,631,594 |
| Premises and equipment, net | 2,558 | 117 | 524,352 | | 527,027 |
| Other real estate not covered under loss sharing agreements with the FDIC | | | 226,629 | | 226,629 |
| Other real estate covered under loss sharing agreements with the FDIC | | | 125,093 | | 125,093 |
| Accrued income receivable | 1,190 | 112 | 121,112 | (94) | 122,320 |
| Mortgage servicing assets, at fair value | | | 155,711 | | 155,711 |
| Other assets | 104,263 | 13,869 | 1,473,264 | (13,602) | 1,577,794 |
| Goodwill | | | 647,757 | | 647,757 |
| Other intangible assets | 553 | | 58,690 | | 59,243 |
| Total assets | \$ 4,843,108 | \$ 1,662,765 | \$ 36,417,127 | \$ (6,310,821) | \$ 36,612,179 |
| Liabilities and Stockholders' Equity | | | | | |
| Liabilities: | | | | | |
| Deposits: | | | | | |
| Non-interest bearing | \$ | \$ | \$ 5,588,700 | \$ (\$10,213) | \$ 5,578,487 |
| Interest bearing | | | 21,851,788 | (15,495) | 21,836,293 |
| Total deposits | | | 27,440,488 | (25,708) | 27,414,780 |
| Assets sold under agreements to repurchase | | | 1,426,636 | | 1,426,636 |
| Other short-term borrowings | | | 584,900 | (268,700) | 316,200 |
| Notes payable | 774,974 | 427,353 | 675,256 | | 1,877,583 |
| Subordinated notes | | | 185,000 | (185,000) | |
| Other liabilities | 46,897 | 42,210 | 1,512,537 | (45,901) | 1,555,743 |

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| | | | | | |
|---|--------------|--------------|---------------|----------------|---------------|
| Total liabilities | 821,871 | 469,563 | 31,824,817 | (525,309) | 32,590,942 |
| Stockholders' equity: | | | | | |
| Preferred stock | 50,160 | | | | 50,160 |
| Common stock | 1,028 | 2 | 55,628 | (55,630) | 1,028 |
| Surplus | 4,118,689 | 4,153,208 | 8,799,459 | (12,944,140) | 4,127,216 |
| Accumulated deficit | (91,913) | (3,015,083) | (4,204,640) | 7,211,196 | (100,440) |
| Treasury stock, at cost | (144) | | | | (144) |
| Accumulated other comprehensive (loss) income, net of tax | (56,583) | 55,075 | (58,137) | 3,062 | (56,583) |
| Total stockholders' equity | 4,021,237 | 1,193,202 | 4,592,310 | (5,785,512) | 4,021,237 |
| Total liabilities and stockholders' equity | \$ 4,843,108 | \$ 1,662,765 | \$ 36,417,127 | \$ (6,310,821) | \$ 36,612,179 |

Table of Contents**Condensed Consolidating Statement of Financial Condition**

| (In thousands) | At December 31, 2011 | | | | |
|---|------------------------------|--------------------|---|------------------------|-------------------------------|
| | Popular, Inc. Holding Co. | PNA Holding Co. | All other subsidiaries and eliminations | Elimination entries | Popular, Inc. Consolidated |
| Assets | | | | | |
| Cash and due from banks | \$ 6,365 | \$ 932 | \$ 534,796 | \$ (6,811) | \$ 535,282 |
| Money market investments | 42,239 | 552 | 1,357,996 | (24,613) | 1,376,174 |
| Trading account securities, at fair value | | | 436,331 | | 436,331 |
| Investment securities available-for-sale, at fair value | 35,700 | | 4,991,760 | (17,637) | 5,009,823 |
| Investment securities held-to-maturity, at amortized cost | 185,000 | | 125,383 | (185,000) | 125,383 |
| Other investment securities, at lower of cost or realizable value | 10,850 | 4,492 | 164,538 | | 179,880 |
| Investment in subsidiaries | 3,987,287 | 1,627,313 | | (5,614,600) | |
| Loans held-for-sale, at lower of cost or fair value | | | 363,093 | | 363,093 |
| Loans held-in-portfolio: | | | | | |
| Loans not covered under loss sharing agreements with the FDIC | 249,615 | | 20,673,552 | (219,975) | 20,703,192 |
| Loans covered under loss sharing agreements with the FDIC | | | 4,348,703 | | 4,348,703 |
| Less - Unearned income | | | 100,596 | | 100,596 |
| Allowance for loan losses | 8 | | 815,300 | | 815,308 |
| Total loans held-in-portfolio, net | 249,607 | | 24,106,359 | (219,975) | 24,135,991 |
| FDIC loss share asset | | | 1,915,128 | | 1,915,128 |
| Premises and equipment, net | 2,533 | 118 | 535,835 | | 538,486 |
| Other real estate not covered under loss sharing agreements with the FDIC | | | 172,497 | | 172,497 |
| Other real estate covered under loss sharing agreements with the FDIC | | | 109,135 | | 109,135 |
| Accrued income receivable | 1,512 | 113 | 123,859 | (275) | 125,209 |
| Mortgage servicing assets, at fair value | | | 151,323 | | 151,323 |
| Other assets | 217,877 | 13,222 | 1,261,324 | (30,030) | 1,462,393 |
| Goodwill | | | 648,350 | | 648,350 |
| Other intangible assets | 554 | | 63,400 | | 63,954 |
| Total assets | \$ 4,739,524 | \$ 1,646,742 | \$ 37,061,107 | \$ (6,098,941) | \$ 37,348,432 |
| Liabilities and Stockholders' Equity | | | | | |
| Liabilities: | | | | | |
| Deposits: | | | | | |
| Non-interest bearing | \$ | \$ | \$ 5,688,643 | \$ (\$33,169) | \$ 5,655,474 |
| Interest bearing | | | 22,287,448 | (795) | 22,286,653 |
| Total deposits | | | 27,976,091 | (33,964) | 27,942,127 |
| Assets sold under agreements to repurchase | | | 2,165,157 | (24,060) | 2,141,097 |
| Other short-term borrowings | | 30,500 | \$ 459,600 | (193,900) | 296,200 |
| Notes payable | 760,849 | 427,297 | 668,226 | | 1,856,372 |
| Subordinated notes | | | 185,000 | (185,000) | |
| Other liabilities | 59,922 | \$ 42,269 | 1,138,702 | (47,010) | 1,193,883 |

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| | | | | | |
|---|--------------|--------------|---------------|----------------|---------------|
| Total liabilities | 820,771 | 500,066 | 32,592,776 | (483,934) | 33,429,679 |
| Stockholders' equity: | | | | | |
| Preferred stock | 50,160 | | | | 50,160 |
| Common stock | 1,026 | 2 | 55,627 | (55,629) | 1,026 |
| Surplus | 4,115,371 | 4,103,208 | 5,859,773 | (9,954,454) | 4,123,898 |
| Accumulated deficit | (204,199) | (3,013,481) | (1,403,925) | 4,408,879 | (212,726) |
| Treasury stock, at cost | (1,057) | | | | (1,057) |
| Accumulated other comprehensive (loss) income, net of tax | (42,548) | 56,947 | (43,144) | (13,803) | (42,548) |
| Total stockholders' equity | 3,918,753 | 1,146,676 | 4,468,331 | (5,615,007) | 3,918,753 |
| Total liabilities and stockholders' equity | \$ 4,739,524 | \$ 1,646,742 | \$ 37,061,107 | \$ (6,098,941) | \$ 37,348,432 |

Table of Contents**Condensed Statement of Operations (Unaudited)**

| (In thousands) | Quarter ended June 30, 2012 | | | | |
|---|---------------------------------|--------------------|---|------------------------|----------------------------------|
| | Popular, Inc. Holding Co. | PNA Holding Co. | All other subsidiaries and eliminations | Elimination entries | Popular, Inc. Consolidated |
| Interest income: | | | | | |
| Dividend income from subsidiaries | \$ 5,000 | \$ | \$ | \$ (5,000) | \$ |
| Loans | 1,516 | | 388,991 | (1,165) | 389,342 |
| Money market investments | 1 | 14 | 964 | (15) | 964 |
| Investment securities | 4,146 | 80 | 42,782 | (3,195) | 43,813 |
| Trading account securities | | | 5,963 | | 5,963 |
| Total interest income | 10,663 | 94 | 438,700 | (9,375) | 440,082 |
| Interest expense: | | | | | |
| Deposits | | | 48,555 | (41) | 48,514 |
| Short-term borrowings | | (1) | 13,830 | (785) | 13,044 |
| Long-term debt | 23,817 | 8,079 | 8,341 | (2,913) | 37,324 |
| Total interest expense | 23,817 | 8,078 | 70,726 | (3,739) | 98,882 |
| Net interest (expense) income | (13,154) | (7,984) | 367,974 | (5,636) | 341,200 |
| Provision for loan losses- non-covered loans | 209 | | 81,534 | | 81,743 |
| Provision for loan losses- covered loans | | | 37,456 | | 37,456 |
| Net interest (expense) income after provision for loan losses | (13,363) | (7,984) | 248,984 | (5,636) | 222,001 |
| Service charges on deposit accounts | | | 46,130 | | 46,130 |
| Other service fees | | | 66,224 | (4,197) | 62,027 |
| Net loss on sale and valuation adjustments of investment securities | | | (349) | | (349) |
| Trading account loss | | | (7,283) | | (7,283) |
| Net loss on sale of loans, including valuation adjustments on loans held-for-sale | | | (15,397) | | (15,397) |
| Adjustments (expense) to indemnity reserves on loans sold | | | (5,398) | | (5,398) |
| FDIC loss share income | | | 2,575 | | 2,575 |
| Other operating income | 1,485 | 1,698 | 21,166 | (12,930) | 11,419 |
| Total non-interest income | 1,485 | 1,698 | 107,668 | (17,127) | 93,724 |
| Operating expenses: | | | | | |
| Personnel costs | 7,449 | | 108,887 | | 116,336 |
| Net occupancy expenses | 872 | 1 | 23,316 | 774 | 24,963 |
| Equipment expenses | 901 | | 9,999 | | 10,900 |
| Other taxes | 715 | | 11,359 | | 12,074 |
| Professional fees | 2,881 | 3 | 66,863 | (17,620) | 52,127 |
| Communications | 93 | | 6,552 | | 6,645 |
| Business promotion | 490 | | 16,490 | | 16,980 |
| FDIC deposit insurance | | | 22,907 | | 22,907 |
| Loss on early extinguishment of debt | | | 25,072 | | 25,072 |
| Other real estate owned (OREO) expenses | | | 2,380 | | 2,380 |

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| | | | | | |
|-----------------------------|----------|-----|--------|-------|--------|
| Other operating expenses | (12,390) | 111 | 47,761 | (518) | 34,964 |
| Amortization of intangibles | | | 2,531 | | 2,531 |

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|--|-----------|------------|-----------|-------------|-----------|
| Total operating expenses | 1,011 | 115 | 344,117 | (17,364) | 327,879 |
| (Loss) income before income tax and equity in earnings of subsidiaries | (12,889) | (6,401) | 12,535 | (5,399) | (12,154) |
| Income tax benefit | (1,929) | | (75,819) | (145) | (77,893) |
| (Loss) income before equity in earnings of subsidiaries | (10,960) | (6,401) | 88,354 | (5,254) | 65,739 |
| Equity in undistributed earnings of subsidiaries | 76,699 | 7,208 | | (83,907) | |
| Net income | \$ 65,739 | \$ 807 | \$ 88,354 | \$ (89,161) | \$ 65,739 |
| Comprehensive income (loss), net of tax | \$ 52,941 | \$ (1,385) | \$ 76,872 | \$ (75,487) | \$ 52,941 |

Table of Contents**Condensed Consolidating Statement of Operations**

| (In thousands) | Six months ended June 30, 2012 | | | | |
|---|---------------------------------|--------------------|---|------------------------|----------------------------------|
| | Popular, Inc. Holding Co. | PNA Holding Co. | All other subsidiaries and eliminations | Elimination entries | Popular, Inc. Consolidated |
| Interest and Dividend Income: | | | | | |
| Dividend income from subsidiaries | \$ 5,000 | \$ | \$ | \$ (5,000) | \$ |
| Loans | 3,207 | | 776,487 | (\$ 2,410) | 777,284 |
| Money market investments | 13 | 22 | 1,911 | (34) | 1,912 |
| Investment securities | 8,188 | 161 | 86,950 | (6,416) | 88,883 |
| Trading account securities | | | 11,854 | | 11,854 |
| Total interest and dividend income | 16,408 | 183 | 877,202 | (13,860) | 879,933 |
| Interest Expense: | | | | | |
| Deposits | | | 100,296 | (103) | 100,193 |
| Short-term borrowings | | 142 | 28,122 | (1,637) | 26,627 |
| Long-term debt | 47,344 | 16,156 | 16,656 | (5,825) | 74,331 |
| Total interest expense | 47,344 | 16,298 | 145,074 | (7,565) | 201,151 |
| Net interest (expense) income | (30,936) | (16,115) | 732,128 | (6,295) | 678,782 |
| Provision for loan losses- non-covered loans | 349 | | 163,908 | | 164,257 |
| Provision for loan losses- covered loans | | | 55,665 | | 55,665 |
| Net interest (expense) income after provision for loan losses | (31,285) | (16,115) | 512,555 | (6,295) | 458,860 |
| Service charges on deposit accounts | | | 92,719 | | 92,719 |
| Other service fees | | | 135,186 | (7,120) | 128,066 |
| Net loss on sale and valuation adjustments of investment securities | | | (349) | | (349) |
| Trading account loss | | | (9,426) | | (9,426) |
| Net gain on sale of loans, including valuation adjustments on loans held-for-sale | | | 74 | | 74 |
| Adjustments (expense) to indemnity reserves on loans sold | | | (9,273) | | (9,273) |
| FDIC loss share expense | | | (12,680) | | (12,680) |
| Other operating income | 4,437 | 1,529 | 48,810 | (26,275) | 28,501 |
| Total non-interest income | 4,437 | 1,529 | 245,061 | (33,395) | 217,632 |
| Operating Expenses: | | | | | |
| Personnel costs | 15,353 | | 222,474 | | 237,827 |
| Net occupancy expenses | 1,733 | 2 | 45,792 | 1,598 | 49,125 |
| Equipment expenses | 1,781 | | 20,460 | | 22,241 |
| Other taxes | 1,428 | | 24,084 | | 25,512 |
| Professional fees | 4,872 | 6 | 130,992 | (35,638) | 100,232 |
| Communications | 226 | | 13,550 | | 13,776 |
| Business promotion | 901 | | 28,929 | | 29,830 |
| FDIC deposit insurance | | | 47,833 | | 47,833 |
| Loss on early extinguishment of debt | | | 25,141 | | 25,141 |
| Other real estate owned (OREO) expenses | | | 16,545 | | 16,545 |

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|-----------------------------|----------|-----|---------|----------|---------|
| Other operating expenses | (24,670) | 221 | 76,304 | (995) | 50,860 |
| Amortization of intangibles | | | 5,124 | | 5,124 |
| Total operating expenses | 1,624 | 229 | 657,228 | (35,035) | 624,046 |

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| | | | | | |
|--|------------|------------|------------|--------------|------------|
| (Loss) income before income tax and equity in earnings of subsidiaries | (28,472) | (14,815) | 100,388 | (4,655) | 52,446 |
| Income tax benefit | (1,257) | | (60,498) | 54 | (61,701) |
| (Loss) income before equity in earnings of subsidiaries | (27,215) | (14,815) | 160,886 | (4,709) | 114,147 |
| Equity in undistributed earnings of subsidiaries | 141,362 | 13,214 | | (154,576) | |
| Net Income (Loss) | \$ 114,147 | \$ (1,601) | \$ 160,886 | \$ (159,285) | \$ 114,147 |
| Comprehensive income (loss), net of tax | \$ 100,112 | \$ (3,473) | \$ 145,893 | \$ (142,420) | \$ 100,112 |

Table of Contents**Condensed Statement of Operations (Unaudited)**

| (In thousands) | Quarter ended June 30, 2011 | | | | |
|---|---------------------------------|--------------------|---|------------------------|----------------------------------|
| | Popular, Inc. Holding Co. | PNA Holding Co. | All other subsidiaries and eliminations | Elimination entries | Popular, Inc. Consolidated |
| Interest income: | | | | | |
| Loans | \$ 2,038 | \$ | \$ 441,928 | \$ (\$1,506) | \$ 442,460 |
| Money market investments | 5 | 2 | 954 | (35) | 926 |
| Investment securities | 4,031 | 80 | 52,832 | (3,220) | 53,723 |
| Trading account securities | | | 9,790 | | 9,790 |
| Total interest income | 6,074 | 82 | 505,504 | (4,761) | 506,899 |
| Interest expense: | | | | | |
| Deposits | | | 70,728 | (56) | 70,672 |
| Short-term borrowings | 28 | 242 | 14,554 | (1,105) | 13,719 |
| Long-term debt | 22,784 | 7,687 | 20,406 | (2,911) | 47,966 |
| Total interest expense | 22,812 | 7,929 | 105,688 | (4,072) | 132,357 |
| Net interest (expense) income | (16,738) | (7,847) | 399,816 | (689) | 374,542 |
| Provision for loan losses- non-covered loans | | | 95,712 | | 95,712 |
| Provision for loan losses- covered loans | | | 48,605 | | 48,605 |
| Net interest (expense) income after provision for loan losses | (16,738) | (7,847) | 255,499 | (689) | 230,225 |
| Service charges on deposit accounts | | | 46,802 | | 46,802 |
| Other service fees | | | 62,993 | (4,686) | 58,307 |
| Net loss on sale and valuation adjustments of investment securities | | | (90) | | (90) |
| Trading account profit | | | 874 | | 874 |
| Net loss on sale of loans, including valuation adjustments on loans held-for-sale | | | (12,782) | | (12,782) |
| Adjustments (expense) to indemnity reserves on loans sold | | | (9,454) | | (9,454) |
| FDIC loss share income | | | 38,670 | | 38,670 |
| Fair value change in equity appreciation instrument | | | 578 | | 578 |
| Other operating income (loss) | 2,169 | (308) | 12,116 | (12,722) | 1,255 |
| Total non-interest income (loss) | 2,169 | (308) | 139,707 | (17,408) | 124,160 |
| Operating expenses: | | | | | |
| Personnel costs | 7,006 | | 103,953 | | 110,959 |
| Net occupancy expenses | 898 | | 24,178 | 881 | 25,957 |
| Equipment expenses | 808 | | 9,953 | | 10,761 |
| Other taxes | 332 | | 14,291 | | 14,623 |
| Professional fees | 3,846 | 4 | 63,870 | (18,241) | 49,479 |
| Communications | 112 | 4 | 7,072 | | 7,188 |
| Business promotion | 385 | | 10,947 | | 11,332 |
| FDIC deposit insurance | | | 27,682 | | 27,682 |
| Loss on early extinguishment of debt | | | 289 | | 289 |
| Other real estate owned (OREO) expenses | | | 6,440 | | 6,440 |
| Other operating expenses | (14,036) | 111 | 29,356 | (596) | 14,835 |
| Amortization of intangibles | | | 2,255 | | 2,255 |

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|--------------------------|-------|-----|---------|----------|---------|
| Total operating expenses | (649) | 119 | 300,286 | (17,956) | 281,800 |
|--------------------------|-------|-----|---------|----------|---------|

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| | | | | | |
|---|------------|------------|------------|--------------|------------|
| (Loss) income before income tax and equity in earnings (losses) of subsidiaries | (13,920) | (8,274) | 94,920 | (141) | 72,585 |
| Income tax expense (benefit) | 1,111 | | (39,208) | (3) | (38,100) |
| (Loss) income before equity in earnings (losses) of subsidiaries | (15,031) | (8,274) | 134,128 | (138) | 110,685 |
| Equity in undistributed earnings (losses) of subsidiaries | 125,716 | (955) | | (124,761) | |
| Net income (loss) | \$ 110,685 | \$ (9,229) | \$ 134,128 | \$ (124,899) | \$ 110,685 |
| Comprehensive income, net of tax | \$ 158,458 | \$ 11,380 | \$ 181,901 | \$ (193,281) | \$ 158,458 |

Table of Contents**Condensed Consolidating Statement of Operations**

| (In thousands) | Six months ended June 30, 2011 | | | | |
|---|---------------------------------|--------------------|---|------------------------|----------------------------------|
| | Popular, Inc. Holding Co. | PNA Holding Co. | All other subsidiaries and eliminations | Elimination entries | Popular, Inc. Consolidated |
| Interest and Dividend Income: | | | | | |
| Loans | \$ 5,058 | \$ | \$ 864,654 | \$ (3,877) | \$ 865,835 |
| Money market investments | 5 | 3 | 1,923 | (58) | 1,873 |
| Investment securities | 8,161 | 161 | 104,218 | (6,442) | 106,098 |
| Trading account securities | | | 18,544 | | 18,544 |
| Total interest and dividend income | 13,224 | 164 | 989,339 | (10,377) | 992,350 |
| Interest Expense: | | | | | |
| Deposits | | | 147,752 | (201) | 147,551 |
| Short-term borrowings | 50 | 556 | 30,110 | (2,982) | 27,734 |
| Long-term debt | 48,332 | 15,287 | 41,368 | (5,823) | 99,164 |
| Total interest expense | 48,382 | 15,843 | 219,230 | (9,006) | 274,449 |
| Net interest (expense) income | (35,158) | (15,679) | 770,109 | (1,371) | 717,901 |
| Provision for loan losses- non-covered loans | | | 155,474 | | 155,474 |
| Provision for loan losses- covered loans | | | 64,162 | | 64,162 |
| Net interest (expense) income after provision for loan losses | (35,158) | (15,679) | 550,473 | (1,371) | 498,265 |
| Service charges on deposit accounts | | | 92,432 | | 92,432 |
| Other service fees | | | 125,033 | (8,074) | 116,959 |
| Net loss on sale and valuation adjustments of investment securities | | | (90) | | (90) |
| Trading account profit | | | 375 | | 375 |
| Net loss on sale of loans, including valuation adjustments on loans held-for-sale | | | (5,538) | | (5,538) |
| Adjustments (expense) to indemnity reserves on loans sold | | | (19,302) | | (19,302) |
| FDIC loss share income | | | 54,705 | | 54,705 |
| Fair value change in equity appreciation instrument | | | 8,323 | | 8,323 |
| Other operating income | 20,354 | 1,388 | 44,935 | (26,013) | 40,664 |
| Total non-interest income | 20,354 | 1,388 | 300,873 | (34,087) | 288,528 |
| Operating Expenses: | | | | | |
| Personnel costs | 13,862 | | 203,237 | | 217,099 |
| Net occupancy expenses | 1,704 | 1 | 47,072 | 1,766 | 50,543 |
| Equipment expenses | 1,580 | | 21,217 | | 22,797 |
| Other taxes | 662 | | 25,933 | | 26,595 |
| Professional fees | 6,672 | 6 | 126,319 | (36,830) | 96,167 |
| Communications | 234 | 9 | 14,155 | | 14,398 |
| Business promotion | 808 | | 20,384 | | 21,192 |
| FDIC deposit insurance | | | 45,355 | | 45,355 |
| Loss on early extinguishment of debt | 8,000 | | 528 | | 8,528 |
| Other real estate owned (OREO) expenses | | | 8,651 | | 8,651 |
| Other operating expenses | (25,517) | 221 | 67,407 | (1,097) | 41,014 |
| Amortization of intangibles | | | 4,510 | | 4,510 |

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|--------------------------|-------|-----|---------|----------|---------|
| Total operating expenses | 8,005 | 237 | 584,768 | (36,161) | 556,849 |
|--------------------------|-------|-----|---------|----------|---------|

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| | | | | | |
|--|------------|-----------|------------|--------------|------------|
| (Loss) income before income tax and equity in earnings of subsidiaries | (22,809) | (14,528) | 266,578 | 703 | 229,944 |
| Income tax expense (benefit) | 3,137 | (264) | 105,953 | 301 | 109,127 |
| (Loss) income before equity in earnings of subsidiaries | (25,946) | (14,264) | 160,625 | 402 | 120,817 |
| Equity in undistributed earnings of subsidiaries | \$ 146,763 | \$ 20,444 | | (167,207) | |
| Net Income | \$ 120,817 | \$ 6,180 | \$ 160,625 | \$ (166,805) | \$ 120,817 |
| Comprehensive income, net of tax | \$ 161,549 | \$ 24,012 | \$ 199,572 | \$ (223,584) | \$ 161,549 |

Table of Contents**Condensed Consolidating Statement of Cash Flows (Unaudited)**

| (In thousands) | Six months ended June 30, 2012 | | | | |
|--|--------------------------------|--------------------|---|------------------------|-------------------------------|
| | Popular, Inc. Holding Co. | PNA Holding Co. | All other subsidiaries and eliminations | Elimination entries | Popular, Inc. Consolidated |
| Cash flows from operating activities: | | | | | |
| Net income (loss) | \$ 114,147 | \$ (1,601) | \$ 160,886 | \$ (159,285) | \$ 114,147 |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | | | | |
| Equity in undistributed earnings of subsidiaries | (141,362) | (13,214) | | 154,576 | |
| Provision for loan losses | 349 | | 219,573 | | 219,922 |
| Amortization of intangibles | | | 5,124 | | 5,124 |
| Depreciation and amortization of premises and equipment | 321 | 2 | 22,959 | | 23,282 |
| Net accretion of discounts and amortization of premiums and deferred fees | 14,124 | 56 | (29,532) | (325) | (15,677) |
| Fair value adjustments on mortgage servicing rights | | | 4,791 | | 4,791 |
| FDIC loss share expense | | | 12,680 | | 12,680 |
| FDIC deposit insurance expense | | | 47,833 | | 47,833 |
| Adjustments (expense) to indemnity reserves on loans sold | | | 9,273 | | 9,273 |
| (Earnings) losses from investments under the equity method | (2,975) | (1,528) | (17,554) | 26,274 | 4,217 |
| Deferred income tax benefit | (14,479) | | (140,262) | 55 | (154,686) |
| Loss (gain) on: | | | | | |
| Disposition of premises and equipment | (1) | | (6,863) | | (6,864) |
| Early extinguishment of debt | | | 24,950 | | 24,950 |
| Sale and valuation adjustment of investment securities | | | 349 | | 349 |
| Sale of loans, including valuation adjustments on loans held for sale | | | (74) | | (74) |
| Sale of other assets | | | (2,545) | | (2,545) |
| Acquisitions of loans held-for-sale | | | (174,632) | | (174,632) |
| Proceeds from sale of loans held-for-sale | | | 145,588 | | 145,588 |
| Net disbursements on loans held-for-sale | | | (542,282) | | (542,282) |
| Net (increase) decrease in: | | | | | |
| Trading securities | | | 543,077 | | 543,077 |
| Accrued income receivable | 323 | | 2,746 | (180) | 2,889 |
| Other assets | 132,782 | 881 | (80,179) | (42,931) | 10,553 |
| Net increase (decrease) in: | | | | | |
| Interest payable | | (46) | (4,496) | 43 | (4,499) |
| Pension and other postretirement benefits obligations | | | 16,165 | | 16,165 |
| Other liabilities | (769) | (15) | 11,082 | 1,066 | 11,364 |
| Total adjustments | (11,687) | (13,864) | 67,771 | 138,578 | 180,798 |
| Net cash provided by (used in) operating activities | 102,460 | (15,465) | 228,657 | (20,707) | 294,945 |
| Cash flows from investing activities: | | | | | |
| Net decrease (increase) in money market investments | 24,024 | (4,339) | 426,382 | (19,721) | 426,346 |
| Purchases of investment securities: | | | | | |
| Available-for-sale | | | (890,777) | | (890,777) |
| Held-to-maturity | | | (250) | | (250) |
| Other | | | (76,033) | | (76,033) |
| Proceeds from calls, paydowns, maturities and redemptions of investment securities: | | | | | |
| Available-for-sale | | | 780,832 | | 780,832 |

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| | | | | |
|---|----------|-----------|--------|-----------|
| Held-to-maturity | | 1,548 | | 1,548 |
| Other | | 81,626 | | 81,626 |
| Net (disbursements) repayments on loans | (74,853) | 539,407 | 74,623 | 539,177 |
| Proceeds from sale of loans | | 41,476 | | 41,476 |
| Acquisition of loan portfolios | | (705,819) | | (705,819) |
| Payments received from FDIC under loss sharing agreements | | 262,807 | | 262,807 |

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|--|-----------|---------|------------|-------------|------------|
| Capital contribution to subsidiary | (50,000) | | 50,000 | | |
| Mortgage servicing rights purchased | | | (1,018) | | (1,018) |
| Acquisition of premises and equipment | (366) | | (21,561) | | (21,927) |
| Proceeds from sale of: | | | | | |
| Premises and equipment | 20 | | 15,590 | | 15,610 |
| Other productive assets | | | 1,026 | | 1,026 |
| Foreclosed assets | | | 93,480 | | 93,480 |
| Net cash (used in) provided by investing activities | (101,175) | (4,339) | 548,716 | 104,902 | 548,104 |
| Cash flows from financing activities: | | | | | |
| Net increase (decrease) in: | | | | | |
| Deposits | | | (536,764) | 8,256 | (528,508) |
| Federal funds purchased and assets sold under agreements to repurchase | | | (387,414) | 24,060 | (363,354) |
| Other short-term borrowings | (30,500) | | 125,300 | (74,800) | 20,000 |
| Payments of notes payable | | | (22,552) | | (22,552) |
| Proceeds from issuance of notes payable | | | 29,802 | | 29,802 |
| Proceeds from issuance of common stock | 3,320 | | | | 3,320 |
| Dividends paid to parent company | | | (5,000) | 5,000 | |
| Dividends paid | (1,551) | | | | (1,551) |
| Treasury stock acquired | (150) | | | | (150) |
| Capital contribution from parent | | 50,000 | | (50,000) | |
| Net cash provided by (used in) financing activities | 1,619 | 19,500 | (796,628) | (87,484) | (862,993) |
| Net increase (decrease) in cash and due from banks | 2,904 | (304) | (19,255) | (3,289) | (19,944) |
| Cash and due from banks at beginning of period | 6,365 | 932 | 534,796 | (6,811) | 535,282 |
| Cash and due from banks at end of period | \$ 9,269 | \$ 628 | \$ 515,541 | \$ (10,100) | \$ 515,338 |

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Condensed Consolidating Statement of Cash Flows (Unaudited)

| (In thousands) | Six months ended June 30, 2011 | | | | |
|---|---------------------------------|--------------------|---|------------------------|-------------------------------|
| | Popular, Inc. Holding Co. | PNA Holding Co. | All other subsidiaries and eliminations | Elimination entries | Popular, Inc. Consolidated |
| Cash flows from operating activities: | | | | | |
| Net income | \$ 120,817 | \$ 6,180 | \$ 160,625 | \$ (166,805) | \$ 120,817 |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities: | | | | | |
| Equity in undistributed (earnings) losses of subsidiaries | (146,763) | (20,444) | | 167,207 | |
| Provision for loan losses | | | 219,636 | | 219,636 |
| Amortization of intangibles | | | 4,510 | | 4,510 |
| Depreciation and amortization of premises and equipment | 395 | 2 | 23,053 | | 23,450 |
| Net accretion of discounts and amortization of premiums and deferred fees | 12,015 | 122 | (76,310) | (325) | (64,498) |
| Impairment losses on net assets to be disposed of | | | 8,743 | | 8,743 |
| Fair value adjustments on mortgage servicing rights | | | 16,249 | | 16,249 |
| Fair value change in equity appreciation instrument | | | (8,323) | | (8,323) |
| FDIC loss share income | | | (54,705) | | (54,705) |
| FDIC deposit insurance expense | | | 45,355 | | 45,355 |
| Adjustments (expense) to indemnity reserves on loans sold | | | 19,302 | | 19,302 |
| (Earnings) losses from investments under the equity method | (12,619) | (1,388) | (11,788) | 26,013 | 218 |
| Deferred income tax expense | 4,198 | | 17,256 | 301 | 21,755 |
| Loss (gain) on: | | | | | |
| Disposition of premises and equipment | (1) | | (1,991) | | (1,992) |
| Sale and valuation adjustments of investment securities | | | 90 | | 90 |
| Sale of loans, including valuation adjustments on loans held for sale | | | 5,538 | | 5,538 |
| Sale of equity method investments | (5,493) | | (11,414) | | (16,907) |
| Acquisitions of loans held-for-sale | | | (173,549) | | (173,549) |
| Proceeds from sale of loans held-for-sale | | | 65,667 | | 65,667 |
| Net disbursements on loans held-for-sale | | | (417,220) | | (417,220) |
| Net (increase) decrease in: | | | | | |
| Trading securities | | | 319,024 | | 319,024 |
| Accrued income receivable | 252 | | 8,465 | (41) | 8,676 |
| Other assets | (2,003) | 1,201 | (2,431) | (29,426) | (32,659) |
| Net increase (decrease) in: | | | | | |
| Interest payable | (3,467) | 459 | 1,999 | 60 | (949) |
| Pension and other postretirement benefits obligations | | | (123,084) | | (123,084) |
| Other liabilities | (54,790) | (2,335) | (10,685) | 2,427 | (65,383) |
| Total adjustments | (208,276) | (22,383) | (136,613) | 166,216 | (201,056) |
| Net cash (used in) provided by operating activities | (87,459) | (16,203) | 24,012 | (589) | (80,239) |
| Cash flows from investing activities: | | | | | |
| Net increase in money market investments | (62) | (1) | (404,536) | 1 | (404,598) |
| Purchases of investment securities: | | | | | |
| Available-for-sale | | | (856,543) | | (856,543) |
| Held-to-maturity | (37,093) | | (27,265) | | (64,358) |
| Other | | | (69,504) | | (69,504) |
| Proceeds from calls, paydowns, maturities and redemptions of investment securities: | | | | | |

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| | | | | |
|--|---------|---------|-----------|---------|
| Available-for-sale | | 707,567 | | 707,567 |
| Held-to-maturity | 50,613 | 1,460 | | 52,073 |
| Other | | 56,162 | | 56,162 |
| Proceeds from sale of investment securities: | | | | |
| Available for sale | | 19,143 | | 19,143 |
| Other | | 2,294 | | 2,294 |
| Net repayments on loans | 184,638 | 775,381 | (180,413) | 779,606 |

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| | | | | | |
|--|-----------|---------|-------------|------------|-------------|
| Proceeds from sale of loans | | | 225,698 | | 225,698 |
| Acquisition of loan portfolios | | | (744,390) | | (744,390) |
| Payments received from FDIC under loss sharing agreements | | | 15,694 | | 15,694 |
| Net proceeds from sale of equity method investments | (10,690) | | 42,193 | | 31,503 |
| Capital contribution to subsidiary | | | (37,000) | 37,000 | |
| Mortgage servicing rights purchased | | | (860) | | (860) |
| Acquisition of premises and equipment | (316) | | (25,232) | | (25,548) |
| Proceeds from sale of: | | | | | |
| Premises and equipment | 11 | | 9,836 | | 9,847 |
| Foreclosed assets | | | 94,759 | | 94,759 |
| Net cash provided by (used in) investing activities | 187,101 | (1) | (215,143) | (143,412) | (171,455) |
| Cash flows from financing activities: | | | | | |
| Net increase (decrease) in: | | | | | |
| Deposits | | | 1,197,947 | 305 | 1,198,252 |
| Federal funds purchased and assets sold under agreements to repurchase | | | 157,772 | | 157,772 |
| Other short-term borrowings | (19,100) | | (371,820) | 178,000 | (212,920) |
| Payments of notes payable | (100,000) | (3,000) | (1,074,306) | | (1,177,306) |
| Proceeds from issuance of notes payable | | | 419,500 | | 419,500 |
| Proceeds from issuance of common stock | 3,917 | | | | 3,917 |
| Dividends paid | (1,861) | | | | (1,861) |
| Treasury stock acquired | (68) | | | | (68) |
| Return of capital | 1,514 | | (1,514) | | |
| Capital contribution from parent | | 37,000 | | (37,000) | |
| Net cash (used in) provided by financing activities | (96,498) | 14,900 | 327,579 | 141,305 | 387,286 |
| Net increase (decrease) in cash and due from banks | 3,144 | (1,304) | 136,448 | (2,696) | 135,592 |
| Cash and due from banks at beginning of period | 1,638 | 1,576 | 451,723 | (2,564) | 452,373 |
| Cash and due from banks at end of period | \$ 4,782 | \$ 272 | \$ 588,171 | \$ (5,260) | \$ 587,965 |

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

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

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 (U.S.) mainland, and the U.S. and British Virgin Islands. 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, under the name Popular Community Bank, operates branches in New York, California, Illinois, New Jersey and Florida. E-LOAN markets deposit accounts under its name for the benefit of BPNA. Note 31 to the consolidated financial statements presents information about the Corporation's business segments. The Corporation has a 48.5% interest in EVERTEC, which provides transaction processing services throughout the Caribbean and Latin America, including servicing many of the Corporation's system infrastructures and transaction processing businesses.

