POPULAR INC
Form 10-Q
May 09, 2013

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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 March 31, 2013

Commission File Number: 001-34084

POPULAR, INC.

(Exact name of registrant as specified in its charter)

Puerto Rico	**66-0667416**
(State or other jurisdiction of	**(IRS Employer**
Incorporation or organization)	**Identification Number)**

Popular Center Building

209 Muñoz Rivera Avenue

Hato Rey, Puerto Rico	**00918**
(Address of principal executive offices)	**(Zip code)**

(787) 765-9800

(Registrant s telephone number, including area code)

NOT APPLICABLE

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x 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). x 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	x	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 x No

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: Common Stock, $0.01 par value, 103,251,872 shares outstanding as of May 2, 2013.

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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 conditi 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, co 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

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, 2012 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.

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POPULAR, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(UNAUDITED)

(In thousands, except share information)	March 31, 2013	December 31, 2012
Assets:		
Cash and due from banks	$ 242,290	$ 439,363
Money market investments:		
Federal funds sold	56,955	33,515
Securities purchased under agreements to resell	226,139	213,462
Time deposits with other banks	1,061,150	838,603
Total money market investments	1,344,244	1,085,580
Trading account securities, at fair value:		
Pledged securities with creditors right to repledge	258,677	271,624
Other trading securities	41,096	42,901
Investment securities available-for-sale, at fair value:		
Pledged securities with creditors right to repledge	1,865,840	1,603,693
Other investment securities available-for-sale	3,455,391	3,480,508
Investment securities held-to-maturity, at amortized cost (fair value 2013 - $141,877; 2012 - $144,233)	141,518	142,817
Other investment securities, at lower of cost or realizable value (realizable value 2013 - $200,710; 2012 - $187,501)	198,577	185,443
Loans held-for-sale, at lower of cost or fair value	201,495	354,468
Loans held-in-portfolio:		
Loans not covered under loss sharing agreements with the FDIC	21,729,882	21,080,005
Loans covered under loss sharing agreements with the FDIC	3,362,446	3,755,972
Less Unearned income	96,137	96,813
Allowance for loan losses	683,368	730,607
Total loans held-in-portfolio, net	24,312,823	24,008,557
FDIC loss share asset	1,380,592	1,399,098
Premises and equipment, net	532,785	535,793
Other real estate not covered under loss sharing agreements with the FDIC	154,699	266,844
Other real estate covered under loss sharing agreements with the FDIC	172,378	139,058
Accrued income receivable	135,542	125,728
Mortgage servicing assets, at fair value	153,949	154,430
Other assets	1,651,234	1,569,578
Goodwill	647,757	647,757
Other intangible assets	51,827	54,295
Total assets	$ 36,942,714	$ 36,507,535
Liabilities and Stockholders Equity		
Liabilities:		
Deposits:		
Non-interest bearing	$ 5,613,701	$ 5,794,629
Interest bearing	21,399,516	21,205,984

Total deposits	27,013,217	27,000,613
Assets sold under agreements to repurchase	2,265,675	2,016,752
Other short-term borrowings	951,200	636,200
Notes payable	1,752,469	1,777,721
Other liabilities	989,010	966,249
Total liabilities	32,971,571	32,397,535
Commitments and contingencies (See Note 20)		
Stockholders equity:		
Preferred stock, 30,000,000 shares authorized; 2,006,391 shares issued and outstanding	50,160	50,160
Common stock, $0.01 par value; 170,000,000 shares authorized; 103,253,018 shares issued (2012 103,193,303) and 103,228,615 shares outstanding (2012 103,169,806)	1,033	1,032
Surplus	4,151,838	4,150,294
(Accumulated deficit) retained earnings	(109,411)	11,826
Treasury stock at cost, 24,403 shares (2012 23,497)	(469)	(444)
Accumulated other comprehensive loss, net of tax	(122,008)	(102,868)
Total stockholders equity	3,971,143	4,110,000
Total liabilities and stockholders equity	$ 36,942,714	$ 36,507,535

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

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POPULAR, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

(In thousands, except per share information)	Quarters ended March 31, 2013	2012
Interest income:		
Loans	$ 385,414	$ 387,942
Money market investments	955	948
Investment securities	37,356	45,070
Trading account securities	5,514	5,891
Total interest income	429,239	439,851
Interest expense:		
Deposits	38,343	51,679
Short-term borrowings	9,782	13,583
Long-term debt	35,767	37,007
Total interest expense	83,892	102,269
Net interest income	345,347	337,582
Provision for loan losses - non-covered loans	206,300	82,514
Provision for loan losses - covered loans	17,556	18,209
Net interest income after provision for loan losses	121,491	236,859
Service charges on deposit accounts	43,722	46,589
Other service fees (Refer to Note 26)	58,803	66,039
Trading account loss	(75)	(2,143)
Net (loss) gain on sale of loans, including valuation adjustments on loans held-for-sale	(48,959)	15,471
Adjustments (expense) to indemnity reserves on loans sold	(16,143)	(3,875)
FDIC loss share expense (Refer to Note 27)	(26,266)	(15,255)
Other operating income	6,493	17,082
Total non-interest income	17,575	123,908
Operating expenses:		
Personnel costs	115,989	121,491
Net occupancy expenses	24,288	24,162
Equipment expenses	11,950	11,341
Other taxes	11,586	13,438
Professional fees	52,135	48,105
Communications	6,832	7,131
Business promotion	12,917	12,850
FDIC deposit insurance	9,280	24,926
Loss on early extinguishment of debt		69
Other real estate owned (OREO) expenses	46,741	14,165
Other operating expenses	22,064	15,896
Amortization of intangibles	2,468	2,593

Total operating expenses	316,250	296,167
(Loss) income before income tax	(177,184)	64,600
Income tax (benefit) expense	(56,877)	16,192
Net (Loss) Income	$ (120,307)	$ 48,408
Net (Loss) Income Applicable to Common Stock	$ (121,237)	$ 47,477
Net (Loss) Income per Common Share Basic	$ (1.18)	$ 0.46
Net (Loss) Income per Common Share Diluted	$ (1.18)	$ 0.46

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

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POPULAR, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(Unaudited)