OVERVIEW

The second quarter of 2012 marks the sixth consecutive profitable quarter for the Corporation. Net income amounted to \$65.7 million for the quarter ended June 30, 2012, compared with net income of \$110.7 million for the same quarter of the previous year. For the six months ended June 30, 2012, net income amounted to \$114.1 million, compared with net income of \$120.8 million for the same period in 2011.

Main events for the quarter ended June 30, 2012

A tax benefit of \$72.9 million was recognized in June 2012 resulting from the tax treatment of the loans acquired in the Westernbank FDIC-assisted transaction (the Acquired Loans). In June 2012, the Puerto Rico Department of the Treasury (the P.R. Treasury) and the Corporation entered into a Closing Agreement (the 2012 Closing Agreement) to clarify that those Acquired Loans are capital assets and any gain resulting from such loans would be taxed at the capital gain tax rate of 15% instead of the ordinary income tax rate of 30%. Refer to the Income Taxes section of this MD&A and Note 29 to the consolidated financial statements for additional information on the tax benefit and the 2012 Closing Agreement.

Negative valuation adjustments on commercial and construction loans held-for-sale of approximately \$34.7 million were recorded by Banco Popular de Puerto Rico (BPPR) during the second quarter of 2012. The quarterly valuation analyses of the outstanding commercial and construction loans held-for-sale of BPPR, which considered the impact of recent appraisals and market indicators, resulted in an unfavorable adjustment of \$27.3 million. Also, there were \$7.4 million in additional unfavorable valuation adjustments, mostly from the reclassification of certain loans from loans held-for-sale to other real estate.

Prepayment expense of \$25.0 million was recognized as a result of the cancellation by BPPR of \$350 million in outstanding repurchase agreements with contractual maturities between March 2014 and May 2014 at an average cost of 4.36%. The Corporation expects to recover this cost within an approximate two-year period by replacing these repurchase agreements with short-term borrowings at lower current market rates.

Receipt of a \$131 million dividend from EVERTEC in early May 2012, which reduced the book value of the equity investment by the amount of the dividend to \$62 million, also contributed to further boost the Corporation's liquidity position.

The Corporation completed purchases of \$273 million in mortgage loans at BPNA and \$225 million in consumer loans at BPPR during the second quarter of 2012 as part of its strategy to continue to add high-quality assets to its loan portfolio.

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Credit metrics of the Corporation's non-covered loan portfolio continued improving during the second quarter of 2012. Non-performing loans, excluding covered loans, declined by \$119 million to \$1.6 billion as of June 30, 2012, down 7% from March 31, 2012 and 33% from its peak in the third quarter of 2010. The decrease was split between both the Puerto

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Rico and U.S. mainland regions. Net charge-offs declined for the third consecutive quarter. On a linked-quarter basis, net charge-offs for the second quarter of 2012 fell by \$10.1 million to \$98.0 million the lowest level since the first quarter of 2008. The decrease was mainly due to lower losses in both P.R. and U.S. commercial loans.

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 the consolidated financial statements. All share and per share information has been adjusted to retroactively reflect the reverse stock split.

The discussion that follows provides highlights of the Corporation's results of operations for the quarter ended June 30, 2012, compared to the results of operations for the same quarter of the previous year. It also provides some highlights with respect to the Corporation's financial condition, credit quality, capital and liquidity.

Financial highlights for the quarter ended June 30, 2012

Taxable equivalent net interest income was \$341.2 million for the second quarter of 2012, down \$33.3 million, or 9%, from the same quarter of the prior year. The 29-basis-point decrease in the net interest margin from 4.72% to 4.43% was mainly attributable to a lower average yield in earning assets by 62 basis points primarily in covered loans, non-covered commercial and mortgage loans, and investment securities; partially offset by a decrease in the cost of funds by 33 basis points, mainly from deposits. The repayment of the FDIC note during 2011 also contributed with the decrease in interest expense during the second quarter of 2012. The higher taxable equivalent adjustment in the second quarter of 2011 was attributable to the income tax benefit from exempt investments for the first six months of 2011 recorded in the second quarter of 2011, which had been previously unavailable to the Corporation during the first quarter of 2011. The event that drove the recording of the higher taxable equivalent adjustment in June 2011 is explained below in the tax benefit variance and in the Net Interest Income section of this MD&A. Refer to the Net Interest Income section of this MD&A for a discussion of the major variances in net interest income, including yields and costs.

Credit quality improvements provided noticeable results in both the Corporation's Puerto Rico and U.S. mainland operations. Most credit metrics, such as the level of net charge-offs and non-performing loans in most portfolios, reflected improved trends during the second quarter of the current year.

Provision for loan losses in the second quarter of 2012 decreased by \$25.1 million, or 17%, compared with the second quarter of 2011, including both covered and non-covered loans held-in-portfolio. The provision for loan losses for non-covered loans for the second quarter of 2012 reflected lower net charge-offs by \$35.4 million, including reductions in most non-covered loan portfolio categories. Also, there was a reduction in the allowance for loan losses, mainly from the commercial and consumer loan portfolios, as a result of continued improvement in credit trends. During the second quarter of 2012, the annualized net charge-offs to average non-covered loans held-in-portfolio ratio fell to 1.85% in Puerto Rico and to 2.15% in the U.S. mainland operations from 2.21% and 3.45%, respectively, during the quarter ended June 30, 2011. Net charge-offs for non-covered loans reached their lowest level since the first quarter of 2008.

In addition, the non-covered non-performing loan portfolio declined by \$175 million to \$1.6 billion, down 10% from December 31, 2011, mainly due to improvements in all loan categories. Non-covered non-performing loans held-in-portfolio declined by 33% from its peak in the third quarter of 2010 and stood at the lowest level since the first quarter of 2009. Inflows of commercial and construction non-performing loans held-in-portfolio fell 65% from their peak in the fourth quarter of 2010.

The improvements in credit quality led to a decrease in the allowance for loan losses to non-covered loans held-in-portfolio ratio from 3.35% at December 31, 2011 to 3.14% at June 30, 2012. The general and specific reserves related to non-covered loans amounted to \$561 million and \$88 million, respectively, at June 30, 2012, compared with \$631 million and \$59 million, respectively, at December 31, 2011. The decrease in the general reserve component was mainly driven by lower loss trends in the commercial and consumer loan portfolios, partially offset by higher general and specific reserves in the residential mortgage loan portfolio of the BPPR reportable segment mainly due to higher loss trends and loans restructured under the Corporation's loss mitigation program.

The provision for loan losses in the covered loan portfolio decreased by \$11.1 million for the second quarter of 2012, compared with the same quarter of 2011. The decrease in the provision was mainly driven by loans accounted for under ASC 310-30, as certain loan pools, mainly commercial and construction, reflected higher increases in expected loss estimates for the quarter of June 30, 2011, when compared with the revisions in expected loss estimates for the same period in 2012. Net charge-offs on covered loans accounted for under ASC 310-30, which related principally to certain

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construction and asset-based lending relationships, amounted to \$28.8 million for the second quarter of 2012, prompted by credit losses in excess of those originally estimated at acquisition date. Net charge-offs on the covered loans accounted for under ASC 310-20 amounted to \$29.7 million for the second quarter of 2012. These net charge-offs were mainly related to the discounted pay-offs from two particular relationships, for which impaired amounts were reserved in prior periods and did not impact the provision for loan losses during the current quarter.

The increase in loss estimates on the covered loans is offset by the 80% loss share agreements. Despite these specific pools that reflect higher loan losses than originally expected, overall expected losses on the covered loan portfolio continue to be lower than originally estimated. Lower expected losses will overtime result in higher interest income as the increase in expected cash flows than originally estimated is accreted into interest income over the life of the loans.

Non-interest income amounted to \$93.7 million for the quarter ended June 30, 2012, compared with \$124.2 million for the same quarter in the previous year. The unfavorable variance in FDIC loss share income of \$36.1 million was mostly related to the negative amortization of the loss share asset mainly due to a reduction in expected losses. Refer to Table 5 for a description and amounts of the items that compose the FDIC loss share income (expense) caption. In addition, there were higher unfavorable valuation adjustments on loans held-for-sale by \$15.1 million mainly in BPPR resulting from the impact of recent appraisals and market indicators, partially offset by higher gains on sale of loans, net of trading account losses, by \$4.3 million primarily due to securitization transactions by the mortgage banking business. These unfavorable variances were partially offset by higher other services by \$3.7 million and higher other operating income by \$10.2 million. The increase in other service fees was related to lower unfavorable fair value adjustments on mortgage servicing rights, higher credit card fees and increased commission income received from the sale of investment products, partially offset by lower debit card fees. Refer to the Non-Interest Income section of this MD&A for additional information on the main variances that affected the non-interest income categories.

Total operating expenses increased by \$46.1 million for the second quarter of 2012, when compared with the same quarter of the previous year, principally due to the prepayment expense of \$25.0 million recognized during the second quarter of 2012 as a result of the cancellation of certain borrowings, as previously explained. In addition, there were higher loan collection expenses from the lending business and the management of other real estate properties, personnel costs, business promotion and other operating expenses. Refer to the Operating Expenses section in this MD&A for additional explanations on the factors that influenced the variances in the different operating expense categories.

Tax benefit of \$77.9 million for the quarter ended June 30, 2012, compared with a tax benefit of \$38.1 million for the same period of the previous year. As indicated previously, the results for the second quarter of 2012 reflect a tax benefit of \$72.9 million related to the tax treatment of the Acquired Loans.

The income tax benefit for the quarter ended June 30, 2011 was also impacted by a special tax transaction. On June 30, 2011, the P.R. Treasury and the Corporation agreed that for tax purposes the deductions related to certain charge-offs recorded on the financial statements of the Corporation during the years 2009 and 2010 would be deferred until 2013 through 2016. Because of this 2011 Closing Agreement, the results for the second quarter of 2011 reflect an income tax benefit of \$53.6 million related to the recovery of certain tax benefits not previously recorded during years 2009 and 2010, and an income tax benefit of \$11.9 million related to the tax benefits of the exempt income for the six months ended June 30, 2011.

Total assets amounted to \$36.6 billion at June 30, 2012, compared with \$37.3 billion at December 31, 2011. Total loans held-in-portfolio declined by \$269 million from the end of 2011, consisting principally of a decline of \$332 million in the covered loan portfolio, \$371 million in non-covered commercial loans held-in-portfolio and \$139 million in the legacy loans at BPNA. These decreases were offset by increases of \$382 million and \$192 million in the non-covered mortgage and consumer loan portfolios mainly due to the previously mentioned loan purchases during the second quarter of 2012.

Deposits amounted to \$27.4 billion at June 30, 2012, compared with \$27.9 billion at December 31, 2011. The decrease in time deposits from December 31, 2011 to June 30, 2012 of \$1.1 billion was principally in brokered certificates of deposit and non-brokered certificates of deposit of the BPPR operations, mainly retail certificates of deposit, driven in part by the continuous

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efforts to reduce cost of deposits in the Corporation's banking operations. These decreases were partially offset by increases in savings, NOW, money market and demand deposits by \$0.6 billion.

The Corporation's borrowings amounted to \$3.6 billion at June 30, 2012, compared with \$4.3 billion at December 31, 2011. The reduction in borrowings was driven by a decrease in assets sold under agreements to repurchase of \$0.7 million, principally due to the previously mentioned early extinguishment of debt and to certain other repurchase agreements maturing during the second quarter of 2012.

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Stockholders' equity amounted to \$4.0 billion at June 30, 2012, compared to \$3.9 billion at December 31, 2011. Capital ratios continued to be strong. Tier I common risk-based capital ratio increased to 16.31% at June 30, 2012, from 15.97% at December 31, 2011. Tangible common equity ratio at June 30, 2012 was 9.09%, up from 8.62% at December 31, 2011.

Table 1 provides selected financial data and performance indicators for the quarters and six months ended June 30, 2012 and 2011.

The Corporation continues executing its strategy to achieve various objectives, including (1) reducing credit costs, (2) growing its net interest margin, (3) building its high-quality asset portfolio to maintain strong revenues, (4) optimizing operating expenses and (5) continuing to improve the results of its U.S. community banking business. The Corporation continues exploring opportunities to further reduce its cost base by streamlining the origination processes, lowering branch-network expenses and tackling inefficiencies in identified areas. However, management's focus on accelerating the resolution of non-performing loans has increased the costs associated with these efforts—legal fees, appraisals, collections, valuation adjustments, among others. Meaningful reductions in these expenses will only be achieved through sustained improvement in non-performing asset levels.

Although the economic situation in the Corporation's markets has stabilized or improved, as evidenced by recent economic indicators and the Corporation's credit trends, the Corporation's lending areas both in Puerto Rico and the U.S. mainland continue to experience weak loan demand. The combination of weak loan demand and higher costs related to collection efforts are challenges faced by the Corporation.

As a result of weak loan demand in both the Puerto Rico and U.S. mainland operations, the Corporation will continue to seek acquisitions of moderate-risk assets with good returns to supplement internal originations.

As a financial services company, the Corporation's earnings are significantly affected by general business and economic conditions. Lending and deposit activities and fee income generation are influenced by the level of business spending and investment, consumer income, spending and savings, capital market activities, competition, customer preferences, interest rate conditions and prevailing market rates on competing products.

The Corporation continuously monitors general business and economic conditions, industry-related indicators and trends, competition, interest rate volatility, credit quality indicators, loan and deposit demand, operational and systems efficiencies, revenue enhancements and changes in the regulation of financial services companies.

The Corporation operates in a highly regulated environment and may be adversely affected by changes in federal and local laws and regulations. Also, competition with other financial institutions could adversely affect its profitability.

The description of the Corporation's business contained in Item 1 of the Corporation's 2011 Annual Report, while not all inclusive, discusses additional information about the business of the Corporation and risk factors, many beyond the Corporation's control that, in addition to the other information in this Form 10-Q, readers should consider.

The Corporation's common stock is traded on the NASDAQ Global Select Market under the symbol BPOP.

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| (In thousands) | December 31, | | | Average for the six months | | |
|-----------------------------------|---------------|--------------|--------------|----------------------------|--------------|-------------|
| | June 30, 2012 | 2011 | Variance | 2012 | 2011 | Variance |
| Money market investments | \$ 949,828 | \$ 1,376,174 | \$ (426,346) | \$ 1,104,135 | \$ 1,159,477 | \$ (55,342) |
| Investment and trading securities | 5,793,199 | 5,751,417 | 41,782 | 5,685,903 | 6,383,995 | (698,092) |
| Loans | 25,046,676 | 25,314,392 | (267,716) | 24,849,365 | 25,887,785 | (1,038,420) |
| Earning assets | 31,789,703 | 32,441,983 | (652,280) | 31,639,403 | 33,431,257 | (1,791,854) |
| Total assets | 36,612,179 | 37,348,432 | (736,253) | 36,386,372 | 38,775,414 | (2,389,042) |
| Deposits* | 27,414,780 | 27,942,127 | (527,347) | 27,218,046 | 27,462,905 | (244,859) |
| Borrowings | 3,620,419 | 4,293,669 | (673,250) | 4,264,640 | 6,615,143 | (2,350,503) |
| Stockholders' equity | 4,021,237 | 3,918,753 | 102,484 | 3,780,014 | 3,655,074 | 124,940 |

* Average deposits exclude average derivatives.

Operating Highlights

| (In thousands, except per share information) | Second Quarter | | | Six months ended June 30, | | |
|---|----------------|------------|-------------|---------------------------|------------|-------------|
| | 2012 | 2011 | Variance | 2012 | 2011 | Variance |
| Net interest income | \$ 341,200 | \$ 374,542 | \$ (33,342) | \$ 678,782 | \$ 717,901 | \$ (39,119) |
| Provision for loan losses - non-covered loans | 81,743 | 95,712 | (13,969) | 164,257 | 155,474 | 8,783 |
| Provision for loan losses - covered loans | 37,456 | 48,605 | (11,149) | 55,665 | 64,162 | (8,497) |
| Non-interest income | 93,724 | 124,160 | (30,436) | 217,632 | 288,528 | (70,896) |
| Operating expenses | 327,879 | 281,800 | 46,079 | 624,046 | 556,849 | 67,197 |
| (Loss) income before income tax | (12,154) | 72,585 | (84,739) | 52,446 | 229,944 | (177,498) |
| Income tax (benefit) expense | (77,893) | (38,100) | (39,793) | (61,701) | 109,127 | (170,828) |
| Net income | \$ 65,739 | \$ 110,685 | \$ (44,946) | \$ 114,147 | \$ 120,817 | \$ (6,670) |
| Net income applicable to common stock | \$ 64,809 | \$ 109,754 | \$ (44,945) | \$ 112,286 | \$ 118,956 | \$ (6,670) |
| Net income per common share - basic and diluted | \$ 0.63 | \$ 1.07 | \$ (0.44) | \$ 1.10 | \$ 1.16 | \$ (0.06) |

| Selected Statistical Information | Second Quarter | | Six months ended June 30, | |
|---|----------------|----------|---------------------------|----------|
| | 2012 | 2011 | 2012 | 2011 |
| Common Stock Data | | | | |
| Market price | | | | |
| High | \$ 21.20 | \$ 32.40 | \$ 23.00 | \$ 35.33 |
| Low | 13.58 | 26.30 | 13.58 | 26.30 |
| End | 16.61 | 27.60 | 16.61 | 27.60 |
| Book value per common share at period end | 38.62 | 38.22 | 38.62 | 38.22 |
| Profitability Ratios | | | | |
| Return on assets | 0.73 % | 1.14 % | 0.63 % | 0.63 % |
| Return on common equity | 6.94 | 12.02 | 6.05 | 6.66 |

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| | | | | |
|--|------|------|------|------|
| Net interest spread (taxable equivalent) | 4.17 | 4.49 | 4.15 | 4.20 |
| Net interest margin (taxable equivalent) | 4.43 | 4.72 | 4.41 | 4.45 |

Capitalization Ratios

| | | | | |
|--|---------|--------|---------|--------|
| Average equity to average assets | 10.51 % | 9.57 % | 10.39 % | 9.43 % |
| Tier I capital to risk-weighted assets | 16.31 | 15.21 | 16.31 | 15.21 |
| Total capital to risk-weighted assets | 17.59 | 16.49 | 17.59 | 16.49 |
| Leverage ratio | 11.09 | 10.16 | 11.09 | 10.16 |

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CRITICAL ACCOUNTING POLICIES / ESTIMATES

The accounting and reporting policies followed by the Corporation and its subsidiaries conform to generally accepted accounting principles in the United States of America and general practices within the financial services industry. Various elements of the Corporation's accounting policies, by their nature, are inherently subject to estimation techniques, valuation assumptions and other subjective assessments. These estimates are made under facts and circumstances at a point in time and changes in those facts and circumstances could produce actual results that differ from those estimates.

Management has discussed the development and selection of the critical accounting policies and estimates with the Corporation's Audit Committee. The Corporation has identified as critical accounting policies those related to: (i) Fair Value Measurement of Financial Instruments; (ii) Loans and Allowance for Loan Losses; (iii) Acquisition Accounting for Loans and Related Indemnification Asset; (iv) Income Taxes; (v) Goodwill, and (vi) Pension and Postretirement Benefit Obligations. For a summary of these critical accounting policies and estimates, refer to that particular section in the MD&A included in Popular, Inc.'s 2011 Financial Review and Supplementary Information to Stockholders, incorporated by reference in Popular, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2011 (the 2011 Annual Report). Also, refer to Note 2 to the consolidated financial statements included in the 2011 Annual Report for a summary of the Corporation's significant accounting policies.

Allowance for Loan Losses

One of the most critical and complex accounting estimates is associated with the determination of the allowance for loan losses. The provision for loan losses charged to current operations is based on this determination. The Corporation's assessment of the allowance for loan losses is determined in accordance with the guidance of loss contingencies in ASC Subtopic 450-20 and loan impairment guidance in ASC Section 310-10-35.

The accounting guidance provides for the recognition of a loss allowance for groups of homogeneous loans. The determination for general reserves of the allowance for loan losses includes the following principal factors:

Historical net loss rates (including losses from impaired loans) by loan type and by legal entity adjusted for recent net charge-off trends and environmental factors. The base net loss rates are based on the moving average of annualized net charge-offs computed over a 36-month historical loss window for the commercial and construction loan portfolios, and an 18-month period for the consumer and mortgage loan portfolios.

Net charge-off trend factors are applied to adjust the base loss rates based on recent loss trends. The Corporation applies a trend factor when base losses are below recent loss trends. Currently, the trend factor is based on the last 12 months of losses for the commercial, construction and legacy loan portfolios and 6 months of losses for the consumer and mortgage loan portfolios. The trend factor accounts for inherent imprecision and the lagging perspective in base loss rates. The trend factor replaces the base-loss period when it is higher than base loss up to a determined cap.

Environmental factors, which include credit and macroeconomic indicators such as employment, price index and construction permits, were adopted to account for current market conditions that are likely to cause estimated credit losses to differ from historical losses. The Corporation reflects the effect of these environmental factors on each loan group as an adjustment that, as appropriate, increases or decreases the historical loss rate applied to each group. Environmental factors provide updated perspective on credit and economic conditions. Correlation and regression analyses are used to select and weight these indicators.

During the first quarter of 2012, in order to better reflect current market conditions, management revised the estimation process for evaluating the adequacy of the general reserve component of the allowance for loan losses for the Corporation's commercial and construction loan portfolios. The change in the methodology is described in the paragraphs below. The net effect of these changes amounted to a \$24.8 million reduction in the Corporation's allowance for loan losses, resulting from a reduction of \$40.5 million due to the enhancements to the allowance for loan losses methodology, offset in part by a \$15.7 million increase in environmental factor reserves due to the Corporation's decision to monitor recent trends in its commercial loan portfolio at the BPPR reportable segment that although improving, continue to warrant additional scrutiny.

Management made the following principal changes to the methodology during the first quarter of 2012:

Established a more granular stratification of the commercial loan portfolios to enhance the homogeneity of the loan classes.

Previously, the Corporation used loan groupings for commercial loan portfolios based on business lines and collateral types (secured / unsecured loans). As part of the loan segregation, management evaluated the risk profiles of the loan portfolio, recent and historical credit and loss trends, current and expected portfolio behavior and economic

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indicators. The revised groupings consider product types (construction, commercial multifamily, commercial & industrial, non-owner occupied commercial real estate (CRE) and owner occupied CRE) and business lines for each of the Corporation's reportable segments, BPPR and BPNA. In addition, the Corporation established a legacy portfolio at the BPNA reportable segment, comprised of commercial loans, construction loans and commercial lease financings related to certain lending products exited by the Corporation as part of restructuring efforts carried out in prior years.

The refinement in the loan groupings resulted in a decrease to the allowance for loan losses of \$7.9 million at March 31, 2012, which consisted of a \$9.7 million reduction related to the BPNA reportable segment, partially offset by an increase of \$1.8 million related to the BPPR reportable segment.

Increased the historical look-back period for determining the loss trend factor. The Corporation increased the look-back period for assessing recent trends applicable to the determination of commercial, construction and legacy loan net charge-offs from 6 months to 12 months.

Previously, the Corporation used a trend factor based on 6 months of net charge-offs as it aligned the estimation of inherent losses for the Corporation's commercial and construction loan portfolios with deteriorating trends.

Given the current overall commercial and construction credit quality improvements noted on recent periods in terms of loss trends, non-performing loan balances and non-performing loan inflows, management concluded that a 12-month look-back period for the trend factor aligns the Corporation's allowance for loan losses methodology to current credit quality trends.

The increase in the historical look-back period for determining the loss trend factor resulted in a decrease to the allowance for loan losses of \$28.1 million at March 31, 2012, of which \$24.0 million related to the BPPR reportable segment and \$4.1 million to the BPNA reportable segment.

There were additional enhancements to the allowance for loan losses methodology which accounted for a reduction to the allowance for loan losses of \$4.5 million at March 31, 2012, of which \$3.9 million related to the BPNA reportable segment and \$0.6 million to the BPPR reportable segment. This reduction related to loan portfolios with minimal or zero loss history.

There were no changes in the methodology for environmental factor reserves. There were no changes to the allowance for loan losses methodology for the Corporation's consumer and mortgage loan portfolios during the first quarter of 2012.

Refer to Note 2 Summary of Significant Accounting Policies and the Critical Accounting Policies / Estimates section of the MD&A included in the Corporation's 2011 Annual Report for additional information on the Corporation's credit accounting policies, including interest recognition, troubled debt restructuring, accounting for impaired loans and other information with respect to the determination of specific reserves for loans individually evaluated for impairment.

STATEMENT OF OPERATIONS ANALYSIS

NET INTEREST INCOME

Net interest income, on a taxable equivalent basis, is presented with its different components on Tables 2 and 3 for the quarter and six months ended June 30, 2012 as compared with the same periods in 2011, segregated by major categories of interest earning assets and interest bearing liabilities.

The interest earning assets include the investment securities and loans that are exempt from income tax, principally in Puerto Rico. The main sources of tax-exempt interest income are certain investments in obligations of the U.S. Government, its agencies and sponsored entities, and certain obligations of the Commonwealth of Puerto Rico and its agencies. To facilitate the comparison of all interest related to these assets, the interest income has been converted to a taxable equivalent basis, using the applicable statutory income tax rates for each period presented. The taxable equivalent computation considers the interest expense disallowance required by the Puerto Rico tax law. During the third quarter of 2010, BPPR's tax position changed and, as a result, the benefit that would have been obtained from exempt investments was not applicable. However, BPPR's tax position inverted during the second quarter of 2011 and the entity was able to benefit from tax exempt income previously unavailable. Therefore, the income tax benefit for the first six months of 2011 was recorded during the second quarter of that year, resulting in a decrease in the taxable equivalent adjustment, as shown in Table 2. The Corporation continues to derive a tax benefit from exempt investments during 2012.

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Average outstanding securities balances are based upon amortized cost excluding any unrealized gains or losses on securities available-for-sale. Non-accrual loans have been included in the respective average loans and leases categories. Loan fees collected and costs incurred in the origination of loans are deferred and amortized over the term of the loan as an adjustment to interest yield. Prepayment penalties, late fees collected and the amortization of premiums / discounts on purchased loans are also included as part of the loan yield. Interest income for the quarter and six months ended June 30, 2012 included a favorable impact, excluding the discount accretion on covered loans accounted for under ASC 310-20 and ASC 310-30, of \$5.5 million and \$10.6 million, related to those items, compared with a favorable impact of \$5.4 million and \$10.5 million for the same periods in 2011. Interest income on covered loans for the quarter and six months ended June 30, 2011 was favorably impacted by the discount accretion on covered loans accounted for under ASC 310-20 (revolving lines of credit), which amounted to \$9.1 million and \$33.6 million, respectively. This discount was fully accreted during the third quarter of 2011.

The decrease in the net interest margin, on a taxable equivalent basis, for the quarter ended June 30, 2012 when compared with the same period in the previous year, was mostly related to a reduction in the yield of earning assets, mainly in the loan portfolio. The covered loans and mortgage portfolio present notable reductions in their yields. The decrease in the yield of covered loans resulted from various factors which included the previously mentioned benefit derived in 2011 as a result of the discount accretion related to loans accounted for under ASC 310-20 that is not present in 2012 and of collections received from certain large borrowers that had the effect of recognizing into income the unamortized discount of a particular pool and increasing the accretable yield to be recognized over a relatively short period of time for another pool. The mortgage loan portfolio exhibited a reduction in yield which is attributable to originations in a lower rate environment, reversals of interest for delinquent loans, loan purchases realized, mostly in the U.S. mainland, of loans that carry a lower yield than the overall portfolio, and loans repurchased under credit recourse agreements which are delinquent at repurchase but are put through loss mitigation programs for potential restructuring. Also, the yield of investment securities decreased in part due to the previously mentioned variance in the taxable equivalent adjustment and the reinvestment of cash flows from mortgage-backed securities into lower yielding collateralized mortgage obligations.

Items that partially offset the reductions in net interest margin included a decrease in the average cost of interest bearing deposits, the repayment of the note issued to the FDIC as part of the Westernbank transaction, and a higher yield in the non-covered construction loan portfolio which resulted from a lower proportion of non-performing assets.

The average loan balance for the second quarter of 2012 experienced a substantial reduction when compared with the same quarter in the previous year. Throughout 2011 and 2012, the commercial and construction loan portfolios have been impacted by soft new loan demand, sales and resolutions of non-performing loans, and charge-offs which although reflecting favorable trends continue at high levels. Additionally, contributing to the reduction in average loan balances was the normal amortization of the covered loan portfolio. In contrast, the increase experienced in mortgage loans reflected primarily the effect of loan purchases made by the Corporation's Puerto Rico operations during 2011 of performing mortgage loans, the previously mentioned loan acquisitions made during the current quarter by the U.S. operations, loan originations and the effect of loan repurchases under credit recourse agreements. The average balance of investment securities decreased as a result of maturities and prepayments of mortgage-related investment securities. The borrowings category reflects a reduction of \$1.9 billion in the average balance of the note issued to the FDIC. This note was repaid during 2011. The other sources of funds category reflects a reduction in the loss share asset, in part as a result of collections made for claims filed with the FDIC.

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Table 2 Analysis of Levels & Yields on a Taxable Equivalent Basis

Quarters ended June 30,

| | | | | | | | | | Variance | | |
|------------------|-----------|------------|------------------------|--------|----------|---|------------|------------|-----------------|-------------|-------------|
| Average Volume | | | Average Yields / Costs | | | Interest | | | Attributable to | | |
| 2012 | 2011 | Variance | 2012 | 2011 | Variance | 2012 | 2011 | Variance | Rate | Volume | |
| (\$ in millions) | | | | | | | | | (In thousands) | | |
| \$1,113 | \$ 1,195 | \$ (82) | 0.35 % | 0.31 % | 0.04 % | Money market investments | \$ 964 | \$ 926 | \$ 38 | \$ 52 | \$ (14) |
| 5,232 | 5,659 | (427) | 3.56 | 4.34 | (0.78) | Investment securities | 46,621 | 61,418 | (14,797) | (9,192) | (5,605) |
| 474 | 763 | (289) | 5.64 | 5.59 | 0.05 | Trading securities | 6,648 | 10,641 | (3,993) | 65 | (4,058) |
| | | | | | | Total money market, investment and trading securities | 54,233 | 72,985 | (18,752) | (9,075) | (9,677) |
| | | | | | | Loans: | | | | | |
| 10,238 | 11,024 | (786) | 5.03 | 5.19 | (0.16) | Commercial | 127,952 | 142,568 | (14,616) | (4,676) | (9,940) |
| 494 | 803 | (309) | 2.78 | 1.34 | 1.44 | Construction | 3,421 | 2,676 | 745 | 2,067 | (1,322) |
| 546 | 583 | (37) | 8.65 | 8.85 | (0.20) | Leasing | 11,801 | 12,909 | (1,108) | (298) | (810) |
| 5,713 | 5,124 | 589 | 5.62 | 6.79 | (1.17) | Mortgage | 80,319 | 86,962 | (6,643) | (15,959) | 9,316 |
| 3,640 | 3,610 | 30 | 10.07 | 10.26 | (0.19) | Consumer | 91,135 | 92,343 | (1,208) | (3,059) | 1,851 |
| 20,631 | 21,144 | (513) | 6.12 | 6.40 | (0.28) | Sub-total loans | 314,628 | 337,458 | (22,830) | (21,925) | (905) |
| 4,129 | 4,686 | (557) | 7.69 | 9.91 | (2.22) | Covered loans | 79,094 | 115,897 | (36,803) | (24,028) | (12,775) |
| 24,760 | 25,830 | (1,070) | 6.39 | 7.03 | (0.64) | Total loans | 393,722 | 453,355 | (59,633) | (45,953) | (13,680) |
| \$ 31,579 | \$ 33,447 | \$ (1,868) | 5.69 % | 6.31 % | (0.62)% | Total earning assets | \$ 447,955 | \$ 526,340 | \$ (78,385) | \$ (55,028) | \$ (23,357) |
| | | | | | | Interest bearing deposits: | | | | | |
| \$ 5,555 | \$ 5,353 | \$ 202 | 0.45 % | 0.63 % | (0.18)% | NOW and money market* | \$ 6,207 | \$ 8,371 | \$ (2,164) | \$ (2,438) | \$ 274 |
| 6,562 | 6,257 | 305 | 0.38 | 0.64 | (0.26) | Savings | 6,190 | 10,012 | (3,822) | (4,371) | 549 |
| 9,752 | 10,990 | (1,238) | 1.49 | 1.91 | (0.42) | Time deposits | 36,117 | 52,289 | (16,172) | (10,647) | (5,525) |
| 21,869 | 22,600 | (731) | 0.89 | 1.25 | (0.36) | Total deposits | 48,514 | 70,672 | (22,158) | (17,456) | (4,702) |
| 2,300 | 2,745 | (445) | 2.28 | 2.00 | 0.28 | Short-term borrowings | 13,044 | 13,719 | (675) | 3,278 | (3,953) |
| | 1,859 | (1,859) | | 2.44 | (2.44) | FDIC note | | 11,321 | (11,321) | | (11,321) |
| 480 | 453 | 27 | 15.91 | 15.89 | 0.02 | TARP funds** | 19,087 | 18,000 | 1,087 | 26 | 1,061 |
| 1,385 | 1,429 | (44) | 5.27 | 5.23 | 0.04 | Other medium and long-term debt | 18,237 | 18,645 | (408) | (103) | (305) |
| 26,034 | 29,086 | (3,052) | 1.52 | 1.82 | (0.30) | Total interest bearing liabilities | 98,882 | 132,357 | (33,475) | (14,255) | (19,220) |
| 5,309 | 5,044 | 265 | | | | Non-interest bearing demand deposits | | | | | |
| 236 | (683) | 919 | | | | Other sources of funds | | | | | |
| \$ 31,579 | \$ 33,447 | \$ (1,868) | 1.26 % | 1.59 % | (0.33)% | Total source of funds | 98,882 | 132,357 | (33,475) | (14,255) | (19,220) |
| | | | 4.43 % | 4.72 % | (0.29)% | Net interest margin | | | | | |
| | | | | | | Net interest income on a taxable equivalent basis | 349,073 | 393,983 | (44,910) | \$ (40,773) | \$ (4,137) |
| | | | 4.17 % | 4.49 % | (0.32)% | Net interest spread | | | | | |

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| | | | |
|-------------------------------|-------|--------|----------|
| Taxable equivalent adjustment | 7,873 | 19,441 | (11,568) |
|-------------------------------|-------|--------|----------|

| | | | |
|---------------------|------------|------------|-------------|
| Net interest income | \$ 341,200 | \$ 374,542 | \$ (33,342) |
|---------------------|------------|------------|-------------|

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

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

** Junior subordinated deferrable interest debentures held by the U.S. Treasury.

The results for the six-month period ended June 30, 2012 were impacted by the same factors described in the quarterly results. A lower yield in the loan portfolio, mainly covered loans and non-covered mortgage loans, along with a reduction in the yield of investment securities, contributed to a lower net interest margin. However, collections made during the first quarter of 2012 related to a large loan relationship in the U.S. mainland operations, which had been placed in non-accrual status, contributed to a higher positive effect in the yield of the non-covered construction loan portfolio. Also, the normalized comparison in the taxable equivalent adjustment reduced the negative yield variance exhibited by the investment portfolio.

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Table 3 - Analysis of Levels & Yields on a Taxable Equivalent Basis

Six months ended June 30, 2012

| Average Volume | | | Average Yields / Costs | | | Interest | | | Attributable to | | |
|----------------------------|-----------|------------|------------------------|--------|----------|---|----------------|--------------|-----------------|-------------|-------------|
| 2012 | 2011 | Variance | 2012 | 2011 | Variance | | 2012 | 2011 | Variance | Rate | Volume |
| (\$ in millions) | | | | | | | (In thousands) | | | | |
| \$1,104 | \$ 1,159 | \$ (55) | 0.35 % | 0.33 % | 0.02 % | Money market investments | \$ 1,912 | \$ 1,873 | \$ 39 | \$ 14 | \$ 25 |
| 5,224 | 5,661 | (437) | 3.66 | 4.02 | (0.36) | Investment securities | 95,561 | 113,874 | (18,313) | (8,044) | (10,269) |
| 462 | 723 | (261) | 5.82 | 5.63 | 0.19 | Trading securities | 13,377 | 20,182 | (6,805) | 713 | (7,518) |
| | | | | | | Total money market, investment and trading securities | | | | | |
| 6,790 | 7,543 | (753) | 3.27 | 3.61 | (0.34) | | 110,850 | 135,929 | (25,079) | (7,317) | (17,762) |
| Loans: | | | | | | | | | | | |
| 10,340 | 11,139 | (799) | 4.99 | 5.10 | (0.11) | Commercial | 256,817 | 281,746 | (24,929) | (5,041) | (19,888) |
| 509 | 834 | (325) | 3.94 | 1.45 | 2.49 | Construction | 9,956 | 5,987 | 3,969 | 7,044 | (3,075) |
| 550 | 587 | (37) | 8.66 | 8.93 | (0.27) | Leasing | 23,823 | 26,228 | (2,405) | (790) | (1,615) |
| 5,589 | 4,939 | 650 | 5.67 | 6.45 | (0.78) | Mortgage | 158,465 | 159,278 | (813) | (20,433) | 19,620 |
| 3,650 | 3,639 | 11 | 10.12 | 10.31 | (0.19) | Consumer | 183,725 | 186,049 | (2,324) | (5,396) | 3,072 |
| | | | | | | | | | | | |
| 20,638 | 21,138 | (500) | 6.16 | 6.28 | (0.12) | Sub-total loans | 632,786 | 659,288 | (26,502) | (24,616) | (1,886) |
| 4,211 | 4,750 | (539) | 7.34 | 9.26 | (1.92) | Covered loans | 153,859 | 218,445 | (64,586) | (41,253) | (23,333) |
| | | | | | | | | | | | |
| 24,849 | 25,888 | (1,039) | 6.36 | 6.82 | (0.46) | Total loans | 786,645 | 877,733 | (91,088) | (65,869) | (25,219) |
| | | | | | | | | | | | |
| \$ 31,639 | \$ 33,431 | \$ (1,792) | 5.69 % | 6.10 % | (0.41)% | Total earning assets | \$ 897,495 | \$ 1,013,662 | \$ (116,167) | \$ (73,186) | \$ (42,981) |
| Interest bearing deposits: | | | | | | | | | | | |
| \$ 5,400 | \$ 5,166 | \$ 234 | 0.46 % | 0.67 % | (0.21)% | NOW and money market* | \$ 12,278 | \$ 17,286 | \$ (5,008) | \$ (5,669) | \$ 661 |
| 6,535 | 6,249 | 286 | 0.38 | 0.73 | (0.35) | Savings | 12,455 | 22,570 | (10,115) | (11,257) | 1,142 |
| 10,022 | 11,063 | (1,041) | 1.51 | 1.96 | (0.45) | Time deposits | 75,460 | 107,695 | (32,235) | (22,308) | (9,927) |
| | | | | | | | | | | | |
| 21,957 | 22,478 | (521) | 0.92 | 1.32 | (0.40) | Total deposits | 100,193 | 147,551 | (47,358) | (39,234) | (8,124) |
| | | | | | | | | | | | |
| 2,405 | 2,744 | (339) | 2.23 | 2.04 | 0.19 | Short-term borrowings | 26,627 | 27,734 | (1,107) | 5,704 | (6,811) |
| | 2,075 | (2,075) | | 2.38 | (2.38) | FDIC note | | 24,716 | (24,716) | | (24,716) |
| 476 | 450 | 26 | 15.91 | 15.88 | 0.03 | TARP funds** | 37,883 | 35,753 | 2,130 | 58 | 2,072 |
| 1,383 | | | | | | Other medium and long-term debt | | | | | |
| | 1,346 | 37 | 5.28 | 5.76 | (0.48) | | 36,448 | 38,695 | (2,247) | (700) | (1,547) |
| | | | | | | | | | | | |
| 26,221 | 29,093 | (2,872) | 1.54 | 1.90 | (0.36) | Total interest bearing liabilities | 201,151 | 274,449 | (73,298) | (34,172) | (39,126) |
| | | | | | | Non-interest bearing demand deposits | | | | | |
| 5,261 | 4,985 | 276 | | | | | | | | | |
| 157 | (647) | 804 | | | | Other sources of funds | | | | | |
| | | | | | | | | | | | |
| \$ 31,639 | \$ 33,431 | \$ (1,792) | 1.28 % | 1.65 % | (0.37)% | Total source of funds | 201,151 | 274,449 | (73,298) | (34,172) | (39,126) |
| | | | | | | | | | | | |
| | | | 4.41 % | 4.45 % | (0.04)% | Net interest margin | | | | | |
| | | | | | | Net interest income on a taxable equivalent basis | 696,344 | 739,213 | (42,869) | \$ (39,014) | \$ (3,855) |
| | | | | | | | | | | | |
| | | | 4.15 % | 4.20 % | (0.05)% | Net interest spread | | | | | |
| | | | | | | Taxable equivalent adjustment | 17,562 | 21,312 | (3,750) | | |

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| | | | |
|---------------------|------------|------------|-------------|
| Net interest income | \$ 678,782 | \$ 717,901 | \$ (39,119) |
|---------------------|------------|------------|-------------|

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

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

** Junior subordinated deferrable interest debentures held by the U.S. Treasury.

PROVISION FOR LOAN LOSSES

The Corporation's provision for loan losses totaled \$119.2 million for the quarter ended June 30, 2012 compared with \$144.3 million for the same period in 2011. The provision for loan losses for the six months ended June 30, 2012 amounted to \$219.9 million, compared with \$219.6 million. The provision for loan losses for the six months ended June 30, 2012 included the net benefit of \$24.8 million, recorded in the first quarter of 2012, related to revisions in the allowance for loan losses methodology of \$40.5 million net of \$15.7 million related to environmental factor reserves for the BPPR commercial loan portfolio, as described in the Critical Accounting Policies / Estimates section. Refer to the Overview, Reportable Segments and Credit Risk Management and Loan Quality sections of this MD&A for an explanation of the main factors to the reduction in the provision for loan losses and a detailed analysis of net charge-offs, non-performing assets, the allowance for loan losses and selected loan losses statistics.

NON-INTEREST INCOME

Refer to Table 4 for a breakdown on non-interest income by major categories for the quarters and six months ended June 30, 2012 and 2011.

Table 4 Non-Interest Income

| (In thousands) | Quarter ended June 30, | | | Six months ended June 30, | | |
|---|------------------------|------------|-------------|---------------------------|------------|-------------|
| | 2012 | 2011 | Variance | 2012 | 2011 | Variance |
| Service charges on deposit accounts | \$ 46,130 | \$ 46,802 | \$ (672) | \$ 92,719 | \$ 92,432 | \$ 287 |
| Other service fees: | | | | | | |
| Debit card fees | 9,411 | 13,795 | (4,384) | 18,576 | 26,720 | (8,144) |
| Insurance fees | 12,063 | 12,208 | (145) | 24,453 | 24,134 | 319 |
| Credit card fees | 14,268 | 11,792 | 2,476 | 26,827 | 22,368 | 4,459 |
| Sale and administration of investment products | 9,645 | 7,657 | 1,988 | 18,534 | 14,787 | 3,747 |
| Mortgage servicing fees, net of fair value adjustments | 6,335 | 2,269 | 4,066 | 19,266 | 8,529 | 10,737 |
| Trust fees | 4,069 | 4,110 | (41) | 8,150 | 7,605 | 545 |
| Processing fees | 1,639 | 1,740 | (101) | 3,413 | 3,437 | (24) |
| Other fees | 4,597 | 4,736 | (139) | 8,847 | 9,379 | (532) |
| Total other service fees | 62,027 | 58,307 | 3,720 | 128,066 | 116,959 | 11,107 |
| Net (loss) on sale and valuation adjustments of investment securities | (349) | (90) | (259) | (349) | (90) | (259) |
| Trading account (loss) profit | (7,283) | 874 | (8,157) | (9,426) | 375 | (9,801) |
| Net gain (loss) on sale of loans, including valuation adjustment on loans held-for-sale | (15,397) | (12,782) | (2,615) | 74 | (5,538) | 5,612 |
| Adjustment (expense) to indemnity reserves on loans sold | (5,398) | (9,454) | 4,056 | (9,273) | (19,302) | 10,029 |
| FDIC loss share income (expense) | 2,575 | 38,670 | (36,095) | (12,680) | 54,705 | (67,385) |
| Fair value change in equity appreciation instrument | | 578 | (578) | | 8,323 | (8,323) |
| Other operating income | 11,419 | 1,255 | 10,164 | 28,501 | 40,664 | (12,163) |
| Total non-interest income | \$ 93,724 | \$ 124,160 | \$ (30,436) | \$ 217,632 | \$ 288,528 | \$ (70,896) |

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The following narrative provides explanations for the main variances in non-interest income for the quarter and six months ended June 30, 2012, when compared with the same periods of the previous year.

Table 4 provides a breakdown of other service fees. The principal variance was in the category of mortgage servicing fees due to lower unfavorable fair value adjustments on mortgage servicing rights. There were also higher credit card fees mainly due to higher interchange fees from increased customer purchasing activity, and higher commission income received from the sale of investment products by the retail division of Popular Securities, partially offset by lower debit cards fees mostly from lower interchange income due to the effect of the Durbin Amendment of the Dodd-Frank Act that began to take effect in October 1, 2011.

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Trading account losses for the quarter and six months ended June 30, 2012 corresponded principally to the Corporation's mortgage banking business in Puerto Rico. This category is influenced by the volume and pricing of mortgage-backed securities, as well as losses on derivatives that are economically offset by gains on securitization transactions, but which benefits are recorded in the net (loss) gain on sale of loans category.

Table 6 provides a description of the main items influencing the variance in the category of net (loss) gain on sale of loans, including valuation adjustments on loans held-for-sale. The valuation adjustments corresponded principally to the commercial and construction loans of the BPPR reportable segment, including additional write-downs recorded when certain loans held-for-sale were recharacterized to other real estate owned due to repossession of the collateral. The quarterly valuation adjustments consider recent appraisals and market indicators. The unfavorable variance from the valuation adjustments was partially offset by higher gains on the sale of loans, mainly from mortgage loans securitized by the BPPR reportable segment.

Lower unfavorable adjustments recorded to indemnity reserves on loans sold corresponded mostly to the BPPR reportable segment and were principally due to improvements in credit quality trends of mortgage loans serviced subject to credit recourse and in the probability of default, foreclosure rate and constant prepayment rate assumptions, as well as a declining portfolio given that the Corporation is no longer selling loans subject to credit recourse.

FDIC loss share income (expense) was the main driver for the unfavorable variance in non-interest income. Table 5 provides a breakdown of the nature of the items that triggered the net unfavorable variance. The decrease in FDIC loss share income for the quarter and six months ended June 30, 2012, when compared with the same periods of the previous year, resulted mostly from the amortization (negative accretion) of the FDIC loss share asset mainly due to a reduction in the expected losses on the covered loans. The negative variance was also due to lower provision for loan losses on the covered loans during the second quarter of 2012 as 80% is recaptured into non-interest income under the loss share agreements. These unfavorable variances were partially offset by a favorable impact from the mirror accounting on the 80% FDIC coverage for reimbursable expenses that are associated with collection efforts on the covered loan portfolio and by a favorable impact on the mirror accounting for the discount accretion on loans and unfunded commitments accounted for under ASC Subtopic 310-20 since the discount on these particular loans had been fully accreted by the end of the third quarter of 2011. Refer to the Financial Condition Analysis section, particularly the area that explains covered loans and the loss share asset, for additional explanations on the accounting and behavior of these assets and the corresponding discount accretion / amortization that impacts earnings.

There was also an unfavorable variance on the fair value of the equity appreciation instrument issued to the FDIC as part of the Westernbank FDIC-assisted transaction of \$8.3 million since the results for the six months ended June 30, 2011 included the positive impact of valuing the instrument which expired on May of 2011.

The other operating income category in Table 4 shows a favorable variance of \$10.2 million when comparing the results of the second quarter of 2012 with the same period in the previous year. The quarter ended June 30, 2012 included a \$2.5 million gain from the sale of the wholesale indirect general agency property and casualty business of Popular Insurance. The variance was also influenced by higher investment banking fees from the institutional business of Popular Securities during 2012 and to losses recognized in 2011 related to fund investments on a retirement plan investment product which was discontinued. Furthermore, impacting the year-to-date variance in other operating income, during the six-month period ended June 30, 2011 the Corporation recognized a gain of \$20.6 million from the sale of the Corporation's equity investment in CONTADO. Also, impacting the year-to-date variance was lower income from investments accounted for under the equity method by \$4.0 million, principally driven by a negative variance in the equity pick-up from the Corporation's equity interest in EVERTEC of \$9.9 million, partially offset by a favorable variance in the equity pick-up from PRLP 2011 Holdings, LLC of \$5.7 million.

Table of Contents**Table 5 Financial Information Westernbank FDIC-Assisted Transaction**

| (In thousands) | Quarters ended June 30, | | | Six months ended June 30, | | |
|--|-------------------------|------------|-------------|---------------------------|------------|--------------|
| | 2012 | 2011 | Variance | 2012 | 2011 | Variance |
| Interest income: | | | | | | |
| Interest income on covered loans, except for discount accretion on ASC 310-20 covered loans | \$ 79,094 | \$ 106,762 | \$ (27,668) | \$ 153,859 | \$ 184,862 | \$ (31,003) |
| Discount accretion on ASC 310-20 covered loans | | 9,135 | (9,135) | | 33,583 | (33,583) |
| Total interest income on covered loans | 79,094 | 115,897 | (36,803) | 153,859 | 218,445 | (64,586) |
| FDIC loss share income (expense): | | | | | | |
| (Amortization) accretion of loss share indemnification asset | (37,413) | 8,637 | (46,050) | (66,788) | 34,433 | (101,221) |
| 80% mirror accounting on credit impairment losses ^[1] | 29,426 | 38,884 | (9,458) | 42,848 | 51,329 | (8,481) |
| 80% mirror accounting on reimbursable expenses | 10,663 | 1,017 | 9,646 | 12,468 | 1,017 | 11,451 |
| 80% mirror accounting on discount accretion on loans and unfunded commitments accounted for under ASC 310-20 | (248) | (8,538) | 8,290 | (496) | (30,003) | 29,507 |
| Change in true-up payment obligation | (236) | (1,555) | 1,319 | (1,858) | (3,044) | 1,186 |
| Other | 383 | 225 | 158 | 1,146 | 973 | 173 |
| Total FDIC loss share income (expense) | 2,575 | 38,670 | (36,095) | (12,680) | 54,705 | (67,385) |
| Fair value change in equity appreciation instrument | | 578 | (578) | | 8,323 | (8,323) |
| Amortization of contingent liability on unfunded commitments (included in other operating income) | 310 | 1,011 | (701) | 620 | 3,395 | (2,775) |
| Total revenues | 81,979 | 156,156 | (74,177) | 141,799 | 284,868 | (143,069) |
| Provision for loan losses | 37,456 | 48,605 | (11,149) | 55,665 | 64,162 | (8,497) |
| Total revenues less provision for loan losses | \$ 44,523 | \$ 107,551 | \$ (63,028) | \$ 86,134 | \$ 220,706 | \$ (134,572) |

- [1] Reductions in expected cash flows for ASC 310-30 loans, which may impact the provision for loan losses, may consider reductions in both principal and interest cash flow expectations. The amount covered under the FDIC loss sharing agreements for interest not collected from borrowers is limited under the agreements (approximately 90 days); accordingly, these amounts are not subject fully to the 80% mirror accounting.

Average balances

| (In millions) | Quarters ended June 30, | | | Six months ended June 30, | | |
|-------------------------|-------------------------|----------|----------|---------------------------|----------|----------|
| | 2012 | 2011 | Variance | 2012 | 2011 | Variance |
| Covered loans | \$ 4,129 | \$ 4,686 | \$ (557) | \$ 4,211 | \$ 4,750 | \$ (539) |
| FDIC loss share asset | 1,700 | 2,421 | (721) | 1,801 | 2,416 | (615) |
| Note issued to the FDIC | | 1,859 | (1,859) | | 2,075 | (2,075) |

Table 6 Breakdown of Net (Loss) Gain on Sale of Loans, including Valuation Adjustments

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| (In thousands) | Quarter ended June 30, | | | Six months ended June 30, | | |
|--|------------------------|-------------|------------|---------------------------|------------|-----------|
| | 2012 | 2011 | Variance | 2012 | 2011 | Variance |
| Net gain on sale of loans | \$ 16,657 | \$ 6,796 | \$ 9,861 | \$ 33,425 | \$ 15,041 | \$ 18,384 |
| Valuation adjustment on loans held-for-sale, including write-downs for loans held-for-sale recharacterized to other real estate (repossessed collateral) | (34,678) | (19,578) | (15,100) | (38,244) | (20,579) | (17,665) |
| Recoveries on loans held-for-sale due to collections in excess of carrying value | 2,624 | | 2,624 | 4,893 | | 4,893 |
| Total | \$ (15,397) | \$ (12,782) | \$ (2,615) | \$ 74 | \$ (5,538) | \$ 5,612 |

Table of Contents**Operating Expenses**

Table 7 provides a breakdown of operating expenses by major categories.

Table 7 Operating Expenses

| (In thousands) | Quarters ended June 30, | | | Six months ended June 30, | | |
|---|-------------------------|-------------------|------------------|---------------------------|-------------------|------------------|
| | 2012 | 2011 | Variance | 2012 | 2011 | Variance |
| Personnel costs: | | | | | | |
| Salaries | \$ 75,881 | \$ 76,698 | \$ (817) | \$ 152,780 | \$ 150,489 | \$ 2,291 |
| Commissions, incentives and other bonuses | 14,359 | 11,995 | 2,364 | 27,085 | 21,918 | 5,167 |
| Pension, postretirement and medical insurance | 16,114 | 12,810 | 3,304 | 34,539 | 24,795 | 9,744 |
| Other personnel costs, including payroll taxes | 9,982 | 9,456 | 526 | 23,423 | 19,897 | 3,526 |
| Total personnel costs | 116,336 | 110,959 | 5,377 | 237,827 | 217,099 | 20,728 |
| Net occupancy expenses | 24,963 | 25,957 | (994) | 49,125 | 50,543 | (1,418) |
| Equipment expenses | 10,900 | 10,761 | 139 | 22,241 | 22,797 | (556) |
| Other taxes | 12,074 | 14,623 | (2,549) | 25,512 | 26,595 | (1,083) |
| Professional fees: | | | | | | |
| Collections, appraisals and other credit related fees | 11,163 | 7,958 | 3,205 | 21,400 | 15,710 | 5,690 |
| Programming, processing and other technology services | 26,359 | 24,410 | 1,949 | 50,920 | 48,558 | 2,362 |
| Other professional fees | 14,605 | 17,111 | (2,506) | 27,912 | 31,899 | (3,987) |
| Total professional fees | 52,127 | 49,479 | 2,648 | 100,232 | 96,167 | 4,065 |
| Communications | 6,645 | 7,188 | (543) | 13,776 | 14,398 | (622) |
| Business promotion | 16,980 | 11,332 | 5,648 | 29,830 | 21,192 | 8,638 |
| FDIC deposit insurance | 22,907 | 27,682 | (4,775) | 47,833 | 45,355 | 2,478 |
| Loss on early extinguishment of debt | 25,072 | 289 | 24,783 | 25,141 | 8,528 | 16,613 |
| Other real estate owned (OREO) expenses | 2,380 | 6,440 | (4,060) | 16,545 | 8,651 | 7,894 |
| Other operating expenses: | | | | | | |
| Credit and debit card processing, volume and interchange expenses | 4,960 | 4,206 | 754 | 9,641 | 8,149 | 1,492 |
| Transportation and travel | 1,889 | 1,865 | 24 | 3,360 | 3,385 | (25) |
| Printing and supplies | 1,456 | 1,265 | 191 | 2,490 | 2,488 | 2 |
| All other | 26,659 | 7,499 | 19,160 | 35,369 | 26,992 | 8,377 |
| Total other operating expenses | 34,964 | 14,835 | 20,129 | 50,860 | 41,014 | 9,846 |
| Amortization of intangibles | 2,531 | 2,255 | 276 | 5,124 | 4,510 | 614 |
| Total operating expenses | \$ 327,879 | \$ 281,800 | \$ 46,079 | \$ 624,046 | \$ 556,849 | \$ 67,197 |

The increase in operating expenses was impacted by the following main factors:

As shown in Table 7, personnel costs increased by \$5.4 million and \$20.7 million, respectively, for the quarter and six months ended June 30, 2012, when compared to the same periods in 2011, and consisted of the following principal variances:

higher pension, postretirement and medical insurance expenses increased by \$3.3 million and \$9.7 million, respectively, for the quarter and six months ended June 30, 2012, when compared with the same periods of the previous year. This included an increase in the net periodic pension cost of \$3.4 million and \$6.9 million, respectively, mainly due to the impact of higher

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amortization of net losses for the period driven by a decrease in the assumed discount rate of the pension benefit obligation and lower expected return on plan assets. Refer to Note 27 to the consolidated financial statements for a breakdown of the net periodic pension cost. Medical insurance costs also contributed to the increase for the six months ended June 30, 2012 vis-à-vis the same period in the previous year by \$2.9 million, resulting from higher claims activity and revised premiums;

higher incentives, commission and other bonuses by \$2.4 million and \$5.2 million, respectively, for the quarter and six months ended June 30, 2012, when compared with the same periods in 2011, mainly due to higher sales incentives and retail commissions and other performance incentives;

salaries expense increased by \$2.3 million for the six months ended June 30, 2012, when compared with the same period in 2011, mainly due to higher vacation and other compensation accruals. There was a reduction in FTEs from June 30, 2011 to June 30, 2012 of 272 FTEs mainly driven by retired employees, but which retirement was not effective until February 1, 2012; and

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higher other personnel costs, including payroll taxes, by \$3.5 million for the six months ended June 30, 2012, when compared with the same period of 2011, primarily due to \$1.4 million in severance accruals recognized during the first quarter of 2012 related to an employee exit program that was executed as part of the Corporation's efficiency efforts and payroll taxes such as unemployment, social security and workers compensation. For the second quarter and six months ended June 30, 2012, there were higher staff uniform expenses by \$1.0 million and \$1.2 million, respectively, when compared to the same periods of 2011.

lower other taxes by \$2.5 million in the quarter ended June 30, 2012, when compared to the same period in 2011, mainly driven by a \$2.1 million reduction in property taxes in the BPPR reportable segment;

professional fees increased by \$2.6 million and \$4.1 million, respectively, for the quarter and six months ended June 30, 2012, when compared to the same periods in 2011, mainly related with loan collection efforts through attorneys in the Puerto Rico operations, some of which are reimbursable by the FDIC;

an increase of \$5.6 million and \$8.6 million, respectively, in business promotion expense for the quarter and six months ended June 30, 2012, when compared to the same periods in 2011, mainly driven by costs from credit card reward programs and other retail product promotional campaigns in Puerto Rico and from BPNA's rebranding efforts;

lower FDIC deposit insurance assessments by \$4.8 million for the quarter ended June 30, 2012 and higher FDIC deposit insurance assessments by \$2.5 million during the six-month period of 2012, when compared to the same periods of the previous year, primarily related to the BPPR reportable segment;

higher loss on extinguishment of debt by \$24.8 million and \$16.6 million, respectively, for the quarter and six months ended June 30, 2012, when compared to the same periods in 2011, mainly due to the prepayment expense of \$25.0 million recorded during the second quarter of 2012 related to the early termination of \$350 million in outstanding repurchase agreements with contractual maturities between March 2014 and May 2014, partially offset by \$8.0 million in prepayment penalties recorded during the first quarter of 2011 on the repayment of \$100 million in medium-term notes;

decrease in OREO expenses of \$4.1 million for the quarter ended June 30, 2012, when compared to the same quarter of the previous year, primarily driven by higher gains on the sale of construction real estate properties in the U.S. mainland. OREO expenses increased by \$7.9 million during the six months ended June 30, 2012, when compared to the same period in 2011, mainly as a result of higher write-downs in residential mortgage and commercial properties due to downward adjustments to the collateral values of residential and commercial properties in the BPPR reportable segment, partially offset by higher gains on the sale of construction real estate properties in the U.S. mainland; and

the category of all other operating expenses increased by \$19.2 million and \$8.4 million for the quarter and six months ended June 30, 2012, when compared to the same periods in 2011, mainly due to higher tax and insurance advances, property maintenance and repair expenses, and to other costs associated with the collection efforts of the Westernbank covered loan portfolio. Under the loss share agreements, 80% of certain expenses are reimbursable by the FDIC and although the related expenses are reflected in this category, the 80% offset to these expenses is recorded in the income statement category of FDIC loss share income (expense) in non-interest income. During 2012, there were also higher servicing and claims-related costs, a \$3.1 million charge related to a legal settlement in the Corporation's U.S. mainland operations and higher provision for other operational losses. Furthermore, there were lower credits to the provision for unfunded credit commitments by \$4.2 million in the second quarter of 2012, compared with the second quarter of 2011, mainly due to decreases in the funding rate and a lower magnitude of improvements in the potential loss expectations. The variance in the provision for unfunded commitments for the six-month period was not significant. These unfavorable variances in other operating expenses were partially offset by lower impairment losses on the investment in TRANRED (Venezuela).

Income Taxes

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Income tax benefit amounted to \$77.9 million for the quarter ended June 30, 2012, compared with an income tax benefit of \$38.1 million for the same quarter of 2011. The increase in income tax benefit was primarily due to a tax benefit of \$72.9 million recorded in June 2012 related to the reduction of the deferred tax liability on the estimated gains for tax purposes related to the loans acquired from Westernbank (the Acquired Loans), as previously described in the Overview section of this MD&A. Under the Closing Agreement signed by the Corporation with the P.R. Treasury, both parties agreed that the Acquired Loans are capital assets and any gain resulting from such loans will be taxed at the capital gain tax rate of 15% instead of the ordinary income tax rate of 30%,

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thus reducing the deferred tax liability on the estimated gain and recognizing an income tax benefit for accounting purposes. Also contributing to the quarterly variance in income tax was lower income recognized by the Puerto Rico operations during the second quarter of 2012, compared with the same period of 2011.

Additionally, during the second quarter of 2011, a tax benefit of \$53.6 million was recorded for the recovery of certain tax benefits not previously recorded during years 2009 (the benefit of reduced tax rates for capital gains) and 2010 (the benefit of the exempt income) as a result of a Closing Agreement signed by the Corporation and the P.R. Treasury in June 2011. Under this agreement, both parties agreed that for tax purposes the deductions related to certain charge-offs recorded on the financial statements of Popular for the years 2009 and 2010 could be deferred until 2013, 2014, 2015 and 2016. In addition, as a result of this 2011 Closing Agreement, the Corporation recorded a tax benefit of \$11.9 million related to the tax benefits of the exempt income for the first six months of 2011.

The components of income tax for the quarters ended June 30, 2012 and 2011 are included in Table 8.

Table 8 Components of Income Tax Expense (Benefit) Quarter

| (In thousands) | Quarters ended | | Quarters ended | |
|--|--------------------|---------------------|--------------------|---------------------|
| | June 30, 2012 | June 30, 2011 | June 30, 2012 | June 30, 2011 |
| | Amount | % of pre-tax income | Amount | % of pre-tax income |
| Computed income tax at statutory rates | \$ (3,646) | 30 % | \$ 21,776 | 30 % |
| Net benefit of net tax exempt interest income | (3,739) | 31 | (15,206) | (21) |
| Deferred tax asset valuation allowance | (48) | | 3,945 | 5 |
| Non-deductible expenses | 5,726 | (47) | 5,400 | 7 |
| Difference in tax rates due to multiple jurisdictions | (1,149) | 9 | (1,866) | (2) |
| Recognition of tax benefits from previous years ^[1] | | | (53,615) | (74) |
| Effect of income subject to preferential tax rate ^[2] | (73,298) | 603 | (100) | |
| State taxes and others | (1,739) | 14 | 1,566 | 2 |
| Income tax (benefit) expense | \$ (77,893) | 640 % | \$ (38,100) | (53)% |

[1] Represents the impact of the Ruling and Closing Agreement with the P.R. Treasury signed in June 2011.

[2] Includes the impact of the Closing Agreement with the P.R. Treasury signed in June 2012.

Income tax benefit amounted to \$61.7 million for the six months ended June 30, 2012, compared with an income tax expense of \$109.1 million for the same period of 2011. The decrease in income tax expense was primarily due to the Closing Agreements between the Corporation and P.R. Treasury signed in June 2012 and 2011, as mentioned above, and due to lower income recognized by the Puerto Rico operations during the six months ended June 30, 2012 compared with the same six-month period in 2011.

Furthermore, also impacting the year-to-date variance, on January 1, 2011, the Governor of Puerto Rico signed Act Number 1 (Internal Revenue Code for a New Puerto Rico) which, among the most significant changes applicable to corporations, was the reduction in the marginal tax rate from 39% to 30%. Consequently, as a result of this reduction in rate, the Corporation recognized during the first quarter of 2011 income tax expense of \$103.3 million and a corresponding reduction in the net deferred tax assets of the Puerto Rico operations.

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The components of income tax for the six months ended June 30, 2012 and 2011 are included in Table 9.

Table 9 Components of Income Tax Expense (Benefit) Year-to-Date

| (In thousands) | Six months ended | | | |
|--|------------------|---------------------|---------------|---------------------|
| | June 30, 2012 | | June 30, 2011 | |
| | Amount | % of pre-tax income | Amount | % of pre-tax income |
| Computed income tax at statutory rates | \$ 15,734 | 30 % | \$ 68,984 | 30 % |
| Net benefit of net tax exempt interest income | (10,753) | (21) | (17,613) | (8) |
| Deferred tax asset valuation allowance | 1,119 | 2 | (1,360) | (1) |
| Non-deductible expenses | 11,365 | 22 | 10,726 | 5 |
| Difference in tax rates due to multiple jurisdictions | (4,356) | (8) | (4,344) | (2) |
| Initial adjustment in deferred tax due to change in tax rate | | | 103,287 | 45 |
| Recognition of tax benefits from previous years ^[1] | | | (53,615) | (23) |
| Effect of income subject to preferential tax rate ^[2] | (74,269) | (142) | (332) | |
| State taxes and others | (541) | (1) | 3,394 | 1 |
| Income tax (benefit) expense | \$ (61,701) | (118)% | \$ 109,127 | 47 % |

[1] Represents the impact of the Ruling and Closing Agreement with the P.R. Treasury signed in June 2011.

[2] Includes the impact of the Closing Agreement with the P.R. Treasury signed in June 2012.

Refer to Note 29 to the consolidated financial statements for a breakdown of the Corporation's net deferred tax assets as of June 30, 2012.

REPORTABLE SEGMENT RESULTS

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

For a description of the Corporation's reportable segments, including additional financial information and the underlying management accounting process, refer to Note 31 to the consolidated financial statements.

The Corporate group reported a net loss of \$30.6 million for the second quarter and \$58.9 million for the six months ended June 30, 2012, compared with net loss of \$31.6 million for the second quarter and \$47.9 million for the six months ended June 30, 2011. The unfavorable variance in the year-to-date results for the Corporate group was the net effect of (i) gain recognized during the six-month period ended June 30, 2011 from the sale of its equity investment in CONTADO; and (ii) lower income, net of intra-entity eliminations, from the equity interest in EVERTEC, partially offset by (iii) prepayment penalties incurred in 2011 on the early cancellation of medium-term notes and (iv) lower impairment losses related to the investment in TRANRED (Venezuela).

Banco Popular de Puerto Rico

The Banco Popular de Puerto Rico reportable segment's net income amounted to \$86.0 million for the quarter ended June 30, 2012, compared with \$139.8 million for the same quarter of the previous year. The principal factors that contributed to the variance in the financial results included the following:

lower net interest income by \$26.7 million, or 8%, mostly due to a reduction in interest income from the covered loan portfolio by \$36.8 million due to the discount accretion on covered loans accounted for under ASC 310-20 (revolving lines of credit), which amounted to \$9.1 million during the second quarter of 2011 (the discount had been fully accreted by the end of the third quarter of 2011), and collections received during that period in 2011 from certain large borrowers that had the effect of recognizing into income the unamortized discount of a particular pool and increasing the accretable yield to

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be recognized over a relatively short period of time for another pool. In addition, contributing to the reduction in interest income was a lower average balance of covered loans by \$557 million, as compared with the same quarter in 2011. Also, a reduction of approximately \$1.0 billion in the average volume of money market, investment and trading securities resulted in a reduction in interest income of \$13.6 million. The unfavorable impact resulting from these reductions in interest income was partially offset by a \$16.8 million reduction in deposit costs, resulting in a decrease in cost of interest bearing deposits of 38 basis points. The interest expense on borrowed money declined by \$12.9 million principally associated with the full prepayment by the end of 2011 of the note issued to the FDIC as part of the Westernbank FDIC-assisted transaction. The BPPR reportable segment had a net interest margin of 5.07% for the quarter ended June 30, 2012, compared with 5.19% for the same period in 2011;

lower provision for loan losses by \$15.6 million, or 13%, due to the decrease in the provision for loan losses on the covered loan portfolio of \$11.1 million, or 23%, and \$4.5 million in the provision for loan losses on the non-covered loan portfolio. The decrease in the provision for loan losses on covered loans was mainly driven by a lower provision on loans accounted for under ASC Subtopic 310-30 as certain pools, principally commercial and construction loan pools, reflected higher increases in expected loss estimates for the quarter ended June 30, 2011, when compared with the revisions in expected loss estimates for the same period in 2012. The decrease in the provision for loan losses on the non-covered loan portfolio reflected lower net charge-offs by \$11.7 million and reductions in the allowance for loan losses mostly for the commercial and consumer loan portfolios, partly offset by higher reserve requirements for the mortgage portfolio prompted by higher loss trends and higher specific reserves for loans restructured under the Corporation's loss mitigation program. The increase in the residential mortgage loan loss trends was principally related to the implementation of a revised charge-off policy during the first quarter of 2012. This revised policy is described in the Credit Risk Management and Loan Quality section of this MD&A;

lower non-interest income by \$28.5 million, or 25%, mainly due to FDIC loss share income of \$2.6 million recognized in the second quarter of 2012, compared with \$38.7 million for the same quarter previous year. Refer to Table 5 for components of that latter variance. The decrease in non-interest income was also due to an unfavorable variance of \$15.3 million in valuation adjustments on loans held-for-sale, principally the commercial and construction loans held by BPPR as described in the Non-Interest Income section of this MD&A. These unfavorable variances were partially offset by higher gain on sale of loans, net of trading account losses, by \$6.4 million mostly due to higher gains on loan sales and securitization transactions; higher other operating income by \$7.6 million which considers the gain of \$2.5 million from the sale of the wholesale indirect property and casualty business of Popular Insurance during the second quarter of 2012 and higher investment banking fees. Also, there were lower adjustments by \$4.7 million to increase the indemnity reserve on loans serviced; and higher other service fees by \$4.6 million, mainly from lower unfavorable valuation adjustments to the value of mortgage servicing rights, higher credit card fees and revenues for the sale of investment products, partially offset by lower debit card fees;

higher operating expenses by \$50.5 million, or 23%, mainly due to an increase of \$24.8 million in loss on early extinguishment of debt, primarily related to the cancellation of the repurchase agreements. Also, there was an unfavorable variance of \$16.3 million in other operating expenses mostly due to costs associated with the collection efforts of the covered loan portfolio, of which 80% is reimbursed by the FDIC, and higher provision for unfunded credit commitments by \$5.0 million. The increase in operating expenses was also due to higher business promotion expense by \$4.4 million mostly from credit card reward programs and other retail product promotional campaigns; higher professional fees by \$3.5 million mainly due to loan collection efforts through attorneys, some of which are reimbursable by the FDIC; and higher other real estate owned costs by \$3.2 million related to higher subsequent fair value adjustments on commercial and construction properties; and

lower income tax expense by \$36.2 million, mainly due to a tax benefit of \$72.9 million recognized during the second quarter of 2012 resulting from the Closing Agreement with the P.R. Treasury related to the tax treatment of the loans acquired in the Westernbank FDIC-assisted transaction, compared with a tax benefit of \$53.6 million for the same period in 2011 resulting from the Closing Agreement with the P.R. Treasury for the recognition of certain tax benefits not previously recorded during years 2009 (the benefit of reduced tax rates for capital gains) and 2010 (the benefit of the exempt income). The decrease in the income tax expense category was also due to lower income in the Corporation's Puerto Rico operations, compared to the same period of 2011.