(In thousands)	Quarters ended March 31, 2013	2012
Net (loss) income	$ (120,307)	$ 48,408
Other comprehensive loss before tax:		
Foreign currency translation adjustment	724	(86)
Amortization of net losses on pension and postretirement benefit plans	6,169	6,289
Amortization of prior service cost of pension and postretirement benefit plans		(50)
Unrealized holding losses on investments arising during the period	(28,955)	(7,882)
Unrealized net losses on cash flow hedges	(99)	(1,549)
Reclassification adjustment for net (gains) losses included in net income	(152)	2,316
Other comprehensive loss before tax	(22,313)	(962)
Income tax benefit (expense)	3,173	(275)
Total other comprehensive loss, net of tax	(19,140)	(1,237)
Comprehensive (loss) income, net of tax	$ (139,447)	$ 47,171

Tax effect allocated to each component of other comprehensive loss:

(In thousands)	Quarters ended March 31, 2013	2012
Amortization of net losses on pension and postretirement benefit plans	(1,851)	(1,740)
Amortization of prior service cost of pension and postretirement benefit plans		15
Unrealized holding losses on investments arising during the period	4,949	1,681
Unrealized net losses on cash flow hedges	30	465
Reclassification adjustment for net gains (losses) included in net income	45	(696)
Income tax (expense) benefit	$ 3,173	$ (275)

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

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CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

(UNAUDITED)

(In thousands)	Common stock[1]	Preferred stock	Surplus[1]	Accumulated deficit	Treasury stock	Accumulated other comprehensive loss	Total
Balance at December 31, 2011	$ 1,026	$ 50,160	$ 4,123,898	$ (212,726)	$ (1,057)	$ (42,548)	$ 3,918,753
Net income				48,408			48,408
Issuance of stock	2		2,060				2,062
Dividends declared:							
Preferred stock				(931)			(931)
Common stock purchases					(6)		(6)
Common stock reissuance					22		22
Other comprehensive loss, net of tax						(1,237)	(1,237)
Balance at March 31, 2012	$ 1,028	$ 50,160	$ 4,125,958	$ (165,249)	$ (1,041)	$ (43,785)	$ 3,967,071
Balance at December 31, 2012	$ 1,032	$ 50,160	$ 4,150,294	$ 11,826	$ (444)	$ (102,868)	$ 4,110,000
Net loss				(120,307)			(120,307)
Issuance of stock	1		1,544				1,545
Dividends declared:							
Preferred stock				(930)			(930)
Common stock purchases					(25)		(25)
Other comprehensive loss, net of tax						(19,140)	(19,140)
Balance at March 31, 2013	$ 1,033	$ 50,160	$ 4,151,838	$ (109,411)	$ (469)	$ (122,008)	$ 3,971,143

[1] The balances and activity for 2012 have been adjusted to retroactively reflect the 1-for-10 reverse stock split effected on May 29, 2012.

	March 31, 2013	March 31, 2012[1]
Disclosure of changes in number of shares:		
Preferred Stock:		
Balance at beginning and end of period	2,006,391	2,006,391
Common Stock Issued:		
Balance at beginning of period	103,193,303	102,634,640
Issuance of stock	59,715	120,954
Balance at end of the period	103,253,018	102,755,594
Treasury stock	(24,403)	(43,887)
Common Stock Outstanding	103,228,615	102,711,707

[1] Share data has been adjusted to retroactively reflect the 1-for-10 reverse stock split effected on May 29, 2012.

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

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POPULAR, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(In thousands)	Quarter ended March 31, 2013	2012
Cash flows from operating activities:		
Net (loss) income	$ (120,307)	$ 48,408
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Provision for loan losses	223,856	100,723
Amortization of intangibles	2,468	2,593
Depreciation and amortization of premises and equipment	12,254	11,756
Net accretion of discounts and amortization of premiums and deferred fees	(14,257)	(4,077)
Fair value adjustments on mortgage servicing rights	5,615	(784)
FDIC loss share expense	26,266	15,255
Amortization of prepaid FDIC assessment		24,926
Adjustments (expense) to indemnity reserves on loans sold	16,143	3,875
Earnings from investments under the equity method	(9,594)	(15,402)
Deferred income tax (benefit) expense	(60,528)	4,418
(Gain) loss on:		
Disposition of premises and equipment	(1,468)	(6,284)
Sale of loans, including valuation adjustments on loans held-for-sale	48,959	(15,471)
Sale of foreclosed assets, including write-downs	38,363	10,163
Acquisitions of loans held-for-sale	(15,335)	(76,118)
Proceeds from sale of loans held-for-sale	51,000	63,460
Net disbursements on loans held-for-sale	(382,810)	(223,500)
Net (increase) decrease in:		
Trading securities	423,236	270,691
Accrued income receivable	(9,815)	(1,357)
Other assets	28,181	26,012
Net increase (decrease) in:		
Interest payable	(255)	(2,249)
Pension and other postretirement benefit obligation	1,470	4,720
Other liabilities	(28,586)	(2,421)
Total adjustments	355,163	190,929
Net cash provided by operating activities	234,856	239,337
Cash flows from investing activities:		
Net (increase) decrease in money market investments	(258,664)	71,911
Purchases of investment securities:		
Available-for-sale	(736,069)	(529,445)
Held-to-maturity	(250)	(250)
Other	(49,018)	(47,629)
Proceeds from calls, paydowns, maturities and redemptions of investment securities:		
Available-for-sale	497,175	388,472
Held-to-maturity	2,078	1,539
Other	35,884	31,800
Net repayments on loans	468,309	191,073
Proceeds from sale of loans	43,044	21,304

Acquisition of loan portfolios	(1,026,485)	(140,005)
Net payments (to) from FDIC under loss sharing agreements	(107)	20,896
Return of capital from equity method investments	438	
Mortgage servicing rights purchased	(45)	(474)
Acquisition of premises and equipment	(11,983)	(12,298)
Proceeds from sale of:		
Premises and equipment	4,205	11,946
Foreclosed assets	71,930	25,923
Net cash (used in) provided by investing activities	(959,558)	34,763
Cash flows from financing activities:		
Net increase (decrease) in:		
Deposits	(3,795)	(745,906)
Assets sold under agreements to repurchase	248,923	(27,541)
Other short-term borrowings	315,000	455,000
Payments of notes payable	(48,281)	(22,284)
Proceeds from issuance of notes payable	14,882	2,719
Proceeds from issuance of common stock	1,545	2,062
Dividends paid	(620)	(620)
Treasury stock acquired	(25)	(6)
Net cash provided by (used in) financing activities	527,629	(336,576)
Net decrease in cash and due from banks	(197,073)	(62,476)
Cash and due from banks at beginning of period	439,363	535,282
Cash and due from banks at end of period	$ 242,290	$ 472,806

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 mortgage, retail and commercial banking services through its principal banking subsidiary, Banco Popular de Puerto Rico (BPPR), as well as 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 32 to the consolidated financial statements presents information about the Corporation s business segments.

Effective December 31, 2012, Popular Mortgage, which was a wholly-owned subsidiary of BPPR prior to that date, was merged with and into BPPR as part of an internal reorganization. Popular Mortgage currently operates as a division of BPPR.

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, 2012 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 2012 consolidated financial statements and notes to the financial statements to conform with the 2013 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 17 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, 2012, included in the Corporation s 2012 Annual Report (the 2012 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 2013-05, Foreign Currency Matters (Topic 830): Parent s Accounting for the Cumulative Translation Adjustment Upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity (ASU 2013-05)

The FASB issued ASU 2013-05 in March 2013 which clarifies the applicable guidance for the release of the cumulative translation adjustment. When a reporting entity ceases to have a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business within a foreign entity, the parent is required to apply the guidance in ASC 830-30 to release any related cumulative translation adjustment into net income. Accordingly, the cumulative translation adjustment should be released into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets has resided.

For an equity method investment that is a foreign entity, the partial sale guidance in ASC 830-30-40 still applies. As such, a pro rata portion of the cumulative translation adjustment should be released into net income upon a partial sale of such equity method investment. However, this treatment does not apply to an equity method investment that is not a foreign entity. In those instances, the cumulative translation adjustment is released into net income only if the partial sale represents a complete or substantially complete liquidation of the foreign entity that contains the equity method investment.

Additionally, the amendments in this ASU clarify that the sale of an investment in a foreign entity includes both: (1) events that result in the loss of a controlling financial interest in a foreign entity and (2) events that result in an acquirer obtaining control of an acquiree in which it held an equity interest immediately before the acquisition date. Accordingly, the cumulative translation adjustment should be released into net income upon the occurrence of those events.

ASU 2013-05 is effective for fiscal years and interim periods within those years, beginning on or after December 15, 2013. The amendments should be applied prospectively to derecognition events occurring after the effective date. Prior periods should not be adjusted. Early adoption is permitted. If an entity elects to early adopt the amendments of this ASU it should apply them as of the beginning of the entity s fiscal year of adoption

The Corporation does not anticipate that the adoption of this guidance will have a material effect on its consolidated statements of condition or results of operations.

FASB Accounting Standards Update 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income (ASU 2013-02)

The FASB issued ASU 2013-02 in February 2013. ASU 2013-02 requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. The amendments of ASU 2013-02 do not change the current requirements for reporting net income or other comprehensive income in financial statements.

ASU 2013-02 is effective for fiscal years and interim periods within those years, beginning on or after December 15, 2012. Early adoption is permitted.

The Corporation adopted the provisions of this guidance in the first quarter of 2013 and elected to present these disclosures on the notes to the financial statements. Refer to note 18 to the consolidated financial statements for the related disclosures. The adoption of this ASU did not have a material impact on the Corporation s consolidated financial statements.

FASB Accounting Standards Update 2013-01, Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities (ASU 2013-01)

The FASB issued ASU 2013-01 in January 2013. ASU 2013-01 clarifies that the scope of FASB Accounting Standard Update 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities (ASU 2011-11), applies only to derivatives accounted for under ASC 815, Derivatives and Hedging, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with ASC 210-20-45 or ASC 815-10-45 or subject to an enforceable master netting arrangement or similar agreement.

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ASU 2013-01 is effective for fiscal years and interim periods within those years, beginning on or after January 1, 2013. Entities should provide the required disclosures retrospectively for all comparative periods presented. The effective date is the same as the effective date of ASU 2011-11.

The Corporation adopted this guidance which impacts presentation disclosures only on the first quarter of 2013, and did not have an impact on the Corporation s consolidated financial statements. Refer to note 15 to the consolidated financial statements for the related disclosures.

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

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

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

The Corporation adopted the provisions of this guidance on the first quarter of 2013, and did not have a material effect on the Corporation s consolidated financial statements as of March 31, 2013.

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

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

ASU 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted, including for annual or interim impairment tests performed as of a date before July 27, 2012, as long as the financial statements have not yet been issued. The Corporation did not elect to adopt early the provisions of this ASU.

The provisions of this guidance simplify how entities test for indefinite-lived assets impairment and have not had an impact on the Corporation s consolidated financial statements as of March 31, 2013.

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 which impacts presentation disclosure only was adopted in the first quarter of 2013 and did not have an impact on the Corporation s financial condition or results of operations. Refer to note 15 to the consolidated financial statements for the related disclosures.

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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 $962 million at March 31, 2013 (December 31, 2012 - $952 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 March 31, 2013 and December 31, 2012, the Corporation held $41 million in restricted assets in the form of funds deposited in money market accounts, trading account securities and investment securities available for sale. The amounts held in trading account securities and investment securities available for sale consist primarily of restricted assets held for the Corporation s non-qualified retirement plans and fund deposits guaranteeing possible liens or encumbrances over the title of insured properties.

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Note 4 Pledged assets

Certain securities and loans were pledged to secure public and trust deposits, assets sold under agreements to repurchase, 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)	March 31, 2013	December 31, 2012
Investment securities available-for-sale, at fair value	$ 1,562,627	$ 1,606,683
Investment securities held-to-maturity, at amortized cost	35,000	25,000
Loans held-for-sale measured at lower of cost or fair value	3,921	132
Loans held-in-portfolio covered under loss sharing agreements with the FDIC	425,937	452,631
Loans held-in-portfolio not covered under loss sharing agreements with the FDIC	8,326,251	8,358,456
Total pledged assets	$ 10,353,736	$ 10,442,902

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

At March 31, 2013, the Corporation had $ 1.1 billion in investment securities available-for-sale and $ 0.3 billion in loans that served as collateral to secure public funds (December 31, 2012 - $ 1.2 billion and $ 0.3 billion, respectively).