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Net income for the six months ended June 30, 2012 totaled \$152.9 million, compared with \$143.4 million for the same period in the previous year. These results reflected:

lower net interest income by \$32.1 million, or 5%, mostly due to a reduction in interest income from the covered loan portfolio by \$64.6 million resulting from \$33.6 million of discount accretion recognized during the six months ended June 30, 2011 on revolving lines of credit accounted for pursuant to ASC 310-20, and from a lower average balance of covered loans by \$540 million. Also, a reduction of approximately \$1.1 billion in the average volume of money market, investment and trading securities resulted in a lower interest income of \$26.2 million. The unfavorable impact resulting from these reductions was partially offset by a \$35.8 million reduction in deposit costs or 43 basis points and \$26.9 million in the cost of borrowings mostly associated with the prepayment of the note issued to the FDIC. The net interest margin remained flat at 4.98% in both six-month periods ended June 30, 2012 and 2011;

higher provision for loan losses by \$3.0 million, or 2%, due to the increase in the provision for loan losses on the non-covered loan portfolio of \$11.5 million, or 9%, partially offset by a decrease of \$8.5 million in the provision for loan losses on the covered loan portfolio. The decrease in the provision for loan losses on covered loans was mainly driven by a lower provision on loans accounted for under ASC Subtopic 310-30 as certain pools, principally commercial and construction loan pools, reflected higher increases in expected loss estimates for the six months ended June 30, 2011 when compared with the revisions in expected loss estimates for the same period in 2012. The provision for loan losses for the non-covered portfolio reflected lower net charge-offs by \$21.9 million and reductions in the allowance for loan losses, mainly driven by the commercial and consumer portfolios, as a result of continued improvement in credit trends. As explained above, these reductions were more than offset by higher allowance levels for the mortgage loan portfolio prompted by higher loss trends and higher specific reserves for loans restructured under the Corporation's loss mitigation program;

lower non-interest income by \$36.5 million, or 16%, mainly due to FDIC loss share expense of \$12.7 million recognized for the six months ended June 30, 2012, compared with FDIC loss share income of \$54.7 million for the same period previous year. Refer to Table 5 for components of that latter variance. The decrease in non-interest income was also due to an unfavorable variance of \$18.8 million in valuation adjustments on loans held-for-sale. These unfavorable variances were partially offset by higher gain on sale of loans, net of trading account losses, by \$16.5 million due to higher gains on securitization transactions and lower adjustments by \$11.6 million to increase the indemnity reserve on loans serviced. Also, there were favorable variances of \$13.0 million in other service fees and \$9.7 million in other operating income, due to the same factors explained for the quarterly variances;

higher operating expenses by \$84.0 million, or 20%, mainly due to an increase of \$24.6 million in loss on early extinguishment of debt; an increase in personnel costs of \$14.8 million due to higher net periodic pension costs, medical insurance costs, commissions and severance accruals, among other factors; and an increase of \$13.5 million in other operating expenses mostly due to costs associated with the collection efforts of the covered loan portfolio, of which 80% is reimbursed by the FDIC. Also there were unfavorable variances of \$13.4 million in other real estate owned costs, principally due to downward adjustments to collateral values of commercial, construction and residential mortgage properties; \$7.1 million in FDIC deposit insurance assessment and \$6.9 million in business promotion expense; and

lower income tax expense by \$165.0 million, mainly due to \$103.3 million in income tax expense recognized during the first quarter of 2011 with a corresponding reduction in the Puerto Rico Corporation's net deferred tax asset as a result of the reduction in the marginal corporate income tax rate due to the Puerto Rico tax reform. The favorable variance was also attributable to the previously mentioned tax benefit of \$72.9 million recognized in 2012 resulting from a Closing Agreement with the P.R. Treasury related to the tax treatment of the loans acquired in the Westernbank FDIC-assisted transaction, compared with a tax benefit of \$53.6 million recognized in 2011 resulting from a Closing Agreement with the P.R. Treasury for the recognition of certain tax benefits not previously recorded during years 2009 (the benefit of reduced tax rates for capital gains) and 2010 (the benefit of the exempt income). The decrease in income tax expense was also due to lower income in the Corporation's Puerto Rico operations compared to the same period of 2011.

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Banco Popular North America

For the quarter ended June 30, 2012, the reportable segment of Banco Popular North America reported net income of \$10.6 million, compared with \$2.6 million for the same quarter of the previous year. The principal factors that contributed to the variance in the financial results included the following:

lower net interest income by \$5.0 million, or 7%, which was primarily the effect of lower average volume by \$612 million in the loan portfolio, partially offset by an increase of \$316 million in the average balance of investment securities and to lower deposit balances. The reduction in the average loan portfolio is net of an increase of \$124 million in the average balance of the mortgage portfolio as a result of the acquisition of approximately \$273 million in performing mortgage loans during the quarter ended June 30, 2012. The decrease in interest income was partially offset by lower deposits costs. The BPNA reportable segment had a net interest margin of 3.55% for the quarter ended June 30, 2012, compared with 3.64% for the same period in 2011;

lower provision for loan losses by \$9.7 million, or 39%, principally the result of lower net charge-offs by \$23.7 million, partly offset by a lower allowance for loan losses release, as the second quarter of 2011 included higher reductions in the allowance due to lower portfolio balances and overall improvements in portfolio behavior;

lower non-interest income by \$3.9 million, or 20%, mostly due to lower gain on sale of loans, net of fair value adjustments, by \$2.5 million related to lower gains on the sale of commercial and mortgage loans, and lower other service fees by \$1.2 million, mostly related to debit card fees, due to the effect of the Durbin Amendment of the Dodd-Frank Act; and

lower operating expenses by \$7.3 million, or 11%, mainly due to lower other real estate owned costs by \$7.2 million due to higher gains on the sale of construction real estate properties.

Net income for the six months ended June 30, 2012 totaled \$19.9 million, compared with \$24.9 million for the same period in the previous year. These results reflected:

lower net interest income by \$5.8 million, or 4%, which was primarily the effect of lower average volume by \$808 million in the loan portfolio, partially offset by higher volume of investment securities and lower deposit balances. The net interest margin increased from 3.62% for the six months ended June 30, 2011 to 3.67% for the same period in 2012, mostly due to lower cost of deposits by 33 basis points and collection of interest on construction loans that were previously non-accruing and which were paid-off during the first quarter of 2012;

lower provision for loan losses by \$3.0 million, or 9%, principally as a result of lower net charge-offs by \$44.9 million mainly from the legacy, commercial and consumer loan portfolios due to improved credit performance. As mentioned above, these favorable variances were partly offset by a lower allowance for loan losses release, as the second quarter of 2011 included higher reductions due to lower portfolio balances and overall improvements in portfolio behavior. In addition, the first quarter of 2011 included a \$13.8 million benefit due to improved pricing from the sale of the non-conventional mortgage loan portfolio;

lower non-interest income by \$5.8 million, or 16%, mostly due to lower other service fees by \$2.7 million, mostly related to debit card fees, and lower gain on sale of loans, net of valuation adjustments on loans held-for-sale, by \$2.4 million due to lower gains on the sale of mortgage loans; and

lower operating expenses by \$3.6 million, or 3%, mainly due lower other real estate owned costs by \$5.5 million related to higher gains on the sale of construction real estate properties, and lower FDIC deposit insurance assessments by \$4.6 million. These

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favorable variances were partially offset by an increase of \$4.5 million in personnel costs mainly due to higher headcount and benefit accruals, and higher business promotion expenses by \$1.7 million due to the rebranding of the BPNA franchise.

Table of Contents**FINANCIAL CONDITION ANALYSIS****Assets**

The Corporation's total assets were \$36.6 billion at June 30, 2012 and \$37.3 billion at December 31, 2011. Refer to the consolidated financial statements included in this report for the Corporation's consolidated statements of financial condition as of such dates. The reduction in total assets was principally in the categories of money market investments, loans covered under FDIC loss sharing agreements and the FDIC loss share asset.

Money market investments

Money market investments amounted to \$0.9 billion at June 30, 2012, compared with \$1.4 billion as of December 31, 2011. The reduction was principally in time deposits by \$339 million, mainly in excess balances held at the Federal Reserve Bank, and federal funds sold by \$70 million, which are dependent in part on excess short-term liquidity derived principally from customer deposits.

Investment securities

Table 10 provides a breakdown of the Corporation's portfolio of investment securities available-for-sale (AFS) and held-to-maturity (HTM) on a combined basis. Also, Notes 5 and 6 to the consolidated financial statements provide additional information with respect to the Corporation's investment securities AFS and HTM. Purchases of collateralized mortgage obligations were principally in the form of U.S. Government agency-issued collateralized mortgage obligations. The reduction in mortgage-backed securities was due to maturities and prepayments.

Table 10 Breakdown of Investment Securities Available-for-Sale and Held-to-Maturity

| (In millions) | June 30, 2012 | December 31, 2011 | Variance |
|---|------------------|----------------------|----------|
| U.S. Treasury securities | \$ 37.9 | \$ 38.7 | \$ (0.8) |
| Obligations of U.S. Government sponsored entities | 1,039.4 | 985.5 | 53.9 |
| Obligations of Puerto Rico, States and political subdivisions | 147.9 | 157.7 | (9.8) |
| Collateralized mortgage obligations | 2,042.1 | 1,755.6 | 286.5 |
| Mortgage-backed securities | 1,875.7 | 2,139.6 | (263.9) |
| Equity securities | 7.0 | 6.9 | 0.1 |
| Others | 51.4 | 51.2 | 0.2 |
| Total investment securities AFS and HTM | \$ 5,201.4 | \$ 5,135.2 | \$ 66.2 |

Table of Contents**Loans**

Refer to Table 11, for a breakdown of the Corporation's loan portfolio, the principal category of earning assets. Loans covered under the FDIC loss sharing agreements are presented in a separate line item in Table 11. The risks on covered loans are significantly different as a result of the loss protection provided by the FDIC.

In general, the changes in most loan categories reflect soft loan demand, the impact of loan charge-offs, and portfolio run-off of the exited loan origination channels at the BPNA reportable segment. The decreases were partially offset by mortgage and installment loan growth mainly due to the loan purchases of consumer loans in Puerto Rico and of mortgage loans in the U.S. mainland operations as described in the Overview section of this MD&A, and mortgage loan originations and repurchases under recourse agreements in Puerto Rico.

Table 11 Loans Ending Balances

| (In thousands) | June 30, 2012 | December 31, 2011 | Variance |
|---|---------------|-------------------|--------------|
| Loans not covered under FDIC loss sharing agreements: | | | |
| Commercial | \$ 9,602,815 | \$ 9,973,327 | \$ (370,512) |
| Construction | 249,743 | 239,939 | 9,804 |
| Legacy ^[1] | 509,829 | 648,409 | (138,580) |
| Lease financing | 537,917 | 548,706 | (10,789) |
| Mortgage | 5,899,973 | 5,518,460 | 381,513 |
| Consumer | 3,865,532 | 3,673,755 | 191,777 |
| Total non-covered loans held-in-portfolio | 20,665,809 | 20,602,596 | 63,213 |
| Loans covered under FDIC loss sharing agreements: | | | |
| Commercial | 2,331,176 | 2,512,742 | (181,566) |
| Construction | 469,765 | 546,826 | (77,061) |
| Mortgage | 1,116,476 | 1,172,954 | (56,478) |
| Consumer | 98,913 | 116,181 | (17,268) |
| Total covered loans held-in-portfolio ^[2] | 4,016,330 | 4,348,703 | (332,373) |
| Total loans held-in-portfolio | 24,682,139 | 24,951,299 | (269,160) |
| Loans held-for-sale: | | | |
| Commercial | 18,072 | 25,730 | (7,658) |
| Construction | 160,102 | 236,045 | (75,943) |
| Legacy ^[1] | 425 | 468 | (43) |
| Mortgage | 185,938 | 100,850 | 85,088 |
| Total loans held-for-sale | 364,537 | 363,093 | 1,444 |
| Total loans | \$ 25,046,676 | \$ 25,314,392 | \$ (267,716) |

[1] The legacy portfolio is comprised of commercial loans, construction loans and lease financings related to certain lending products exited by the Corporation as part of restructuring efforts carried out in prior years at the BPNA reportable segment.

[2] Refer to Note 7 to the consolidated financial statements for the composition of the loans covered under FDIC loss sharing agreements.

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The explanations for loan portfolio variances discussed below exclude the impact of the covered loans.

The decrease in commercial loans held-in-portfolio from December 31, 2011 to June 30, 2012 was reflected in the BPPR and BPNA reportable segments by \$307 million and \$63 million, respectively. The decline in the Puerto Rico operations was experienced in the categories of commercial loans secured by real estate and in commercial and industrial loans and was mostly associated with the cancellation and repayment of certain commercial lines of credit in Puerto Rico and charge-offs of \$87 million during the six-month period ended June 30, 2012. The decrease in the U.S. operations was principally the result of portfolio runoff and charge-offs of \$37 million.

The BPNA legacy portfolio (refer to footnote 1 in Table 11) reflected declines in commercial loans of \$110 million, construction loans of \$24 million and lease financings of \$5 million from December 31, 2011 to June 30, 2012. These declines were principally related to portfolio run-off and charge-offs of \$20 million for the six months ended June 30, 2012.

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The decline in the lease financing portfolio corresponded to the BPPR reportable segment and is primarily due to a general slowdown in originations.

Mortgage loans held-in-portfolio increased by \$257 million and \$125 million from December 31, 2011 to June 30, 2012 in the BPNA and BPPR reportable segments, respectively. The increase in BPNA reportable segment was mainly due to residential loan purchases which amounted to \$293 million (unpaid principal balance at acquisition date) during 2012, partially offset by loan repayments. The increase in the BPPR reportable segment was principally associated with loan repurchases under credit recourse agreements, many of which are put under the Corporation's loss mitigation programs, which approximated \$82 million for the six-month period ended June 30, 2012, and to loans originated and purchased, offset by collections and charge-offs. The Corporation has been successful in maintaining suitable origination volumes as clients continue benefiting from government programs that incentivize housing demand and the continuous low interest rate environment. Most new production is securitized into mortgage-backed securities in the secondary markets. Refer to the Guarantees associated with loans sold / serviced section in this MD&A, for information on the mortgage loan repurchases under credit recourse arrangements.

The increase in consumer loans from December 31, 2011 to June 30, 2012 was derived from the BPPR reportable segment by \$229 million mainly due to the previously mentioned acquisition of \$225 million in personal loans and an increase of \$21 million in auto loans, partially offset by a reduction of \$20 million in credit cards. The BPNA reportable segment's consumer loan portfolio reflected a reduction of \$37 million when compared with December 31, 2011. This decrease was mainly due to loan portfolio run-off of the exited lines of business, including E-LOAN, and charge-offs.

The increase in mortgage loans held-for-sale from December 31, 2011 to June 30, 2012 was mostly due to loans originated and purchased which are to be sold through agency securitizations in the secondary markets.

The decrease in commercial and construction loans held-for-sale loans from December 31, 2011 to June 30, 2012 was principally driven by the BPPR reportable segment resulting from negative valuation adjustments as described in the Overview and Non-Interest income sections of this MD&A and to reclassifications of certain loans held-for-sale to other real estate owned upon possession of the real estate collateral.

Covered loans were initially recorded at fair value. Their carrying value was approximately \$4.0 billion at June 30, 2012. Refer to Table 11 for a breakdown of the covered loans by major loan type categories. A substantial amount of the covered loans, or approximately \$3.7 billion of their carrying value at June 30, 2012, was accounted for under ASC Subtopic 310-30. The decline in covered loans from December 31, 2011 to June 30, 2012 was principally due to collections and to charge-offs amounting to \$63 million for the six-month period ended June 30, 2012, partially offset by discount accretion. Tables 12 and 13 provide the activity in the carrying amount and outstanding discount on the covered loans accounted for under ASC 310-30. The outstanding accretable discount is impacted by increases in cash flow expectations on the loan pools based on quarterly revisions of the portfolio. The increase in the accretable discount is recognized as interest income using the effective yield method over the estimated life of each applicable loan pool.

Table 12 Activity in the Carrying Amount of Covered Loans Accounted for Under ASC 310-30

| (In thousands) | Quarter ended June 30, | | Six months ended June 30, | |
|----------------------------------|---------------------------|--------------|------------------------------|--------------|
| | 2012 | 2011 | 2012 | 2011 |
| Beginning balance | \$ 3,894,905 | \$ 4,423,496 | \$ 4,036,471 | \$ 4,539,928 |
| Accretion | 73,988 | 100,185 | 143,325 | 173,117 |
| Collections / charge-offs | (239,404) | (258,616) | (450,307) | (447,980) |
| Ending balance | \$ 3,729,489 | \$ 4,265,065 | \$ 3,729,489 | \$ 4,265,065 |
| Allowance for loan losses (ALLL) | (93,971) | (48,257) | (93,971) | (48,257) |
| Ending balance, net of ALLL | \$ 3,635,518 | \$ 4,216,808 | \$ 3,635,518 | \$ 4,216,808 |

Table 13 Activity in the Outstanding Accretable Discount on Covered Loans Accounted for Under ASC 310-30

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| (In thousands) | Quarter ended June 30, | | Six months ended June 30, | |
|-------------------------------|------------------------|--------------|---------------------------|--------------|
| | 2012 | 2011 | 2012 | 2011 |
| Beginning balance | \$ 1,542,519 | \$ 1,258,176 | \$ 1,470,259 | \$ 1,331,108 |
| Accretion [1] | (73,988) | (100,185) | (143,325) | (173,117) |
| Change in expected cash flows | 106,319 | 458,928 | 247,916 | 458,928 |
| Ending balance | \$ 1,574,850 | \$ 1,616,919 | \$ 1,574,850 | \$ 1,616,919 |

[1] Positive to earnings, which is included in interest income.

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The higher loan discount accretion in 2011, which is recorded in interest income, resulted principally from accelerated cash payments collected from a number of large borrowers, some of which the Corporation had estimated significantly higher losses. These cash flows resulted in a faster recognition of the corresponding loan pools' accretable yield. Furthermore, the recasting of loss estimates for pools accounted under ASC 310-30 during the quarter ended June 30, 2011 resulted in lower estimated loan losses than originally anticipated. The reduction in estimated losses increased the accretable yield to be recognized over the life of the loans. For certain loan pools that reflect higher loan losses than originally estimated, the increase in loss estimates for these particular pools are recognized immediately through the provision for loan losses, but are offset by the 80% loss share agreement. This offset is also recorded in non-interest income.

Although the reduction in estimated loan losses increases the accretable yield to be recognized over the life of the loans, it also has the effect of lowering the realizable value of the loss share asset since the Corporation would receive fewer FDIC payments under the loss share agreements.

FDIC loss share asset

Table 14 sets forth the activity in the FDIC loss share asset for the six months ended June 30, 2012.

Table 14 Activity of Loss Share Asset

| (In thousands) | Six months ended June 30, | |
|--|---------------------------|--------------|
| | 2012 | 2011 |
| Balance at beginning of year | \$ 1,915,128 | \$ 2,410,219 |
| (Amortization) accretion of loss share indemnification asset, net | (66,788) | 34,433 |
| Credit impairment losses to be covered under loss sharing agreements | 42,848 | 51,329 |
| Decrease due to reciprocal accounting on the discount accretion for loans and unfunded commitments accounted for under ASC Subtopic 310-20 | (496) | (30,003) |
| Payments received from FDIC under loss sharing agreements | (262,807) | (15,694) |
| Other adjustments attributable to FDIC loss sharing agreements | 3,709 | (5,028) |
| Balance at end of period | \$ 1,631,594 | \$ 2,445,256 |

The FDIC loss share indemnification asset is recognized on the same basis as the assets subject to the loss share protection from the FDIC, except that the amortization / accretion terms differ. Decreases in expected reimbursements from the FDIC due to improvements in expected cash flows to be received from borrowers, as compared with the initial estimates, are recognized as a reduction to non-interest income prospectively over the life of the loss share agreements. This is because the indemnification asset balance is being reduced to the expected reimbursement amount from the FDIC. Table 15 presents the activity associated with the outstanding balance of the FDIC loss share asset amortization (or negative discount) for the periods presented.

Table 15 Activity in the Remaining FDIC Loss Share Asset Discount

| (In thousands) | Quarter ended June 30, | | Six months ended June 30, | |
|---|------------------------|--------------|---------------------------|--------------|
| | 2012 | 2011 | 2012 | 2011 |
| Balance at beginning of period [1] | \$ 106,781 | \$ (113,487) | \$ 117,916 | \$ (139,283) |
| (Amortization of negative discount) accretion of discount [2] | (37,413) | 8,637 | (66,788) | 34,433 |
| Impact of lower projected losses | 51,940 | 187,546 | 70,180 | 187,546 |
| Balance at end of period | \$ 121,308 | \$ 82,696 | \$ 121,308 | \$ 82,696 |

[1] Positive balance represents negative discount (debit to assets), while a negative balance represents a discount (credit to assets).

[2]

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Amortization results in a negative impact to non-interest income, while a positive balance results in a positive impact to non-interest income, particularly FDIC loss share income / expense.

While the Corporation was originally accreting to the future value of the loss share indemnity asset, the lowered loss estimates in mid-2011 required the Corporation to amortize the loss share asset to its currently lower expected collectible balance, thus resulting in negative accretion. Due to the shorter life of the indemnity asset compared with the expected life of the covered loans, this negative accretion temporarily offsets the benefit of higher cash flows accounted through the accretable yield on the loans.

Other real estate owned

Other real estate represents real estate property received in satisfaction of debt. Collection efforts and a slowdown in OREO sales have led to an increase in the amount of other real estate owned, which increased in total from \$282 million at December 31, 2011 to \$352 million at June 30, 2012. Table 16 provides the activity in other real estate for the six months ended June 30, 2012. The amounts included as covered other real estate are sheltered by the FDIC loss sharing agreements.

Table of Contents**Table 16 Other Real Estate (OREO) Activity**

For the six months ended June 30, 2012

| (In thousands) | Non-covered OREO-commercial and construction | Non-covered OREO-mortgage | Covered OREO-commercial and construction | Covered OREO-mortgage | Total |
|--------------------------------|---|------------------------------|--|--------------------------|------------|
| | | | | | |
| Balance at beginning of period | \$ 94,016 | \$ 78,481 | \$ 90,097 | \$ 19,038 | \$ 281,632 |
| Write-downs in value | (8,938) | (9,928) | (3,503) | (377) | (22,746) |
| Additions | 62,367 | 54,569 | 34,183 | 5,858 | 156,977 |
| Sales | (24,261) | (18,745) | (17,249) | (2,973) | (63,228) |
| Other adjustments | (165) | (767) | 165 | (146) | (913) |
| Ending balance | \$ 123,019 | \$ 103,610 | \$ 103,693 | \$ 21,400 | \$ 351,722 |

Other assets

Table 17 provides a breakdown of the principal categories that comprise the caption of Other assets in the consolidated statements of condition at June 30, 2012 and December 31, 2011.

Table 17 Breakdown of Other Assets

| (In thousands) | June 30, 2012 | December 31, 2011 | Variance |
|--|---------------|-------------------|------------|
| Net deferred tax assets (net of valuation allowance) | \$ 572,744 | \$ 429,691 | \$ 143,053 |
| Investments under the equity method | 223,960 | 313,152 | (89,192) |
| Bank-owned life insurance program | 231,428 | 238,077 | (6,649) |
| Prepaid FDIC insurance assessment | 32,617 | 58,082 | (25,465) |
| Prepaid taxes | 107,827 | 17,441 | 90,386 |
| Other prepaid expenses | 56,063 | 59,894 | (3,831) |
| Derivative assets | 53,244 | 61,886 | (8,642) |
| Trades receivables from brokers and counterparties | 87,774 | 69,535 | 18,239 |
| Others | 212,137 | 214,635 | (2,498) |
| Total other assets | \$ 1,577,794 | \$ 1,462,393 | \$ 115,401 |

The increase in other assets from December 31, 2011 to June 30, 2012 reflects an increase in net deferred tax assets mainly due to the reduction in the deferred tax liability of \$72.9 million associated with the tax treatment of the loans acquired in the Westernbank FDIC-assisted transaction since the gains resulting from such loans will be taxed at the capital gain tax rate of 15% instead of the ordinary income tax rate of 30%. Also, as part of the previously mentioned Closing Agreement, the P.R. Treasury and the Corporation agreed that for tax purposes the deductions related to previously recognized charge-offs originated from the Westernbank FDIC-assisted transaction for the years 2010 through May 2012 will be deferred until years 2017 to 2020. As a result of this aspect of the Closing Agreement, the Corporation made a payment of \$45.5 million to the P.R. Treasury and recorded an increase in the deferred tax asset in June 2012. The increase in prepaid taxes was principally associated with the tax prepayment on the estimated capital gains of the Westernbank acquired loans which is further described in Note 29 to the consolidated financial statements. These increases were partially offset by lower investments accounted for under the equity method, mainly due to the previously mentioned cash dividend received from EVERTEC's parent company of \$131 million which reduced the Corporation's equity investment in the entity, partially offset by the impact of the Corporation's share in earnings of various equity method investees and a reduction in the negative impact of intra-entity eliminations for loans and deposits between the Corporation and the investees. Additionally, there was a reduction in the prepaid FDIC insurance assessment from the end of 2011 to June 30, 2012 due to amortization.

Table of Contents**Deposits and Borrowings**

The composition of the Corporation's financing sources to total assets at June 30, 2012 and December 31, 2011 is included in Table 18.

Table 18 Financing to Total Assets

| | June 30, | December 31, | % increase (decrease) | % of total assets | |
|---------------------------------|----------|--------------|-----------------------|-------------------|--------|
| (In millions) | 2012 | 2011 | from 2011 to 2012 | 2012 | 2011 |
| Non-interest bearing deposits | \$ 5,579 | \$ 5,655 | (1.3)% | 15.2 % | 15.1 % |
| Interest-bearing core deposits | 16,179 | 15,690 | 3.1 | 44.2 | 42.0 |
| Other interest-bearing deposits | 5,657 | 6,597 | (14.2) | 15.5 | 17.7 |
| Repurchase agreements | 1,427 | 2,141 | (33.3) | 3.9 | 5.7 |
| Other short-term borrowings | 316 | 296 | 6.8 | 0.9 | 0.8 |
| Notes payable | 1,878 | 1,856 | 1.2 | 5.1 | 5.0 |
| Others | 1,555 | 1,194 | 30.2 | 4.2 | 3.2 |
| Stockholders' equity | 4,021 | 3,919 | 2.6 | 11.0 | 10.5 |

Deposits

A breakdown of the Corporation's deposits at period-end is included in Table 19.

Table 19 Deposits Ending Balances

| (In thousands) | June 30, 2012 | December 31, 2011 | Variance |
|---|---------------|-------------------|--------------|
| Demand deposits [1] | \$ 6,379,289 | \$ 6,256,530 | \$ 122,759 |
| Savings, NOW and money market deposits (non-brokered) | 11,031,476 | 10,762,869 | 268,607 |
| Savings, NOW and money market deposits (brokered) | 433,694 | 212,688 | 221,006 |
| Time deposits (non-brokered) | 6,950,063 | 7,552,434 | (602,371) |
| Time deposits (brokered CDs) | 2,620,258 | 3,157,606 | (537,348) |
| Total deposits | \$ 27,414,780 | \$ 27,942,127 | \$ (527,347) |

[1] Includes interest and non-interest bearing demand deposits.

The increase in demand deposits from December 31, 2011 to June 30, 2012 was mainly related to higher deposits from governmental agencies and other commercial accounts, partially offset by lower balance of deposits in trust that were short-term and were mostly associated with certain Puerto Rico government bond issuances. The net decrease in brokered deposits was primarily at BPPR. The Corporation raised brokered deposits in the latter months of 2011 to fund the repayment of the outstanding balance of the note that was issued to the FDIC as part of the Westernbank FDIC-assisted transaction. Following the repayment of the FDIC note, the use of brokered deposits was anticipated to fall and the funds were replaced with FHLB advances. The decrease in non-brokered time deposits was principally at BPPR due to efforts to continue to lower cost of funds. Despite the decrease, the Corporation has successfully maintained the Corporation's main relationships and has been able to substitute funds with other deposit types at lower rates. Also, lower deposit costs have contributed favorably to maintain the Corporation's net interest margin above 4%. These decreases were partially offset by an increase of savings, NOW and money market deposits, both from the retail and commercial sectors.

Borrowings

The Corporation's borrowings amounted to \$3.6 billion at June 30, 2012, compared with \$4.3 billion at December 31, 2011. The decrease from December 31, 2011 to June 30, 2012 was related to lower financing through repurchase agreements by \$714 million,

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which included the previously mentioned early extinguishment of \$350 million in repurchase agreements. Refer to Note 14 to the consolidated financial statements for detailed information on the Corporation's borrowings at June 30, 2012 and December 31, 2011. Also, refer to the Liquidity section in this MD&A for additional information on the Corporation's funding sources.

Other liabilities

The increase in other liabilities of \$362 million from December 31, 2011 to June 30, 2012 resulted from an increase in payables due to counterparties from the cancelation of the repo agreements, including loss on extinguishment and interest due, since the cash transfer settled shortly after quarter end.

Stockholders' Equity

Stockholders' equity totaled \$4.0 billion at June 30, 2012, compared with \$3.9 billion at December 31, 2011. The increase was principally due to internal capital generation. Refer to the consolidated statements of financial condition and of stockholders' equity for information on the composition of stockholders' equity. Also, the disclosures of accumulated other comprehensive income, an integral component of stockholders' equity, are included in the consolidated statements of comprehensive income.

REGULATORY CAPITAL

The Corporation continues to exceed the well-capitalized guidelines under the federal banking regulations. The regulatory capital ratios and amounts of total risk-based capital, Tier 1 risk-based capital and Tier 1 leverage at June 30, 2012 and December 31, 2011 are presented on Table 20. As of such dates, BPPR and BPNA were well-capitalized.

Table 20 Capital Adequacy Data

| (Dollars in thousands) | June 30, 2012 | December 31, 2011 |
|---|-------------------|-------------------|
| Risk-based capital: | | |
| Tier I capital | \$ 3,893,595 | \$ 3,899,593 |
| Supplementary (Tier II) capital | 305,171 | 312,477 |
| Total capital | \$ 4,198,766 | \$ 4,212,070 |
| Risk-weighted assets: | | |
| Balance sheet items | \$ 21,438,278 | \$ 21,775,369 |
| Off-balance sheet items | 2,437,037 | 2,638,954 |
| Total risk-weighted assets | \$ 23,875,315 | \$ 24,414,323 |
| Average assets | \$ 35,123,067 | \$ 35,783,749 |
| Ratios: | | |
| Tier I capital (minimum required 4.00%) | 16.31 % | 15.97 |
| Total capital (minimum required 8.00%) | 17.59 | 17.25 |
| Leverage ratio * | 11.09 | 10.90 |

* All banks are required to have minimum tier I leverage ratio of 3% or 4% of adjusted quarterly average assets, depending on the bank's classification. At June 30, 2012, the capital adequacy minimum requirement for Popular, Inc. was (in thousands): Total Capital of \$1,910,025, Tier I Capital of \$955,013, and Tier I Leverage of \$1,053,692, based on a 3% ratio, or \$1,404,923, based on a 4% ratio, according to the Bank's classification.

The improvement in the Corporation's regulatory capital ratios from December 31, 2011 to June 30, 2012 was principally due to a reduction in assets, changes in balance sheet composition including the increase in assets with lower risk-weightings such as mortgage loans, and internal capital generation from earnings, partially offset by an increase deferred tax assets disallowed for capital risk computations given the increase in net deferred tax asset balances described in the Financial Condition Analysis section in this MD&A.

In accordance with the Federal Reserve Board guidance, the trust preferred securities represent restricted core capital elements and qualify as Tier 1 capital, subject to certain quantitative limits. The aggregate amount of restricted core capital elements that may be included in the Tier 1 capital of a banking organization must not exceed 25% of the sum of all core capital elements (including cumulative perpetual preferred stock and trust preferred securities). At June 30, 2012 and December 31, 2011, the Corporation's

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restricted core capital elements did not exceed the 25% limitation. Thus, all trust preferred securities were allowed as Tier 1 capital. Amounts of restricted core capital elements in excess of this limit generally may be included in Tier 2 capital, subject to further limitations. Effective March 31, 2011, the Federal Reserve Board revised the quantitative limit which would limit restricted core capital elements included in the Tier 1 capital of a bank holding company to 25% of the sum of core capital elements (including restricted core capital elements), net of goodwill less any associated deferred tax liability. Furthermore, the Dodd-Frank Act, enacted in July 2010, has a provision to effectively phase-out the use of trust preferred securities issued before May 19, 2010 as Tier 1 capital over a 3-year period commencing on January 1, 2013. Trust preferred securities issued on or after May 19, 2010 will no longer qualify as Tier 1 capital. At June 30, 2012, the Corporation had \$427 million in trust preferred securities (capital securities) that are subject to the phase-out. The Corporation has not issued any trust preferred securities since May 19, 2010. At June 30, 2012, the remaining \$935 million in trust preferred securities corresponded to capital securities issued to the U.S. Treasury pursuant to the Emergency Economic Stabilization Act of 2008. The Dodd-Frank Act includes an exemption from the phase-out provision that applies to these capital securities.

The tangible common equity ratio and tangible book value per common share, which are presented in the table that follows, are non-GAAP measures. Management and many stock analysts use the tangible common equity ratio and tangible book value per common share in conjunction with more traditional bank capital ratios to compare the capital adequacy of banking organizations with significant amounts of goodwill or other intangible assets, typically stemming from the use of the purchase accounting method of accounting for mergers and acquisitions. Neither tangible common equity nor tangible assets or related measures should be considered in isolation or as a substitute for stockholders' equity, total assets or any other measure calculated in accordance with generally accepted accounting principles in the United States of America (GAAP). Moreover, the manner in which the Corporation calculates its tangible common equity, tangible assets and any other related measures may differ from that of other companies reporting measures with similar names.

Table 21 provides a reconciliation of total stockholders' equity to tangible common equity and total assets to tangible assets at June 30, 2012 and December 31, 2011.

Table 21 Reconciliation of Tangible Common Equity and Tangible Assets

| (In thousands, except share or per share information) | June 30, 2012 | December 31, 2011 |
|---|----------------------|----------------------|
| Total stockholders' equity | \$ 4,021,237 | \$ 3,918,753 |
| Less: Preferred stock | (50,160) | (50,160) |
| Less: Goodwill | (647,757) | (648,350) |
| Less: Other intangibles | (59,243) | (63,954) |
| Total tangible common equity | \$ 3,264,077 | \$ 3,156,289 |
| Total assets | \$ 36,612,179 | \$ 37,348,432 |
| Less: Goodwill | (647,757) | (648,350) |
| Less: Other intangibles | (59,243) | (63,954) |
| Total tangible assets | \$ 35,905,179 | \$ 36,636,128 |
| Tangible common equity to tangible assets | 9.09% | 8.62% |
| Common shares outstanding at end of period | 102,824,323 | 102,590,457 |
| Tangible book value per common share | \$ 31.74 | \$ 30.77 |

The Tier 1 common equity to risk-weighted assets ratio is another non-GAAP measure. Ratios calculated based upon Tier 1 common equity have become a focus of regulators and investors, and management believes ratios based on Tier 1 common equity assist investors in analyzing the Corporation's capital position. In connection with the Supervisory Capital Assessment Program (SCAP), the Federal Reserve Board began supplementing its assessment of the capital adequacy of a bank holding company based on a variation of Tier 1 capital, known as Tier 1 common equity.

Because Tier 1 common equity is not formally defined by GAAP or, unlike Tier 1 capital, codified in the federal banking regulations, this measure is considered to be a non-GAAP financial measure. Non-GAAP financial measures have inherent limitations, are not required to be uniformly applied and are not audited. To mitigate these limitations, the Corporation has procedures in place to calculate these measures using the appropriate GAAP or regulatory components. Although these non-GAAP financial measures are frequently used by stakeholders in the

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evaluation of a company, they have limitations as analytical tools, and should not be considered in isolation, or as a substitute for analyses of results as reported under GAAP.

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Table 22 provides a reconciliation of the Corporation's total common stockholders' equity (GAAP) to Tier 1 common equity at June 30, 2012 and December 31, 2011, as defined by the Federal Reserve Board, FDIC and other bank regulatory agencies (non-GAAP).

Table 22 Reconciliation Tier 1 Common Equity

| (In thousands) | June 30, 2012 | December 31, 2011 |
|---|---------------------|---------------------|
| Common stockholders' equity | \$ 3,971,077 | \$ 3,868,593 |
| Less: Unrealized gains on available-for-sale securities, net of tax ^[1] | (181,207) | (203,078) |
| Less: Disallowed deferred tax assets ^[2] | (392,960) | (249,325) |
| Less: Intangible assets: | | |
| Goodwill | (647,757) | (648,350) |
| Other disallowed intangibles | (22,241) | (29,655) |
| Less: Aggregate adjusted carrying value of all non-financial equity investments | (1,256) | (1,189) |
| Add: Pension liability adjustment, net of tax and accumulated net gains (losses) on cash flow hedges ^[3] | 208,015 | 216,798 |
| Total Tier 1 common equity | \$ 2,933,671 | \$ 2,953,794 |
| Tier 1 common equity to risk-weighted assets | 12.29% | 12.10% |

[1] In accordance with regulatory risk-based capital guidelines, Tier 1 capital excludes net unrealized gains (losses) on available-for-sale debt securities and net unrealized gains on available-for-sale equity securities with readily determinable fair values. In arriving at Tier 1 capital, institutions are required to deduct net unrealized losses on available-for-sale equity securities with readily determinable fair values, net of tax.

[2] Approximately \$151 million of the Corporation's \$573 million of net deferred tax assets at June 30, 2012 (\$150 million and \$430 million, respectively, at December 31, 2011), were included without limitation in regulatory capital pursuant to the risk-based capital guidelines, while approximately \$393 million of such assets at June 30, 2012 (\$249 million at December 31, 2011) exceeded the limitation imposed by these guidelines and, as disallowed deferred tax assets, were deducted in arriving at Tier 1 capital. The remaining \$29 million of the Corporation's other net deferred tax assets at June 30, 2012 (\$31 million at December 31, 2011) represented primarily the following items: (a) the deferred tax effects of unrealized gains and losses on available-for-sale debt securities, which are permitted to be excluded prior to deriving the amount of net deferred tax assets subject to limitation under the guidelines; (b) the deferred tax asset corresponding to the pension liability adjustment recorded as part of accumulated other comprehensive income; and (c) the deferred tax liability associated with goodwill and other intangibles.

[3] The Federal Reserve Board has granted interim capital relief for the impact of pension liability adjustment.

BASEL III and the Dodd-Frank Act

In June 2012, the FRB, OCC, and FDIC (collectively, the Agencies) each issued Notices of Proposed Rulemaking (NPRs) that would revise and replace the Agencies' current capital rules to align with the BASEL III capital standards and meet certain requirements of the Dodd-Frank Act. Certain requirements of the proposed NPRs would establish more restrictive requirements for instruments to qualify as capital, higher risk-weightings for certain asset classes (including non-performing loans, certain commercial real estate loans, and certain types of residential mortgage loans), capital buffers and higher minimum capital ratios. The proposed NPRs provide for a comment period through October 22, 2012 and the proposals are subject to further modification by the Agencies. The revised capital rules are expected to be implemented between 2013 and 2019.

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The proposed revisions would include implementation of a new common equity Tier 1 minimum capital requirement and apply limits on a banking organization's capital distributions and certain discretionary bonus payments if the banking organization does not hold a specified amount of common equity Tier 1 capital in addition to the amount necessary to meet its minimum risk-based capital requirements. The NPRs also would establish more conservative standards for including an instrument in regulatory capital. The revisions set forth in these NPRs are consistent with section 171 of the Dodd-Frank Act, which requires the Agencies to establish minimum risk-based and leverage capital requirements.

The Agencies are also proposing to revise their rules for calculating risk-weighted assets to enhance risk sensitivity and address weaknesses identified over recent years, including by incorporating aspects of the Basel II standardized framework in the International Convergence of Capital Measurement and Capital Standards: A Revised Framework, including subsequent amendments to that standard, and recent consultative papers from the Basel Committee on Banking Supervision. The Standardized Approach NPR also includes alternatives to credit ratings, consistent with section 939A of the Dodd-Frank Act. The revisions include methodologies for determining risk-weighted assets for residential mortgages, securitization exposures, and counterparty credit risk.

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We are currently evaluating the impact of the proposed NPRs on our regulatory capital ratios. Although we anticipate that, based on our current asset composition and non-performing asset levels, the implementation of the NPRs as currently proposed would lower our regulatory capital ratios, we expect to continue to exceed the minimum requirements for well capitalized status after the implementation of the NPRs.

Contractual Obligations and Commercial Commitments

The Corporation has various financial obligations, including contractual obligations and commercial commitments, which require future cash payments on debt and lease agreements. Also, in the normal course of business, the Corporation enters into contractual arrangements whereby it commits to future purchases of products or services from third parties. Obligations that are legally binding agreements, whereby the Corporation agrees to purchase products or services with a specific minimum quantity defined at a fixed, minimum or variable price over a specified period of time, are defined as purchase obligations.

Purchase obligations include major legal and binding contractual obligations outstanding at June 30, 2012, primarily for services, equipment and real estate construction projects. Services include software licensing and maintenance, facilities maintenance, supplies purchasing, and other goods or services used in the operation of the business. Generally, these contracts are renewable or cancelable at least annually, although in some cases the Corporation has committed to contracts that may extend for several years to secure favorable pricing concessions. Purchase obligations amounted to \$191 million at June 30, 2012 of which approximately 46% matures in 2012, 21% in 2013, 13% in 2014 and 20% thereafter.

The Corporation also enters into derivative contracts under which it is required either to receive or pay cash, depending on changes in interest rates. These contracts are carried at fair value on the consolidated statement of financial condition with the fair value representing the net present value of the expected future cash receipts and payments based on market rates of interest as of the statement of condition date. The fair value of the contract changes daily as interest rates change. The Corporation may also be required to post additional collateral on margin calls on the derivatives and repurchase transactions.

Refer to Note 14 for a breakdown of long-term borrowings by maturity.

The Corporation utilizes lending-related financial instruments in the normal course of business to accommodate the financial needs of its customers. The Corporation's exposure to credit losses in the event of nonperformance by the other party to the financial instrument for commitments to extend credit, standby letters of credit and commercial letters of credit is represented by the contractual notional amount of these instruments. The Corporation uses credit procedures and policies in making those commitments and conditional obligations as it does in extending loans to customers. Since many of the commitments may expire without being drawn upon, the total contractual amounts are not representative of the Corporation's actual future credit exposure or liquidity requirements for these commitments.

Table 23 presents the contractual amounts related to the Corporation's off-balance sheet lending and other activities at June 30, 2012.

Table 23 Off-Balance Sheet Lending and Other Activities

| (In millions) | Amount of commitment - Expiration Period | | | | Total |
|---|--|----------------------|----------------------|----------------------------|----------|
| | Remaining 2012 | Years 2013 - 2015 | Years 2016 - 2018 | Years 2019 - thereafter | |
| Commitments to extend credit | \$ 5,754 | \$ 783 | \$ 379 | \$ 80 | \$ 6,996 |
| Commercial letters of credit | 10 | | | | 10 |
| Standby letters of credit | 88 | 31 | 11 | | 130 |
| Commitments to originate mortgage loans | 45 | 12 | | | 57 |
| Unfunded investment obligations | 1 | 9 | | | 10 |
| Total | \$ 5,898 | \$ 835 | \$ 390 | \$ 80 | \$ 7,203 |

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At June 30, 2012, the Corporation maintained a reserve of approximately \$7 million for potential losses associated with unfunded loan commitments related to commercial and consumer lines of credit. The estimated reserve is principally based on the expected draws on these facilities using historical trends and the application of the corresponding reserve factors determined under the Corporation's allowance for loan losses methodology. This reserve for unfunded loan commitments remains separate and distinct from the allowance for loan losses and is reported as part of other liabilities in the consolidated statement of financial condition.

Refer to Note 19 to the consolidated financial statements for additional information on credit commitments and contingencies.

Guarantees associated with loans sold / serviced

At June 30, 2012, the Corporation serviced \$3.2 billion in residential mortgage loans subject to lifetime credit recourse provisions, principally loans associated with FNMA and FHLMC residential mortgage loan securitization programs, compared with \$3.5 billion at December 31, 2011. The Corporation's last sale of mortgage loans subject to credit recourse was in 2009.

In the event of any customer default, pursuant to the credit recourse provided, the Corporation is required to repurchase the loan or reimburse the third party investor for the incurred loss. The maximum potential amount of future payments that the Corporation would be required to make under the recourse arrangements in the event of nonperformance by the borrowers is equivalent to the total outstanding balance of the residential mortgage loans serviced with recourse and interest, if applicable. In the event of nonperformance by the borrower, the Corporation has rights to the underlying collateral securing the mortgage loan. The Corporation suffers losses on these loans when the proceeds from a foreclosure sale of the property underlying a defaulted mortgage loan are less than the outstanding principal balance of the loan plus any uncollected interest advanced and the costs of holding and disposing the related property.

In the case of Puerto Rico, most claims are settled by repurchases of delinquent loans, the majority of which are greater than 90 days past due. The average time period to prepare an initial response to a repurchase request is from 30 to 120 days from the initial written notice depending on the type of the repurchase request. Failure by the Corporation to respond to a request for repurchase on a timely basis could result in a deterioration of the seller/servicer relationship and the seller/servicer's overall standing. In certain instances, investors could require additional collateral to ensure compliance with the servicer's repurchase obligation or cancel the seller/servicer license and exercise their rights to transfer the servicing to an eligible seller/servicer.

Table 24 below presents the delinquency status of the residential mortgage loans serviced by the Corporation that are subject to lifetime credit recourse provisions.

Table 24 Delinquency of Residential Mortgage Loans Subject to Lifetime Credit Recourse

| (In thousands) | June 30, 2012 | December 31, 2011 |
|-------------------------------------|---------------|-------------------|
| Total portfolio | \$ 3,181,280 | \$ 3,456,933 |
| Days past due: | | |
| 30 days and over | \$ 447,664 | \$ 500,524 |
| 90 days and over | \$ 180,916 | \$ 215,597 |
| As a percentage of total portfolio: | | |
| 30 days past due or more | 14.07% | 14.48% |
| 90 days past due or more | 5.69% | 6.24% |

During the quarter and six-month period ended June 30, 2012, the Corporation repurchased approximately \$32 million and \$82 million, respectively, of unpaid principal balance in mortgage loans subject to the credit recourse provisions, compared with \$53 million and \$115 million, respectively, for the same quarter and six-month period of 2011. There are no particular loan characteristics, such as loan vintages, loan type, loan-to-value ratio, or other criteria, that denote any specific trend or a concentration of repurchases in any particular segment. Based on historical repurchase experience, the loan delinquency status is the main factor which causes the repurchase request. In 2010 and 2011, the Corporation experienced an increase in mortgage loan repurchases from recourse portfolios that led to increases in non-performing mortgage loans. The deteriorating economic conditions in those years provoked a closer monitoring by investors of loan performance and recourse triggers, thus causing an increase in loan repurchases. Based on the volume of repurchases from recourse portfolios during 2012, when compared to 2011, the trend has improved. Once the loans are repurchased, they are put through the Corporation's loss mitigation programs.

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At June 30, 2012, there were 32 outstanding unresolved claims related to the credit recourse portfolio with a principal balance outstanding of \$4.0 million, compared with 19 and \$2.1 million, respectively, at December 31, 2011. The outstanding unresolved claims at June 30, 2012 pertained to FNMA (December 31, 2011 pertained to FNMA and FHLMC).

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At June 30, 2012, the Corporation's liability established to cover the estimated credit loss exposure related to loans sold or serviced with credit recourse amounted to \$56 million, compared with \$59 million at December 31, 2011.

Table 25 presents the changes in the Corporation's liability for estimated losses related to loans serviced with credit recourse provisions for the quarters and six-month period ended June 30, 2012 and 2011.

Table 25 Activity in Credit Recourse Liability

| (In thousands) | Quarters ended June 30, | | Six months ended June 30, | |
|-----------------------------------|-------------------------|-----------|---------------------------|-----------|
| | 2012 | 2011 | 2012 | 2011 |
| Balance as of beginning of period | \$ 56,115 | \$ 55,318 | \$ 58,659 | \$ 53,729 |
| Additions for new sales | | | | |
| Provision for recourse liability | 5,330 | 10,059 | 9,562 | 19,824 |
| Net charge-offs / terminations | (5,662) | (10,050) | (12,438) | (18,226) |
| Balance as of end of period | \$ 55,783 | \$ 55,327 | \$ 55,783 | \$ 55,327 |

The decrease of \$4.7 million in the provision for credit recourse liability experienced for the quarter ended June 30, 2012, when compared with the same quarter in 2011, was mainly driven by the following positive factors: (1) the improvement in the probability of default (PD) component which decreased by 71 basis points, prompted by an improvement in the credit quality of mortgage loans subject to credit recourse provisions, (2) the improvement in the constant prepayment rates resulting from the current behavior of the market interest rate scenario, and (3) a decrease in the losses of loans under these credit recourse agreements.

The estimated losses to be absorbed under the credit recourse arrangements are recorded as a liability when the loans are sold or credit recourse is assumed as part of acquired servicing rights and are updated by accruing or reversing expense (categorized in the line item adjustments (expense) to indemnity reserves on loans sold in the consolidated statements of operations) throughout the life of the loan, as necessary, when additional relevant information becomes available. The methodology used to estimate the recourse liability is a function of the recourse arrangements given and considers a variety of factors, which include actual defaults and historical loss experience, foreclosure rate, estimated future defaults and the probability that a loan would be delinquent. Statistical methods are used to estimate the recourse liability. Expected loss rates are applied to different loan segmentations. The expected loss, which represents the amount expected to be lost on a given loan, considers the probability of default and loss severity. The probability of default represents the probability that a loan in good standing would become 90 days delinquent within the following twelve-month period. Regression analysis quantifies the relationship between the default event and loan-specific characteristics, including credit scores, loan-to-value ratios and loan aging, among others.

When the Corporation sells or securitizes mortgage loans, it generally makes customary representations and warranties regarding the characteristics of the loans sold. The Corporation's mortgage operations in Puerto Rico group conforming mortgage loans into pools which are exchanged for FNMA and GNMA mortgage-backed securities, which are generally sold to private investors, or are sold directly to FNMA for cash. As required under the government agency programs, quality review procedures are performed by the Corporation to ensure that asset guideline qualifications are met. To the extent the loans do not meet specified characteristics, the Corporation may be required to repurchase such loans or indemnify for losses and bear any subsequent loss related to the loans. Repurchases under representation and warranty arrangements in which the Corporation's Puerto Rico banking subsidiaries were required to repurchase the loans amounted to \$2.5 million in unpaid principal balance with losses amounting to \$0.5 million for the six-month period ended June 30, 2012. A substantial amount of these loans reinstate to performing status or have mortgage insurance, and thus the ultimate losses on the loans are not deemed significant.

During the quarter ended June 30, 2011, the Corporation's banking subsidiary, BPPR, reached an agreement (the June 2011 agreement) with the FDIC, as receiver for a local Puerto Rico institution, and the financial institution with respect to a loan servicing portfolio that BPPR services since 2008, related to FHLMC and GNMA pools. The loans were originated and sold by the financial institution and the servicing rights were transferred to BPPR in 2008. As part of the 2008 servicing agreement, the financial institution was required to repurchase from BPPR any loans that BPPR, as servicer, was required to repurchase from the investors under representation and warranty obligations. As part of the June 2011 agreement, the Corporation received cash to discharge the financial institution from any repurchase obligation and other claims over the serviced portfolio. At June 30, 2012, the related representation and warranty reserve amounted to \$8.2 million and the related serviced portfolio approximated \$3.2 billion, compared with \$8.5 million and \$3.5 billion, respectively, at December 31, 2011.

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Servicing agreements relating to the mortgage-backed securities programs of FNMA and GNMA, and to mortgage loans sold or serviced to certain other investors, including FHLMC, require the Corporation to advance funds to make scheduled payments of principal, interest, taxes and insurance, if such payments have not been received from the borrowers. At June 30, 2012, the Corporation serviced \$17.0 billion in mortgage loans for third-parties, including the loans serviced with credit recourse, compared with \$17.3 billion at December 31, 2011. The Corporation generally recovers funds advanced pursuant to these arrangements from the mortgage owner, from liquidation proceeds when the mortgage loan is foreclosed or, in the case of FHA/VA loans, under the applicable FHA and VA insurance and guarantees programs. However, in the meantime, the Corporation must absorb the cost of the funds it advances during the time the advance is outstanding. The Corporation must also bear the costs of attempting to collect on delinquent and defaulted mortgage loans. In addition, if a defaulted loan is not cured, the mortgage loan would be canceled as part of the foreclosure proceedings and the Corporation would not receive any future servicing income with respect to that loan. At June 30, 2012, the outstanding balance of funds advanced by the Corporation under such mortgage loan servicing agreements was approximately \$30 million, compared with \$32 million at December 31, 2011. To the extent the mortgage loans underlying the Corporation's servicing portfolio experience increased delinquencies, the Corporation would be required to dedicate additional cash resources to comply with its obligation to advance funds as well as incur additional administrative costs related to increases in collection efforts.

At June 30, 2012, the Corporation has reserves for customary representations and warranties related to loans sold by its U.S. subsidiary E-LOAN prior to 2009. Loans were sold to investors on a servicing released basis subject to certain representations and warranties. Although the risk of loss or default was generally assumed by the investors, the Corporation made certain representations relating to borrower creditworthiness, loan documentation and collateral, which if not correct, may result in requiring the Corporation to repurchase the loans or indemnify investors for any related losses associated with these loans. At June 30, 2012 and December 31, 2011, the Corporation's reserve for estimated losses from such representation and warranty arrangements amounted to \$10 million and \$11 million, respectively. E-LOAN is no longer originating and selling loans since the subsidiary ceased these activities in 2008 and most of the outstanding agreements with major counterparties were settled during 2010 and 2011.

On a quarterly basis, the Corporation reassesses its estimate for expected losses associated with E-LOAN's customary representation and warranty arrangements. The analysis incorporates expectations on future disbursements based on quarterly repurchases and make-whole events. The analysis also considers factors such as the average length of time between the loan's funding date and the loan repurchase date, as observed in the historical loan data. The liability is estimated as follows: (1) three year average of disbursement amounts (two year historical and one year projected) are used to calculate an average quarterly amount; (2) the quarterly average is annualized and multiplied by the repurchase distance, which currently averages approximately three years, to determine a liability amount; and (3) the calculated reserve is compared to current claims and disbursements to evaluate adequacy. The Corporation's success rate in clearing the claims in full or negotiating lesser payouts has been fairly consistent. On average, the Corporation avoided paying on 52% of claimed amounts during the 24-month period ended June 30, 2012 (51% during the 24-month period ended December 31, 2011). On the remaining 48% of claimed amounts, the Corporation either repurchased the balance in full or negotiated settlements. For the accounts where the Corporation settled, it averaged paying 56% of claimed amounts during the 24-month period ended June 30, 2012 (59% during the 24-month period ended December 31, 2011). In total, during the 24-month period ended June 30, 2012, the Corporation paid an average of 31% of claimed amounts (24-month period ended December 31, 2011 - 33%).

E-LOAN's outstanding unresolved claims related to representation and warranty obligations from mortgage loan sales prior to 2009 are presented in Table 26.

Table 26 E-LOAN's Outstanding Unresolved Claims from Loans Sold

| (In thousands) | June 30, 2012 | December 31, 2011 |
|---|---------------|-------------------|
| By Counterparty: | | |
| GSEs | \$ 682 | \$ 432 |
| Whole loan and private-label securitization investors | 988 | 360 |
| Total outstanding claims by counterparty | \$ 1,670 | \$ 792 |
| By Product Type: | | |
| 1st lien (Prime loans) | \$ 1,670 | \$ 792 |
| Total outstanding claims by product type | \$ 1,670 | \$ 792 |

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The outstanding claims balance from private-label investors are comprised by two counterparties at June 30, 2012 and one counterparty at December 31, 2011.

In the case of E-LOAN, the Corporation indemnifies the lender, repurchases the loan, or settles the claim, generally for less than the full amount. Each repurchase case is different and each lender / servicer has different requirements. The large majority of the loans repurchased have been greater than 90 days past due at the time of repurchase and are included in the Corporation's non-performing loans. Historically, claims have been predominantly for first mortgage agency loans and principally consist of underwriting errors related to undisclosed debt or missing documentation. Table 27 presents the changes in the Corporation's liability for estimated losses associated with customary representations and warranties related to loans sold by E-LOAN for the quarters and six-month periods ended June 30, 2012 and 2011.

Table 27 Changes in Liability for Estimated Losses Related to Loans Sold by E-LOAN

| (In thousands) | Quarters ended June 30, | | Six months ended June 30, | |
|--|-------------------------|-----------|---------------------------|-----------|
| | 2012 | 2011 | 2012 | 2011 |
| Balance as of beginning of period | \$ 10,625 | \$ 30,688 | \$ 10,625 | \$ 30,659 |
| Additions for new sales | | | | |
| (Reversal) provision for representation and warranties | | (605) | | (522) |
| Net charge-offs / terminations | (494) | (1,067) | (494) | (1,121) |
| Balance as of end of period | \$ 10,131 | \$ 29,016 | \$ 10,131 | \$ 29,016 |

MARKET RISK

The financial results and capital levels of Popular, Inc. are constantly exposed to market risk. Market risk represents the risk of loss due to adverse movements in market rates or financial asset prices, which include interest rates, foreign exchange rates, and bond and equity security prices; the failure to meet financial obligations coming due because of the inability to liquidate assets or obtain adequate funding; and the inability to easily unwind or offset specific exposures without significantly lowering prices because of inadequate market depth or market disruptions.

While the Corporation is exposed to various business risks, the risks relating to interest rate risk and liquidity are major risks that can materially impact future results of operations and financial condition due to their complexity and dynamic nature.

The Asset Liability Management Committee (ALCO) and the Corporate Finance Group are responsible for planning and executing the Corporation's market, interest rate risk, funding activities and strategy, and for implementing the policies and procedures approved by the Corporation's Risk Management Committee. In addition, the Risk Management Group independently monitors and reports adherence with established market and liquidity policies and recommends actions to enhance and strengthen controls surrounding interest, liquidity, and market risks. The ALCO meets on a weekly basis and reviews the Corporation's current and forecasted asset and liability position as well as desired pricing strategies and other relevant topics. Also, on a monthly basis the ALCO reviews various interest rate risk metrics, ratios and portfolio information, including but not limited to, the Corporation's liquidity positions, projected sources and uses of funds, interest rate risk positions and economic conditions.

Interest rate risk (IRR), a component of market risk, is considered by management as a predominant market risk in terms of its potential impact on profitability or market value. For a detailed description of the techniques used to measure the potential impact of the Corporation's exposure to market risk from changing interest rates refer to the 2011 Annual Report.

Net interest income simulation analysis performed by legal entity and on a consolidated basis is a tool used by the Corporation in estimating the potential change in net interest income resulting from hypothetical changes in interest rates. Sensitivity analysis is calculated using a simulation model which incorporates actual balance sheet figures detailed by maturity and interest yields or costs. It also incorporates assumptions on balance sheet growth and expected changes in its composition, estimated prepayments in accordance with projected interest rates, pricing and maturity expectations on new volumes and other non-interest related data. It is a dynamic process, emphasizing future performance under diverse economic conditions.

Management assesses interest rate risk using various interest rate scenarios that differ in magnitude and direction, the speed of change and the projected shape of the yield curve. For example, the types of interest rate scenarios processed include most likely economic scenarios, flat or

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unchanged rates, yield curve twists, +/- 200 and + 400 basis points parallel ramps and +/- 200 basis

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points parallel shocks. Management also performs analyses to isolate and measure basis and prepayment risk exposures. The asset and liability management group also evaluates the reasonableness of assumptions used and results obtained in the monthly sensitivity analyses. Due to the importance of critical assumptions in measuring market risk, the risk models incorporate third-party developed data for critical assumptions such as prepayment speeds on mortgage loans and mortgage-backed securities, estimates on the duration of the Corporation's deposits and interest rate scenarios.

The Corporation runs net interest income simulations under interest rate scenarios in which the yield curve is assumed to rise and decline gradually by the same amount. The rising rate scenarios considered in these market risk disclosures reflect gradual parallel changes of 200 and 400 basis points during the twelve-month period ending June 30, 2013. Under a 200 basis points rising rate scenario, projected net interest income increases by \$34.4 million, while under a 400 basis points rising rate scenario, projected net interest income increases by \$57.6 million, when compared against the Corporation's flat or unchanged interest rates forecast scenario. Given the fact that at June 30, 2012 some market interest rates continued to be close to zero, management has focused on measuring the risk on net interest income in rising rate scenarios. These interest rate simulations exclude the impact on loans accounted pursuant to ASC Subtopic 310-30, whose yields are based on management's current expectation of future cash flows.

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

The Corporation estimates the sensitivity of economic value of equity (EVE) to changes in interest rates. EVE is equal to the estimated present value of the Corporation's assets minus the estimated present value of the liabilities. This sensitivity analysis is a useful tool to measure long-term IRR because it captures the impact of rate changes in expected cash flows, including principal and interest, from all future periods.

EVE sensitivity calculated using interest rate shock scenarios is estimated on a quarterly basis. The current EVE sensitivity is focused on a rising 200 basis point parallel shock. Management has a defined limit for the increase in EVE sensitivity resulting from the shock scenario.

The Corporation maintains an overall interest rate risk management strategy that incorporates the use of derivative instruments to minimize significant unplanned fluctuations in net interest income or market value that are caused by interest rate volatility. The market value of these derivatives is subject to interest rate fluctuations and counterparty credit risk adjustments which could have a positive or negative effect in the Corporation's earnings.

Trading

The Corporation engages in trading activities in the ordinary course of business at its subsidiaries, Popular Securities and Popular Mortgage. Popular Securities' trading activities consist primarily of market-making activities to meet expected customers' needs related to its retail brokerage business and purchases and sales of U.S. Government and government sponsored securities with the objective of realizing gains from expected short-term price movements. Popular Mortgage's trading activities consist primarily of holding U.S. Government sponsored mortgage-backed securities classified as trading and hedging the related market risk with TBA (to-be-announced) market transactions. The objective is to derive spread income from the portfolio and not to benefit from short-term market movements. In addition, Popular Mortgage uses forward contracts or TBAs to hedge its securitization pipeline. Risks related to variations in interest rates and market volatility are hedged with TBAs that have characteristics similar to that of the forecasted security and its conversion timeline.

At June 30, 2012, the Corporation held for trading, securities with a fair value of \$417 million, representing approximately 1% of the Corporation's total assets, compared with \$436 million and 1% at December 31, 2011. As shown in Table 28, the trading portfolio consists principally of mortgage-backed securities, which at June 30, 2012 were investment grade securities. Trading instruments are recognized at fair value, with changes resulting from fluctuations in market prices, interest rates or exchange rates reported in current period earnings. The Corporation recognized a net trading account loss of \$7.3 million and \$9.4 million for the quarter and six-month period ended June 30, 2012, respectively. Table 28 provides the composition of the trading portfolio at June 30, 2012 and December 31, 2011.

Table of Contents**Table 28 Trading Portfolio**

| (Dollars in thousands) | June 30, 2012 | | December 31, 2011 | |
|---|---------------|----------------------------|-------------------|----------------------------|
| | Amount | Weighted Average Yield [1] | Amount | Weighted Average Yield [1] |
| Mortgage-backed securities (includes related trading derivatives) | \$ 361,286 | 4.37% | \$ 325,205 | 4.56% |
| Collateralized mortgage obligations | 3,584 | 4.52 | 3,545 | 4.69 |
| Puerto Rico and U.S. Government obligations | 32,049 | 4.86 | 90,648 | 4.87 |
| Interest-only strips | 1,284 | 12.86 | 1,378 | 12.80 |
| Other | 19,266 | 4.74 | 15,555 | 4.32 |
| Total | \$ 417,469 | 4.46% | \$ 436,331 | 4.64% |

[1] Not on a taxable equivalent basis.

The Corporation's trading activities are limited by internal policies. For each of the two subsidiaries, the market risk assumed under trading activities is measured by the 5-day net value-at-risk (VAR), with a confidence level of 99%. The VAR measures the maximum estimated loss that may occur over a 5-day holding period, given a 99% probability. Under the Corporation's current policies, trading exposures cannot exceed 2% of the trading portfolio market value of each subsidiary, subject to a cap.

The Corporation's trading portfolio had a 5-day VAR of approximately \$2.0 million, assuming a confidence level of 99%, for the last week in June 2012. There are numerous assumptions and estimates associated with VAR modeling, and actual results could differ from these assumptions and estimates. Backtesting is performed to compare actual results against maximum estimated losses, in order to evaluate model and assumptions accuracy.

In the opinion of management, the size and composition of the trading portfolio does not represent a significant source of market risk for the Corporation.

FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

The Corporation currently measures at fair value on a recurring basis its trading assets, available-for-sale securities, derivatives, and mortgage servicing rights. Occasionally, the Corporation may be required to record at fair value other assets on a nonrecurring basis, such as loans held-for-sale, impaired loans held-in-portfolio that are collateral dependent and certain other assets. These nonrecurring fair value adjustments typically result from the application of lower of cost or fair value accounting or write-downs of individual assets.

The Corporation categorizes its assets and liabilities measured at fair value under the three-level hierarchy. The level within the hierarchy is based on whether the inputs to the valuation methodology used for fair value measurement are observable.

Refer to Note 22 to the consolidated financial statements for information on the Corporation's fair value measurement disclosures required by the applicable accounting standard. At June 30, 2012, approximately \$5.5 billion, or 97%, of the assets measured at fair value on a recurring basis used market-based or market-derived valuation inputs in their valuation methodology and, therefore, were classified as Level 1 or Level 2. The majority of instruments measured at fair value were classified as Level 2, including U.S. Treasury securities, obligations of U.S. Government sponsored entities, obligations of Puerto Rico, States and political subdivisions, most mortgage-backed securities (MBS) and collateralized mortgage obligations (CMOs), and derivative instruments.

At June 30, 2012, the remaining 3% of assets measured at fair value on a recurring basis were classified as Level 3 since their valuation methodology considered significant unobservable inputs. The financial assets measured as Level 3 included mostly tax-exempt GNMA mortgage-backed securities and mortgage servicing rights (MSRs). Additionally, the Corporation reported \$202 million of financial assets that were measured at fair value on a nonrecurring basis at June 30, 2012, all of which were classified as Level 3 in the hierarchy.

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Broker quotes used for fair value measurements inherently reflect any lack of liquidity in the market since they represent an exit price from the perspective of the market participants. Financial assets that were fair valued using broker quotes amounted to \$44 million at June 30, 2012, of which \$26 million were Level 3 assets and \$18 million were Level 2 assets. Level 3 assets consisted

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principally of tax-exempt GNMA mortgage-backed securities. Fair value for these securities was based on an internally-prepared matrix derived from an average of two indicative local broker quotes. The main input used in the matrix pricing was non-binding local broker quotes obtained from limited trade activity. Therefore, these securities were classified as Level 3.

During the quarter ended June 30, 2012, there were no transfers in and/or out of Level 2 and Level 3 for financial instruments measured at fair value on a recurring basis. There were \$2 million in transfers from Level 2 to Level 3 and \$7 million in transfers from Level 3 to Level 2 for financial instruments measured at fair value on a recurring basis during the six months ended June 30, 2012. The transfers from Level 2 to Level 3 of trading mortgage-backed securities were the result of a change in valuation technique to a matrix pricing model, based on indicative prices provided by brokers. The transfers from Level 3 to Level 2 of trading mortgage-backed securities resulted from observable market data becoming available for these securities. There were no transfers in and / or out of Level 1 during the quarter and six months ended June 30, 2012. Refer to Note 22 to the consolidated financial statements for a description of the Corporation's valuation methodologies used for the assets and liabilities measured at fair value at June 30, 2012. Also, refer to the Critical Accounting Policies / Estimates in the 2011 Annual Report for additional information on the accounting guidance and the Corporation's policies or procedures related to fair value measurements.

Trading Account Securities and Investment Securities Available-for-Sale

The majority of the values for trading account securities and investment securities available-for-sale are obtained from third-party pricing services and are validated with alternate pricing sources when available. Securities not priced by a secondary pricing source are documented and validated internally according to their significance to the Corporation's financial statements. Management has established materiality thresholds according to the investment class to monitor and investigate material deviations in prices obtained from the primary pricing service provider and the secondary pricing source used as support for the valuation results. During the quarter and six months ended June 30, 2012, the Corporation did not adjust any prices obtained from pricing service providers or broker dealers.

Inputs are evaluated to ascertain that they consider current market conditions, including the relative liquidity of the market. When a market quote for a specific security is not available, the pricing service provider generally uses observable data to derive an exit price for the instrument, such as benchmark yield curves and trade data for similar products. To the extent trading data is not available, the pricing service provider relies on specific information including dialogue with brokers, buy side clients, credit ratings, spreads to established benchmarks and transactions on similar securities, to draw correlations based on the characteristics of the evaluated instrument. If for any reason the pricing service provider cannot observe data required to feed its model, it discontinues pricing the instrument. During the quarter and six months ended June 30, 2012, none of the Corporation's investment securities were subject to pricing discontinuance by the pricing service providers. The pricing methodology and approach of our primary pricing service providers is concluded to be consistent with the fair value measurement guidance.

Furthermore, management assesses the fair value of its portfolio of investment securities at least on a quarterly basis, which includes analyzing changes in fair value that have resulted in losses that may be considered other-than-temporary. Factors considered include, for example, the nature of the investment, severity and duration of possible impairments, industry reports, sector credit ratings, economic environment, creditworthiness of the issuers and any guarantees.

Securities are classified in the fair value hierarchy according to product type, characteristics and market liquidity. At the end of each period, management assesses the valuation hierarchy for each asset or liability measured. The fair value measurement analysis performed by the Corporation includes validation procedures and review of market changes, pricing methodology, assumption and level hierarchy changes, and evaluation of distressed transactions.

At June 30, 2012, the Corporation's portfolio of trading and investment securities available-for-sale amounted to \$5.5 billion and represented 96% of the Corporation's assets measured at fair value on a recurring basis. At June 30, 2012, net unrealized gains on the trading and available-for-sale investment securities portfolios approximated \$24 million and \$205 million, respectively. Fair values for most of the Corporation's trading and investment securities available-for-sale were classified as Level 2. Trading and investment securities available-for-sale classified as Level 3, which were the securities that involved the highest degree of judgment, represented less than 1% of the Corporation's total portfolio of trading and investment securities available-for-sale.

Mortgage Servicing Rights

Mortgage servicing rights (MSRs), which amounted to \$156 million at June 30, 2012, do not trade in an active, open market with readily observable prices. Fair value is estimated based upon discounted net cash flows calculated from a combination of loan level data and market assumptions. The valuation model combines loans with common characteristics that impact servicing cash flows (e.g. investor, remittance cycle, interest rate, product type, etc.) in order to project net cash flows. Market valuation assumptions

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include prepayment speeds, discount rate, cost to service, escrow account earnings, and contractual servicing fee income, among other considerations. Prepayment speeds are derived from market data that is more relevant to the U.S. mainland loan portfolios and, thus, are adjusted for the Corporation's loan characteristics and portfolio behavior since prepayment rates in Puerto Rico have been historically lower. Other assumptions are, in the most part, directly obtained from third-party providers. Disclosure of two of the key economic assumptions used to measure MSRs, which are prepayment speed and discount rate, and a sensitivity analysis to adverse changes to these assumptions, is included in Note 10 to the consolidated financial statements.