At March 31, 2013, the Corporation s banking subsidiaries had short-term and long-term credit facilities authorized with the Federal Home Loan Bank system (the FHLB) aggregating to $2.7 billion (December 31, 2012 - $2.8 billion). Refer to Note 14 to the consolidated financial statements for borrowings outstanding under these credit facilities. At March 31, 2013 and December 31, 2012, the credit facilities authorized with the FHLB were collateralized by $ 3.8 billion in loans held-in-portfolio. Also, at March 31, 2013 and December 31, 2012, the Corporation s banking subsidiaries had a borrowing capacity at the Federal Reserve (Fed) discount window of $3.1 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 March 31, 2013 and December 31, 2012, the credit facilities with the Fed discount window were collateralized by $ 4.7 billion in loans held-in-portfolio. 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 March 31, 2013 trades receivables from brokers and counterparties amounting to $139 million were pledged to secure repurchase agreements (December 31, 2012 - $133 million).

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 March 31, 2013				
(In thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	Weighted average yield
U.S. Treasury securities					
After 1 to 5 years	$ 27,051	$ 2,769	$	$ 29,820	3.83 %
Total U.S. Treasury securities	27,051	2,769		29,820	3.83
Obligations of U.S. Government sponsored entities					
Within 1 year	480,407	3,873		484,280	3.70
After 1 to 5 years	167,407	1,522	7	168,922	1.35
After 5 to 10 years	546,982	2,554	1,058	548,478	1.61
After 10 years	22,990	68		23,058	3.09
Total obligations of U.S. Government sponsored entities	1,217,786	8,017	1,065	1,224,738	2.43
Obligations of Puerto Rico, States and political subdivisions					
Within 1 year	5,115	2	2	5,115	3.01
After 1 to 5 years	6,248	95	33	6,310	4.66
After 5 to 10 years	5,566		87	5,479	3.75
After 10 years	37,265	12	1,241	36,036	5.38
Total obligations of Puerto Rico, States and political subdivisions	54,194	109	1,363	52,940	4.91
Collateralized mortgage obligations - federal agencies					
After 1 to 5 years	4,800	88		4,888	1.69
After 5 to 10 years	33,294	1,517		34,811	2.88
After 10 years	2,528,866	44,108	3,410	2,569,564	2.10
Total collateralized mortgage obligations - federal agencies	2,566,960	45,713	3,410	2,609,263	2.11
Collateralized mortgage obligations - private label					
After 10 years	1,898	36		1,934	4.42
Total collateralized mortgage obligations - private label	1,898	36		1,934	4.42
Mortgage-backed securities					
Within 1 year	67	2		69	4.48
After 1 to 5 years	7,944	499		8,443	4.57
After 5 to 10 years	89,358	5,608	11	94,955	4.24
After 10 years	1,174,176	81,099	523	1,254,752	4.13
Total mortgage-backed securities	1,271,545	87,208	534	1,358,219	4.14
Equity securities (without contractual maturity)	6,506	1,715	26	8,195	3.10
Other					

After 1 to 5 years	9,904		160	9,744	1.68
After 5 to 10 years	18,032	4,725		22,757	11.00
After 10 years	3,501	120		3,621	3.63
Total other	31,437	4,845	160	36,122	7.25
Total investment securities available-for-sale	$ 5,177,377	$ 150,412	$ 6,558	$ 5,321,231	2.75 %

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	At December 31, 2012				
(In thousands)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	Weighted average yield
U.S. Treasury securities					
Within 1 year	$ 7,018	$ 20	$	$ 7,038	1.67 %
After 1 to 5 years	27,236	2,964		30,200	3.83
Total U.S. Treasury securities	34,254	2,984		37,238	3.39
Obligations of U.S. Government sponsored entities					
Within 1 year	460,319	7,614		467,933	3.82
After 1 to 5 years	167,177	2,057		169,234	1.59
After 5 to 10 years	456,480	3,263	592	459,151	1.74
Total obligations of U.S. Government sponsored entities	1,083,976	12,934	592	1,096,318	2.60
Obligations of Puerto Rico, States and political subdivisions					
Within 1 year	5,220	26		5,246	3.08
After 1 to 5 years	6,254	130	39	6,345	4.65
After 5 to 10 years	5,513		36	5,477	3.79
After 10 years	37,265	648		37,913	5.38
Total obligations of Puerto Rico, States and political subdivisions	54,252	804	75	54,981	4.91
Collateralized mortgage obligations - federal agencies					
After 1 to 5 years	4,927	35		4,962	1.48
After 5 to 10 years	39,897	1,794		41,691	2.94
After 10 years	2,270,184	50,740	512	2,320,412	2.21
Total collateralized mortgage obligations - federal agencies	2,315,008	52,569	512	2,367,065	2.22
Collateralized mortgage obligations - private label					
After 10 years	2,414	59		2,473	4.59
Total collateralized mortgage obligations - private label	2,414	59		2,473	4.59
Mortgage-backed securities					
Within 1 year	288	13		301	3.47
After 1 to 5 years	3,838	191		4,029	4.12
After 5 to 10 years	81,645	6,207		87,852	4.71
After 10 years	1,297,585	93,509	129	1,390,965	4.18
Total mortgage-backed securities	1,383,356	99,920	129	1,483,147	4.21
Equity securities (without contractual maturity)	6,507	909	10	7,406	3.46
Other					
After 1 to 5 years	9,992		207	9,785	1.67
After 5 to 10 years	18,032	3,675		21,707	11.00
After 10 years	3,945	136		4,081	3.62
Total other	31,969	3,811	207	35,573	7.17
Total investment securities available-for-sale	$ 4,911,736	$ 173,990	$ 1,525	$ 5,084,201	2.94 %

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.

There were no securities sold during the quarters ended March 31, 2013 and 2012.

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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.