Derivatives

Derivatives, such as interest rate swaps, interest rate caps and indexed options, are traded in over-the-counter active markets. These derivatives are indexed to an observable interest rate benchmark, such as LIBOR or equity indexes, and are priced using an income approach based on present value and option pricing models using observable inputs. Other derivatives are liquid and have quoted prices, such as forward contracts or to be announced securities (TBAs). All of these derivatives held by the Corporation were classified as Level 2. Valuations of derivative assets and liabilities reflect the values associated with counterparty risk and nonperformance risk, respectively. The non-performance risk, which measures the Corporation's own credit risk, is determined using internally-developed models that consider the net realizable value of the collateral posted, remaining term, and the creditworthiness or credit standing of the Corporation. The counterparty risk is also determined using internally-developed models which incorporate the creditworthiness of the entity that bears the risk, net realizable value of the collateral received, and available public data or internally-developed data to determine their probability of default. To manage the level of credit risk, the Corporation employs procedures for credit approvals and credit limits, monitors the counterparties' credit condition, enters into master netting agreements whenever possible and, when appropriate, requests additional collateral. During the quarter ended June 30, 2012, inclusion of credit risk in the fair value of the derivatives resulted in a net gain of \$0.1 million recorded in the other operating income and interest expense captions of the consolidated statement of operations, which consisted of a loss of \$0.2 million resulting from the Corporation's own credit standing adjustment and a gain of \$0.3 million from the assessment of the counterparties' credit risk. During the six months ended June 30, 2012, inclusion of credit risk in the fair value of the derivatives resulted in a net loss of \$0.1 million recorded in the other operating income and interest expense captions of the consolidated statement of operations, which consisted of a loss of \$0.1 million resulting from the Corporation's own credit standing adjustment.

Loans held-in-portfolio considered impaired under ASC Section 310-10-35 that are collateral dependent

The impairment is based on the fair value of the collateral, which is derived from appraisals that take into consideration prices in observed transactions involving similar assets in similar locations, size and supply and demand. Continued deterioration of the housing markets and the economy in general have adversely impacted and continue to affect the market activity related to real estate properties. These collateral dependent impaired loans are classified as Level 3 and are reported as a nonrecurring fair value measurement.

LIQUIDITY

The objective of effective liquidity management is to ensure that the Corporation has sufficient liquidity to meet all of its financial obligations, finance expected future growth and maintain a reasonable safety margin for cash commitments under both normal and stressed market conditions. An institution's liquidity may be pressured if, for example, its credit rating is downgraded, it experiences a sudden and unexpected substantial cash outflow, or some other event causes counterparties to avoid exposure to the institution. An institution is also exposed to liquidity risk if the markets on which it depends are subject to occasional disruptions.

Factors that the Corporation does not control, such as the economic outlook of its principal markets and regulatory changes, could affect its ability to obtain funding. In order to prepare for the possibility of such scenario, management has adopted contingency plans for raising financing under stress scenarios when important sources of funds that are usually fully available are temporarily unavailable. These plans call for using alternate funding mechanisms such as the pledging of certain asset classes and accessing secured credit lines and loan facilities put in place with the Federal Home Loan Bank (FHLB) and the Federal Reserve Bank of New York (the Fed), in addition to maintaining securities available for pledging in the repo markets.

Liquidity is managed by the Corporation at the level of the holding companies that own the banking and non-banking subsidiaries. Also, it is managed at the level of the banking and non-banking subsidiaries. The Corporation has adopted policies and limits to monitor more effectively the Corporation's liquidity position and that of the banking subsidiaries. Additionally, contingency funding plans are used to model various stress events of different magnitudes and affecting different time horizons that assist management in evaluating the size of the liquidity buffers needed if those stress events occur. However, such models may not predict accurately how the market and customers might react to every event, and are dependent on many assumptions.

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Deposits, including customer deposits, brokered deposits, and public funds deposits, continue to be the most significant source of funds for the Corporation, funding 75% of the Corporation's total assets at June 30, 2012 and December 31, 2011. Refer to the Financial Condition Analysis section of this MD&A for explanations on the variances in the main deposit categories.

In addition to traditional deposits, the Corporation maintains borrowing arrangements. At June 30, 2012, these borrowings consisted primarily of assets sold under agreement to repurchase of \$1.4 billion, advances with the FHLB of \$965 million, junior subordinated deferrable interest debentures of \$924 million (net of discount) and term notes of \$279 million. A detailed description of the Corporation's borrowings, including their terms, is included in Note 14 to the consolidated financial statements. Also, the consolidated statements of cash flows in the accompanying consolidated financial statements provide information on the Corporation's cash inflows and outflows.

During 2011 and 2012, the Corporation did not issue new registered debt in the capital markets.

Banking Subsidiaries

Primary sources of funding for the Corporation's banking subsidiaries (BPPR and BPNA), or the banking subsidiaries, include retail and commercial deposits, brokered deposits, collateralized borrowings, unpledged investment securities, and, to a lesser extent, loan sales. In addition, the Corporation maintains borrowing facilities with the FHLB and at the Discount Window of the Fed, and has a considerable amount of collateral pledged that can be used to quickly raise funds under these facilities.

The principal uses of funds for the banking subsidiaries include loan originations, investment portfolio purchases, loan purchases and repurchases, repayment of outstanding obligations (including deposits), and operational expenses. Also, the banking subsidiaries assume liquidity risk related to collateral posting requirements for certain activities mainly in connection with contractual commitments, recourse provisions, servicing advances, derivatives, credit card licensing agreements and support to several mutual funds administered by BPPR.

Note 33 to the consolidated financial statements provides a consolidating statement of cash flows which includes the Corporation's banking subsidiaries as part of the All other subsidiaries and eliminations column.

The banking subsidiaries maintain sufficient funding capacity to address large increases in funding requirements such as deposit outflows. This capacity is comprised mainly of available liquidity derived from secured funding sources, as well as on-balance sheet liquidity in the form of cash balances maintained at the Fed and unused secured lines held at the Fed and FHLB, in addition to liquid unpledged securities. The Corporation has established liquidity guidelines that require the banking subsidiaries to have sufficient liquidity to cover all short-term borrowings and a portion of deposits.

The Corporation's ability to compete successfully in the marketplace for deposits depends on various factors, including pricing, service, convenience and financial stability as reflected by operating results, credit ratings (by nationally recognized credit rating agencies), and importantly, FDIC deposit insurance. Although a downgrade in the credit ratings of the Corporation's banking subsidiaries may impact their ability to raise retail and commercial deposits or the rate that it is required to pay on such deposits, management does not believe that the impact should be material. Deposits at all of the Corporation's banking subsidiaries are federally insured (subject to FDIC limits) and this is expected to mitigate the effect of a downgrade in the credit ratings.

Deposits are a key source of funding as they tend to be less volatile than institutional borrowings and their cost is less sensitive to changes in market rates. Refer to Table 19 for a breakdown of deposits by major types. Core deposits are generated from a large base of consumer, corporate and institutional customers. For purposes of defining core deposits, the Corporation excludes brokered deposits with denominations under \$100,000. Core deposits have historically provided the Corporation with a sizable source of relatively stable and low-cost funds. Core deposits totaled \$21.8 billion, or 79% of total deposits, at June 30, 2012, compared with \$21.3 billion, or 76% of total deposits, at December 31, 2011. Core deposits financed 68% of the Corporation's earning assets at June 30, 2012 and December 31, 2011.

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Certificates of deposit with denominations of \$100,000 and over at June 30, 2012 totaled \$3.5 billion, or 13% of total deposits, compared with \$4.2 billion, or 15%, at December 31, 2011. Their distribution by maturity at June 30, 2012 was as follows:

Table 29 Distribution by Maturity of Certificate of Deposits of \$100,000 and Over

| | |
|------------------|---------------------|
| (In thousands) | |
| 3 months or less | \$ 1,647,366 |
| 3 to 6 months | 415,868 |
| 6 to 12 months | 529,054 |
| Over 12 months | 882,377 |
| | \$ 3,474,665 |

At June 30, 2012, approximately 8% of the Corporation's assets were financed by brokered deposits, compared with 9% at December 31, 2011. The Corporation had \$3.1 billion in brokered deposits at June 30, 2012, compared with \$3.4 billion at December 31, 2011. Brokered deposits, which are typically sold through an intermediary to retail investors, provide access to longer-term funds and provide the ability to raise additional funds without pressuring retail deposit pricing in the Corporation's local markets. An unforeseen disruption in the brokered deposits market, stemming from factors such as legal, regulatory or financial risks, could adversely affect the Corporation's ability to fund a portion of the Corporation's operations and/or meet its obligations.

In the event that any of the Corporation's banking subsidiaries' regulatory capital ratios fall below those required by a well-capitalized institution or are subject to capital restrictions by the regulators, that banking subsidiary faces the risk of not being able to raise or maintain brokered deposits and faces limitations on the rate paid on deposits, which may hinder the Corporation's ability to effectively compete in its retail markets and could affect its deposit raising efforts.

To the extent that the banking subsidiaries are unable to obtain sufficient liquidity through core deposits, the Corporation may meet its liquidity needs through short-term borrowings by pledging securities for borrowings under repurchase agreements, by pledging additional loans and securities through the available secured lending facilities, or by selling liquid assets. These measures are subject to availability of collateral.

The Corporation's banking subsidiaries have the ability to borrow funds from the FHLB. At June 30, 2012 and December 31, 2011, the banking subsidiaries had credit facilities authorized with the FHLB aggregating \$2.8 billion and \$2.0 billion, respectively, based on assets pledged with the FHLB at those dates. Outstanding borrowings under these credit facilities totaled \$1.0 billion at June 30, 2012 and \$0.9 billion at December 31, 2011. Such advances are collateralized by loans held-in-portfolio, do not have restrictive covenants and do not have any callable features. Refer to Note 14 to the consolidated financial statements for additional information on the terms of FHLB advances outstanding.

The banking subsidiaries have borrowing facilities at the Fed's discount window. The borrowing capacity approximated \$4.4 billion at June 30, 2012, compared with \$2.6 billion at December 31, 2011, and remained unused as of both dates. These borrowing facilities are a collateralized source of credit that is highly reliable even under difficult market conditions. The amount available under these borrowing facilities is dependent upon the balance of performing loans and securities pledged as collateral and the haircuts assigned to such collateral.

During the quarter and six months ended June 30, 2012, the Corporation's bank holding companies did not make any capital contributions to BPNA or BPPR.

The principal reduction in borrowings from December 31, 2011 to June 30, 2012 at the banking subsidiaries was a reduction of \$0.7 billion in repurchase agreements at BPPR. As indicated in the Overview section of this MD&A, in late June 2012, BPPR terminated \$350 million in outstanding repurchase agreements with contractual maturities between March 2014 and May 2014. The Corporation anticipates replacing these repurchase agreements with short-term borrowings at current market rates. The remaining repurchase agreements matured and were not replaced, thus releasing the collateral which is also available in the event of future liquidity needs. Due to soft loan demand, loan collections have exceeded new originations, thus reducing liquidity needs at the banking subsidiaries through borrowings.

At June 30, 2012, management believes that the banking subsidiaries had sufficient current and projected liquidity sources to meet their anticipated cash flow obligations, as well as special needs and off-balance sheet commitments, in the ordinary course of business and have sufficient liquidity resources to address a stress event. Although the banking subsidiaries have historically been able to replace maturing deposits and advances if desired, no assurance can be given that they would be able to replace those

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funds in the future if the Corporation's financial condition or general market conditions were to change. The Corporation's financial flexibility will be severely constrained if its banking subsidiaries are unable to maintain access to funding or if adequate financing is not available to accommodate future growth at acceptable interest rates. The banking subsidiaries also are required to deposit cash or qualifying securities to meet margin requirements. To the extent that the value of securities previously pledged as collateral declines because of changes in interest rates, a liquidity crisis or any other factors, the Corporation will be required to deposit additional cash or securities to meet its margin requirements, thereby adversely affecting its liquidity. Finally, if management is required to rely more heavily on more expensive funding sources to support future growth, revenues may not increase proportionately to cover costs. In this case, profitability would be adversely affected.

Bank Holding Companies

The Corporation's bank holding companies (BHCs) include Popular, Inc. (PIHC) and Popular North America, Inc. (PNA). The principal sources of funding for the holding companies include cash on hand, investment securities, dividends received from banking and non-banking subsidiaries (subject to regulatory limits and authorizations) and from equity method investees, asset sales, credit facilities available from affiliate banking subsidiaries and proceeds from new borrowings or stock issuances. The Corporation's banking subsidiaries are required to obtain approval from the Federal Reserve System and their respective applicable state banking regulator prior to declaring or paying dividends to the Corporation.

The principal use of these funds include capitalizing its banking subsidiaries, the repayment of debt, and interest payments to holders of senior debt and junior subordinated deferrable interest debentures (related to trust preferred securities).

Note 33 to the consolidated financial statements provides a consolidating statement of cash flows which includes the Corporation's bank holding companies.

Cash inflows and outflows from financing activities at the BHCs during the six-month period ended June 30, 2012 have not been significant, except for the cash dividend of \$131 million received in May 2012 from the Corporation's equity investment in EVERTEC's parent company. This cash inflow was principally used to fund short-term advances to Popular Mortgage, the Corporation's mortgage banking subsidiary.

During the six months ended June 30, 2012, there was a \$50 million capital contribution from PIHC to PNA as part of an internal reorganization. Refer to Note 33 to the consolidated financial statements for a description of the internal reorganization.

Another use of liquidity at PIHC is the payment of dividends on preferred stock. The preferred stock dividends paid amounted to \$1.6 million for the six months ended June 30, 2012. The preferred stock dividends paid were funded by issuing new shares of common stock to the participants of the Corporation's qualified employee savings plans. The Corporation is required to obtain approval from the Federal Reserve System prior to declaring or paying dividends, incurring, increasing or guaranteeing debt or making any distributions on its trust preferred securities or subordinated debt. The Corporation anticipates that any future preferred stock dividend payments would continue to be financed with the issuance of new common stock in connection with its qualified employee savings plans. The Corporation is not paying dividends to holders of its common stock.

The BHCs have in the past borrowed in the money markets and in the corporate debt market primarily to finance their non-banking subsidiaries. These sources of funding have become more costly due to the reductions in the Corporation's credit ratings together with higher credit spreads in general. The Corporation's principal credit ratings are below investment grade which affects the Corporation's ability to raise funds in the capital markets. However, the cash needs of the Corporation's non-banking subsidiaries other than to repay indebtedness and interest are now minimal. The Corporation has an open-ended, automatic shelf registration statement filed and effective with the Securities and Exchange Commission, which permits the Corporation to issue an unspecified amount of debt or equity securities.

A principal use of liquidity at the BHCs is to ensure its banking subsidiaries are adequately capitalized. During the year 2011 and the six months ended June 30, 2012, the BHCs were not required to make any capital contributions to its banking subsidiaries. Management does not expect either of the banking subsidiaries to require capitalizations for the foreseeable future.

Note 33 to the consolidated financial statements provides a statement of condition, of operations and of cash flows for the three BHCs. The loans held-in-portfolio in such financial statements are principally associated with intercompany transactions. The investment securities held-to-maturity at the parent holding company, amounting to \$185 million at June 30, 2012, consisted of subordinated notes from BPPR.

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The outstanding balance of notes payable at the BHCs amounted to \$1.2 billion at June 30, 2012 and December 31, 2011. These borrowings are principally junior subordinated debentures (related to trust preferred securities), including those issued to the U.S. Treasury as part of the Troubled Asset Relief Program (TARP), and unsecured senior debt (term notes). The repayment of the BHCs obligations represents a potential cash need which is expected to be met with internal liquidity resources and new borrowings. Increasing or guaranteeing new debt would be subject to the prior approval from the Fed.

The contractual maturities of the BHC s notes payable at June 30, 2012 is presented in Table 30.

Table 30 Distribution of BHC s Notes Payable by Contractual Maturity

| Year | (In thousands) |
|--------------------|----------------|
| 2012 | \$ 41,780 |
| 2013 | 3,000 |
| 2014 | 78,586 |
| 2015 | 35,156 |
| 2016 | 119,843 |
| Later years | 439,800 |
| No stated maturity | 936,000 |
| Sub-total | 1,654,165 |
| Less: Discount | 451,838 |
| Total | \$ 1,202,327 |

As indicated previously, the BHC did not issue new registered debt in the capital markets during the six months ended June 30, 2012.

The BHCs liquidity position continues to be adequate with sufficient cash on hand, investments and other sources of liquidity which are expected to be enough to meet all BHCs obligations during the foreseeable future.

Obligations Subject to Rating Triggers or Collateral Requirements

The Corporation s banking subsidiaries currently do not use borrowings that are rated by the major rating agencies, as these banking subsidiaries are funded primarily with deposits and secured borrowings. The banking subsidiaries had \$22 million in deposits at June 30, 2012 that are subject to rating triggers.

Some of the Corporation s derivative instruments include financial covenants tied to the bank s well-capitalized status and certain formal regulatory actions. These agreements could require exposure collateralization, early termination or both. The fair value of derivative instruments in a liability position subject to financial covenants approximated \$46 million at June 30, 2012, with the Corporation providing collateral totaling \$57 million to cover the net liability position with counterparties on these derivative instruments.

In addition, certain mortgage servicing and custodial agreements that BPPR has with third parties include rating covenants. Based on BPPR s failure to maintain the required credit ratings, the third parties have the right to require the institution to engage a substitute cash custodian for escrow deposits and/or increase collateral levels securing the recourse obligations. Also, as discussed in the Guarantees section of this MD&A, the Corporation services residential mortgage loans subject to credit recourse provisions. Certain contractual agreements require the Corporation to post collateral to secure such recourse obligations if the institution s required credit ratings are not maintained. Collateral pledged by the Corporation to secure recourse obligations approximated \$138 million at June 30, 2012. The Corporation could be required to post additional collateral under the agreements. Management expects that it would be able to meet additional collateral requirements if and when needed. The requirements to post collateral under certain agreements or the loss of escrow deposits could reduce the Corporation s liquidity resources and impact its operating results.

CREDIT RISK MANAGEMENT AND LOAN QUALITY***Non-Performing Assets***

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Non-performing assets include primarily past-due loans that are no longer accruing interest, renegotiated loans, and real estate property acquired through foreclosure. A summary, including certain credit quality metrics, is presented in Table 31.

The Corporation's non-accruing and charge-off policies by major categories of loan portfolios are as follows:

Commercial and construction loans recognition of interest income on commercial and construction loans is discontinued when the loans are 90 days or more in arrears on payments of principal or interest or when other factors indicate that the

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collection of principal and interest is doubtful. The impaired portions of secured loans past due as to principal and interest is charged-off not later than 365 days past due. However, in the case of collateral dependent loans individually evaluated for impairment, the excess of the recorded investment over the fair value of the collateral (portion deemed uncollectible) is generally promptly charged-off, but in any event, not later than the quarter following the quarter in which such excess was first recognized. Commercial unsecured loans are charged-off no later than 180 days past due. Overdrafts are generally charged-off no later than 60 days past their due date.

Lease financing recognition of interest income for lease financing is ceased when loans are 90 days or more in arrears. Leases are charged-off when they are 120 days in arrears.

Mortgage loans recognition of interest income on mortgage loans is generally discontinued when loans are 90 days or more in arrears on payments of principal or interest. The impaired portion of a mortgage loan is charged-off when the loan is 180 days past due. The Corporation discontinues the recognition of interest income on residential mortgage loans insured by the Federal Housing Administration (FHA) or guaranteed by the U.S. Department of Veterans Affairs (VA) when 18 months delinquent as to principal or interest. The principal repayment on these loans is insured.

Consumer loans recognition of interest income on closed-end consumer loans and home-equity lines of credit is discontinued when the loans are 90 days or more in arrears on payments of principal or interest. Income is generally recognized on open-end consumer loans, except for home equity lines of credit, until the loans are charged-off. Closed-end consumer loans are charged-off when they are 120 days in arrears. Open-end consumer loans are charged-off when they are 180 days in arrears. Overdrafts in excess of 60 days are generally charged-off no later than 60 days past their due date.

Troubled debt restructurings (TDRs) loans classified as TDRs are typically in non-accrual status at the time of the modification. The TDR loan continues in non-accrual status until the borrower has demonstrated a willingness and ability to make the restructured loan payments (generally at least six months of sustained performance after the modification (or one year for loans providing for quarterly or semi-annual payments)) and management has concluded that it is probable that the borrower would not be in payment default in the foreseeable future.

Covered loans acquired in the Westernbank FDIC-assisted transaction, except for revolving lines of credit, are accounted for by the Corporation in accordance with ASC Subtopic 310-30. Under ASC Subtopic 310-30, the acquired loans were aggregated into pools based on similar characteristics. Each loan pool is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows. The covered loans, which are accounted for under ASC Subtopic 310-30 by the Corporation, are not considered non-performing and will continue to have an accretable yield as long as there is a reasonable expectation about the timing and amount of cash flows expected to be collected. Also, loans charged-off against the non-accretable difference established in purchase accounting are not reported as charge-offs. Charge-offs will be recorded only to the extent that losses exceed the purchase accounting estimates.

Because of the application of ASC Subtopic 310-30 to the Westernbank acquired loans and the loss protection provided by the FDIC which limits the risks on the covered loans, the Corporation has determined to provide certain quality metrics in this MD&A that exclude such covered loans to facilitate the comparison between loan portfolios and across periods. Given the significant amount of covered loans that are past due but still accruing due to the accounting under ASC Subtopic 310-30, the Corporation believes the inclusion of these loans in certain asset quality ratios in the numerator or denominator (or both) would result in a significant distortion to these ratios. In addition, because charge-offs related to the acquired loans are recorded against the non-accretable balance, the net charge-off ratio including the acquired loans is lower for portfolios that have significant amounts of covered loans. The inclusion of these loans in the asset quality ratios could result in a lack of comparability across periods, and could negatively impact comparability with other portfolios that were not impacted by acquisition accounting. The Corporation believes that the presentation of asset quality measures, excluding covered loans and related amounts from both the numerator and denominator, provides a better perspective into underlying trends related to the quality of its loan portfolio.

At June 30, 2012, non-performing loans held-in-portfolio secured by real estate, excluding covered loans, amounted to \$1.2 billion in the Puerto Rico operations and \$255 million in the U.S. mainland operations. These figures compare to \$1.3 billion in the Puerto Rico operations and \$324 million in the U.S. mainland operations at December 31, 2011.

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In addition to the non-performing loans included in Table 31, there were \$41 million of non-covered performing loans at June 30, 2012, mostly related to the commercial loan portfolio, which based on management's opinion, are currently subject to potential future classification to non-performing and are considered impaired, compared with \$27 million at December 31, 2011.

Table of Contents**Table 31 Non-Performing Assets**

| (Dollars in thousands) | June 30, 2012 | As a percentage of loans HIP by category [4] | December 31, 2011 | As a percentage of loans HIP by category [4] |
|---|------------------|---|-------------------------|--|
| Commercial | \$ 767,940 | 8.0% | \$ 830,092 | 8.3% |
| Construction | 67,538 | 27.0 | 96,286 | 40.1 |
| Legacy ^[1] | 54,730 | 10.7 | 75,660 | 11.7 |
| Lease financing | 5,046 | 0.9 | 5,642 | 1.0 |
| Mortgage | 632,899 | 10.7 | 686,502 | 12.4 |
| Consumer | 34,665 | 0.9 | 43,668 | 1.2 |
| Total non-performing loans held-in-portfolio, excluding covered loans | 1,562,818 | 7.6% | 1,737,850 | 8.4% |
| Non-performing loans held-for-sale ^[2] | 178,652 | | 262,302 | |
| Other real estate owned (OREO), excluding covered OREO | 226,629 | | 172,497 | |
| Total non-performing assets, excluding covered assets | \$ 1,968,099 | | \$ 2,172,649 | |
| Covered loans and OREO ^[3] | 209,793 | | 192,771 | |
| Total non-performing assets | \$ 2,177,892 | | \$ 2,365,420 | |
| Accruing loans past due 90 days or more ^[5] | \$ 322,893 | | \$ 316,614 | |
| Ratios excluding covered loans:^[6] | | | | |
| Non-performing loans held-in-portfolio to loans held-in-portfolio | 7.56% | | 8.44% | |
| Allowance for loan losses to loans held-in-portfolio | 3.14 | | 3.35 | |
| Allowance for loan losses to non-performing loans, excluding held-for-sale | 41.50 | | 39.73 | |
| Ratios including covered loans: | | | | |
| Non-performing loans held-in-portfolio to loans held-in-portfolio | 6.67% | | 7.30% | |
| Allowance for loan losses to loans held-in-portfolio | 3.10 | | 3.27 | |
| Allowance for loan losses to non-performing loans, excluding held-for-sale | 46.50 | | 44.76 | |

HIP = held-in-portfolio

[1] The legacy portfolio is comprised of commercial loans, construction loans and lease financings related to certain lending products exited by the Corporation as part of restructuring efforts carried out in prior years at the BPNA reportable segment.

[2] Non-performing loans held-for-sale consist of \$160 million in construction loans, \$18 million in commercial loans, \$425 thousand in legacy loans and \$53 thousand in mortgage loans as of June 30, 2012 (December 31, 2011 \$236 million, \$26 million, \$468 thousand and \$59 thousand, respectively).

[3] The amount consists of \$85 million in non-performing covered loans accounted for under ASC Subtopic 310-20 and \$125 million in covered OREO as of June 30, 2012 (December 31, 2011 \$84 million and \$109 million, respectively). It excludes covered loans accounted for under ASC Subtopic 310-30 as they are considered to be performing due to the application of the accretion method, in which these

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- loans will accrete interest income over the remaining life of the loans using estimated cash flow analyses.
- [4] Loans held-in-portfolio used in the computation exclude \$4.0 billion in covered loans at June 30, 2012 (December 31, 2011 \$4.3 billion).
 - [5] The carrying value of covered loans accounted for under ASC Sub-topic 310-30 that are contractually 90 days or more past due was \$1.0 billion at June 30, 2012 (December 31, 2011 \$1.2 billion). This amount is excluded from the above table as the covered loans' accretable yield interest recognition is independent from the underlying contractual loan delinquency status.
 - [6] These asset quality ratios have been adjusted to remove the impact of covered loans and covered foreclosed property. Appropriate adjustments to the numerator and denominator have been reflected in the calculation of these ratios. Management believes the inclusion of acquired loans in certain asset quality ratios that include non-performing assets, past due loans or net charge-offs in the numerator and denominator results in distortions of these ratios and they may not be comparable to other periods presented or to other portfolios that were not impacted by purchase accounting.

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Tables 32 and 33 summarize the activity in the allowance for loan losses and selected loan loss statistics for the quarters and six months ended June 30, 2012 and 2011.

Table 32 Allowance for Loan Losses and Selected Loan Losses Statistics Quarterly Activity

| (Dollars in thousands) | Quarters ended June 30, | | | | | |
|---|------------------------------|--------------------------|---------------|------------------------------|--------------------------|---------------|
| | 2012 Non-covered loans | 2012 Covered loans | 2012 Total | 2011 Non-covered loans | 2011 Covered loans | 2011 Total |
| Balance at beginning of period | \$ 664,768 | \$ 138,496 | \$ 803,264 | \$ 727,346 | 9,159 | \$ 736,505 |
| Provision for loan losses | 81,743 | 37,456 | 119,199 | 95,712 | \$ 48,605 | 144,317 |
| | 746,511 | 175,952 | 922,463 | 823,058 | 57,764 | 880,822 |
| Losses: | | | | | | |
| Commercial | 56,892 | 34,652 | 91,544 | 83,130 | 263 | 83,393 |
| Construction | 1,033 | 15,187 | 16,220 | 934 | | 934 |
| Lease financing | 909 | | 909 | 1,511 | | 1,511 |
| Legacy | 11,193 | | 11,193 | 24,113 | | 24,113 |
| Mortgage | 19,153 | 4,085 | 23,238 | 12,162 | | 12,162 |
| Consumer | 42,358 | 4,533 | 46,891 | 49,404 | 332 | 49,736 |
| | 131,538 | 58,457 | 189,995 | 171,254 | 595 | 171,849 |
| Recoveries: | | | | | | |
| Commercial | 17,196 | | 17,196 | 14,353 | | 14,353 |
| Construction | 52 | | 52 | 6,387 | | 6,387 |
| Lease financing | 901 | | 901 | 879 | | 879 |
| Legacy | 5,734 | | 5,734 | 6,740 | | 6,740 |
| Mortgage | 972 | | 972 | 981 | | 981 |
| Consumer | 8,707 | | 8,707 | 8,534 | | 8,534 |
| | 33,562 | | 33,562 | 37,874 | | 37,874 |
| Net loans charged-off: | | | | | | |
| Commercial | 39,696 | 34,652 | 74,348 | 68,777 | 263 | 69,040 |
| Construction | 981 | 15,187 | 16,168 | (5,453) | | (5,453) |
| Lease financing | 8 | | 8 | 632 | | 632 |
| Legacy | 5,459 | | 5,459 | 17,373 | | 17,373 |
| Mortgage | 18,181 | 4,085 | 22,266 | 11,181 | | 11,181 |
| Consumer | 33,651 | 4,533 | 38,184 | 40,870 | 332 | 41,202 |
| | 97,976 | 58,457 | 156,433 | 133,380 | 595 | 133,975 |
| Balance at end of period | \$ 648,535 | \$ 117,495 | \$ 766,030 | \$ 689,678 | \$ 57,169 | \$ 746,847 |
| Ratios: | | | | | | |
| Annualized net charge-offs to average loans held-in-portfolio | 1.93% | | 2.56% | 2.59% | | 2.12% |
| Provision for loan losses to net charge-offs | 0.83x | | 0.76x | 0.72x | | 1.08x |

Table of Contents**Table 33 Allowance for Loan Losses and Selected Loan Losses Statistics Year-to-date Activity**

| | 2012 | 2012 | Six months ended June 30, 2012 | 2011 | 2011 | 2011 |
|--|----------------------|------------------|-----------------------------------|----------------------|------------------|------------|
| (Dollars in thousands) | Non-covered loans | Covered loans | Total | Non-covered loans | Covered loans | Total |
| Balance at beginning of period | \$ 690,363 | \$ 124,945 | \$ 815,308 | \$ 793,225 | | \$ 793,225 |
| Provision for loan losses | 164,257 | 55,665 | 219,922 | 155,474 | \$ 64,162 | 219,636 |
| | 854,620 | 180,610 | 1,035,230 | 948,699 | 64,162 | 1,012,861 |
| Losses: | | | | | | |
| Commercial | 124,138 | 38,754 | 162,892 | 148,694 | 1,970 | 150,664 |
| Construction | 2,709 | 15,451 | 18,160 | 11,670 | 4,345 | 16,015 |
| Lease financing | 2,126 | | 2,126 | 3,457 | | 3,457 |
| Legacy | 19,666 | | 19,666 | 47,617 | | 47,617 |
| Mortgage | 37,976 | 4,288 | 42,264 | 21,724 | | 21,724 |
| Consumer | 84,954 | 4,622 | 89,576 | 102,795 | 678 | 103,473 |
| | 271,569 | 63,115 | 334,684 | 335,957 | 6,993 | 342,950 |
| Recoveries: | | | | | | |
| Commercial | 30,059 | | 30,059 | 23,905 | | 23,905 |
| Construction | 1,933 | | 1,933 | 8,338 | | 8,338 |
| Lease financing | 1,964 | | 1,964 | 1,646 | | 1,646 |
| Legacy | 10,649 | | 10,649 | 9,995 | | 9,995 |
| Mortgage | 2,341 | | 2,341 | 2,296 | | 2,296 |
| Consumer | 18,538 | | 18,538 | 16,949 | | 16,949 |
| | 65,484 | | 65,484 | 63,129 | | 63,129 |
| Net loans charged-off: | | | | | | |
| Commercial | 94,079 | 38,754 | 132,833 | 124,789 | 1,970 | 126,759 |
| Construction | 776 | 15,451 | 16,227 | 3,332 | 4,345 | 7,677 |
| Lease financing | 162 | | 162 | 1,811 | | 1,811 |
| Legacy | 9,017 | | 9,017 | 37,622 | | 37,622 |
| Mortgage | 35,635 | 4,288 | 39,923 | 19,428 | | 19,428 |
| Consumer | 66,416 | 4,622 | 71,038 | 85,846 | 678 | 86,524 |
| | 206,085 | 63,115 | 269,200 | 272,828 | 6,993 | 279,821 |
| Net (recoveries) write-downs related to loans transferred to loans held-for-sale | | | | 13,807 | | 13,807 |
| Balance at end of period | \$ 648,535 | \$ 117,495 | \$ 766,030 | \$ 689,678 | \$ 57,169 | \$ 746,847 |
| Ratios: | | | | | | |
| Annualized net charge-offs to average loans held-in-portfolio | 2.03% | | 2.20% | 2.66% | | 2.22% |
| Provision for loan losses to net charge-offs | 0.80x | | 0.82x | 0.57x | | 0.78x |

Refer to the Allowance for Loan Losses subsection in this MD&A for tables detailing the composition of the allowance for loan losses between general and specific reserves and for qualitative information on the main factors driving the variances.

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Table 34 presents annualized net charge-offs to average loans held-in-portfolio (HIP) for the non-covered portfolio by loan category for the quarters and six months ended June 30, 2012 and 2011.

Table 34 Annualized Net Charge-offs to Average Loans Held-in-Portfolio (Non-Covered loans)

| | Quarters ended June 30, | | Six months ended June 30, | |
|--|-------------------------|--------------|---------------------------|--------------|
| | 2012 | 2011 | 2012 | 2011 |
| Commercial | 1.63% | 2.68% | 1.92% | 2.41% |
| Construction | 1.67 | (7.70) | 0.66 | 2.27 |
| Lease financing | 0.01 | 0.45 | 0.06 | 0.64 |
| Legacy | 3.92 | 8.12 | 3.06 | 8.34 |
| Mortgage | 1.30 | 0.89 | 1.30 | 0.82 |
| Consumer | 3.70 | 4.53 | 3.64 | 4.72 |
| Total annualized net charge-offs to average loans held-in-portfolio | 1.93% | 2.59% | 2.03% | 2.66% |

Note: Average loans held-in-portfolio excludes covered loans acquired in the Westernbank FDIC-assisted transaction which were recorded at fair value on date of acquisition, and thus, considered a credit discount component.

The Corporation's annualized net charge-offs to average non-covered loans held-in-portfolio ratio decreased 66 and 63 basis points, from 2.59% and 2.66% for the quarter and six months ended June 30, 2011 to 1.93% and 2.03% for the same periods in 2012. Net charge-offs, excluding covered loans, for the quarter ended June 30, 2012 decreased by \$35.4 million, compared with the quarter ended June 30, 2011. Net charge-offs, excluding covered loans, for the six months ended June 30, 2012 decreased by \$66.7 million, when compared with the same period in 2011. Net charge-offs reduction is prompted by improved credit performance in the BPPR and BPNA reportable segments.

Improvements in credit quality metrics are mainly driven by actions taken by the Corporation to address problem loans and reduce the overall credit risks of its loan portfolios, as well as certain stabilization in the general economic conditions. These actions included (i) the loan portfolio reclassifications to held-for-sale that took place in the fourth quarter of 2010, (ii) a lower volume of commercial and construction loans, mainly related to certain lending products exited by the Corporation at the BPNA reportable segment, and (iii) intensification of loss mitigation efforts.

Commercial loans

As shown in Table 31, the level of non-performing commercial non-covered loans held-in-portfolio at June 30, 2012 decreased on a consolidated basis by \$62 million, compared with December 31, 2011. The percentage of non-performing commercial non-covered loans held-in-portfolio to commercial non-covered loans held-in-portfolio decreased from 8.3% at December 31, 2011 to 8.0% at June 30, 2012. Certain credit quality metrics in the BPPR reportable segment continue trending in a positive direction suggesting the economic conditions are gradually improving, but risks of a slow recovery still remain.

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Table 35 provides information on commercial non-performing loans and net charge-offs for the BPPR (excluding the Westernbank covered loan portfolio) and BPNA reportable segments.