	At March 31, 2013					
	Less than 12 months		12 months or more		Total	
(In thousands)	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
Obligations of U.S. Government sponsored entities	$ 261,066	$ 775	$ 6,102	$ 290	$ 267,168	$ 1,065
Obligations of Puerto Rico, States and political subdivisions	44,987	1,337	2,029	26	47,016	1,363
Collateralized mortgage obligations - federal agencies	531,117	3,410			531,117	3,410
Mortgage-backed securities	36,344	496	974	38	37,318	534
Equity securities	1,806	22	7	4	1,813	26
Other	9,744	160			9,744	160
Total investment securities available-for-sale in an unrealized loss position	$ 885,064	$ 6,200	$ 9,112	$ 358	$ 894,176	$ 6,558

	At December 31, 2012					
	Less than 12 months		12 months or more		Total	
(In thousands)	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
Obligations of U.S. Government sponsored entities	$ 139,278	$ 592	$	$	$ 139,278	$ 592
Obligations of Puerto Rico, States and political subdivisions	6,229	44	2,031	31	8,260	75
Collateralized mortgage obligations - federal agencies	170,136	512			170,136	512
Mortgage-backed securities	7,411	90	983	39	8,394	129
Equity securities			51	10	51	10
Other	9,785	207			9,785	207
Total investment securities available-for-sale in an unrealized loss position	$ 332,839	$ 1,445	$ 3,065	$ 80	$ 335,904	$ 1,525

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 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 March 31, 2013, 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 March 31, 2013, 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 March 31, 2013. No other-than-temporary impairment

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losses on equity securities were recorded during the quarters ended March 31, 2013 and March 31, 2012. Management has the intent and ability to hold the investments in equity securities that are at a loss position at March 31, 2013, for a reasonable period of time for a forecasted recovery of fair value up to (or beyond) the cost of these investments.

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.

	March 31, 2013		December 31, 2012	
(In thousands)	Amortized cost	Fair value	Amortized cost	Fair value
FNMA	$ 1,841,366	$ 1,874,855	$ 1,594,933	$ 1,634,927
FHLB	632,090	636,406	520,127	528,287
Freddie Mac	1,246,159	1,265,197	1,198,969	1,221,863

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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.

(In thousands)	At March 31, 2013 Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	Weighted average yield
Obligations of Puerto Rico, States and political subdivisions					
Within 1 year	$ 2,525	$ 28	$	$ 2,553	5.74%
After 1 to 5 years	21,835	554		22,389	3.70
After 5 to 10 years	19,640	359	73	19,926	6.05
After 10 years	70,892	57	574	70,375	2.49
Total obligations of Puerto Rico, States and political subdivisions	114,892	998	647	115,243	3.40
Collateralized mortgage obligations - federal agencies					
After 10 years	126	7		133	5.30
Total collateralized mortgage obligations - federal agencies	126	7		133	5.30
Other					
Within 1 year	250			250	0.86
After 1 to 5 years	26,250	1		26,251	3.40
Total other	26,500	1		26,501	3.38
Total investment securities held-to-maturity	$ 141,518	$ 1,006	$ 647	$ 141,877	3.40%

(In thousands)	At December 31, 2012 Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	Weighted average yield
Obligations of Puerto Rico, States and political subdivisions					
Within 1 year	$ 2,420	$ 8	$	$ 2,428	5.74%
After 1 to 5 years	21,335	520	19	21,836	3.63
After 5 to 10 years	18,780	866	5	19,641	6.03
After 10 years	73,642	449	438	73,653	5.35
Total obligations of Puerto Rico, States and political subdivisions	116,177	1,843	462	117,558	5.15
Collateralized mortgage obligations - federal agencies					
After 10 years	140	4		144	5.00
Total collateralized mortgage obligations - federal agencies	140	4		144	5.00
Other					
Within 1 year	250			250	0.86
After 1 to 5 years	26,250	31		26,281	3.40
Total other	26,500	31		26,531	3.38

Total investment securities held-to-maturity	$ 142,817	$ 1,878	$ 462	$ 144,233	4.82%

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 March 31, 2013 and December 31, 2012.

	At March 31, 2013					
	Less than 12 months		12 months or more		Total	
(In thousands)	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
Obligations of Puerto Rico, States and political subdivisions	$ 11,159	$ 141	$ 19,039	$ 506	$ 30,198	$ 647
Total investment securities held-to-maturity in an unrealized loss position	$ 11,159	$ 141	$ 19,039	$ 506	$ 30,198	$ 647

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	At December 31, 2012					
	Less than 12 months		12 months or more		Total	
(In thousands)	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
Obligations of Puerto Rico, States and political subdivisions	$ 2,365	$ 35	$ 19,118	$ 427	$ 21,483	$ 462
Total investment securities held-to-maturity in an unrealized loss position	$ 2,365	$ 35	$ 19,118	$ 427	$ 21,483	$ 462

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 March 31, 2013 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 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.

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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 2012 Annual Report.

The following table presents the composition of non-covered loans held-in-portfolio (HIP), net of unearned income, at March 31, 2013 and December 31, 2012.

(In thousands)	March 31, 2013	December 31, 2012
Commercial multi-family	$ 1,034,289	$ 1,021,780
Commercial real estate non-owner occupied	2,946,541	2,634,432
Commercial real estate owner occupied	2,285,328	2,608,450
Commercial and industrial	3,484,270	3,593,540
Construction	271,498	252,857
Mortgage	6,873,910	6,078,507
Leasing	543,572	540,523
Legacy[2]	352,512	384,217
Consumer:		
Credit cards	1,169,572	1,198,213
Home equity lines of credit	478,788	491,035
Personal	1,369,666	1,388,911
Auto	593,125	561,084
Other	230,674	229,643
Total loans held-in-portfolio[1]	$ 21,633,745	$ 20,983,192

[1] Non-covered loans held-in-portfolio at March 31, 2013 are net of $96 million in unearned income and exclude $201 million in loans held-for-sale (December 31, 2012 - $97 million in unearned income and $354 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.

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The following table presents the composition of covered loans at March 31, 2013 and December 31, 2012.

(In thousands)	March 31, 2013	December 31, 2012
Commercial real estate	$ 1,828,620	$ 2,077,411
Commercial and industrial	116,189	167,236
Construction	306,550	361,396
Mortgage	1,045,564	1,076,730
Consumer	65,523	73,199
Total loans held-in-portfolio	$ 3,362,446	$ 3,755,972

The following table provides a breakdown of loans held-for-sale (LHFS) at March 31, 2013 and December 31, 2012 by main categories.

(In thousands)	March 31, 2013	December 31, 2012
Commercial	$	$ 16,047
Construction		78,140
Legacy	1,681	2,080
Mortgage	199,814	258,201
Total loans held-for-sale	$ 201,495	$ 354,468

During the quarter ended March 31, 2013, the Corporation recorded purchases (including repurchases) of mortgage loans amounting to $1.0 billion (March 31, 2012 - $215 million). The purchases of mortgage loans during the quarter ended March 31, 2013, included $133 million of impaired loans accounted pursuant to ASC subtopic 310-30. In addition, during the quarter ended March 31, 2013, there were no purchases of construction loans (March 31, 2012 - $1 million). There were no purchases of commercial and consumer loans during the quarters ended March 31, 2013 and 2012.

The Corporation performed whole-loan sales involving approximately $50 million of residential mortgage loans during the quarter ended March 31, 2013 (March 31, 2012 - $62 million). Also, the Corporation securitized approximately $ 285 million of mortgage loans into Government National Mortgage Association (GNMA) mortgage-backed securities during the quarter ended March 31, 2013 (March 31, 2012 - $ 190 million). Furthermore, the Corporation securitized approximately $ 128 million of mortgage loans into Federal National Mortgage Association (FNMA) mortgage-backed securities during the quarter ended March 31, 2013 (March 31, 2012 - $ 60 million). There were no securitizations into FHLMC for the quarters ended March 31, 2013 and 2012. The Corporation sold commercial and construction loans with a book value of approximately $401 million during the quarter ended March 31, 2013 (March 31, 2012 - $20 million).

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 March 31, 2013 and December 31, 2012. 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.

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	At March 31, 2013					
	Puerto Rico		U.S. mainland		Popular, Inc.	
(In thousands)	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	$ 8,386	$	$ 18,850	$	$ 27,236	$
Commercial real estate non-owner occupied	29,742		74,471		104,213	
Commercial real estate owner occupied	88,386		31,170		119,556	
Commercial and industrial	60,294	451	9,488		69,782	451
Construction	45,036		5,884		50,920	
Mortgage[2]	572,731	386,656	27,993		600,724	386,656
Leasing	4,005				4,005	
Legacy			35,830		35,830	
Consumer:						
Credit cards		21,969	526		526	21,969
Home equity lines of credit		405	7,562		7,562	405
Personal	17,797	27	860		18,657	27
Auto	8,404		4		8,408	
Other	3,162	557	27		3,189	557
Total[1]	$ 837,943	$ 410,065	$ 212,665	$	$ 1,050,608	$ 410,065

[1] For purposes of this table non-performing loans exclude $ 17 million in non-performing loans held-for-sale.

[2] Non-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 analysis.

	At December 31, 2012					
	Puerto Rico		U.S. mainland		Popular, Inc.	
(In thousands)	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	$ 15,816	$	$ 18,435	$	$ 34,251	$
Commercial real estate non-owner occupied	66,665		78,140		144,805	
Commercial real estate owner occupied	315,534		31,931		347,465	
Commercial and industrial	124,717	529	14,051		138,768	529
Construction	37,390		5,960		43,350	
Mortgage	596,105	364,387	34,025		630,130	364,387
Leasing	4,865				4,865	
Legacy			40,741		40,741	
Consumer:						
Credit cards		22,184	505		505	22,184
Home equity lines of credit		312	7,454		7,454	312
Personal	19,300	23	1,905		21,205	23
Auto	8,551		4		8,555	
Other	3,036	469	3		3,039	469
Total[1]	$ 1,191,979	$ 387,904	$ 233,154	$	$ 1,425,133	$ 387,904

[1] For purposes of this table non-performing loans exclude $ 96 million in non-performing loans held-for-sale.

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The following tables present loans by past due status at March 31, 2013 and December 31, 2012 for non-covered loans held-in-portfolio (net of unearned income).

March 31, 2013
Puerto Rico

(In thousands)	Past due 30-59 days	60-89 days	90 days or more	Total past due	Current	Non - covered loans HIP Puerto Rico
Commercial multi-family	$ 127	$ 348	$ 8,386	$ 8,861	$ 105,736	$ 114,597
Commercial real estate non-owner occupied	4,585	7,487	29,742	41,814	1,624,876	1,666,690
Commercial real estate owner occupied	25,884	2,327	88,386	116,597	1,611,474	1,728,071
Commercial and industrial	37,504	3,032	60,745	101,281	2,589,951	2,691,232
Construction	68		45,036	45,104	196,183	241,287
Mortgage	318,537	146,054	992,016	1,456,607	4,279,986	5,736,593
Leasing	7,180	1,600	4,005	12,785	530,787	543,572
Consumer:						
Credit cards	13,289	8,081	21,969	43,339	1,111,666	1,155,005
Home equity lines of credit	75		405	480	15,735	16,215
Personal	12,471	6,697	17,824	36,992	1,193,506	1,230,498
Auto	26,483	7,444	8,404	42,331	550,160	592,491
Other	1,918	1,121	3,719	6,758	222,567	229,325
Total	$ 448,121	$ 184,191	$ 1,280,637	$ 1,912,949	$ 14,032,627	$ 15,945,576

March 31, 2013
U.S. mainland

(In thousands)	Past due 30-59 days	60-89 days	90 days or more	Total past due	Current	Loans HIP U.S. mainland
Commercial multi-family	$ 17,302	$	$ 18,850	$ 36,152	$ 883,540	$ 919,692
Commercial real estate non-owner occupied	12,206	274	74,471	86,951	1,192,900	1,279,851
Commercial real estate owner occupied	22,596		31,170	53,766	503,491	557,257
Commercial and industrial	12,488	1,650	9,488	23,626	769,412	793,038
Construction			5,884	5,884	24,327	30,211
Mortgage	33,838	3,226	27,993	65,057	1,072,260	1,137,317
Legacy	29,209	1,998	35,830	67,037	285,475	352,512
Consumer:						
Credit cards	255	127	526	908	13,659	14,567
Home equity lines of credit	4,580	3,195	7,562	15,337	447,236	462,573
Personal	2,990	843	860	4,693	134,475	139,168
Auto	18		4	22	612	634
Other	5		27	32	1,317	1,349
Total	$ 135,487	$ 11,313	$ 212,665	$ 359,465	$ 5,328,704	$ 5,688,169

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March 31, 2013
Popular, Inc.