Table 35 Non-Performing Commercial Loans and Net Charge-offs (Excluding Covered Loans)

| | BPPR | | BPNA | | Popular, Inc. | |
|---|--|----------------------|--|----------------------|--|----------------------|
| (Dollars in thousands) | June 30, 2012 | December 31, 2011 | June 30, 2012 | December 31, 2011 | June 30, 2012 | December 31, 2011 |
| Non-performing commercial loans | \$ 591,792 | \$ 631,171 | \$ 176,148 | \$ 198,921 | \$ 767,940 | \$ 830,092 |
| Non-performing commercial loans to commercial loans HIP | 9.60% | 9.75% | 5.12% | 5.68% | 8.00% | 8.32% |
| | BPPR | | BPNA | | Popular, Inc. | |
| (Dollars in thousands) | For the quarters ended June 30, 2012 | June 30, 2011 | For the quarters ended June 30, 2012 | June 30, 2011 | For the quarters ended June 30, 2012 | June 30, 2011 |
| Commercial loan net charge-offs | \$ 28,564 | \$ 49,923 | \$ 11,132 | \$ 18,854 | \$ 39,696 | \$ 68,777 |
| Commercial loan net charge-offs (annualized)to average commercial loans HIP | 1.81% | 3.05% | 1.30% | 2.04% | 1.63% | 2.68% |
| | BPPR | | BPNA | | Popular, Inc. | |
| (Dollars in thousands) | For the six months ended June 30, 2012 | June 30, 2011 | For the six months ended June 30, 2012 | June 30, 2011 | For the six months ended June 30, 2012 | June 30, 2011 |
| Commercial loan net charge-offs | \$ 66,082 | \$ 88,451 | 27,997 | \$ 36,338 | \$ 94,079 | \$ 124,789 |
| Commercial loan net charge-offs (annualized)to average commercial loans HIP | 2.08% | 2.69% | 1.63% | 1.95% | 1.92% | 2.41% |

Commercial non-performing loans held-in-portfolio, excluding covered loans, in the BPPR reportable segment decreased by \$39 million from December 31, 2011 to June 30, 2012. This reduction is mostly attributed to one commercial loan with an outstanding principal balance of \$20 million classified as a troubled-debt restructuring (TDR) in 2011, which was returned to accrual status during the first quarter of 2012, combined with problem loan resolutions and a decline in the inflows to non-performing status. The level of commercial non-performing loans held-in-portfolio in the BPNA reportable segment decreased by \$23 million from December 31, 2011 to June 30, 2012, as a result of problem loan resolutions, loan sales, and a reduction in the inflows of non-performing loans. This reduction at the BPNA reportable segment represents the continuation of an improving trend evident over the past several quarters.

For the quarter ended June 30, 2012, inflows of commercial non-performing loans held-in-portfolio at the BPPR reportable segment amounted to \$64 million, a decrease of \$22 million, when compared to the additions for the first quarter of 2012. Additions to the commercial non-performing loans held-in-portfolio at the BPNA reportable segment amounted to \$36 million, an increase of \$6 million, compared to the inflows for the first quarter of 2012, primarily related to a non-performing loan transferred from loans-held-for-sale. When compared to the quarter ended June 30, 2011, the BPPR and BPNA reportable segments decreased by \$48 million and \$21 million, respectively. As previously mentioned, the Corporation's commercial loan portfolios continued to reflect improved credit performance.

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Tables 36 and 37 present the changes in non-performing commercial non-covered loans held in-portfolio for the quarter and six months ended June 30, 2012 and 2011 for the BPPR and BPNA reportable segments.

Table 36 Activity in Non-Performing Commercial Loans Held-in-Portfolio (Excluding Covered Loans)

| (Dollars in thousands) | For the quarter ended June 30, 2012 | | For the six months ended June 30, 2012 | |
|---|-------------------------------------|------------|--|------------|
| | BPPR | BPNA | BPPR | BPNA |
| Beginning Balance | \$ 620,916 | \$ 197,762 | \$ 631,171 | \$ 198,921 |
| Plus: | | | | |
| New non-performing loans | 63,963 | 31,317 | 150,409 | 61,925 |
| Advances on existing non-performing loans | | 145 | | 372 |
| Loans transferred from held-for-sale | | 4,933 | | 4,933 |
| Less: | | | | |
| Non-performing loans transferred to OREO | (10,043) | (16,633) | (15,524) | (27,067) |
| Non-performing loans charged-off | (36,698) | (15,385) | (74,622) | (30,506) |
| Loans returned to accrual status / loan collections | (46,346) | (25,224) | (99,642) | (31,663) |
| Loans transferred to held-for-sale | | (767) | | (767) |
| Ending balance NPLs | \$ 591,792 | \$ 176,148 | \$ 591,792 | \$ 176,148 |

Table 37 Activity in Non-Performing Commercial Loans Held-in-Portfolio (Excluding Covered Loans)

| (Dollars in thousands) | For the quarter ended June 30, 2011 | | For the six months ended June 30, 2011 | |
|---|-------------------------------------|------------|--|------------|
| | BPPR | BPNA | BPPR | BPNA |
| Beginning Balance | \$ 521,321 | \$ 173,063 | \$ 475,935 | \$ 179,993 |
| Plus: | | | | |
| New non-performing loans | 111,545 | 57,262 | 233,580 | 83,698 |
| Advances on existing non-performing loans | | 12 | | 18 |
| Less: | | | | |
| Non-performing loans transferred to OREO | (2,403) | (5,299) | (5,509) | (9,658) |
| Non-performing loans charged-off | (41,532) | (22,663) | (73,411) | (41,923) |
| Loans returned to accrual status / loan collections | (35,992) | (20,024) | (77,656) | (29,777) |
| Ending balance NPLs | \$ 552,939 | \$ 182,351 | \$ 552,939 | \$ 182,351 |

In the non-covered loans held-in-portfolio, there were 6 commercial loan relationships greater than \$10 million in non-accrual status with an aggregate outstanding balance of approximately \$44 million at June 30, 2012, compared with 6 commercial loan relationships with an outstanding balance of approximately \$113 million at December 31, 2011.

The Corporation's commercial loan net charge-offs, excluding net charge-offs for covered loans, for the quarter ended June 30, 2012, decreased by \$29.1 million, when compared with the quarter ended June 30, 2011. Commercial loans annualized net charge-offs to average non-covered loans held-in-portfolio decreased from 2.68% for the quarter ended June 30, 2011 to 1.63% for the quarter ended June 30, 2012. The decrease was primarily driven by reductions in the BPPR and BPNA reportable segments of \$21.4 million and \$7.7 million, respectively. Commercial net charge-offs at both reportable segments continued to show favorable trends mostly attributed to lower levels of problem loans and certain stabilization in the economic conditions. For the quarter ended June 30, 2012, the charge-offs associated with collateral dependent commercial loans amounted to approximately \$19.3 million in the BPPR reportable segment and \$4.3 million in the BPNA reportable segment.

The allowance for loan losses corresponding to commercial loans held-in-portfolio, excluding covered loans, amounted to \$297 million or 3.09% of that portfolio at June 30, 2012, compared with \$369 million or 3.70% at December 31, 2011. The ratio of allowance to non-performing loans held-in portfolio in the commercial loan category was 38.64% at June 30, 2012, compared with 44.50% at December 31, 2011.

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The allowance for loan losses corresponding to the commercial loan portfolio for the BPPR reportable segment, excluding the allowance for covered loans, totaled \$204 million or 3.31% of commercial loans held-in-portfolio, excluding covered loans, at June 30, 2012, compared with \$255 million or 3.95% at December 31, 2011. At the BPNA reportable segment, the allowance for loan losses corresponding to the commercial loan portfolio totaled \$93 million or 2.70% of commercial loans held-in-portfolio at June 30, 2012, compared with \$114 million or 3.25% at December 31, 2011. The decrease in the allowance for loan losses for the commercial loans held-in-portfolio was principally driven by lower loss trends, reflecting improvements in the credit environment.

The Corporation's commercial loan portfolio secured by real estate (CRE), excluding covered loans, amounted to \$6.5 billion at June 30, 2012, of which \$2.9 billion was secured with owner occupied properties, compared with \$6.7 billion and \$3.1 billion, respectively, at December 31, 2011. CRE non-performing loans, excluding covered loans amounted to \$611 million at June 30, 2012, compared with \$636 million at December 31, 2011. The CRE non-performing loans ratios for the Corporation's Puerto Rico and U.S. mainland operations were 12.69% and 5.75%, respectively, at June 30, 2012, compared with 12.58% and 5.91%, respectively, at December 31, 2011.

Commercial and industrial loans held-in-portfolio modified in a TDR often involve temporary interest-only payments, term extensions, and converting evergreen revolving lines of credit to long term loans. Commercial real estate loans held-in-portfolio modified in a TDR often involve reducing the interest rate for a limited period of time or the remaining term of the loan, extending the maturity date at an interest rate lower than the current market rate for new debt with similar risk, or reductions in the payment plan. At June 30, 2012, the Corporation's commercial loans held-in-portfolio, excluding covered loans, included a total of \$203 million of loan modifications for the BPPR reportable segment and \$13 million for the BPNA reportable segment, which were considered TDRs since they involved granting a concession to borrowers under financial difficulties. The outstanding commitments to lend additional funds to debtors owing loans whose terms have been modified in troubled debt restructurings amounted to \$2 million in the BPPR reportable segment and no commitments outstanding in the BPNA reportable segment at June 30, 2012. Of these commercial loans in the BPPR and BPNA reportable segments, \$148 million and \$13 million, respectively, were in non-performing status at June 30, 2012, compared with \$161 million and \$11 million at December 31, 2011. Commercial loans in the BPPR and BPNA reportable segments that have been modified as part of loss mitigation efforts were evaluated for impairment, resulting in a specific reserve of \$4 million and \$1 million, respectively, at June 30, 2012.

Construction loans

As shown in Table 31, non-performing construction loans held-in-portfolio, excluding covered loans, decreased by \$29 million from December 31, 2011 to June 30, 2012 mostly related to the BPNA reportable segment, which decreased by \$30 million. This decrease was principally driven by problem loan resolutions, including payments and payoffs, and minimal inflows of new construction non-performing loans. The ratio of non-performing construction loans to construction loans held-in-portfolio, excluding covered loans, decreased from 40.1% at December 31, 2011 to 27.0% at June 30, 2012.

For the quarter ended June 30, 2012, additions to the construction non-performing loans held in portfolio at the BPPR reportable segment amounted to \$1 million, a decrease of \$7 million, when compared with the additions for the quarter ended June 30, 2011. There were minimal additions to construction loans held-in-portfolio to non-performing status at the BPNA reportable segment during the six months ended June 30, 2012. The decline in non-performing loans inflows is attributable to a lower level of problem loans remaining in the portfolio, principally prompted by a significant portion of the BPPR reportable segment construction non-covered loans being classified as held-for-sale and the downsizing of the construction loan portfolio at the BPNA reportable segment.

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Tables 38 and 39 present the changes in non-performing construction loans held in-portfolio for the quarter and six months ended June 30, 2012 and 2011 for the BPPR, excluding covered loans, and BPNA reportable segments.

Table 38 Activity in Non-Performing Construction Loans Held-in-Portfolio (Excluding Covered Loans)

| (Dollars in thousands) | For the quarter ended June 30, 2012 | | For the six months ended June 30, 2012 | |
|---|-------------------------------------|-----------|--|-----------|
| | BPPR | BPNA | BPPR | BPNA |
| Beginning Balance | \$ 56,247 | \$ 13,223 | \$ 53,859 | \$ 42,427 |
| Plus: | | | | |
| New non-performing loans | 833 | | 7,205 | |
| Advances on existing non-performing loans | 145 | 204 | 145 | 329 |
| Less: | | | | |
| Non-performing loans charged-off | (1,000) | | (1,371) | (1,380) |
| Loans returned to accrual status / loan collections | (691) | (1,423) | (4,304) | (19,040) |
| Loans transferred to held-for-sale | | | | (10,332) |
| Ending balance NPLs | \$ 55,534 | \$ 12,004 | \$ 55,534 | \$ 12,004 |

Table 39 Activity in Non-Performing Construction Loans Held-in-Portfolio (Excluding Covered Loans)

| (Dollars in thousands) | For the quarter ended June 30, 2011 | | For the six months ended June 30, 2011 | |
|---|-------------------------------------|-----------|--|-----------|
| | BPPR | BPNA | BPPR | BPNA |
| Beginning Balance | \$ 57,176 | \$ 69,373 | \$ 64,678 | \$ 68,218 |
| Plus: | | | | |
| New non-performing loans | 4,779 | | 16,727 | 7,458 |
| Advances on existing non-performing loans | 3,157 | 137 | 3,157 | 137 |
| Less: | | | | |
| Non-performing loans transferred to OREO | (3,780) | | | |
| Non-performing loans charged-off | (275) | (652) | (4,924) | (990) |
| Loans returned to accrual status / loan collections | (2,366) | (8,727) | (9,694) | (1,634) |
| Loans transferred to held-for-sale | | | (11,253) | (13,058) |
| Ending balance NPLs | \$ 58,691 | \$ 60,131 | \$ 58,691 | \$ 60,131 |

In the non-covered loans held-in-portfolio, there was one construction loan relationship greater than \$10 million in non-performing status with an aggregate outstanding balance of approximately \$11 million at June 30, 2012, compared with 3 construction loan relationships with an aggregate outstanding principal balance of \$38 million at December 31, 2011. Although the portfolio balance of construction loans held-in-portfolio has decreased considerably, the construction loan portfolio is considered one of the high-risk portfolios of the Corporation as it continues to be impacted by current economic and real estate market conditions, particularly in Puerto Rico.

Construction loan net charge-offs, excluding covered loans, for the quarter ended June 30, 2012, increased \$6.4 million when compared with the quarter ended June 30, 2011, mostly driven by the BPPR reportable segment, which increased by \$6.9 million. The increase in the BPPR reportable segment is mostly associated with recoveries from previously charged-off construction loans in the amount of \$6.2 million during the second quarter of 2011. Nonetheless, construction loan net charge-offs continue at low levels driven by lower balance of problem loans as a result of the steps taken by the Corporation to mitigate the overall credit risk. For the quarter ended June 30, 2012, the charge-offs associated to collateral dependent construction loans amounted to approximately \$1.0 million in the BPPR reportable segment and none in the BPNA reportable segments. Management identified construction loans considered impaired and charged-off specific reserves based on the value of the collateral.

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Table 40 provides information on construction non-performing loans and net charge-offs for the BPPR, excluding the Westernbank covered loan portfolio, and BPNA reportable segments.

Table 40 Non-Performing Construction Loans and Net Charge-offs (Excluding Covered Loans)

| (Dollars in thousands) | BPPR | | BPNA | | Popular, Inc. | |
|---|---------------|-------------------|---------------|-------------------|---------------|-------------------|
| | June 30, 2012 | December 31, 2011 | June 30, 2012 | December 31, 2011 | June 30, 2012 | December 31, 2011 |
| Non-performing construction loans | \$ 55,534 | \$ 53,859 | \$ 12,004 | \$ 42,427 | \$ 67,538 | \$ 96,286 |
| Non-performing construction loans to construction loans HIP | 27.52% | 33.47% | 25.02% | 53.71% | 27.04% | 40.13% |

| (Dollars in thousands) | BPPR | | BPNA | | Popular, Inc. | |
|--|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| | For the quarters ended June 30, 2012 | For the quarters ended June 30, 2011 | For the quarters ended June 30, 2012 | For the quarters ended June 30, 2011 | For the quarters ended June 30, 2012 | For the quarters ended June 30, 2011 |
| Construction loan net charge-offs | \$ 985 | \$ (5,944) | \$ (4) | \$ 491 | \$ 981 | \$ (5,453) |
| Construction loan net charge-offs (annualized) to average construction loans HIP | 2.11% | (15.67)% | (0.03)% | 1.49% | 1.67% | (7.70)% |

| (Dollars in thousands) | BPPR | | BPNA | | Popular, Inc. | |
|--|--|--|--|--|--|--|
| | For the six months ended June 30, 2012 | For the six months ended June 30, 2011 | For the six months ended June 30, 2012 | For the six months ended June 30, 2011 | For the six months ended June 30, 2012 | For the six months ended June 30, 2011 |
| Construction loan net charge-offs | \$ 614 | \$ 2,077 | \$ 162 | \$ 1,255 | \$ 776 | \$ 3,332 |
| Construction loan net charge-offs (annualized) to average construction loans HIP | 0.69% | 2.84% | 0.55% | 1.71% | 0.66% | 2.27% |

The allowance for loan losses for construction loans held-in-portfolio, excluding covered loans, represented 3.66% of that portfolio, at June 30, 2012, compared with 3.53% at December 31, 2011. The ratio of allowance to non-performing loans held-in-portfolio in the construction loans category was 13.54% at June 30, 2012, compared with 8.81% at December 31, 2011. The increase in the ratio was mostly driven by a lower level of non-performing loans, particularly at the BPNA reportable segment, due to the resolution of certain large impaired construction loans for which no allowance for loan losses was required at December 31, 2011.

The allowance for loan losses corresponding to the construction loan portfolio for the BPPR reportable segment, excluding the allowance for covered loans, totaled \$7 million or 3.70% of construction loans held-in-portfolio, excluding covered loans, at June 30, 2012, compared with \$6 million or 3.63% at December 31, 2011. At the BPNA reportable segment, the allowance for loan losses corresponding to the construction loan portfolio totaled \$2 million or 3.50% of construction loans held-in-portfolio at June 30, 2012, compared with \$3 million or 3.33% at December 31, 2011.

The construction loans held-in-portfolio, excluding covered loans, included \$4 million in TDRs for the BPPR reportable segment and \$12 million for the BPNA reportable segment at June 30, 2012. These TDRs were in non-performing status as of such date. The outstanding commitments to lend additional funds to debtors owing loans whose terms have been modified in troubled debt restructurings amounted to \$13 thousand in the BPPR reportable segment and none in the BPNA reportable segment at June 30, 2012. These construction TDR loans from the BPPR and BPNA reportable segments were evaluated for impairment, resulting in a specific reserve of \$142 thousand for the BPPR reportable segment and none for the BPNA reportable segment at June 30, 2012.

In the current housing market, the value of the collateral securing the loan has become the most important factor in determining the amount of loss incurred and the appropriate level of the allowance for loan losses. The likelihood of losses that are equal to the entire recorded investment for a real estate loan is remote. However, during recent quarters declining real estate values have resulted in the determination that the estimated value of the collateral was insufficient to cover all of the recorded investment in the loans in some cases.

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The legacy portfolio is comprised of commercial loans, construction loans and lease financings related to certain lending products exited by the Corporation as part of restructuring efforts carried out in prior years at the BPNA reportable segment.

Legacy non-performing loans held-in-portfolio decreased by \$21 million from December 31, 2011 to June 30, 2012, driven by the sale of certain construction legacy loans in the amount of \$15 million, problem loan resolutions, charge-off activity, and a reduction in the inflows to non-performing status. The percentage of non-performing legacy loans held-in-portfolio to legacy loans held-in-portfolio decreased from 11.67% at December 31, 2011 to 10.73% at June 30, 2012. The ratio of non-performing legacy loans to legacy loans held-in-portfolio was 15.35% at June 30, 2011.

For the quarter ended June 30, 2012, additions to legacy loans in non-performing status amounted to \$8 million, a decrease of \$13 million compared with the quarter ended June 30, 2011. The decrease in the inflows of non-performing legacy loans was principally driven by lower loan portfolio balance and problem loan resolutions, coupled with credit stabilization.

Tables 41 and 42 present the changes in non-performing legacy loans held in-portfolio for the quarter and six months ended June 30, 2012.

Table 41 Activity in Non-Performing Legacy Loans Held-in-Portfolio

| (In thousands) | For the quarter ended June 30, 2012 BPNA | For the six months ended June 30, 2012 BPNA |
|---|--|--|
| Beginning Balance | \$ 79,077 | \$ 75,660 |
| Plus: | | |
| New non-performing loans | 8,355 | 25,728 |
| Advances on existing non-performing loans | 1 | 17 |
| Less: | | |
| Non-performing loans transferred to OREO | (65) | (3,435) |
| Non-performing loans charged-off | (8,271) | (16,760) |
| Loans returned to accrual status / loan collections | (9,797) | (11,238) |
| Loans transferred to held-for-sale | (14,570) | (15,242) |
| Ending balance NPLs | \$ 54,730 | \$ 54,730 |

Table 42 Activity in Non-Performing Legacy Loans Held-in-Portfolio

| (Dollars in thousands) | For the quarter ended June 30, 2011 BPNA | For the six months ended June 30, 2011 BPNA |
|---|--|--|
| Beginning Balance | \$ 150,117 | \$ 165,484 |
| Plus: | | |
| New non-performing loans | 20,750 | 43,947 |
| Advances on existing non-performing loans | 600 | 1,595 |
| Less: | | |
| Non-performing loans transferred to OREO | (1,704) | (3,219) |
| Non-performing loans charged-off | (22,991) | (46,137) |
| Loans returned to accrual status / loan collections | (22,292) | (37,190) |
| Ending balance NPLs | \$ 124,480 | \$ 124,480 |

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In the loans held-in-portfolio, there was one legacy loan relationship greater than \$10 million in non-accrual status with an aggregate outstanding balance of approximately \$1 million at June 30, 2012, compared with one loan relationship with aggregate outstanding balance of \$16 million at December 31, 2011.

For the quarter ended June 30, 2012, legacy net charge-offs decreased by \$11.9 million when compared with the quarter ended June 30, 2011, which consisted of lower commercial and construction loan net charge-offs by \$7.0 million and \$4.9 million, respectively. Legacy loans annualized net charge-offs to average non-covered loans held-in-portfolio decreased from 8.12% for the quarter ended June 30, 2011 to 3.92% for the quarter ended June 30, 2012. The improvement in net charge-offs was mainly driven by the lower levels of problem loans remaining in the portfolio and by the stabilization of the U.S. economic environment. For the quarter ended June 30, 2012, the charge-offs associated with collateral dependent legacy loans amounted to approximately \$1.3 million.

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Table 43 provides information on legacy non-performing loans and net charge-offs.

Table 43 Non-Performing Legacy Loans and Net Charge-offs

| (Dollars in thousands) | BPNA | |
|---|---------------|-------------------|
| | June 30, 2012 | December 31, 2011 |
| Non-performing legacy loans | \$ 54,730 | \$ 75,660 |
| Non-performing legacy loans to legacy loans HIP | 10.73% | 11.67% |

| (Dollars in thousands) | BPNA For the quarters ended | |
|--|--------------------------------|---------------|
| | June 30, 2012 | June 30, 2011 |
| Legacy loan net charge-offs | \$ 5,459 | \$ 17,373 |
| Legacy loan net charge-offs (annualized) to average legacy loans HIP | 3.92% | 8.12% |

| (Dollars in thousands) | BPNA For the six months ended | |
|--|----------------------------------|---------------|
| | June 30, 2012 | June 30, 2011 |
| Legacy loan net charge-offs | \$ 9,017 | 37,622 |
| Legacy loan net charge-offs (annualized) to average legacy loans HIP | 3.06% | 8.34% |

The legacy loan portfolio totaled \$510 million at June 30, 2012, compared with \$648 million at December 31, 2011. The allowance for loan losses for the legacy loans held-in-portfolio amounted to \$44 million or 8.63% of that portfolio at June 30, 2012, compared with \$46 million or 7.13% at December 31, 2011. The ratio of allowance to non-performing loans held-in portfolio in the legacy loan category was 80.41% at June 30, 2012, compared with 61.10% at December 31, 2011. The increase in the ratio was mostly driven by the resolution of certain impaired construction loans for which no allowance for loan losses was required at December 31, 2011.

Despite improvements in key credit quality metrics, a slow economic recovery at the U.S. mainland can still impact the performance of the legacy loan portfolio, as this portfolio is considered of a higher-risk profile.

At June 30, 2012, the Corporation's legacy loans held-in-portfolio included a total of \$9 million of loan modifications, compared with \$27 million at December 31, 2011. These loans were in non-performing status at such dates. There were no commitments outstanding for these legacy loan TDRs at June 30, 2012. The legacy loan TDRs were evaluated for impairment requiring no specific reserves at June 30, 2012.

Mortgage loans

Non-performing mortgage loans held-in-portfolio decreased by \$54 million from December 31, 2011 to June 30, 2012, primarily as a result of reductions in the BPPR and BPNA reportable segments of \$49 million and \$5 million, respectively. The decrease in the BPPR reportable segment was principally due to a higher level of residential mortgage TDRs returning to accrual status after complying with six months of satisfactory payment history, a slowdown in the inflows of non-performing loans, and charge-offs.

For the quarter ended June 30, 2012, additions to mortgage non-performing loans at the BPPR and BPNA reportable segments amounted to \$165 million and \$6 million. The BPPR reportable segment reflected a decrease of \$21 million in the inflows to non-performing status, when compared with the first quarter of 2012. Although the state of the economy in Puerto Rico appears to be gradually improving and certain improving credit trends have been noted, the residential mortgage portfolio at the BPPR reportable segment continues to be impacted by the economic conditions, evidenced by high levels of non-performing mortgage loans and delinquency rates.

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Tables 44 and 45 present the activity in non-performing mortgage loans held-in-portfolio for the BPPR and BPNA segments for the quarter and six months ended June 30, 2012.

Table 44 Activity in Non-Performing Mortgage Loans Held-in-Portfolio (Excluding Covered Loans)

| (Dollars in thousands) | For the quarter ended June 30, 2012 | | For the six months ended June 30, 2012 | |
|---|-------------------------------------|-----------|--|-----------|
| | BPPR | BPNA | BPPR | BPNA |
| Beginning Balance | \$ 633,517 | \$ 33,700 | \$ 649,279 | \$ 37,223 |
| Plus: | | | | |
| New non-performing loans | 165,483 | 6,476 | 351,993 | 12,732 |
| Less: | | | | |
| Non-performing loans transferred to OREO | (19,423) | (3,107) | (40,996) | (4,171) |
| Non-performing loans charged-off | (20,575) | (2,128) | (41,002) | (5,624) |
| Loans returned to accrual status / loan collections | (158,920) | (2,124) | (319,192) | (7,343) |
| Ending balance NPLs | \$ 600,082 | \$ 32,817 | \$ 600,082 | \$ 32,817 |

Table 45 Activity in Non-Performing Mortgage loans Held-in-Portfolio (Excluding Covered Loans)

| (Dollars in thousands) | For the quarter ended June 30, 2011 | | For the six months ended June 30, 2011 | |
|---|-------------------------------------|-----------|--|-----------|
| | BPPR | BPNA | BPPR | BPNA |
| Beginning Balance | \$ 551,756 | \$ 26,355 | \$ 518,446 | \$ 23,586 |
| Plus: | | | | |
| New non-performing loans | 153,509 | 12,754 | 293,303 | 21,610 |
| Less: | | | | |
| Non-performing loans transferred to OREO | (16,135) | (77) | (29,425) | (77) |
| Non-performing loans charged-off | (8,295) | (2,009) | (12,037) | (2,009) |
| Loans returned to accrual status / loan collections | (125,379) | (4,492) | (214,831) | (10,579) |
| Ending balance NPLs | \$ 555,456 | \$ 32,531 | \$ 555,456 | \$ 32,531 |

Mortgage loan net charge-offs, excluding covered loans, for the quarter ended June 30, 2012, increased by \$7.0 million, when compared with the quarter ended June 30, 2011. Mortgage loans annualized net charge-offs to average non-covered loans held-in-portfolio increased by 41 basis points, from 0.89% for the quarter ended June 30, 2011 to 1.30% for the quarter ended June 30, 2012. The increase in the mortgage loans net charge-off ratio was due to higher losses in the BPPR segment, principally related to the implementation of a revised charge-off policy during the first quarter of 2012.

Mortgage loan net charge-offs, excluding covered loans, at the BPPR reportable segment amounted to \$14.8 million for the quarter ended June 30, 2012, an increase of \$7.7 million, when compared with same period in 2011. As mentioned above, this increase in the mortgage loan net charge-offs was principally related to the implementation of a revised charge-off policy during the first quarter of 2012. The Corporation enhanced its charge-off policy for the residential mortgage loan portfolio by including historical losses on recent other real estate owned (OREO) sales to determine the net realizable value to assess charge-offs once a loan becomes 180 days past due; previously, this was only done once the loan was foreclosed.

The net charge-offs for BPNA's mortgage loan portfolio amounted to approximately \$3.4 million for the quarter ended June 30, 2012, decreasing by \$0.7 million when compared with the same quarter in 2011. The mortgage loan portfolio in the BPNA reportable segment maintains low levels of net charge-offs, since most of the non-conventional mortgage loans in non-performing status were classified as held-for-sale and adjusted to fair value in December 2010, and subsequently sold during first quarter of 2011. Mortgage loan net charge-offs in the BPNA reportable segment were due to the normal flow of loans into late stage delinquency.

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The net charge-offs for BPNA's non-conventional mortgage loan portfolio amounted to approximately \$1.9 million or 1.60% of net charge-offs to average non-conventional mortgage loans held-in-portfolio for the quarter ended June 30, 2012, compared with \$1.6 million, or 1.23% of average loans for the second quarter of 2011.

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BPNA's non-conventional mortgage loan portfolio outstanding at June 30, 2012 amounted to approximately \$476 million with a related allowance for loan losses of \$23 million, or 4.77%, of that particular loan portfolio, compared with \$490 million with a related allowance for loan losses of \$24 million or 4.81%, respectively, at December 31, 2011. The Corporation is no longer originating non-conventional mortgage loans at BPNA.

The allowance for loan losses for mortgage loans held-in-portfolio, excluding covered loans, amounted to \$150 million or 2.54% of that portfolio at June 30, 2012, compared with \$102 million or 1.85% at December 31, 2011. The allowance for loan losses corresponding to the mortgage loan portfolio for the BPPR reportable segment totaled \$120 million or 2.50% of mortgage loans held-in-portfolio, excluding covered loans, at June 30, 2012 compared with \$72 million or 1.54%, respectively, at December 31, 2011. This increase in reserve requirements is principally driven by a higher loss trend and higher specific reserves for loans restructured under loss mitigation programs.

Table 46 provides information on non-performing mortgage loans and net charge-offs for the BPPR, excluding covered loans, and BPNA reportable segments.

Table 46 Non-Performing Mortgage Loans and Net Charge-offs (Excluding Covered Loans)

| | BPPR | | BPNA | | Popular, Inc. | |
|--|--|--|--|--|--|--|
| (Dollars in thousands) | June 30, 2012 | December 31, 2011 | June 30, 2012 | December 31, 2011 | June 30, 2012 | December 31, 2011 |
| Non-performing mortgage loans | \$ 600,082 | \$ 649,279 | \$ 32,817 | \$ 37,223 | \$ 632,899 | \$ 686,502 |
| Non-performing mortgage loans to mortgage loans HIP | 12.46% | 13.85% | 3.02% | 4.49% | 10.73% | 12.44% |
| | BPPR | | BPNA | | Popular, Inc. | |
| (Dollars in thousands) | For the quarters ended June 30, 2012 | For the quarters ended June 30, 2011 | For the quarters ended June 30, 2012 | For the quarters ended June 30, 2011 | For the quarters ended June 30, 2012 | For the quarters ended June 30, 2011 |
| Mortgage loan net charge-offs | \$ 14,810 | \$ 7,151 | \$ 3,371 | \$ 4,030 | \$ 18,181 | \$ 11,181 |
| Mortgage loan net charge-offs (annualized) to average mortgage loans HIP | 1.28% | 0.69% | 1.37% | 1.88% | 1.30% | 0.89% |
| | BPPR | | BPNA | | Popular, Inc. | |
| (Dollars in thousands) | For the six months ended June 30, 2012 | For the six months ended June 30, 2011 | For the six months ended June 30, 2012 | For the six months ended June 30, 2011 | For the six months ended June 30, 2012 | For the six months ended June 30, 2011 |
| Mortgage loan net charge-offs | \$ 27,036 | \$ 14,828 | \$ 8,599 | \$ 4,600 | \$ 35,635 | \$ 19,428 |
| Mortgage loan net charge-offs (annualized) to average mortgage loans HIP | 1.18% | 0.76% | 1.90% | 1.07% | 1.30% | 0.82% |

Residential mortgage loans modified in a TDR are primarily comprised of loans where monthly payments are lowered to accommodate the borrowers' financial needs for a period of time, normally five to ten years, depending on the borrower's payment capacity. After the lowered monthly payment period ends, the borrower reverts back to paying principal and interest per the original terms with the maturity date adjusted accordingly. At June 30, 2012, the mortgage loan TDRs for the BPPR and BPNA reportable segments amounted to \$496 million (including \$110 million guaranteed by U.S. sponsored entities) and \$53 million, respectively, compared with \$421 million and \$50 million at December 31, 2011. Of these mortgage loans in the BPPR and BPNA reportable segments \$234 million and \$9 million, respectively, were in non-performing status at June 30, 2012, compared with \$210 million and \$9 million at December 31, 2011. These mortgage loan TDRs were evaluated for impairment resulting in a specific allowance for loan losses of \$45 million and \$15 million for the BPPR and BPNA reportable segments, respectively, at June 30, 2012, compared with \$15 million and \$14 million, respectively, at December 31, 2011.

Consumer loans

Non-performing consumer loans, excluding covered loans, decreased by \$9 million from December 31, 2011 to June 30, 2012, as a result of decreases in the BPPR and BPNA reportable segments of \$7 million and \$2 million, respectively. The decrease in the BPPR reportable segment was principally related to an overall improvement in the consumer lines of business, mainly auto and personal loans, as the portfolios continue to reflect improved credit performance in terms of delinquencies and net charge-offs.

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Additions to consumer non-performing loans for the quarter ended June 30, 2012 amounted to \$23 million and \$8 million for the BPPR and BPNA reportable segments, respectively, decreasing by \$4 million and \$5 million, compared with the additions of the first quarter of 2012. When compared with the second quarter of 2011, additions to consumer non-performing loans at the BPPR reportable segment decreased by \$6 million, while additions to consumer non-performing loans at the BPNA reportable segment decreased slightly by \$1 million, driven principally by the HELOCs portfolio.

The Corporation's annualized consumer loan net charge-offs as a percentage of average consumer loans held-in-portfolio decreased from 4.53% for the quarter ended June 30, 2011 to 3.70% for the quarter ended June 30, 2012. The decrease in the ratio of consumer loan net charge-offs to average consumer loans held-in-portfolio in both segments was attributable to reductions in the delinquency levels, as the portfolios continued to reflect improved credit performance.

The consumer loans held-in-portfolio, excluding covered loans, included \$132 million in TDRs for the BPPR reportable segment and \$3 million for the BPNA reportable segment, which were considered TDRs at June 30, 2012. There were \$4 million in consumer TDR loans in non-performing status for the BPPR reportable segment and \$1 million at the BPNA reportable segment at June 30, 2012.

Table 47 provides information on consumer non-performing loans held-in-portfolio and net charge-offs for the BPPR, excluding covered loans, and BPNA reportable segments.

Table 47 Non-Performing Consumer Loans and Net Charge-offs (Excluding Covered Loans)

| (Dollars in thousands) | BPPR | | BPNA | | Popular, Inc. | |
|---|---------------|-------------------|---------------|-------------------|---------------|-------------------|
| | June 30, 2012 | December 31, 2011 | June 30, 2012 | December 31, 2011 | June 30, 2012 | December 31, 2011 |
| Non-performing consumer loans | \$ 23,840 | \$ 31,291 | \$ 10,825 | \$ 12,377 | \$ 34,665 | \$ 43,668 |
| Non-performing consumer loans to commercial loans HIP | 0.75% | 1.05% | 1.62% | 1.76% | 0.90% | 1.19% |

| (Dollars in thousands) | BPPR | | BPNA | | Popular, Inc. | |
|--|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| | For the quarters ended June 30, 2012 | For the quarters ended June 30, 2011 | For the quarters ended June 30, 2012 | For the quarters ended June 30, 2011 | For the quarters ended June 30, 2012 | For the quarters ended June 30, 2011 |
| Consumer loan net charge-offs | \$ 23,055 | \$ 27,363 | \$ 10,596 | \$ 13,507 | \$ 33,651 | \$ 40,870 |
| Consumer loan net charge-offs (annualized) to average commercial loans HIP | 3.11% | 3.84% | 6.26% | 7.09% | 3.70% | 4.53% |

| (Dollars in thousands) | BPPR | | BPNA | | Popular, Inc. | |
|---|--|--|--|--|--|--|
| | For the six months ended June 30, 2012 | For the six months ended June 30, 2011 | For the six months ended June 30, 2012 | For the six months ended June 30, 2011 | For the six months ended June 30, 2012 | For the six months ended June 30, 2011 |
| Consumer loan net charge-offs | \$ 47,186 | \$ 55,777 | \$ 19,230 | \$ 30,069 | \$ 66,416 | \$ 85,846 |
| Consumer loan net charge-offs (annualized) to average commercial loans HIP, excluding loans | 3.18% | 3.90% | 5.61% | 7.73% | 3.64% | 4.72% |

Combined net charge-offs for E-LOAN's home equity lines of credit and closed-end second mortgages amounted to approximately \$6.1 million or 7.08% of those particular average loan portfolios for the quarter ended June 30, 2012, compared with \$8.7 million or 8.51%, respectively, for the quarter ended June 30, 2011. With the downsizing of E-LOAN, this subsidiary ceased originating these types of loans in 2008. Home equity lending includes both home equity loans and lines of credit. This type of lending, which is secured by a first or second mortgage on the borrower's residence, allows customers to borrow against the equity in their home. Real estate market values at the time the loan or line is granted directly affect the amount of credit extended and, in addition, changes in these values impact the severity of losses. E-LOAN's portfolio of home equity lines of credit and closed-end second mortgages outstanding at June 30, 2012 totaled \$338 million with a related allowance for loan losses of \$19 million, or 5.62%, of that particular portfolio. E-LOAN's portfolio of home equity lines of credit and closed-end second mortgages outstanding at

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December 31, 2011 totaled \$365 million with a related allowance for loan losses of \$24 million, representing 6.56% of that particular portfolio. At June 30, 2012, home equity lines of credit and closed-end second mortgages in which E-LOAN holds both the first and second lien amounted to \$270 thousand and \$440 thousand, respectively, representing 0.04% and 0.07%, respectively, of the consumer loan portfolio of the BPNA reportable segment. At June 30, 2012, 49% are paying the minimum amount due on the home equity lines of credit. At June 30, 2012, all closed-end second mortgages in which E-LOAN holds the first lien mortgage were in performing status.

Troubled debt restructurings

Tables 48 and 49 present the non-covered loans classified as TDRs according to their accruing status at June 30, 2012 and December 31, 2011.

Table 48 TDRs Non-Covered Loans

| (In thousands) | Accruing | June 30, 2012 Non-Accruing | Total |
|----------------|------------|-------------------------------|------------|
| Commercial | \$ 55,087 | \$ 161,081 | \$ 216,168 |
| Construction | | 16,376 | 16,376 |
| Legacy | | 9,320 | 9,320 |
| Mortgage | 305,774 | 243,066 | 548,840 |
| Leases | 2,755 | 2,773 | 5,528 |
| Consumer | 129,567 | 4,734 | 134,301 |
| | \$ 493,183 | \$ 437,350 | \$ 930,533 |

Table 49 TDRs Non-Covered Loans

| (In thousands) | Accruing | December 31, 2011 Non-Accruing | Total |
|----------------|------------|-----------------------------------|------------|
| Commercial | \$ 36,848 | \$ 171,520 | \$ 208,368 |
| Construction | | 28,024 | 28,024 |
| Legacy | | 26,906 | 26,906 |
| Mortgage | 252,277 | 218,715 | 470,992 |
| Leases | 3,085 | 3,118 | 6,203 |
| Consumer | 134,409 | 5,848 | 140,257 |
| | \$ 426,619 | \$ 454,131 | \$ 880,750 |

Table 50 presents the covered loans classified as TDRs according to their accruing status at June 30, 2012.

Table 50 TDRs Covered Loans

| (In thousands) | Accruing | June 30, 2012 Non-Accruing | Total |
|----------------|-----------|-------------------------------|-----------|
| Commercial | \$ 46,460 | \$ 4,639 | \$ 51,099 |
| Construction | | 609 | 609 |
| Mortgage | 151 | 220 | 371 |
| Consumer | 703 | 166 | 869 |
| | \$ 47,314 | \$ 5,634 | \$ 52,948 |

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The Corporation's TDR loans totaled \$931 million at June 30, 2012, an increase of \$50 million, or 6%, from December 31, 2011 mainly due to the intensification of loss mitigation efforts on the mortgage loan portfolio in the BPPR reportable segment. Mortgage TDRs increase of \$78 million, or 17% at June 30, 2012 from December 31, 2011, includes \$53 million of accruing loans.

Refer to Note 8 to the consolidated financial statements for additional information on modifications considered troubled debt restructurings, including certain qualitative and quantitative data about troubled debt restructurings performed in the past twelve months.

Other real estate

Other real estate represents real estate property acquired through foreclosure. Other real estate not covered under loss sharing agreements with the FDIC increased by \$54 million from December 31, 2011 to June 30, 2012, driven by an increase in the BPPR and BPNA reportable segment of \$37 million and \$17 million, respectively. The increase is due to the economic conditions which have impacted both residential and commercial real estate properties. Defaulted loans have increased, and these loans move through the foreclosure process to the other real estate classification. The combination of increased flow of defaulted loans from the loan portfolio to other real estate owned and the slowdown of sales of these properties has resulted in an increase in the number of other real estate units on hand. Refer to Table 16 of this MD&A for the activity of the other real estate assets of the Corporation.

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Other real estate covered under loss sharing agreements with the FDIC, comprised principally of repossessed commercial real estate properties, amounted to \$125 million at June 30, 2012, compared with \$109 million at December 31, 2011. The increase was principally from repossessed commercial real estate properties. Generally, 80% of the write-downs taken on these properties based on appraisals or losses on the sale are covered under the loss sharing agreements.

Updated appraisals or third-party opinions of value (BPOs) are obtained to adjust the values of the other real estate assets. Commencing in 2011, the appraisal for a commercial or construction other real estate property with a book value greater than \$1 million is updated annually and if lower than \$1 million it is updated at least every two years. For residential other real estate property, the Corporation requests third-party BPOs or appraisals generally on an annual basis. Appraisals may be adjusted due to age, collateral inspections and property profiles or due to general market conditions. The adjustments applied are based upon internal information like other appraisals for the type of properties and loss severity information that can provide historical trends in the real estate market, and may change from time to time based on market conditions.

For commercial and construction other real estate properties at the BPPR reportable segment, depending on the type of property and/or the age of the appraisal, downward adjustments currently may range between 10% to 45%, including estimated cost to sell. For commercial and construction properties at the BPNA reportable segment, the most typically applied collateral discount rate is 30%. This discount was determined based on a study of other real estate owned and loan sale transactions during the past two years, comparing net proceeds received by the bank relative to the most recent appraised value of the properties. However, additional haircuts can be applied depending upon the age of appraisal, the region and the condition of the property or project.

In the case of the BPPR reportable segment, appraisals and BPOs of the subject residential properties are currently subject to downward adjustments of up to approximately 22%, including cost to sell of 5%. In the case of the U.S. mainland residential properties, the downward adjustment approximated up to 30%, including cost to sell of 5%.

Allowance for Loan Losses

Non-Covered loan portfolio

The allowance for loan losses, which represents management's estimate of credit losses inherent in the loan portfolio, is maintained at a sufficient level to provide for estimated credit losses on individually evaluated loans as well as estimated credit losses inherent in the remainder of the loan portfolio. The Corporation's management evaluates the adequacy of the allowance for loan losses on a quarterly basis. In this evaluation, management considers current economic conditions and the resulting impact on Popular Inc.'s loan portfolio, the composition of the portfolio by loan type and risk characteristics, historical loss experience, results of periodic credit reviews of individual loans, regulatory requirements and loan impairment measurement, among other factors.

The Corporation must rely on estimates and exercise judgment regarding matters where the ultimate outcome is unknown such as economic developments affecting specific customers, industries or markets. Other factors that can affect management's estimates are the years of historical data when estimating losses, changes in underwriting standards, financial accounting standards and loan impairment measurements, among others. Changes in the financial condition of individual borrowers, in economic conditions, in historical loss experience and in the condition of the various markets in which collateral may be sold may all affect the required level of the allowance for loan losses. Consequently, the business financial condition, liquidity, capital and results of operations could also be affected.

The Corporation's assessment of the allowance for loan losses is determined in accordance with accounting guidance, specifically guidance of loss contingencies in ASC Subtopic 450-20 and loan impairment guidance in ASC Section 310-10-35. As explained in the Critical Accounting Policies / Estimates section of this MD&A, during the first quarter of 2012, the Corporation revised the estimation process for evaluating the adequacy of its allowance for loan losses for the Corporation's commercial and construction loan portfolios by (i) establishing a more granular stratification of the commercial and construction loan portfolios to enhance the homogeneity of the loan classes and (ii) increasing the look-back period for assessing the recent trends applicable to the determination of commercial and construction loan net charge-offs from 6 months to 12 months.

Tables 51 and 52 set forth information concerning the composition of the Corporation's allowance for loan losses (ALLL) at June 30, 2012 and December 31, 2011 by loan category and by whether the allowance and related provisions were calculated individually pursuant to the requirements for specific impairment or through a general valuation allowance.

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Table 51 Composition of ALLL

| (Dollars in thousands) | June 30, 2012 | | | | | | Total ^[2] |
|--|---------------|--------------|------------|------------|--------------|--------------|----------------------|
| | Commercial | Construction | Legacy [3] | Leasing | Mortgage | Consumer | |
| Specific ALLL | \$ 6,830 | \$ 434 | \$ 99 | \$ 766 | \$ 59,723 | \$ 19,656 | \$ 87,508 |
| Impaired loans ^[1] | \$ 495,032 | \$ 61,007 | \$ 29,289 | \$ 5,528 | \$ 510,659 | \$ 133,857 | \$ 1,235,372 |
| Specific ALLL to impaired loans ^[1] | 1.38% | 0.71% | 0.34% | 13.86% | 11.70% | 14.68% | 7.08% |
| General ALLL | \$ 289,934 | \$ 8,708 | \$ 43,912 | \$ 2,191 | \$ 90,099 | \$ 126,183 | \$ 561,027 |
| Loans held-in-portfolio, excluding impaired loans ^[1] | \$ 9,107,783 | \$ 188,736 | \$ 480,540 | \$ 532,389 | \$ 5,389,314 | \$ 3,731,675 | \$ 19,430,437 |
| General ALLL to loans held-in-portfolio, excluding impaired loans ^[1] | 3.18% | 4.61% | 9.14% | 0.41% | 1.67% | 3.38% | 2.89% |
| Total ALLL | \$ 296,764 | \$ 9,142 | \$ 44,011 | \$ 2,957 | \$ 149,822 | \$ 145,839 | \$ 648,535 |
| Total non-covered loans held-in-portfolio ^[1] | \$ 9,602,815 | \$ 249,743 | \$ 509,829 | \$ 537,917 | \$ 5,899,973 | \$ 3,865,532 | \$ 20,665,809 |
| ALLL to loans held-in-portfolio ^[1] | 3.09% | 3.66% | 8.63% | 0.55% | 2.54% | 3.77% | 3.14% |

[1] Excludes covered loans acquired on the Westernbank FDIC-assisted transaction.

[2] Excludes covered loans acquired on the Westernbank FDIC-assisted transaction. At June 30, 2012, the general allowance on the covered loans amounted to \$103 million while the specific reserve amounted to \$14 million.

[3] The legacy portfolio is comprised of commercial loans, construction loans and lease financings related to certain lending products exited by the Corporation as part of restructuring efforts carried out in prior years at the BPNA reportable segment.

Table 52 Composition of ALLL

| (Dollars in thousands) | December 31, 2011 | | | | | | Total ^[2] |
|--|-------------------|--------------|------------|------------|--------------|--------------|----------------------|
| | Commercial | Construction | Legacy [3] | Leasing | Mortgage | Consumer | |
| Specific ALLL | \$ 11,738 | \$ 289 | \$ 57 | \$ 793 | \$ 29,063 | \$ 17,046 | \$ 58,986 |
| Impaired loans ^[1] | \$ 556,329 | \$ 91,710 | \$ 48,890 | \$ 6,104 | \$ 382,880 | \$ 140,108 | \$ 1,226,021 |
| Specific ALLL to impaired loans ^[1] | 2.11% | 0.32% | 0.12% | 12.99% | 7.59% | 12.17% | 4.81% |
| General ALLL | \$ 357,694 | \$ 8,192 | \$ 46,171 | \$ 3,858 | \$ 73,198 | \$ 142,264 | \$ 631,377 |
| Loans held-in-portfolio, excluding impaired loans ^[1] | \$ 9,416,998 | \$ 148,229 | \$ 599,519 | \$ 542,602 | \$ 5,135,580 | \$ 3,533,647 | \$ 19,376,575 |
| General ALLL to loans held-in-portfolio, excluding impaired loans ^[1] | 3.80% | 5.53% | 7.70% | 0.71% | 1.43% | 4.03% | 3.26% |
| Total ALLL | \$ 369,432 | \$ 8,481 | \$ 46,228 | \$ 4,651 | \$ 102,261 | \$ 159,310 | \$ 690,363 |
| Total non-covered loans held-in-portfolio ^[1] | \$ 9,973,327 | \$ 239,939 | \$ 648,409 | \$ 548,706 | \$ 5,518,460 | \$ 3,673,755 | \$ 20,602,596 |
| ALLL to loans held-in-portfolio ^[1] | 3.70% | 3.53% | 7.13% | 0.85% | 1.85% | 4.34% | 3.35% |

- [1] Excludes covered loans acquired on the Westernbank FDIC-assisted transaction.
- [2] Excludes covered loans acquired on the Westernbank FDIC-assisted transaction. At December 31, 2011, the general allowance on the covered loans amounted to \$98 million while the specific reserve amounted to \$27 million.
- [3] The legacy portfolio is comprised of commercial loans, construction loans and lease financings related to certain lending products exited by the Corporation as part of restructuring efforts carried out in prior years at the BPNA reportable segment.

At June 30, 2012, the allowance for loan losses, excluding covered loans, decreased by approximately \$42 million from December 31, 2011. It represented 3.14% of non-covered loans held-in-portfolio at June 30, 2012, compared with 3.35% at December 31, 2011. This decrease in the allowance for loan losses considers reductions in the Corporation's general reserves of approximately \$70 million, offset by an increase of \$29 million in the specific reserves. The increase from December 31, 2011 to June 30, 2012 in the Corporation's recorded investment in loans that were individually evaluated for impairment and their specific allowance for loan losses was mainly related to mortgage loans TDRs, in the BPPR reportable segment due to the intensification of loss mitigation efforts.

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At June 30, 2012, the allowance for loan losses for non-covered loans of the BPPR reportable segment totaled \$447 million or 2.99% of non-covered loans held-in-portfolio, compared with \$453 million or 3.06% of non-covered loans held in portfolio at December 31, 2011. The decrease was mainly driven by a reduction of \$34 million in the general reserve component, when compared with December 31, 2011, mainly due to a lower net charge-off trends in the commercial and consumer loan portfolios. These improvements were partially offset by higher reserve requirements for the residential mortgage loan portfolios due to higher net charge-offs and specific reserve requirements for loans restructured under loss mitigation programs.

The allowance for loan losses of the BPNA reportable segment totaled \$202 million or 3.51% of loans held in portfolio, compared with \$237 million or 4.11% of loans held-in-portfolio at December 31, 2011. The decrease was mainly driven by a reduction of \$36 million in the general reserve component, when compared with December 31, 2011 due to lower loss trends in most portfolios.

Table 53 presents the Corporation's recorded investment in loans, excluding covered loans, that were considered impaired and the related valuation allowance at June 30, 2012 and December 31, 2011.

Table 53 Impaired Loans (Non-Covered Loans)

| (In millions) | June 30, 2012 | | December 31, 2011 | |
|---------------------------------|---------------------|---------------------|---------------------|---------------------|
| | Recorded Investment | Valuation Allowance | Recorded Investment | Valuation Allowance |
| Impaired loans: | | | | |
| Valuation allowance | \$ 690.0 | \$ 87.5 | \$ 632.9 | \$ 59.0 |
| No valuation allowance required | 545.3 | | 593.1 | |
| Total impaired loans | \$ 1,235.3 | \$ 87.5 | \$ 1,226.0 | \$ 59.0 |

With respect to the \$545 million portfolio of impaired loans for which no allowance for loan losses was required at June 30, 2012, management followed the guidance for specific impairment of a loan. When a loan is impaired, the measurement of the impairment may be based on: (1) the present value of the expected future cash flows of the impaired loan discounted at the loan's original effective interest rate; (2) the observable market price of the impaired loan; or (3) the fair value of the collateral if the loan is collateral dependent. A loan is collateral dependent if the repayment of the loan is expected to be provided solely by the underlying collateral. Impaired loans with no valuation allowance were mostly collateral dependent loans for which management performed an analysis based on the fair value of the collateral less estimated costs to sell, and determined that the collateral was deemed adequate to cover any inherent losses at June 30, 2012.

Average impaired loans during the quarters ended June 30, 2012 and June 30, 2011 were \$1.3 billion and \$860 million, respectively. The Corporation recognized interest income on impaired loans of \$7.7 million and \$3.7 million for the quarters ended June 30, 2012 and 2011, respectively. This increase was mainly driven by interest income from residential mortgage TDRs of the BPPR reportable segment.

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Tables 54 and 55 set forth the activity in the specific reserves for impaired loans, excluding covered loans, for the quarters ended June 30, 2012 and 2011.

Table 54 Activity in Specific ALLL for the Quarter Ended June 30, 2012

| (In thousands) | Commercial Loans | Construction Loans | Mortgage Loans | Legacy Loans | Consumer Loans | Leasing | Total |
|---|---------------------|-----------------------|-------------------|-----------------|-------------------|----------|-----------|
| Specific allowance for loan losses at April 1, 2012 | \$ 12,998 | \$ 1,013 | \$ 40,946 | \$ 765 | \$ 18,990 | \$ 1,344 | \$ 76,056 |
| Provision for impaired loans | 17,462 | 421 | 22,317 | 588 | 666 | (578) | 40,876 |
| Less: Net charge-offs | (23,630) | (1,000) | (3,540) | (1,254) | | | (29,424) |
| Specific allowance for loan losses at June 30, 2012 | \$ 6,830 | \$ 434 | \$ 59,723 | \$ 99 | \$ 19,656 | \$ 766 | \$ 87,508 |

Table 55 Activity in Specific ALLL for the Quarter Ended June 30, 2011

| (In thousands) | Commercial Loans | Construction Loans | Mortgage Loans | Legacy Loans | Total |
|---|---------------------|-----------------------|-------------------|-----------------|-----------|
| Specific allowance for loan losses at April 1, 2011 | \$ 9,726 | \$ | \$ 8,166 | \$ | \$ 17,892 |
| Provision for impaired loans | 22,846 | 116 | 4,228 | 5,903 | 33,093 |
| Less: Net charge-offs | (24,818) | | (729) | (5,632) | (31,179) |
| Specific allowance for loan losses at June 30, 2011 | \$ 7,754 | \$ 116 | \$ 11,665 | \$ 271 | \$ 19,806 |

For the quarter ended June 30, 2012, total net charge-offs for individually evaluated impaired loans amounted to approximately \$29.4 million, of which \$23.8 million pertained to the BPPR reportable segment and \$5.6 million to the BPNA reportable segment, mostly related to the commercial loan portfolios.

The Corporation requests updated appraisal reports from pre-approved appraisers for loans that are considered impaired, and individually analyzes them following the Corporation's reappraisal policy. This policy requires updated appraisals for loans secured by real estate (including construction loans) either annually or every two years depending on the total exposure of the borrower. As a general procedure, the Corporation internally reviews appraisals as part of the underwriting and approval process and also for credits considered impaired. Generally, the specialized appraisal review unit of the Corporation's Credit Risk Management Division internally reviews appraisals following certain materiality benchmarks. In addition to evaluating the reasonability of the appraisal reports, these reviews monitor that appraisals are performed following the Uniform Standards of Professional Appraisal Practice (USPAP).

Appraisals may be adjusted due to age or general market conditions. The adjustments applied are based upon internal information, like other appraisals and/or loss severity information that can provide historical trends in the real estate market. Specifically, in commercial and construction impaired loans for the BPPR reportable segment, and depending on the type of property and/or the age of the appraisal, downward adjustments currently range from 10% to 45% (including costs to sell). At June 30, 2012, the weighted average downward adjustment rate for the BPPR reportable segment was 22%.

For commercial and construction loans at the BPNA reportable segment, most downward adjustments to the collateral value currently range from 30% to 50% depending on the age of the appraisals and the type, location and condition of the property. This discount used was determined based on a study of other real estate owned and loan sale transactions during the past two years, comparing net proceeds received by the bank relative to the most recent appraised value of the properties. However, additional haircuts can be applied depending upon the age of appraisal, the region and the condition of the project. Factors are based on appraisal changes and/or trends in loss severities. Discount rates discussed above include costs to sell and may change from time to time based on market conditions. At June 30, 2012, the weighted average discount rate for the BPNA reportable segment was 34%.

For mortgage loans secured by residential real estate properties, a current assessment of value is made not later than 180 days past the contractual due date. Any outstanding balance in excess of the estimated value of the collateral property, less estimated costs to sell, is charged-off. For this purpose, the Corporation requests third-party Broker Price Opinion of Value (BPOs) of the subject collateral property at

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least annually. In the case of the mortgage loan portfolio for the BPPR reportable segment, BPOs of the subject collateral properties are currently subject to downward adjustments of up to approximately 22%, including cost to sell of 5%, and further adjusted for reinstatement behavior. In the case of the U.S. mortgage loan portfolio, a 30% haircut is taken, which includes costs to sell.

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Discount rates discussed above include costs to sell and may change from time to time based on market conditions.

Table 56 presents the approximate amount and percentage of non-covered impaired loans for which the Corporation relied on appraisals dated more than one year old for purposes of impairment requirements at June 30, 2012.

Table 56 Non-Covered Impaired Loans with Appraisals Dated 1 year or Older

| (In thousands) | June 30, 2012 | | Impaired Loans with Appraisals Over One-Year Old [1] |
|--------------------|----------------------|-------------------------------|--|
| | Total Impaired Loans | Held-in-portfolio (HIP) | |
| | # of Loans | Outstanding Principal Balance | |
| Total commercial | 329 | \$ 435,359 | 26% |
| Total construction | 24 | \$ 59,870 | 13% |
| Total legacy | 29 | \$ 29,289 | 28% |

[1] Based on outstanding balance of total impaired loans.

The percentage of the Corporation's impaired construction loans that were relied upon as developed and as is for the period ended June 30, 2012 is presented in Table 57.

Table 57 Impaired Construction Loans Relied Upon As is or As Developed

| (In thousands) | June 30, 2012 | | As a % of total construction impaired loans HIP | Count | Amount in \$ | As developed As a % of total construction impaired loans HIP | Average % of completion |
|-----------------------------|---------------|--------------|---|-------|--------------|--|-------------------------|
| | Count | Amount in \$ | | | | | |
| Loans held-in-portfolio [1] | 18 | \$ 28,529 | 40% | 11 | \$ 42,600 | 60% | 91% |

[1] Includes \$10.1 million of constructions loans from the BPNA legacy portfolio.

At June 30, 2012, the Corporation accounted for \$43 million impaired construction loans under the as developed value. This approach is used since the current plan is that the project will be completed and it reflects the best strategy to reduce potential losses based on the prospects of the project. The costs to complete the project and the related increase in debt are considered an integral part of the individual reserve determination.

Costs to complete are deducted from the subject as developed collateral value on impaired construction loans. Impairment determinations are calculated following the collateral dependent method, comparing the outstanding principal balance of the respective impaired construction loan against the expected realizable value of the subject collateral. Realizable values of subject collaterals have been defined as the as developed appraised value less costs to complete, costs to sell and discount factors. Costs to complete represent an estimate of the amount of money to be disbursed to complete a particular phase of a construction project. Costs to sell have been determined as a percentage of the subject collateral value, to cover related collateral disposition costs (e.g. legal and commission fees). As discussed previously, discount factors may be applied to the appraised amounts due to age or general market conditions.

Allowance for loan losses - Covered loan portfolio

The Corporation's allowance for loan losses for the covered loan portfolio acquired in the Westernbank FDIC-assisted transaction amounted to \$117 million at June 30, 2012, compared with \$125 million at December 31, 2011. This allowance covers the estimated credit loss exposure related to: (i) acquired loans accounted for under ASC Subtopic 310-30, which required an allowance for loan losses of \$94 million at June 30, 2012, compared with \$83 million at December 31, 2011; and (ii) acquired loans accounted for under ASC Subtopic 310-20, which required an

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allowance for loan losses of \$23 million at June 30, 2012, compared with \$42 million at December 31, 2011.

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Decreases in expected cash flows after the acquisition date for loans (pools) accounted for under ASC Subtopic 310-30 are recognized by recording an allowance for loan losses in the current period. For purposes of loans accounted for under ASC Subtopic 310-20 and new loans originated as a result of loan commitments assumed, the Corporation's assessment of the allowance for loan losses is determined in accordance with the accounting guidance of loss contingencies in ASC Subtopic 450-20 (general reserve for inherent losses) and loan impairment guidance in ASC Section 310-10-35 for loans individually evaluated for impairment. Concurrently, the Corporation records an increase in the FDIC loss share asset for the expected reimbursement from the FDIC under the loss sharing agreements.

Geographic and government risk

The Corporation is exposed to geographical and government risk. The Corporation's assets and revenue composition by geographical area and by business segment reporting are presented in Note 31 to the consolidated financial statements. A significant portion of the Corporation's financial activities and credit exposure is concentrated in Puerto Rico, and its economy has been through a prolonged recession. Based on information published by the Puerto Rico Planning Board, Puerto Rico's real gross national product (GNP) decreased an estimated 3.4% during fiscal year ended June 30, 2010 and 1.5% during the fiscal year ended June 30, 2011. However, the economy appears to have reached stability for fiscal year 2012, which ended on June 30, 2012.

Total payroll employment (seasonally adjusted) amounted to 924,300 jobs in June 2012, a decline of 0.1% versus the previous year, and 0.8% over the previous month. The unemployment rate in Puerto Rico (seasonally adjusted) was 13.8% in June 2012, as compared with 15.7% the previous year and 14.2% in May 2012.

Economic growth is still challenged by a lack of job growth and a housing sector that remains under pressure, but the government has made progress in addressing the budget deficit while the banking sector has been substantially recapitalized and consolidated through FDIC-assisted and private transactions.

The Puerto Rico Planning Board recently revised its projection for real GNP growth in fiscal 2012 and 2013. It now expects fiscal 2012 growth to have been 0.9%, which would be the first year of real growth since 2006. For fiscal 2013, it projected growth of 1.1%.

General fund net revenues of the government during the first eleven months of fiscal year 2012 (July 2011 to May 2012) amounted to \$8.0 billion, a 6.0% year-over-year increase while the GDB continued to shore up its liquidity with continued access to local and U.S. capital markets.

In 2010, the government also enacted a housing-incentive law that put into effect temporary measures that seek to stimulate demand for housing and reduce the significant excess supply of new homes. The incentives, which were extended until December 2012 with minor modifications, include reductions in taxes and government closing fees, tax exemption on rental income from new properties for 10 years, an exemption on long-term capital gain taxes on the future sale of new properties and no property taxes for five years on new housing, among others. The incentives, together with the current environment of low interest rates, continue to attract home buyers into the market.

Tourism reflected a significant pickup in visitors during 2012. The hotel occupancy rate for the January-April 2012 period was 71.7%, as compared with 66.7% for 2011.

Despite the improved outlook, Puerto Rico continues to be susceptible to fluctuations in the price of crude oil due to its high dependence on fuel oil for energy production. An unexpected rise in the price of oil could have a negative impact on the overall economy, as it is dependent on oil for most of its electricity and transportation. Also, loan demand in the Puerto Rico market continues to be sluggish even as the economy appears to be transitioning from recession to stability. Lower loan demand could impact our level of earning assets and profitability. The recessionary cycle has increased the level of non-performing assets and deterioration in the economy of Puerto Rico, although not expected, could increase significantly the Corporation's credit costs and adversely affect its profitability.

On August 8, 2011, Moody's Investors Service downgraded the rating of the outstanding general obligation (GO) bonds of the Commonwealth of Puerto Rico from A3 to Baa1, with negative outlook. Moody's new Baa1 rating is at par with Fitch's BBB+ and one notch above the BBB rating Puerto Rico received from S&P last March, which currently has a negative outlook.

At June 30, 2012, the Corporation had \$0.9 billion of credit facilities granted to or guaranteed by the Puerto Rico Government and its political subdivisions, of which \$140 million were uncommitted lines of credit. Of these total credit facilities granted, \$745 million were outstanding at June 30, 2012. A substantial portion of the Corporation's credit exposure to the Government of Puerto Rico is

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either in the form of collateralized loans or obligations that have a specific source of income or revenues identified for their repayment. Some of these obligations consist of senior and subordinated loans to public corporations that obtain revenues from rates charged for services or products, such as water and electric power utilities. Public corporations have varying degrees of independence from the central Government and many receive appropriations or other payments from it. The Corporation also has loans to various municipalities in Puerto Rico for which, in most cases, the good faith, credit and unlimited taxing power of the applicable municipality has been pledged to their repayment. These municipalities are required by law to levy special property taxes in such amounts as shall be required for the payment of all of its general obligation bonds and loans. Another portion of these loans consists of special obligations of various municipalities that are payable from the basic real and personal property taxes collected within such municipalities.

Furthermore, at June 30, 2012, the Corporation had outstanding \$148 million in obligations of Puerto Rico, States and political subdivisions as part of its investment securities portfolio. Of that total, \$144 million was exposed to the creditworthiness of the Puerto Rico Government and its municipalities.

As further detailed in Notes 5 and 6 to the consolidated financial statements, a substantial portion of the Corporation's investment securities represented exposure to the U.S. Government in the form of U.S. Government sponsored entities, as well as agency mortgage-backed and U.S. Treasury securities. In addition, \$656 million of residential mortgages and \$193 million in commercial loans were insured or guaranteed by the U.S. Government or its agencies at June 30, 2012. On August 5, 2011, Standard & Poor's lowered its long-term sovereign credit rating on the United States of America from AAA to AA+ and on August 8, 2011, Standard & Poor's lowered its credit ratings of the obligations of certain U.S. Government sponsored entities, including FNMA, FHLB and FHLMC, and other agencies with securities linked to long-term U.S. government debt. These downgrades could have a material adverse impact on global financial markets and economic conditions, and its ultimate impact is unpredictable and may not be immediately apparent. The Corporation does not have any exposure to European sovereign debt.

ADOPTION OF NEW ACCOUNTING STANDARDS AND ISSUED BUT NOT YET EFFECTIVE ACCOUNTING STANDARDS

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 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 goodwill 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

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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.

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.

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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)

The FASB issued Accounting Standards Update (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 June 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 June 30, 2012. Refer to Notes 22 and 23 for additional fair value disclosures included for the quarter and six months ended June 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

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transferee, and (2) the requirement to demonstrate that the transferor possesses adequate collateral to fund substantially all the cost of purchasing replacement financial assets.

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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 June 30, 2012.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Quantitative and qualitative disclosures for the current period can be found in the Market Risk section of this report, which includes changes in market risk exposures from disclosures presented in the Corporation's 2011 Annual Report.

Item 4. Controls and Procedures Disclosure Controls and Procedures

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

Internal Control Over Financial Reporting

There have been no changes in the Corporation's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended on June 30, 2012 that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

Part II Other Information

Item 1. Legal Proceedings

For a discussion of Legal Proceedings, see Note 19, Commitments and Contingencies, to the Consolidated Financial Statements.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed under Part I Item 1A Risk Factors in our 2011 Annual Report. These factors could materially adversely affect our business, financial condition, liquidity, results of operations and capital position, and could cause our actual results to differ materially from our historical results or the results contemplated by the forward-looking statements contained in this report. Also refer to the discussion in Part I Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations in this report for additional information that may supplement or update the discussion of risk factors in our 2011 Annual Report.

There have been no material changes to the risk factors previously disclosed under Item 1A. of the Corporation's 2011 Annual Report, except for the risk described below.

The risks described in our 2011 Annual Report and in this report are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or results of

operations.

Implementation of BASEL III could reduce our regulatory capital ratios

In June 2012, the FRB, OCC, and FDIC (collectively, the Agencies) each issued Notices of Proposed Rulemaking (NPRs) that would revise and replace the Agencies' current capital rules to align with the BASEL III capital standards and meet certain requirements of the Dodd-Frank Act. Certain requirements of the proposed NPRs would establish more restrictive requirements for instruments to qualify as capital, higher risk-weightings for certain asset classes (including non-performing loans, certain commercial real estate loans, and certain types of residential mortgage loans), capital buffers and higher minimum capital ratios. The proposed NPRs provide for a comment period through October 22, 2012 and the proposals are subject to further modification by the Agencies. The revised capital rules are expected to be implemented between 2013 and 2019.

The proposed revisions would include implementation of a new common equity Tier 1 minimum capital requirement and apply limits on a banking organization's capital distributions and certain discretionary bonus payments if the banking organization does not hold a specified amount of common equity Tier 1 capital in addition to the amount necessary to meet its minimum risk-based capital requirements. The NPRs also would establish more conservative standards for including an instrument in regulatory capital. The revisions set forth in these NPRs are consistent with section 171 of the Dodd-Frank Act, which requires the Agencies to establish minimum risk-based and leverage capital requirements.

The Agencies are also proposing to revise their rules for calculating risk-weighted assets to enhance risk sensitivity and address weaknesses identified over recent years, including by incorporating aspects of the Basel II standardized framework in the International Convergence of Capital Measurement and Capital Standards: A Revised Framework, including subsequent amendments to that standard, and recent consultative papers from the Basel Committee on Banking Supervision. The Standardized Approach NPR also includes alternatives to credit ratings, consistent with section 939A of the Dodd-Frank Act. The revisions include methodologies for determining risk-weighted assets for residential mortgages, securitization exposures, and counterparty credit risk.

We are currently evaluating the impact of the proposed NPRs on our regulatory capital ratios. We anticipate that, based on our current asset composition and non-performing asset levels, the implementation of the NPRs as currently proposed would lower our regulatory capital ratios. Although we expect to continue to exceed the minimum requirements for well capitalized status following the implementation of the NPRs as proposed, there can be no assurances that we will remain well capitalized.

Table of Contents**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**
Issuer Purchases of Equity Securities

In April 2004, the Corporation's shareholders adopted the Popular, Inc. 2004 Omnibus Incentive Plan. The Corporation has to date used shares purchased in the market to make grants under the Plan. The maximum number of shares of common stock that may be granted under this plan is 1,000,000.

In connection with the Corporation's participation in the Capital Purchase Program under the Troubled Asset Relief Program, the consent of the U.S. Department of the Treasury will be required for the Corporation to repurchase its common stock other than in connection with benefit plans consistent with past practice and certain other specified circumstances.

The following table sets forth the details of purchases of Common Stock during the quarter ended June 30, 2012 under the 2004 Omnibus Incentive Plan.

| Issuer Purchases of Equity Securities | | | | |
|---------------------------------------|----------|---|---------------------------------|---|
| Not in thousands | | | | |
| Period | | Total Number of Shares Purchased | Average Price Paid per Share | Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs [a] |
| | | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | | |
| April 1 | April 30 | 210,457 | \$ 18.37 | |
| May 1 | May 31 | 24,691 | 16.20 | |
| June 1 | June 30 | | | |
| Total June 30, 2012 | | 235,148 | \$ 18.14 | |

Item 6. Exhibits

| Exhibit No. | Exhibit Description |
|-------------|--|
| 3.1 | Composite Certificate of Incorporation of Popular, Inc. |
| 3.2 | Certificate of Amendment to Restated Certificate of Incorporation of Popular, Inc. |
| 12.1 | Computation of the ratios of earnings to fixed charges and preferred stock dividends |
| 31.1 | Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2 | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

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SIGNATURES

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

POPULAR, INC.

(Registrant)

Date: August 9, 2012

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

Chief Financial Officer

Date: August 9, 2012

By: /s/ Jorge J. García
Jorge J. García
Senior Vice President & Corporate Comptroller