(In thousands)	Past due 30-59 days	60-89 days	90 days or more	Total past due	Current	Non-covered loans HIP Popular, Inc.
Commercial multi-family	$ 17,429	$ 348	$ 27,236	$ 45,013	$ 989,276	$ 1,034,289
Commercial real estate non-owner occupied	16,791	7,761	104,213	128,765	2,817,776	2,946,541
Commercial real estate owner occupied	48,480	2,327	119,556	170,363	2,114,965	2,285,328
Commercial and industrial	49,992	4,682	70,233	124,907	3,359,363	3,484,270
Construction	68		50,920	50,988	220,510	271,498
Mortgage	352,375	149,280	1,020,009	1,521,664	5,352,246	6,873,910
Leasing	7,180	1,600	4,005	12,785	530,787	543,572
Legacy	29,209	1,998	35,830	67,037	285,475	352,512
Consumer:						
Credit cards	13,544	8,208	22,495	44,247	1,125,325	1,169,572
Home equity lines of credit	4,655	3,195	7,967	15,817	462,971	478,788
Personal	15,461	7,540	18,684	41,685	1,327,981	1,369,666
Auto	26,501	7,444	8,408	42,353	550,772	593,125
Other	1,923	1,121	3,746	6,790	223,884	230,674
Total	$ 583,608	$ 195,504	$ 1,493,302	$ 2,272,414	$ 19,361,331	$ 21,633,745

December 31, 2012
Puerto Rico

(In thousands)	Past due 30-59 days	60-89 days	90 days or more	Total past due	Current	Non-covered loans HIP Puerto Rico
Commercial multi-family	$ 1,005	$	$ 15,816	$ 16,821	$ 98,272	$ 115,093
Commercial real estate non-owner occupied	10,580	4,454	66,665	81,699	1,268,734	1,350,433
Commercial real estate owner occupied	28,240	13,319	315,534	357,093	1,685,393	2,042,486
Commercial and industrial	27,977	5,922	125,246	159,145	2,629,127	2,788,272
Construction	1,243		37,390	38,633	173,634	212,267
Mortgage	241,930	121,175	960,492	1,323,597	3,625,327	4,948,924
Leasing	6,493	1,555	4,865	12,913	527,610	540,523
Consumer:						
Credit cards	14,521	10,614	22,184	47,319	1,135,753	1,183,072
Home equity lines of credit	124		312	436	16,370	16,806
Personal	13,208	7,392	19,323	39,923	1,205,859	1,245,782
Auto	24,128	6,518	8,551	39,197	521,119	560,316
Other	2,120	536	3,505	6,161	222,192	228,353
Total	$ 371,569	$ 171,485	$ 1,579,883	$ 2,122,937	$ 13,109,390	$ 15,232,327

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	December 31, 2012 U.S. mainland					
			Past due			
(In thousands)	30-59 days	60-89 days	90 days or more	Total past due	Current	Loans HIP U.S. mainland
Commercial multi-family	$ 6,828	$ 5,067	$ 18,435	$ 30,330	$ 876,357	$ 906,687
Commercial real estate non-owner occupied	19,032	1,309	78,140	98,481	1,185,518	1,283,999
Commercial real estate owner occupied	9,979	100	31,931	42,010	523,954	565,964
Commercial and industrial	12,885	1,975	14,051	28,911	776,357	805,268
Construction	5,268		5,960	11,228	29,362	40,590
Mortgage	29,909	10,267	34,025	74,201	1,055,382	1,129,583
Legacy	15,765	20,112	40,741	76,618	307,599	384,217
Consumer:						
Credit cards	305	210	505	1,020	14,121	15,141
Home equity lines of credit	3,937	2,506	7,454	13,897	460,332	474,229
Personal	2,757	1,585	1,905	6,247	136,882	143,129
Auto	38	3	4	45	723	768
Other	41	9	3	53	1,237	1,290
Total	$ 106,744	$ 43,143	$ 233,154	$ 383,041	$ 5,367,824	$ 5,750,865

	December 31, 2012 Popular, Inc.					
			Past due			
(In thousands)	30-59 days	60-89 days	90 days or more	Total past due	Current	Non-covered loans HIP Popular, Inc.
Commercial multi-family	$ 7,833	$ 5,067	$ 34,251	$ 47,151	$ 974,629	$ 1,021,780
Commercial real estate non-owner occupied	29,612	5,763	144,805	180,180	2,454,252	2,634,432
Commercial real estate owner occupied	38,219	13,419	347,465	399,103	2,209,347	2,608,450
Commercial and industrial	40,862	7,897	139,297	188,056	3,405,484	3,593,540
Construction	6,511		43,350	49,861	202,996	252,857
Mortgage	271,839	131,442	994,517	1,397,798	4,680,709	6,078,507
Leasing	6,493	1,555	4,865	12,913	527,610	540,523
Legacy	15,765	20,112	40,741	76,618	307,599	384,217
Consumer:						
Credit cards	14,826	10,824	22,689	48,339	1,149,874	1,198,213
Home equity lines of credit	4,061	2,506	7,766	14,333	476,702	491,035
Personal	15,965	8,977	21,228	46,170	1,342,741	1,388,911
Auto	24,166	6,521	8,555	39,242	521,842	561,084
Other	2,161	545	3,508	6,214	223,429	229,643
Total	$ 478,313	$ 214,628	$ 1,813,037	$ 2,505,978	$ 18,477,214	$ 20,983,192

The following table provides a breakdown of loans held-for-sale (LHFS) in non-performing status at March 31, 2013 and December 31, 2012 by main categories.

(In thousands)	March 31, 2013	December 31, 2012
Commercial	$	$ 16,047
Construction		78,140
Legacy	1,680	2,080
Mortgage	15,783	53
Total	$ 17,463	$ 96,320

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The outstanding principal balance of non-covered loans accounted pursuant to ASC Subtopic 310-30, including amounts charged off by the Corporation, amounted to $148 million at March 31, 2013. At March 31, 2013, none of the acquired non-covered loans accounted 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 non-covered loans accounted pursuant to the ASC Subtopic 310-30, for the quarter ended March 31, 2013 were as follows:

Activity in the accretable discount - Non-covered loans ASC 310-30

(In thousands)	For the quarter ended March 31, 2013
Beginning balance	$
Additions	37,235
Accretion	(608)
Ending balance	$ 36,627

Carrying amount of non-covered loans accounted for pursuant to ASC 310-30

(In thousands)	For the quarter ended March 31, 2013
Beginning balance	$
Additions	133,412
Accretion	608
Collections and charge-offs	(979)
Ending balance	$ 133,041
Allowance for loan losses ASC 310-30 non-covered loans	
	$ 133,041

Covered loans

The following table presents covered loans in non-performing status and accruing loans past-due 90 days or more by loan class at March 31, 2013 and December 31, 2012.

	March 31, 2013		December 31, 2012	
(In thousands)	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	$ 7,372	$	$ 14,628	$
Commercial and industrial	9,081	200	48,743	504
Construction	5,917		8,363	
Mortgage	1,575		2,133	
Consumer	394	347	543	265
Total[1]	$ 24,339	$ 547	$ 74,410	$ 769

[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.

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The following tables present loans by past due status at March 31, 2013 and December 31, 2012 for covered loans held-in-portfolio. The information considers covered loans accounted for under ASC Subtopic 310-20 and ASC Subtopic 310-30.

	March 31, 2013					
	Past due					
(In thousands)	30-59 days	60-89 days	90 days or more	Total past due	Current	Covered loans HIP
Commercial real estate	$ 18,618	$ 7,711	$ 491,897	$ 518,226	$ 1,310,394	$ 1,828,620
Commercial and industrial	2,154	483	17,086	19,723	96,466	116,189
Construction	241	2,704	267,210	270,155	36,395	306,550
Mortgage	26,475	18,867	174,151	219,493	826,071	1,045,564
Consumer	1,676	1,370	6,362	9,408	56,115	65,523
Total covered loans	$ 49,164	$ 31,135	$ 956,706	$ 1,037,005	$ 2,325,441	$ 3,362,446

	December 31, 2012					
	Past due					
(In thousands)	30-59 days	60-89 days	90 days or more	Total past due	Current	Covered loans HIP
Commercial real estate	$ 81,386	$ 41,256	$ 545,241	$ 667,883	$ 1,409,528	$ 2,077,411
Commercial and industrial	3,242	551	59,554	63,347	103,889	167,236
Construction	13		296,837	296,850	64,546	361,396
Mortgage	38,307	28,206	182,376	248,889	827,841	1,076,730
Consumer	1,382	1,311	11,094	13,787	59,412	73,199
Total covered loans	$ 124,330	$ 71,324	$ 1,095,102	$ 1,290,756	$ 2,465,216	$ 3,755,972

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.

	March 31, 2013			December 31, 2012		
	Carrying amount			Carrying amount		
(In thousands)	Non-credit impaired loans	Credit impaired loans	Total	Non-credit impaired loans	Credit impaired loans	Total
Commercial real estate	$ 1,559,803	$ 167,981	$ 1,727,784	$ 1,778,594	$ 185,386	$ 1,963,980
Commercial and industrial	48,047	4,279	52,326	55,396	4,379	59,775
Construction	142,251	153,822	296,073	174,054	174,093	348,147
Mortgage	957,693	68,497	1,026,190	988,158	69,654	1,057,812
Consumer	51,150	4,140	55,290	55,762	6,283	62,045
Carrying amount	2,758,944	398,719	3,157,663	3,051,964	439,795	3,491,759
Allowance for loan losses	(52,542)	(39,031)	(91,573)	(48,365)	(47,042)	(95,407)
Carrying amount, net of allowance	$ 2,706,402	$ 359,688	$ 3,066,090	$ 3,003,599	$ 392,753	$ 3,396,352

The outstanding principal balance of covered loans accounted pursuant to ASC Subtopic 310-30, including amounts charged off by the Corporation, amounted to $4.4 billion at March 31, 2013 (December 31, 2012 - $4.8 billion). At March 31, 2013, 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.

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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 March 31, 2013 and 2012, were as follows:

	Activity in the accretable discount Covered loans ASC 310-30 For the quarters ended					
	March 31, 2013			March 31, 2012		
(In thousands)	Non-credit impaired loans	Credit impaired loans	Total	Non-credit impaired loans	Credit impaired loans	Total
Beginning balance	$ 1,446,381	$ 5,288	$ 1,451,669	$ 1,428,764	$ 41,495	$ 1,470,259
Accretion	(61,177)	(3,813)	(64,990)	(62,467)	(6,870)	(69,337)
Change in expected cash flows	(12,829)	(1,715)	(14,544)	148,422	(6,825)	141,597
Ending balance	$ 1,372,375	$ (240)	$ 1,372,135	$ 1,514,719	$ 27,800	$ 1,542,519

	Carrying amount of covered loans accounted for pursuant to ASC 310-30 For the quarters ended					
	March 31, 2013			March 31, 2012		
(In thousands)	Non-credit impaired loans	Credit impaired loans	Total	Non-credit impaired loans	Credit impaired loans	Total
Beginning balance	$ 3,051,964	$ 439,795	$ 3,491,759	$ 3,446,451	$ 590,020	$ 4,036,471
Accretion	61,177	3,813	64,990	62,467	6,870	69,337
Collections and charge-offs	(354,197)	(44,889)	(399,086)	(163,607)	(47,296)	(210,903)
Ending balance	$ 2,758,944	$ 398,719	$ 3,157,663	$ 3,345,311	$ 549,594	$ 3,894,905
Allowance for loan losses						
ASC 310-30 covered loans	(52,542)	(39,031)	(91,573)	(63,240)	(31,319)	(94,559)
	$ 2,706,402	$ 359,688	$ 3,066,090	$ 3,282,071	$ 518,275	$ 3,800,346

The Corporation accounts for lines of credit with revolving privileges under the accounting guidance of ASC Subtopic 310-20, which requires that any differences between the contractually required loans payment receivable in excess of the initial investment in the loans be accreted into interest income over the life of the loans, if the loan is accruing interest. Covered loans accounted for under ASC Subtopic 310-20 amounted to $0.2 billion at March 31, 2013 (March 31, 2012 - $0.3 billion).

Note 8 Allowance for loan losses

The following tables present the changes in the allowance for loan losses for the quarters ended March 31, 2013 and 2012.

	For the quarter ended March 31, 2013 Puerto Rico - Non-covered loans					
(In thousands)	Commercial	Construction	Mortgage	Leasing	Consumer	Total
Allowance for credit losses:						
Beginning balance	$ 217,615	$ 5,862	$ 119,027	$ 2,894	$ 99,899	$ 445,297
Provision (reversal of provision)	128,877	2,742	28,212	1,985	42,476	204,292
Charge-offs	(32,446)	(1,629)	(17,759)	(1,543)	(27,360)	(80,737)
Recoveries	8,134	1,274	986	559		